Consolidated financial statements of

State corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries

for the year ended 31 December 2014

with independent auditor's report

Consolidated financial statements of State corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries

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Совершенствуя бизнес, улучшаем мир

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Independent auditor's report

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

We have audited the accompanying consolidated financial statements of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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

Совершенствуя бизнес,
улучшаем мир

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year 2014 in accordance with International Financial Reporting Standards.

G.A. Shinin
Partner
Ernst & Young Vneshaudit CJSC

29 April 2015

Details of the audited entity

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

Details of the auditor

Name: Ernst & Young Vneshaudit
Record made in the State Register of Legal Entities on 16 September 2002; State Registration Number 1027739199333.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit is a member of the Self-regulatory Organization of Auditors Non-profit Partnership "Russian Audit Chamber" ("SRO NP APR"). Ernst & Young Vneshaudit is included in the control copy of the register of auditors and audit organizations, main registration number 10301017410.

Consolidated statement of financial position
As of 31 December 2014
(in millions of Russian rubles)

	Note	2014	2013 (Restated)	2012 (Restated)
Assets				
Cash and cash equivalents	11	325,927	275,994	239,997
Precious metals		274	297	744
Financial assets at fair value through profit or loss	12	44,346	98,835	72,119
Financial assets pledged under repurchase agreements	12, 13, 15, 16	103,681	31,106	28,567
Amounts due from banks	13	178,298	433,815	446,476
Loans to customers	15	2,631,966	1,847,039	1,497,239
Investment financial assets:	16			
- available-for-sale		368,717	442,334	493,813
- held to maturity		21,447	764	16,582
Due from the Russian Government	17	400	241	118
Investments in associates and jointly controlled entities	18	10,892	10,473	9,510
Property and equipment	19	58,257	53,902	41,813
Income tax assets	20	7,508	5,209	3,566
Other assets	22	134,107	113,949	68,556
Total assets		**3,885,820**	**3,313,958**	**2,919,100**
Liabilities				
Amounts due to banks	23	1,010,540	686,521	569,942
Financial liabilities at fair value through profit or loss	14	2,670	946	2,494
Amounts due to the Russian Government and the Bank of Russia	9	559,278	980,980	981,868
Amounts due to customers	24	508,728	403,292	335,827
Debt securities issued	25	983,145	603,319	388,939
Finance lease liabilities	26	89,785	24,435	3,998
Subordinated deposits	9	303,015	-	-
Income tax liabilities	20	7,329	4,795	1,702
Provisions	21	6,445	1,457	997
Other liabilities	22	36,320	31,354	101,450
Total liabilities		**3,507,255**	**2,737,099**	**2,387,217**
Equity	27			
Charter capital		418,069	388,069	382,571
Additional paid-in capital		138,170	138,170	62,600
Retained earnings/(uncovered loss)		(169,021)	54,744	46,330
Unrealized revaluation of investment financial assets available for sale		(13,940)	(10,491)	41,102
Foreign currency translation reserve		976	958	(1,426)
Equity attributable to the Russian Government		**374,254**	**571,450**	**531,177**
Non-controlling interests		**4,311**	**5,409**	**706**
Total equity		**378,565**	**576,859**	**531,883**
Total equity and liabilities		**3,885,820**	**3,313,958**	**2,919,100**

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

Vladimir A. Dmitriev — Chairman of the Bank

Vladimir D. Shaprinsky — Chief Accountant

29 April 2015

The accompanying notes 1-39 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss
For the year ended 31 December 2014
(in millions of Russian rubles)

	Notes	2014	2013
Interest income	29	280,335	243,744
Interest expense	29	(180,046)	(144,771)
Net interest income		100,289	98,973
Provision for impairment of interest-earning assets	13, 15	(314,127)	(123,317)
Net interest expense after provision for impairment of interest-earning assets		(213,838)	(24,344)
Net fee and commission income	30	8,122	7,627
Gains less losses from financial instruments at fair value through profit or loss		6,317	1,330
Gains less losses from investment financial assets available for sale	31	(16,657)	68,402
Gains less losses from foreign currencies:			
- dealing		(2,093)	6,075
- translation differences		(32,863)	(14,012)
Gains less losses on initial recognition of financial instruments, restructuring and early repayment		57,906	8,473
Share in net loss of associates and jointly controlled entities	18	(1,714)	(648)
Gain on bargain purchase	7	–	818
Dividends		8,713	7,912
Other operating income	32	23,185	11,510
Non-interest income		42,794	89,860
Payroll and other staff costs		(24,604)	(23,176)
Occupancy and equipment		(7,371)	(5,786)
Depreciation of property and equipment	19	(3,048)	(2,463)
Taxes other than income tax		(5,171)	(4,065)
Provision for other impairment and provisions	21	(11,936)	(3,803)
Other operating expenses	32	(30,694)	(21,647)
Non-interest expense		(82,824)	(60,940)
Profit/(loss) before income tax and hyperinflation effect		(245,746)	12,203
Loss on net monetary position resulting from hyperinflation		(1,327)	(921)
Profit/(loss) before income tax		(247,073)	11,282
Income tax expense	20	(2,583)	(2,774)
Profit/(loss) for the reporting year		(249,656)	8,508
Attributable to:			
- the Russian Government		(249,024)	8,571
- non-controlling interests		(632)	(63)
		(249,656)	8,508

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2014
(in millions of Russian rubles)

	Notes	2014	2013
Profit/(loss) for the reporting year		(249,656)	8,508
Other comprehensive income/(loss)			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Change in unrealized gains/(losses) on investment financial assets available for sale, including reclassification of such gains/(losses) to profit or loss due to impairment and/or disposals	27	(3,657)	(51,597)
Translation differences		127	2,382
Income tax relating to components of other comprehensive income	20	193	(0)
Net other comprehensive expense to be reclassified to profit or loss in subsequent periods		(3,337)	(49,215)
Other comprehensive loss for the reporting year, net of tax		(3,337)	(49,215)
Total comprehensive loss for the reporting year		(252,993)	(40,707)
Attributable to:			
- the Russian Government		(252,442)	(40,658)
- non-controlling interests		(551)	(49)
		(252,993)	(40,707)

Consolidated statement of changes in equity
For the year ended 31 December 2014
(in millions of Russian rubles)

	Attributable to the Russian Government							
	Charter capital	Additional paid-in capital	Retained earnings / (uncovered loss)	Unrealized revaluation on investment financial assets available for sale	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
31 December 2012	382,571	62,600	46,330	41,102	(1,426)	531,177	706	531,883
Profit/(loss) for the period	–	–	8,571	–	–	8,571	(63)	8,508
Other comprehensive income/(loss)	–	–	–	(51,593)	2,364	(49,229)	14	(49,215)
Total comprehensive income/(loss) for the period	–	–	8,571	(51,593)	2,364	(40,658)	(49)	(40,707)
Contribution of the Russian Government	5,498	75,570	–	–	–	81,068	–	81,068
Subsidiary acquired	–	–	–	–	–	–	6,819	6,819
Change in interest in existing subsidiaries	–	–	(157)	–	20	(137)	(2,067)	(2,204)
31 December 2013	388,069	138,170	54,744	(10,491)	958	571,450	5,409	576,859
31 December 2013	388,069	138,170	54,744	(10,491)	958	571,450	5,409	576,859
Loss for the period	–	–	(249,024)	–	–	(249,024)	(632)	(249,656)
Other comprehensive income/(loss)	–	–	–	(3,440)	22	(3,418)	81	(3,337)
Total comprehensive income/(loss) for the period	–	–	(249,024)	(3,440)	22	(252,442)	(551)	(252,993)
Contribution of the Russian Government (Note 27)	30,000	–	–	–	–	30,000	–	30,000
Gain on initial recognition of Russian Government funds (Note 9)	–	–	25,240	–	–	25,240	–	25,240
Subsidiaries acquired (Note 7)	–	–	–	–	–	–	(586)	(586)
Change in interest in existing subsidiaries (Note 7)	–	–	19	(9)	(4)	6	47	53
Dividends from subsidiaries	–	–	–	–	–	–	(8)	(8)
31 December 2014	418,069	138,170	(169,021)	(13,940)	976	374,254	4,311	378,565

Consolidated statement of cash flows
For the year ended 31 December 2014
(in millions of Russian rubles)

	Notes	2014	2013 (Restated)
Cash flows from operating activities			
Profit/(loss) for the reporting year		(249,656)	8,508
Adjustments:			
Change in interest accruals		(78,045)	(19,883)
Impairment and other provisions	13, 15, 21	326,063	127,120
Changes in unrealized revaluation of trading securities and derivative financial instruments		(3,230)	(2,458)
Gains less losses from investment financial assets available for sale, net of impairment loss		629	(72,961)
Impairment of investment financial assets available for sale	16	16,028	4,559
Changes in translation differences		32,863	14,012
Gains less losses on initial recognition of financial instruments, restructuring and early repayment		(57,906)	(8,473)
Share in net loss of associates and jointly controlled entities	18	1,714	648
Gain on bargain purchase	7	–	(818)
Loss on net monetary position resulting from hyperinflation		1,327	921
Depreciation and amortization		3,956	3,117
Deferred income tax	20	1,442	(80)
Other changes		1,267	(4,089)
Cash flows from operating activities before changes in operating assets and liabilities		(3,548)	50,123
Net (increase)/decrease in operating assets			
Precious metals		111	440
Financial assets at fair value through profit or loss		58,238	(24,518)
Amounts due from banks		2,542	16,898
Loans to customers		(389,912)	(375,028)
Amounts due from the Russian Government		(4)	(111)
Other assets		(18,353)	(32,436)
Net increase/(decrease) in operating liabilities			
Amounts due to banks, net of long-term interbank financing		6,680	(19,571)
Amounts due to the Russian Government and the Bank of Russia, net of long-term and special purpose financing		134,503	(22,296)
Amounts due to customers		42,717	62,206
Debt securities issued, net of bonds and Eurobonds		(20,423)	738
Finance lease liabilities		(3,812)	(1,371)
Other liabilities		1,906	1,540
Net cash used in operating activities		(189,355)	(343,386)

Consolidated statement of cash flows
For the year ended 31 December 2014 (continued)
(in millions of Russian rubles)

	Notes	2014	2013 (Restated)
Cash flows from investing activities			
Purchase of investment financial assets		(187,921)	(161,454)
Proceeds from sale and redemption of investment financial assets		167,273	243,107
Redemption of investment financial assets held to maturity		–	15,000
Investments in associates and jointly controlled entities		29	(2,454)
Acquisition of subsidiaries, net of cash acquired	7	1	(2,389)
Purchase of property and equipment		(2,277)	(5,529)
Subordinated loans repaid by Russian banks	13	278,992	–
Net cash from investing activities		256,097	86,281
Cash flows from financing activities			
Long-term interbank financing raised	23	217,318	165,878
Long-term interbank financing repaid	23	(182,050)	(70,174)
Long-term financing raised from the Bank of Russia	9	93,000	–
Special purpose financing repaid to the Bank of Russia	9	(212,636)	–
Long-term financing repaid to the Russian Ministry of Finance	9	(278,992)	–
Placement of bonds and Eurobonds	25	244,886	204,007
Redemption of bonds	25	(9,839)	(16,571)
Purchase of bonds issued by the Group		(47,640)	(17,525)
Proceeds from sale of previously purchased bonds		39,194	19,073
Change in interest in existing subsidiaries	7	53	372
Contribution to charter capital from the Russian Government	27	30,000	–
Government grants and government assistance received	22, 37	10,233	–
Government grants and government assistance used	22	(75)	–
Dividends from subsidiaries		(8)	–
Net cash from/(used in) financing activities		(96,556)	285,060
Effect of changes in foreign exchange rates against the Russian ruble on cash and cash equivalents		79,747	8,042
Net increase in cash and cash equivalents		49,933	35,997
Cash and cash equivalents, beginning	11	275,994	239,997
Cash and cash equivalents, ending	11	325,927	275,994
Supplemental information:			
Income tax paid		(2,435)	(3,033)
Interest paid		(163,430)	(121,138)
Interest received		186,361	200,128
Dividends received		8,751	7,882

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

(in millions of Russian rubles)

1. Principal activities

The Group of the state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" comprises state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" ("Vnesheconombank" or the "Bank"), subsidiary Russian banks and CIS-based banks, as well as subsidiary Russian and foreign companies (collectively, the "Group"). A list of major subsidiaries is presented in Note 4, and a list of associates and jointly controlled entities is presented in Note 18.

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

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

The main principles and areas of the Bank's activity are set out in the Federal Law and the Memorandum on Financial Policies of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" approved by Resolution of the Russian Government No. 1007-r dated 27 July 2007 (extended by Resolutions No. 1170-r of the Government of the Russian Federation dated 15 July 2010 and No. 1316-r dated 25 July 2013). The Memorandum on Financial Policies (hereinafter, the "Memorandum") provides for the main areas of the Bank's investing and financing activities, stipulates quantitative limitations, conditions and criteria of specific operations. The Russian Government, by Resolution No. 2610-r dated 29 December 2012, approved amendments to the Memorandum setting out terms and procedures for providing financial support and guarantees to companies working on state defense contracts and involved in federal-level defense and security programs. In addition, the Memorandum was amended by adding a section on the formal process for Vnesheconombank to make decisions on investing pension savings in bonds covered by guarantees of the Russian Government and bonds issued by companies, which have been assigned a long-term credit rating not lower than Russia's sovereign rating by an international credit rating agency approved in accordance with the procedure established by a federal governmental body for financial markets, for the purpose of financing the government's major infrastructure development projects.

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

Vnesheconombank activities are aimed at overcoming infrastructure growth constraints, upgrading and promoting the economic sector for non-raw materials, encouraging innovation, exporting high-technology products, carrying out projects in special economic zones, environment protection projects, and supporting small and medium-sized enterprises. The Bank actively participates in large investment projects contributing to the development of infrastructure and high-technology industries of the real sector of the economy, as well as in investment projects aimed at the development of municipalities engaged in a single area of activity.

(in millions of Russian rubles)

1. Principal activities (continued)

As detailed in Note 27, the Bank's charter capital has been formed through asset contributions from the Russian Federation made under decisions of the Russian Government, including the contribution of state-owned shares of OJSC "Russian Bank for Small and Medium Enterprises Support" ("SME Bank"), CJSC "State Specialized Russian Export-Import Bank" (EXIMBANK OF RUSSIA), the Federal Center for Project Finance (FCPF), and long-distance electrical communication operator Open Joint-Stock Company Rostelecom (OJSC "Rostelecom") to the charter capital.

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

Vnesheconombank performs the functions of an agent of the Russian Government under the Agreement entered into with the Ministry of Finance of the Russian Federation (the "Russian Ministry of Finance") on 25 December 2009, Additional Agreement No. 1 dated 23 December 2010, Additional Agreement No. 2 dated 8 December 2011, Additional Agreement No. 3 dated 23 July 2012, Additional Agreement No. 4 dated 19 August 2013, and Additional Agreement No. 5 dated 16 April 2014 (collectively, "Agency Agreement").

In 2014, Vnesheconombank received a consideration in the amount of RUB 534 million (2013: RUB 534 million), net of VAT, for the agency services provided pursuant to Federal Law No. 349-FZ "On the Federal Budget for 2014 and the 2015 and 2016 Planned Period" dated 2 December 2013. This consideration was recorded within fee and commission income of the Group under agency agreements (Note 30).

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

In January 2003, the Bank was appointed as the state trust management company for the trust management of pension savings. Vnesheconombank performs trust management of the funded part of labor pensions of insured citizens who have not selected a non-state pension fund or a private management company and who have selected the Bank as the management company.

On 2 August 2009, Federal Law No. 182-FZ dated 18 July 2009, "On Amendments to Federal Law "On Non-state Pension Funds" and Federal Law "On Investment of Funds to Finance the Funded Part of Labor Pensions in the Russian Federation", came into effect which provides that from 1 November 2009 the Bank, as a state trust management company for pension savings, shall form two portfolios: an extended investment portfolio and an investment portfolio of government securities. The Bank shall form the portfolios in accordance with the investment declarations approved by Resolution of the Russian Government No. 540 dated 1 September 2003 and Resolution of the Russian Government No. 842 dated 24 October 2009.

In June 2012, Vnesheconombank was appointed as the state management company for funds in the payment reserve. The payment reserve is formed in accordance with Federal Law No. 360-FZ dated 30 November 2011, "On the Procedure for Using Pension Accruals to Finance Payments" for purposes of payments to the cumulative part of the retirement pension.

(in millions of Russian rubles)

1. Principal activities (continued)

The Bank, as a management company for the payment reserve, shall form two portfolios: a payment reserve portfolio and a portfolio of pension savings of insured persons to whom a term pension payment is assigned. The Bank shall form the portfolios in accordance with the investment declarations approved by Resolution of the Russian Government No. 550 dated 4 June 2012.

During 2014, the Bank, as a state management company, mainly invested pension savings in state securities denominated in Russian rubles, corporate bonds of highly credible Russian issuers, and mortgage securities. As at 31 December 2014 and 31 December 2013, total funds of the State Pension Fund of the Russian Federation placed in management to the state management company amounted to RUB 1,905,621 million and RUB 1,867,039 million, respectively.

In 2014, Vnesheconombank, as the state trust management company for pension savings (under the extended investment portfolio), received a consideration in the amount of RUB 557 million (as at 31 December 2013: RUB 443 million), as set forth in the trust management agreement entered into with the Pension Fund of the Russian Federation.

In accordance with Resolution of the Russian Government No. 503 dated 14 June 2013, Vnesheconombank performs functions of the state trust management company for pension savings and the state management company for the payment reserve until 1 January 2019.

Since October 2008, Vnesheconombank has been taking measures aimed at supporting the financial system of the Russian Federation so as to implement Federal Law No. 173-FZ dated 13 October 2008, "On Additional Measures to Support the Financial System of the Russian Federation" (Federal Law No. 173-FZ). As detailed in Notes 13 and 15, the Bank extended unsecured subordinated loans to Russian banks, and starting from the end of December 2010, the Bank acts as a lender for operations to enhance affordability of mortgage loans through extending loans to OJSC "The Agency for Housing Mortgage Lending" (OJSC "AHML").

The Bank's head office is located in Moscow, Russia. The Bank's principal office is located at 9 Prospekt Akademika Sakharova, Moscow.

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

At 31 December 2014 and 31 December 2013, the Group had 18,026 and 18,526 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, associates and jointly controlled entities are required to maintain their accounting records and prepare financial statements in accordance with regulations applicable in their country of registration. These consolidated financial statements are based on those accounting books and records, as adjusted and reclassified in order to comply with IFRS.

2. Basis of preparation (continued)

General (continued)

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

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

Functional currency

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

Clearing currencies are the settlement currencies for bilateral trade between the Russian Federation and designated countries. Clearing currencies are regularly traded on special auctions held by the Bank under the supervision of the Russian Ministry of Finance. Clearing currencies-denominated assets and liabilities have been translated into RUB at the official rates of the Bank of Russia at 31 December 2014 and 31 December 2013.

Segregation of operations

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

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

- Liabilities to foreign creditors, including all accrued interest which are serviced and redeemed at the expense of the Russian Government;
- Internal foreign currency debt to residents of the former USSR;
- Claims to legal entities for foreign currency government and commercial loans granted to Russian Federation regions, former republics of the USSR, and other foreign countries representing both government external and internal foreign currency assets;
- Clearing, barter, and mutual settlements, including corresponding settlements with clients, executed on the basis of intergovernmental agreements;
- Participation claims and liabilities related to the reorganization of former USSR-owned foreign banks, which are subject to trilateral settlement by the Bank of Russia, the Russian Ministry of Finance, and Vnesheconombank, and equity participations financed by borrowings, the responsibility for which was assumed by the Russian Ministry of Finance;
- Claims against Russian commercial banks and other commercial entities for guarantees in favor of the Russian Ministry of Finance under centralized operations, as well as other claims and liabilities that resulted from, or arise as a result of, operations conducted at the expense of the Russian Government.

(in millions of Russian rubles)

3. Reclassification of comparative information

The Group has changed the presentation of certain items in the consolidated statement of financial position as at 31 December 2014. The following reclassifications have been made to 2013 and 2012 balances to conform to the 2014 presentation:

	As previously reported	Reclassification amount	As reclassified
Consolidated statement of financial position as at 31 December 2013			
Financial assets at fair value through profit or loss pledged under repurchase agreements	15,697	(15,697)	–
Investment financial assets pledged under repurchase agreements			
- available for sale	15,376	(15,376)	–
- held to maturity	33	(33)	–
Financial assets lent and pledged under repurchase agreements	–	31,106	31,106
Finance lease liabilities	–	24,435	24,435
Other liabilities	55,789	(24,435)	31,354
Consolidated statement of financial position as at 31 December 2012			
Financial assets at fair value through profit or loss lent and pledged under repurchase agreements	16,668	(16,668)	–
Loans to customers pledged under repurchase agreements	148	(148)	–
Available-for-sale investment financial assets pledged under repurchase agreements	11,751	(11,751)	–
Financial assets lent and pledged under repurchase agreements	–	28,567	28,567
Finance lease liabilities	–	3,998	3,998
Other liabilities	105,448	(3,998)	101,450

The Group has also changed the presentation of interest expenses disclosed in Note 29. Comparative data for the year ended 31 December 2013 have been reclassified to conform to the 2014 presentation:

	As previously reported	Reclassification amount	As reclassified
Consolidated statement of profit or loss for the year ended 31 December 2013			
Interest expense			
Amounts due to customers and the Russian Government	(63,490)	169	(63,321)
Finance lease liabilities	–	(169)	(169)

The effect of the above changes is also disclosed in Notes 9, 12, 16, 22 and 29.

(in millions of Russian rubles)

4. Major subsidiaries

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

Subsidiaries	Ownership 31 December 2014	Ownership 31 December 2013	Country of incorporation	Type of activity
EXIMBANK OF RUSSIA	100%	100%	Russia	Banking
Bank BelVEB OJSC	97.52%	97.52%	Republic of Belarus	Banking
OJSC "VEB-Leasing"	98.96%	98.96%	Russia	Leasing
"SME Bank"	100%	100%	Russia	Banking
Sviaz-Bank	99.65%	99.47%	Russia	Banking
PSC Prominvestbank	98.6%	98.6%	Ukraine	Banking
CJSC "Kraslesinvest"	100%	100%	Russia	Production and processing of materials
JSC "GLOBEXBANK"	99.99%	99.99%	Russia	Banking
Rose Group Limited (formerly R.G.I. International Limited)	73.4%	73.4%	Guernsey	Real estate development business
LLC "VEB-Capital"	100%	100%	Russia	Financial intermediary
"VEB Engineering" LLC	100%	67.55%	Russia	Investment project implementation services
FCPF	100%	100%	Russia	Financial intermediary
OJSC "Development Corporation of North Caucasus"	100%	100%	Russia	Advisory services, investment project support
RDIF Management Company LLC	100%	100%	Russia	Management company
EXIAR	100%	100%	Russia	Insurance
OJSC "The Far East and Baikal Region Development Fund"	100%	100%	Russia	Investment project support
VEB Asia Limited	100%	100%	People's Republic of China	Financial intermediary
Resad LLC	85%	–	Russia	Electric energy
Resort Zolotoe Koltso CJSC	100%	–	Russia	Real estate and construction
	Share of assets:			
Mutual Fund RDIF	100%	100%	Russia	Mutual fund

As at 31 December 2014 and 31 December 2013, the Group owns 100% of the voting shares of OJSC "VEB-Leasing".

In January 2014, the Bank transferred RUB 48 million as payment for a 32.45% share in the charter capital of "VEB Engineering" LLC, a subsidiary; as a result, the Group's share in the charter capital of "VEB Engineering" LLC comprises 100%. As at 31 December 2013, the Bank owns 100% of votes at the meeting of participants of "VEB Engineering" LLC.

At 31 December 2014 and at 31 December 2013, the Group owns 100% shares of AMURMETAL HOLDING LIMITED, a company holding shares of the entity, which is the owner of a group of metallurgical enterprises. The manufacturing company under control of AMURMETAL HOLDING LIMITED is under control of a bankruptcy manager, thus financial statements of AMURMETAL HOLDING LIMITED had not been included in the consolidated financial statements of the Group at 31 December 2014 and 31 December 2013.

At 31 December 2014 and at 31 December 2013, the Group owns 100% shares of Machinery & Industrial Group N.V., a company holding shares of a group of machinery enterprises. The Group did not obtain control over the company due to simultaneously concluded option agreement for the sale of the above interest. Due to absence of control, financial statements of the Machinery & Industrial Group N.V. have not been included in the consolidated financial statements of the Group at 31 December 2014 and 31 December 2013.

(in millions of Russian rubles)

4. Major subsidiaries (continued)

In April 2014, the Bank purchased 170,000 ordinary registered shares issued additionally by EXIMBANK OF RUSSIA for the total amount of RUB 1,700 million. As a result of placement of the shares of EXIMBANK OF RUSSIA, the Bank's share remained unchanged at 100%.

Due to the approval of the new version of the Charter of Resad LLC by the general meeting of the participants in July 2014, the Bank acquired control over the entity (state registration of the charter was completed in August 2014) which is recognized as a jointly controlled entity starting from July 2013. The Bank's share in the charter capital of the company remained unchanged at 85%.

In July 2014, the Bank purchased 1,000 ordinary registered shares of Resort Zolotoe Koltso CJSC. The Bank's share in the charter capital of the company comprises 100%.

In October 2014, the Bank purchased 2,059 ordinary registered shares additionally issued by OJSC "SME Bank" for the total amount of RUB 2,059 million. The Bank's share in the charter capital of its subsidiary remained unchanged at 100%.

In October 2014, the Bank purchased 1,376,437 ordinary shares additionally issued by EXIAR for the total amount of RUB 1,376 million. As payment for these shares, the Bank transferred the ownership of a non-residential building to the issuer. The Bank's share in the charter capital of its subsidiary remained unchanged at 100%.

In November 2014, under the purchase agreement, the Bank transferred the ownership of 265,099 ordinary registered shares of EXIMBANK OF RUSSIA to EXIAR (100% less 1 share) for RUB 2,153 million. The Group's share in the charter capital of EXIMBANK OF RUSSIA remained unchanged at 100%.

In December 2014, the Bank transferred a total of USD 280 million (RUB 16,991 million at the date of transfer) in payment for 441,542,360 ordinary registered additionally issued shares in PSC Prominvestbank. At the reporting date, ownership of PSC Prominvestbank's shares hasn't been transferred to the Bank.

In December 2014, the Bank purchased 5,000,000 ordinary registered shares additionally issued by Sviaz-Bank for the total amount of RUB 10,000 million. As a result of placement of the shares additionally issued by Sviaz-Bank, the Bank's share in the charter capital of its subsidiary comprises 99.65%.

Subsidiaries with material non-controlling interests

The following table contains information on Rose Group Limited (hereinafter, "R.G.L."), the Group's subsidiary, with material non-controlling interests as at 31 December 2014 and 31 December 2013.

	2014		
	Non-controlling interests, %	Loss recognized in non-controlling interests during the year	Accumulated non-controlling interests at the year-end
R.G.L.	26.6%	(478)	2,600

	2013		
	Non-controlling interests, %	Loss recognized in non-controlling interests during the year	Accumulated non-controlling interests at the year-end
R.G.L.	26.6%	(231)	3,078

(in millions of Russian rubles)

4. Major subsidiaries (continued)

Subsidiaries with material non-controlling interests (continued)

The following is the summarized financial information with respect to R.G.L. This information is based on amounts before the elimination of intra-group transactions.

R.G.L.	2014	2013
Cash and cash equivalents	1,826	896
Amounts due from banks	–	107
Investments in associates and jointly controlled entities	505	439
Property and equipment	6,471	6,673
Income tax assets	906	311
Other assets	18,390	21,376
Total assets	28,098	29,802
Amounts due to banks	8,838	6,108
Income tax liabilities	2,539	2,210
Other liabilities	5,741	8,986
Total liabilities	17,118	17,304
Total equity	10,980	12,498

R.G.L.	For the year ended 31 December 2014	For the year ended 31 December 2013
Interest income	68	6
Non-interest income	7,119	247
Non-interest expense	(8,878)	(736)
Income tax (expense)/benefit	173	(64)
Loss for the reporting year	(1,518)	(547)
Other comprehensive income/(loss)	–	–
Total comprehensive loss for the year	(1,518)	(547)
Net cash flows from operating activities	1,412	(210)
Net cash flows from investing activities	(175)	558
Net cash flows from financing activities	(406)	(87)
Net increase in cash and cash equivalents	831	261

5. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and IFRIC, which are effective for annual periods beginning on or after 1 January 2014:

Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments are not relevant to the Group, since none of the entities of the Group qualify as an investment entity under IFRS 10.

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Group. Disclosures are presented in Note 35.

IFRIC Interpretation 21 Levies (IFRIC 21)

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Group's consolidated financial statements, as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments are not relevant to the Group, since the Group has not novated its derivatives during the current period.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments had no impact on the Group's financial position or performance.

Basis of consolidation

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

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

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

5. Summary of accounting policies (continued)

Business combinations

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

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

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

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

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

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

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

Acquisition of subsidiaries from parties under common control

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

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

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Acquisition of subsidiaries from parties under common control (continued)

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

Investments in associates and jointly controlled entities

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

Jointly controlled entities are entities in which the Group has rights to net assets and joint control over their economic activities according to contractual arrangements. Where a jointly controlled entity is established through loss of control over a subsidiary, its initial carrying amount is recorded at fair value. Subsequently, these entities are carried using the equity method and are subject to the same accounting policies that apply to investments in associates. Any share in the result of jointly controlled entities is recognized in the consolidated financial statements from the beginning of joint control until the date this control ceases.

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

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 34.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

5. Summary of accounting policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Financial assets at fair value through profit or loss

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

5. Summary of accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

Non-marketable securities that do not have fixed maturities and whose fair value cannot be reliably measured are measured at cost less allowance for impairment.

Reclassification of financial assets

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

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

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

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

5. Summary of accounting policies (continued)

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default;
- the event of insolvency or bankruptcy of the entity or any of its counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Cash and cash equivalents

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

Precious metals

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

5. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

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

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

Derivative financial instruments

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

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

Promissory notes

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

Borrowings

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

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Borrowings (continued)

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

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

Government grants and government assistance

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

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

Leases

Finance leases – Group as lessee

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

Finance leases – Group as lessor

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

Operating leases – Group as lessee

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

5. Summary of accounting policies (continued)

Leases (continued)

Operating leases – Group as lessor

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

Impairment of financial assets

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

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

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

Amounts due from banks and loans to customers

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

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

5. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

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

Held-to-maturity financial investments

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

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

Available-for-sale financial investments

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

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

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

5. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiation of loans

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

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the future cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan in not impaired after restructuring, the Group derecognizes the initial asset and a new asset is recorded in the consolidated statement of financial position.

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

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

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

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

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

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

5. Summary of accounting policies (continued)

Property and equipment

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

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

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

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

Land has an indefinite useful life and is not depreciated.

Leasehold improvements are amortized over the lease term of property and equipment.

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

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes;
- is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation.

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Goodwill (continued)

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

Intangible assets other than goodwill

Intangible assets other than goodwill include computer software and licenses.

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

Assets classified as held for sale

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

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

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

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Investment property (continued)

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recognized in the statement of profit or loss within other income. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of profit or loss and presented within other income or other operating expenses.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Investment property under construction

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

Inventory (real estate properties and land for sale)

The Groups classifies as inventory any projects involving the construction of real estate intended for sale (including residential premises) which are implemented by its subsidiaries engaged in development activities in the ordinary course of business.

In addition to these assets, the Group classifies as inventory those assets that are repossessed by the Group following legal proceedings for recovery of past due amounts payable under loans and held for sale in the near term in the ordinary course of business to cover losses arising from lending activities.

In accordance with IAS 2, the Group measures these assets at the lower of cost and net realizable value. Inventories are included in other assets in the consolidated statement of financial position. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs to sell.

Provisions

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

5. Summary of accounting policies (continued)

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 profit or loss in the period the related salaries are earned and included into payroll and other staff costs.

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

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

Charter capital

Charter capital

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

Dividends

Vnesheconombank neither accrues nor pays dividends.

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

Fiduciary assets

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

Segment reporting

The Group's segment reporting is based on the six operating segments disclosed in Note 8.

Contingencies

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

5. Summary of accounting policies (continued)

Income and expense recognition

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

Interest and similar income and expense

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

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

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 fees for asset management, custody and other management and advisory services. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

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

Dividend income

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

5. Summary of accounting policies (continued)

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the Bank of Russia exchange rate on the date of the transaction are included in 'Gains less losses from foreign currencies'. The official exchange rates of the Bank of Russia at 31 December 2014 and 31 December 2013 were RUB 56.2584 and RUB 32.7292 to 1 USD, respectively.

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

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

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

On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular organization is recognized in profit or loss. 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 the closing rate.

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective

Disclosed below are standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments,* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if adopted early) is out of the scope of IFRS 15 and is dealt with by the respective standards.

Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendments are effective for annual periods beginning on or after 1 July 2014. It is not expected that these amendments would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation, and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group as the Group does not have any bearer plants.

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016, Earlier application is permitted.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e. property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of Effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided that either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. Since the Group is an existing IFRS preparer, this standard would not apply.

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual improvements 2012-2014 Cycle

These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment becomes effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied so that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "[A]n entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods." The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report. The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment becomes effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment becomes effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment becomes effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

6. Significant accounting judgments and estimates

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

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

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are provided in Note 34.

Fair value of investment property

The Group recognizes land and buildings within investment property at fair value and performs revaluation on a regular basis. For this purpose, the Group engages an independent qualified appraiser. Fair values of investment property are measured by comparing them to the market value of similar properties, as well as by using other methods.

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess the impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(in millions of Russian rubles)

6. Significant accounting judgments and estimates (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to also choose a suitable discount rate in order to calculate the present value of those cash flows. At 31 December 2014, the carrying value of goodwill amounted to RUB 1,381 million (at 31 December 2013: RUB 1,381 million). More details are provided in Note 22.

7. Business combinations

Acquisitions in 2014

Due to the approval of the new version of the Charter of Resad LLC by the general meeting of the participants on 24 July 2014, the Bank acquired control over the entity (state registration of the new version of the charter was completed in August 2014). The Bank's share in the charter capital of the company remained unchanged at 85%.

Resad LLC is the client for the Molzhaninovka gas-turbine thermal power plant construction project in Moscow.

On 29 July 2014, the Bank acquired 100% of the voting shares of Resort Zolotoe Koltso CJSC, the contractor for the construction of the tourist and recreation complex in the Pereslavsky district in Yaroslavl Region.

The Bank's participation in Resad LLC and Resort Zolotoe Koltso CJSC is related to the Bank's financing of the respective projects.

The fair value of the acquired identifiable assets and liabilities of the specified entities were determined provisionally and are presented in the table below.

	Provisional fair value recognized on the acquisition of control over Resad LLC	Provisional fair value recognized on the acquisition of control over Resort Zolotoe Koltso CJSC
Cash and cash equivalents	1	–
Property and equipment	1,367	1,759
Income tax assets	26	–
Other assets	762	228
	2,156	1,987
Amounts due to customers	–	4
Income tax liabilities	–	54
Other liabilities	199	78
	199	136
Total identifiable net assets	1,957	1,851
Non-controlling interests	586	–
Compensation transferred upon acquisition of control	2,543	1,851

(in millions of Russian rubles)

7. Business combinations (continued)

Acquisitions in 2014 (continued)

At the acquisition dates, the Group recognized loans to Resad LLC and Resort Zolotoe Koltso CJSC, which were recognized as amounts due to banks at carrying value in the financial statements of the specified entities (RUB 5,864 million and RUB 3,739 million, respectively). The fair value of the specified liabilities of Resad LLC and Resort Zolotoe Koltso CJSC amounted to RUB 2,543 million and RUB 1,851 million, respectively. The mentioned transactions representing the pre-existing relations between the Group members were fully eliminated in the process of accounting for the business combination. Borrowings from the Group were eliminated from the identifiable liabilities of Resad LLC and Resort Zolotoe Koltso CJSC, and compensation transferred upon acquisition was increased by the respective fair value of the specified liabilities.

The Group decided to measure the non-controlling interest in Resad LLC at the proportionate share of non-controlling participants in its identifiable net assets.

Cash flows on acquisition of the subsidiary

Net cash acquired with the subsidiary (included in cash flows from investing activities)	1
Cash paid at the acquisition of control (included in cash flows from investing activities)	–
Net cash flow	1

The share of the specified entities in the financial results of the Group was insignificant. Had the acquisition been made at the beginning of the year, the Group's net loss would not have changed significantly.

Acquisitions in 2013

Rose Group Limited (formerly R.G.I. International Limited)

On 8 March 2013, subsidiary bank JSC "GLOBEXBANK" acquired 28.8% of the voting shares in R.G.L. Immediately before the acquisition date, JSC "GLOBEXBANK" owned 22.6% of the voting shares in R.G.L. that were acquired on 4 January 2013. As a result, the Group's interest in R.G.L. amounted to 51.4%. The shares were acquired for USD 2.1 per share, totaling RUB 5,408 million at the exchange rate at the date of acquisition.

R.G.L. is a development company specializing in residential and retail real estate projects in Moscow and adjacent areas. The Group acquired a controlling interest in R.G.L. in order to participate in investment projects in the construction and sale of real estate.

(in millions of Russian rubles)

7. Business combinations (continued)

Acquisitions in 2013 (continued)

The fair values of identifiable assets and liabilities acquired as determined by an independent appraiser were as follows:

	Fair value recognized on acquisition of control
Cash and cash equivalents	652
Amounts due from banks	186
Investments in associates and jointly controlled entities	398
Property and equipment (Note 19)	6,783
Income tax assets (Note 20)	321
Other assets	18,677
	27,017
Amounts due to banks	6,015
Income tax liabilities (Note 20)	2,158
Other liabilities	5,799
	13,972
Total identifiable net assets	13,045
Less fair value of the previously existing interest	(2,367)
Non-controlling interests	(6,819)
Gain on bargain purchase	(818)
Compensation transferred upon acquisition of control	3,041

The Group decided to measure the non-controlling interest in R.G.L. at the proportionate share of non-controlling participants in its identifiable net assets. The non-controlling interest at the date of acquisition of control includes, among others, a non-controlling interest held directly in R.G.L. of RUB 5,885 million.

As at the date of acquisition of control, the fair value of R.G.L. net assets exceeded the acquisition value in the amount of RUB 818 million. However, after the acquisition of control in the third quarter of 2013, subsidiary bank JSC "GLOBEXBANK" obtained 36,000,000 (22%) of the voting shares in R.G.L. from a non-controlling shareholder as a settlement for one of the loans with a carrying value of RUB 3,455 million, thus increasing its interest to 73.4%. As a result of the acquisition, the value of non-controlling interests decreased by RUB 2,576 million. Upon recognition of the loan transferred as a consideration at fair value, the Group recognized an impairment of RUB 879 million in the consolidated statement of profit or loss within the provision for impairment of interest-earning assets.

As a result of the acquisition, other assets of the Group increased by RUB 18,677 million, including the increase in non-banking subsidiaries' inventories of RUB 15,141 million, in investment property of RUB 937 million, in investment property under construction of RUB 1,570 million and in settlements with other debtors represented by prepayments under construction contracts in the amount of RUB 900 million. Amounts due to other debtors were not impaired and all contractual services are expected to be received in full.

For the period from 8 March 2013 through 31 December 2013, R.G.L.'s contribution to the Group's non-interest income is RUB 247 million and R.G.L.'s contribution to the Group's financial result constitutes a loss of RUB 547 million. Had the combination occurred at the beginning of the year, the Group's net profit for the year ended 31 December 2013 would have been RUB 8,290 million.

(in millions of Russian rubles)

7. Business combinations (continued)

Acquisitions in 2013 (continued)

Cash outflow on acquisition of the subsidiary

Acquisition costs (included in cash flows from operating activities)	(13)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	652
Cash paid at the acquisition of significant influence (included in cash flows from investing activities)	(2,367)
Cash paid at the acquisition of control (included in cash flows from investing activities)	(3,041)
Net cash outflow	(4,769)

Changes in ownership interest in subsidiaries in 2014

In the first quarter of 2014, PSC Prominvestbank disposed to third parties 1,779,521 shares earlier purchased from non-controlling shareholders. The reallocation of interests between Vnesheconombank and the remaining non-controlling shareholders resulted in an increase in the value of non-controlling interests and retained earnings of the Group by RUB 38 million and RUB 36 million concurrently with a decrease in the foreign currency translation reserve by RUB 3 million, respectively.

During the fourth quarter of 2014, PSC Prominvestbank purchased 508,532 shares from non-controlling shareholders. The reallocation of interests between Vnesheconombank and the remaining non-controlling shareholders resulted in an increase in the value of non-controlling interests by RUB 4 million concurrently with a decrease in the foreign currency translation reserve and retained earnings of the Group by RUB 1 million and RUB 21 million, respectively.

During the fourth quarter of 2014, following the results of the additional issue, the carrying value of Sviaz-Bank's net assets increased by RUB 10,000 million. The reallocation of interests between the Bank and the remaining non-controlling shareholders resulted in an increase in the value of non-controlling interests and retained earnings of the Group by RUB 5 million and RUB 4 million, respectively, with a decrease in the unrealized revaluation in available-for-sale investment financial assets by RUB 9 million.

Changes in ownership interest in subsidiaries in 2013

During the second quarter of 2013, PSC Prominvestbank purchased 1,779,521 shares from non-controlling shareholders. The reallocation of interests between Vnesheconombank and the remaining non-controlling shareholders resulted in a decrease in the value of non-controlling interests and retained earnings of the Group by RUB 23 million and RUB 56 million concurrently with an increase in the foreign currency translation reserve by RUB 7 million, respectively.

In the second and third quarters of 2013, as a result of a number of transactions, RDIF long-term direct investment mutual fund disposed of a part of its interest in separate subsidiaries. The reallocation of interests between RDIF long-term direct investment mutual fund and the new non-controlling shareholders resulted in an increase in the value of non-controlling interests by RUB 441 million.

In the third quarter of 2013, following the results of the additional issue of shares of PSC Prominvestbank (Note 4), the contribution of non-controlling shareholders amounted to RUB 3 million. As a result of the additional issue, the carrying value of the net assets of PSC Prominvestbank increased by RUB 11,435 million. The reallocation of interests between the Bank and the remaining non-controlling shareholders resulted in a RUB 91 million increase in the value of non-controlling interests, a RUB 13 million increase in the foreign currency translation reserve and a RUB 101 million decrease in the Group's retained earnings.

(in millions of Russian rubles)

8. Segment information

For management purposes, the Group has six operating business segments:

Segment 1	Vnesheconombank, "SME Bank";
Segment 2	Sviaz-Bank, JSC "GLOBEXBANK", R.G.L.;
Segment 3	PSC "Prominvestbank" (Ukraine);
Segment 4	Bank BelVEB OJSC (Republic of Belarus);
Segment 5	OJSC "VEB-Leasing";
Segment 6	LLC "VEB Capital", LLC "VEB Engineering", FCPF, OJSC "Development Corporation of North Caucasus", RDIF Management Company LLC, EXIAR, Mutual Fund RDIF, OJSC "The Far East and Baikal Region Development Fund", VEB Asia Limited, Resad LLC, Resort Zolotoe Koltso CJSC, EXIMBANK OF RUSSIA and other subsidiaries.

Segment 1 comprises major banks within the Group. Segment 2 comprises banks that were purchased in 2008 and 2009 to recover their financial stability in line with anti-crisis measures developed by the Russian Government and their subsidiaries. Segments 3 and 4 reflect the Group's banking operations in Ukraine and the Republic of Belarus, respectively. Segment 5 reflects leasing operations of the Group. Segment 6 comprises other subsidiaries and funds in which the Group holds a controlling ownership interest.

In 2014, OJSC "VEB-Leasing" was transferred to a separate segment (Segment 5) as a result of a significant increase in its income and assets, and the comparative information was restated.

During the fourth quarter of 2014, shares of EXIMBANK OF RUSSIA (previously included in Segment 1) owned by the Bank were fully transferred to EXIAR following the Instruction of the President of the Russian Federation of 24 June 2014 on the establishment of the Center for Exports Credit and Insurance Support on the basis of EXIAR. The established Center for Exports Credit and Insurance Support was included in Segment 6. The comparative information was not restated, since the effect on the financial statements is insignificant.

Management of the Group monitors the operating results of each segment separately to make decisions on allocation of resources and to assess operating performance. Segments results are defined in a different way from that used for the purposes of the consolidated financial statements, as shown in the table below. Income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties.

In 2014 and 2013, the Group received no income from transactions with one external client or counterparty that amounted to 10% or more of the Group's total income, except for income from transactions with entities under the control of the Russian Federation. Such income was mainly received from transactions within Segments 1 and 2.

(in millions of Russian rubles)

8. Segment information (continued)

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

2014	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6	Total before adjustments and eliminations	Adjustments and eliminations	Total
Income									
External customers									
Interest income	166,423	51,060	15,422	10,166	36,404	860	280,335	–	280,335
Fee and commission income	4,210	2,357	1,487	2,411	116	–	10,581	–	10,581
Gains less losses from financial instruments at fair value through profit or loss	2,431	(1,388)	8	–	(203)	5,469	6,317	–	6,317
Gains less losses arising from investment securities available for sale	(15,034)	(858)	(11)	11	–	(765)	(16,657)	–	(16,657)
Gains less losses from foreign currencies	(38,264)	(1,850)	1,138	(5,037)	7,397	1,660	(34,956)	–	(34,956)
Share in net income/(loss) of associates and jointly controlled entities	221	(629)	–	8	(1,343)	29	(1,714)	–	(1,714)
Other income	68,428	11,069	578	1,099	2,510	6,120	89,804	–	89,804
Total external income	188,415	59,761	18,622	8,658	44,881	13,373	333,710	–	333,710
Intersegment income									
Interest income	17,330	1,810	–	8	645	10,781	30,574	(30,574)	–
Other intersegment income less expenses	99	499	(1,553)	5,958	474	331	5,808	(5,808)	–
Total intersegment income	17,429	2,309	(1,553)	5,966	1,119	11,112	36,382	(36,382)	–
Total income	205,844	62,070	17,069	14,624	46,000	24,485	370,092	(36,382)	333,710
External customers									
Interest expense	(129,550)	(25,933)	(5,680)	(3,084)	(15,799)	–	(180,046)	–	(180,046)
Fee and commission expense	(980)	(681)	(121)	(649)	(26)	(2)	(2,459)	–	(2,459)
Provision for loan impairment	(272,154)	(12,210)	(19,762)	(1,831)	(5,734)	(2,436)	(314,127)	–	(314,127)
Payroll and other staff costs	(8,409)	(6,724)	(2,395)	(2,018)	(1,964)	(3,094)	(24,604)	–	(24,604)
Depreciation of property and equipment	(786)	(820)	(454)	(244)	(610)	(134)	(3,048)	–	(3,048)
Provision for other impairment and provisions	(818)	(357)	(3,590)	(199)	(4,258)	(2,714)	(11,936)	–	(11,936)
Other expenses	(12,516)	(13,655)	(2,789)	(2,019)	(6,225)	(6,032)	(43,236)	–	(43,236)
Total external expense	(425,213)	(60,380)	(34,791)	(10,044)	(34,616)	(14,412)	(579,456)	–	(579,456)
Intersegment expenses									
Interest expense	(7,548)	(10,417)	(4,019)	(1,757)	(6,679)	(952)	(31,372)	31,372	–
Other intersegment (expenses)	(33,147)	(37)	(6)	(240)	(66)	(1,369)	(34,865)	34,865	–
Total intersegment expenses	(40,695)	(10,454)	(4,025)	(1,997)	(6,745)	(2,321)	(66,237)	66,237	–
Total expenses	(465,908)	(70,834)	(38,816)	(12,041)	(41,361)	(16,733)	(645,693)	66,237	(579,456)
Segment results	(260,064)	(8,764)	(21,747)	2,583	4,639	7,752	(275,601)	29,855	(245,746)
Gain on bargain purchase	–	–	–	–	–	–	–	–	–
Loss on net monetary position resulting from hyperinflation	–	–	–	(1,327)	–	–	(1,327)	–	(1,327)
Income tax (expense)/benefit	59	(46)	(479)	(597)	–	(1,520)	(2,583)	–	(2,583)
Profit/(loss) for the year	(260,005)	(8,810)	(22,226)	659	4,639	6,232	(279,511)	29,855	(249,656)
Other segment information									
Capital expenditure	418	340	566	761	80	1,990	4,155	–	4,155
Investments in associates and jointly controlled entities	4,618	593	–	162	–	5,519	10,892	–	10,892

(in millions of Russian rubles)

8. Segment information (continued)

In 2014, the Group recognized a RUB 16,028 million loss from impairment of available-for-sale financial assets of Segments 1 and 2 in gains less losses from investment financial assets available for sale.

2013 (Restated)	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6	Total before adjustments and eliminations	Adjustments and eliminations	Total
Income									
External customers									
Interest income	147,847	43,401	15,817	7,564	28,151	964	243,744	–	243,744
Fee and commission income	4,898	2,195	1,281	1,612	183	–	10,169	–	10,169
Gains less losses from financial instruments at fair value through profit or loss	2,702	(248)	–	–	(62)	(1,062)	1,330	–	1,330
Gains less losses arising from investment securities available for sale	68,190	81	2	92	–	37	68,402	–	68,402
Gains less losses from foreign currencies	(8,312)	(354)	248	220	304	(43)	(7,937)	–	(7,937)
Share in net income/(loss) of associates and jointly controlled entities	284	4	–	11	(1,115)	168	(648)	–	(648)
Other income	18,181	1,370	269	560	3,817	3,698	27,895	–	27,895
Total external income	233,790	46,449	17,617	10,059	31,278	3,762	342,955	–	342,955
Intersegment income									
Interest income	14,220	1,649	–	10	807	9,513	26,199	(26,199)	–
Other intersegment income less expenses	(298)	728	881	124	328	194	1,957	(1,957)	–
Total intersegment income	13,922	2,377	881	134	1,135	9,707	28,156	(28,156)	–
Total income	247,712	48,826	18,498	10,193	32,413	13,469	371,111	(28,156)	342,955
External customers									
Interest expense	(103,611)	(21,312)	(6,894)	(2,608)	(11,163)	817	(144,771)	–	(144,771)
Fee and commission expense	(1,396)	(608)	(136)	(355)	(19)	(28)	(2,542)	–	(2,542)
Provision for loan impairment	(111,027)	(5,012)	(3,328)	(524)	(2,893)	(533)	(123,317)	–	(123,317)
Payroll and other staff costs	(7,977)	(6,239)	(2,473)	(1,503)	(2,115)	(2,869)	(23,176)	–	(23,176)
Depreciation of property and equipment	(513)	(783)	(416)	(158)	(480)	(113)	(2,463)	–	(2,463)
Other impairment provision (charges)/reversal	193	(48)	85	(8)	(1,022)	(3,003)	(3,803)	–	(3,803)
Other expenses	(12,307)	(6,268)	(2,378)	(1,562)	(4,420)	(4,563)	(31,498)	–	(31,498)
Total external expense	(236,638)	(40,270)	(15,540)	(6,718)	(22,112)	(10,292)	(331,570)	–	(331,570)
Intersegment expenses									
Interest expense	(7,534)	(8,003)	(3,081)	(1,307)	(4,880)	(1,559)	(26,364)	26,364	–
Other intersegment (expenses)	(24,365)	(14)	(105)	(176)	(57)	(61)	(24,778)	24,778	–
Total intersegment expenses	(31,899)	(8,017)	(3,186)	(1,483)	(4,937)	(1,620)	(51,144)	51,142	–
Total expenses	(268,537)	(48,287)	(18,726)	(8,201)	(27,049)	(11,912)	(382,712)	51,142	(331,570)
Segment results	(20,825)	539	(228)	1,992	5,364	1,557	(11,601)	22,986	11,385
Gain on bargain purchase	–	–	–	–	–	–	–	818	818
Loss on net monetary position resulting from hyperinflation	–	–	–	(921)	–	–	(921)	–	(921)
Income tax (expense)/benefit	(330)	(475)	154	(359)	(1,560)	(204)	(2,774)	–	(2,774)
Profit/(loss) for the year	(21,155)	64	(74)	712	3,804	1,352	(15,297)	23,805	8,508
Other segment information									
Capital expenditure	1,327	7,401	1,297	635	2,320	2,364	15,344	–	15,344
Investments in associates and jointly controlled entities	4,486	526	0	118	–	5,343	10,473	–	10,473

(in millions of Russian rubles)

8. Segment information (continued)

In 2013, the Group recognized a RUB 4,559 million loss from continuing impairment of available-for-sale financial assets of Segment 1 in gains less losses from investment financial assets available for sale.

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

	2014	2013 (Restated)
Segment assets		
Segment 1	2,642,182	2,319,714
Segment 2	667,691	618,245
Segment 3	180,125	156,777
Segment 4	93,527	67,740
Segment 5	510,615	335,513
Segment 6	255,029	224,350
Total before deducting intersegment assets	4,349,169	3,722,339
Intersegment assets	(525,793)	(444,235)
Adjustments	62,444	35,854
Total assets	3,885,820	3,313,958

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

	2014	2013 (Restated)
Segment liabilities		
Segment 1	2,626,673	2,076,227
Segment 2	618,868	568,237
Segment 3	169,503	137,580
Segment 4	79,938	57,920
Segment 5	483,682	309,698
Segment 6	49,211	30,290
Total before deducting intersegment liabilities	4,027,875	3,179,952
Intersegment liabilities	(525,793)	(444,235)
Adjustments	5,173	1,382
Total liabilities	3,507,255	2,737,099

The adjustments of intersegment income and expenses, as well as the Group's assets, are related to the accounting differences due to the following reasons:

- as a result of transactions made with foreign subsidiaries in currencies other than the reporting currency of the Group;
- due to the repurchase of debt securities issued by Group entities or other deals with financial instruments between the Group entities;
- due to a reversal of allowances for the impairment of intersegment assets, created by Group entities.

(in millions of Russian rubles)

8. Segment information (continued)

Geographical information

Allocation of the Group's interest income from transactions with external clients in Russia, Ukraine, and other countries, and non-current assets based on the location of these clients as at 31 December 2014 and 2013 and for the years then ended is presented in the table below:

	2014				2013			
	Russia	Ukraine	Other countries	Total	Russia	Ukraine	Other countries	Total
Interest income from external clients	254,747	15,422	10,166	280,335	220,363	15,817	7,564	243,744
Non-current assets	47,578	10,190	4,667	62,435	43,155	11,705	3,030	57,890

Non-current assets include property and equipment and intangible assets.

9. Operations with the Russian Government, its authorized institutions and the Bank of Russia

Amounts due to the Russian Government, its institutions and the Bank of Russia consisted of the following:

	2014	2013
Interest-bearing loans and deposits from the Bank of Russia	219,594	284,452
Interest-bearing loans and deposits from the Russian Ministry of Finance	204,339	661,504
Repurchase agreements with the Bank of Russia	96,182	24,928
Settlements related to redemption of Russian Government loans	28,848	9,837
Deposits of non-budgetary funds	10,042	75
Other funds	273	184
Amounts due to the Russian Government, its institutions and the Bank of Russia	559,278	980,980

At 31 December 2014 and 31 December 2013, interest-bearing loans and deposits from the Russian Ministry of Finance include funds of the National Welfare Fund of the Russian Federation ("NWF") denominated in Russian rubles and deposited with Vnesheconombank pursuant to Federal Law No. 173-FZ in the amount of RUB 72,135 million (31 December 2013: RUB 333,862 million). These deposits were raised at annual rates of 6.25% and 7.25% (31 December 2013: 6.25% and 7.25%) and have maturity dates from November 2017 through December 2020 (31 December 2013: from December 2014 through December 2020).

In December 2014, one of the deposits from the Russian Ministry of Finance mentioned above was extended by five years at an interest rate below market level. For the reporting year ended 31 December 2014, gains from the initial recognition of the financial instruments in the amount of RUB 490 million were recognized in the consolidated statement of profit or loss.

In September, October and December 2014, Vnesheconombank made an early repayment of a portion of deposits from NWF in the amount of RUB 278,992 million, which was intended to provide subordinated loans to Russian banks in accordance with Law No. 173-FZ in 2008-2009 (Note 13). At 31 December 2013, these deposits amounted to RUB 261,796 million. The deposits were placed at interest rates below market level. For the reporting year ended 31 December 2014, a loss from the early repayment of deposits from the Russian Ministry of Finance in the amount of RUB 18,180 million is recorded in gains less losses from initial recognition of financial instruments, restructuring and early repayment in the consolidated statement of profit or loss.

(in millions of Russian rubles)

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

In addition, as at 31 December 2014 and 31 December 2013, interest-bearing deposits from the Russian Ministry of Finance include funds of NWF denominated in Russian rubles and intended to finance banks and legal entities supporting small and medium enterprises. "SME Bank", a subsidiary bank, is responsible for implementing such financial support. At 31 December 2014, the amount of financing was RUB 29,068 million (31 December 2013: RUB 28,669 million). The funds are denominated in Russian rubles, bear annual interest at 6.25% and mature in December 2017.

At 31 December 2014, interest-bearing deposits from the Russian Ministry of Finance also include RUB-denominated deposits of NWF in the amount of RUB 35,935 million (31 December 2013: RUB 35,292 million) placed with Vnesheconombank pursuant to Federal Law No. 173-FZ at the annual interest rate 6.25% maturing in May 2020 for further lending to OJSC "AHML" (Note 15).

At 31 December 2014, interest-bearing loans and deposits from the Russian Ministry of Finance include a RUB-denominated deposit intended for purchasing a financial asset (Note 16) in the amount of RUB 49,410 million (31 December 2013: RUB 48,914 million) maturing in June 2016.

In September 2014, the agreements for depositing NWF funds with Vnesheconombank in the amount of USD 6,254 million (equivalent to RUB 239,533 million as of the termination date) were terminated before maturity. At 31 December 2013, these deposits amounted to RUB 213,024 million. In September 2014, NWF funds in the amount of USD 288 million (equivalent to RUB 11,031 million as of the agreement date) were deposited for five years. At 31 December 2014, the deposit amounted to RUB 16,377 million. NWF funds of USD 5,966 million were placed with the Bank in the form of subordinated deposits, as disclosed below. The early termination of the agreement for NWF funds placement and the signing of deposit agreements did not involve cash flows.

At 31 December 2014, the Russian Ministry of Finance placed temporarily available funds on RUB-denominated short-term deposits with the Group's subsidiary bank, amounting to RUB 750 million and maturing in January 2015 (31 December 2013: RUB 1,285 million maturing in February 2014).

In June 2014, Vnesheconombank made an early repayment of deposits in the amount of RUB 212,636 million to the Bank of Russia, raised for the purpose of implementing the program of financial support to "Sviaz-Bank" and JSC "GLOBEXBANK". The deposits were placed at interest rates below market level. For the reporting year ended 31 December 2014, a loss from the early repayment of deposits from the Bank of Russia in the amount of RUB 2,451 million is recorded in gains less losses from initial recognition of financial instruments, restructuring and early repayment in the consolidated statements of profit or loss. At 31 December 2013, these deposits amounted to RUB 205,412 million. For the year ended 31 December 2013, gains from the initial recognition of the financial instruments in the amount of RUB 11,353 million were recognized in the consolidated statement of profit or loss.

At 31 December 2014, interest-bearing loans and deposits from the Bank of Russia include short-term and long-term loans in the amount of RUB 181,853 million (31 December 2013: RUB 75,438 million) secured by bank guarantees.

At 31 September 2014, interest-bearing loans and deposits from the Bank of Russia also include RUB 14,461 million secured by the pledge of the rights of claims under loans to customers in the amount of RUB 18,687 million (Note 15). At 31 December 2013, there were no such loans.

(in millions of Russian rubles)

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

At 31 December 2014, interest-bearing loans and deposits from the Bank of Russia also include loans in the amount of RUB 22,955 million (31 December 2013: RUB 3,602 million) secured by the pledge of the rights of claims under amounts due from banks in the amount of RUB 29,466 million (31 December 2013: RUB 5,504 million) (Note 13).

At 31 December 2014, under repurchase agreements with the Bank of Russia, the Group sold debt securities with a fair value of RUB 100,873 million, subject to repurchase (31 December 2013: RUB 27,989 million). Pledged securities are treated as trading financial assets with a fair value of RUB 451 million (31 December 2013: RUB 15,697 million) (Note 12), investment financial assets available for sale with a fair value of RUB 58,869 million (31 December 2013: RUB 12,259 million) (Note 16), and investment financial assets held to maturity with a fair value of RUB 29,210 million (31 December 2013: RUB 33 million) (Note 16), loans to customers with a fair value of RUB 10,595 million (at 31 December 2013, there were no pledged securities treated as loans to customers) (Note 15), amounts due from banks with a fair value of RUB 1,748 million (at 31 December 2013, there were no pledged securities treated as amounts due from banks) (Note 13).

At 31 December 2014, repurchase agreements with the Bank of Russia also include funds received from the Bank of Russia and collateralized by securities with a fair value of RUB 4,117 million received under reverse repurchase agreements (31 December 2013: RUB 2,961 million).

Settlements related to the redemption of Russian Government loans represent funds received from borrowers as repayment for loans granted by the Russian Government. These funds and the processing of payments are managed and conducted by the Bank in accordance with the Agency Agreements. At 31 December 2014 and 31 December 2013, these amounts are classified as due to the Russian Government.

Subordinated deposits

In September 2014, the agreements for depositing the foreign currency funds of the NWF with Vnesheconombank in the amount of USD 5,966 million (equivalent to RUB 228,502 million as of the agreement date) were signed. In accordance with Resolution No. 1749-r of the Russian Government dated 6 September 2014, USD 5,966 million was deposited under subordination terms for the purpose of the additional capitalization of Vnesheconombank, maturing in 15 years at an interest rate below market level. At 31 December 2014, these deposits amounted to RUB 303,015 million. For the reporting year ended 31 December 2014, gains on the initial recognition of financial instruments were recognized directly in retained earnings in the amount of RUB 25,240 million. As described above the early termination of the agreements for NWF funds placement and the signing of deposit agreements under subordination terms did not involve cash flows.

10. Agency operations

At 31 December 2014 and 31 December 2013, other assets and liabilities maintained by Vnesheconombank under the applicable Agency Agreement represent predominantly claims against foreign governmental and corporate debtors, former USSR companies, Russian state companies, and non-club debt to foreign creditors.

Vnesheconombank is not a legal obligor or creditor under the above categories of state external debt or government external assets and, therefore, the corresponding amounts were not included in the Group's consolidated statement of financial position.

(in millions of Russian rubles)

11. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	2013
Cash on hand	22,424	16,407
Current accounts with the Bank of Russia	37,728	35,766
Correspondent nostro accounts with banks and current accounts with other non-banking organizations:		
- Russian Federation	56,352	8,437
- other countries	112,677	103,482
Interest-bearing loans and deposits maturing within 90 days:		
- due from the Bank of Russia	8,500	10,430
- due from banks	79,448	95,548
Reverse repurchase agreements with banks for up to 90 days	8,798	5,924
Cash and cash equivalents	325,927	275,994

At 31 December 2014, reverse repurchase agreements include loans of RUB 8,798 million (31 December 2013: RUB 3,642 million) issued to banks and secured by corporate bonds with a fair value of RUB 11,214 million (31 December 2013: RUB 4,122 million). At 31 December 2013, reverse repurchase agreements include loans of RUB 2,282 million issued to banks and secured by corporate shares with a fair value of RUB 2,880 million. At 31 December 2014, there were no reverse repurchase agreements with banks secured by corporate shares.

In February 2012, under a financing agreement with the Russian Bank Capitalization Fund (the RBCF), Vnesheconombank transferred USD 250 million (RUB 7,445 million at the date of transfer) to the International Finance Corporation (IFC). At 31 December 2014, a part of these funds in the amount of RUB 11,341 million (31 December 2013: RUB 6,739 million) was temporarily invested in money market instruments maturing in less than 90 days. The RBCF invests in the capital of Russian universal second-echelon banks actively operating in the regions and funding small and medium-sized Russian businesses in the real sector.

12. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2014	2013
Trading financial assets	12,034	51,409
Derivative financial assets (Note 14)	11,220	26,513
Financial assets designated as at fair value through profit or loss	21,092	20,913
Financial assets at fair value through profit or loss	44,346	98,835

Financial assets designated as at fair value through profit or loss include investments in associates in the amount of RUB 11,874 million (31 December 2013: RUB 5,914 million) and jointly controlled entities in the amount of RUB 4,001 million (31 December 2013: RUB 3,421 million) that meet the criteria to be classified as at fair value through profit or loss since Group management measures the performance of these investments in terms of changes in their fair value based on quoted prices in an open market, valuation models, using both observable and non-observable market data.

(in millions of Russian rubles)

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

Provided below is financial information on the Russia-China Investment Fund (RCIF C.V.), a significant joint venture registered in the Netherlands, the investments in which are designated at fair value through profit or loss:

Russia-China Investment Fund (RCIF C.V.)	2014	2013
Cash and cash equivalents	112	–
Financial assets designated as at fair value through profit or loss	3,889	3,421
Total fund assets	4,001	3,421
Fair value of investments in the jointly controlled entity	4,001	3,421

Though the Group owns 100% of shares in the Russia-China Investment Fund (RCIF C.V.), it performs joint control over the fund through RCIF Asset Management Limited, a joint venture, registered in Jersey. The Group owns 60% interest in this management company and its carrying value is insignificant.

Trading financial assets held by the Group comprise:

	2014	2013
Debt securities		
Corporate bonds	4,022	14,654
Federal loan bonds (OFZ)	88	660
	4,110	15,314
Eurobonds issued by the Russian Federation	347	3,041
Eurobonds of Russian and foreign issuers	706	892
	5,163	19,247
Equity securities	6,245	31,850
Other financial assets	626	312
Trading financial assets	12,034	51,409

Financial assets at fair value through profit or loss pledged under repurchase agreements comprise:

	2014	2013
Financial assets at fair value through profit or loss pledged under repurchase agreements		
Corporate bonds	451	15,697
Total financial assets at fair value through profit or loss pledged under repurchase agreements	451	15,697

The decrease in equity securities of the trading portfolio from RUB 31,850 million at 31 December 2013 to RUB 6,245 million at 31 December 2014 is due to the fact that the Bank sold shares of several large companies.

(in millions of Russian rubles)

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

In mid-December 2014, the Group changed its intentions to hold securities classified as financial assets at fair value through profit or loss for the purpose of selling in the near term. The decision was due to the uncertainty in the market and a number of negative factors that were considered "rare circumstances" and included, among other things, a considerable increase in the CBR's key rate and, as a consequence, a liquidity deficit. On 31 December 2014, the Group reclassified a portion of securities out of financial assets at fair value through profit or loss to the following categories:

	Trading financial assets were reclassified to	
	Available-for-sale financial assets	Held-to-maturity financial assets
Fair value at the date of reclassification	18,913	2,649
Carrying value of reclassified assets as at 31 December 2014	18,913	2,649
Fair value of reclassified assets as at 31 December 2014	18,913	2,649
Fair value loss recognized on reclassified assets before reclassification for the year ended 31 December 2014	(3,210)	(259)
Fair value loss recognized on reclassified assets for the year ended 31 December 2013	(423)	(21)
Fair value loss that would have been recognized on the reclassified assets for the year ended 31 December 2014 if the reclassification had not been made	(3,210)	(259)
Effective interest rate at the date of reclassification	USD: 4.62%-10.67%, RUB: 8.52%-61%	RUB: 11.08%-27.8%
Estimated cash flows expected to be recovered at the date of reclassification	25,537	3,181

Trading financial assets were classified as investment financial assets held to maturity, as the Group has the intention to hold such assets until their maturity.

13. Amounts due from banks

Amounts due from banks comprise:

	2014	2013
Obligatory reserve with central banks	4,710	6,900
Non-interest-bearing deposits	11,448	7,001
Subordinated loans	48,940	308,936
Interbank loans and term interest-bearing deposits with banks	106,846	105,754
Mortgage bonds	8,889	6,306
	180,833	434,897
Less allowance for impairment	(2,535)	(1,082)
Amounts due from banks	178,298	433,815
Amounts due from banks pledged under repurchase agreements	1,845	–
Amounts due from banks, including amounts pledged under repurchase agreements	180,143	433,815

(in millions of Russian rubles)

13. Amounts due from banks (continued)

At 31 December 2014, subordinated loans issued to Russian banks include loans in the amount of RUB 48,940 million issued to eleven Russian banks in accordance with Federal Law No. 173-FZ, carrying annual interest at 6.5% and 7.5% and maturing from November 2017 through December 2020. At 31 December 2013, subordinated loans issued to Russian banks include loans in the amount of RUB 308,936 million issued to sixteen Russian banks carrying annual interest at 6.5% and 7.5% and maturing from December 2014 through December 2020.

At 31 December 2014, interbank loans and term interest-bearing deposits with banks include an amount of RUB 90,005 million (31 December 2013: RUB 88,530 million) intended for providing financing to banks that support small and medium-sized enterprises through a subsidiary bank, "SME Bank". A loss from initial recognition of part of these financial instruments in the amount of RUB 1,279 million was recognized in the statement of profit or loss for the year ended 31 December 2014 (year ended 31 December 2013: RUB 119 million).

In December 2014, a subordinated loan issued to a Russian bank in 2009 in accordance with Federal Law No. 173-FZ was extended for 5 years. For the reporting year ended 31 December 2014, a loss from initial recognition of the financial instruments in the amount of RUB 508 million was recognized in the consolidated statement of profit or loss. At 31 December 2014, the carrying amount comprised RUB 963 million.

In December 2014, Russian banks repaid loans issued in 2014 at a rate below market level under the Vnesheconombank 2010-2013 Investment Program to support affordable housing construction and mortgage projects. For the reporting year ended 31 December 2014, a loss from initial recognition of the financial instruments in the amount of RUB 161 million was recognized in the consolidated statement of profit or loss as a result of issuing the loans.

During the reporting period ended 31 December 2014, early repayment took place concerning the subordinated loans of RUB 278,992 to Vnesheconombank provided at an interest rate below market level in accordance with Article 6.1 of Federal Law No. 173-FZ. At 31 December 2013, these loans amounted to RUB 260,819 million. The gain from the early repayment of loans in the amount of RUB 16,328 million is recorded in gains less losses from initial recognition of financial instruments, restructuring and early repayment in the consolidated statements of profit or loss.

Obligatory reserve with central banks includes cash non-interest-bearing deposits (obligatory reserves) maintained by the Group's subsidiary banks with the Bank of Russia and the National Bank of the Republic of Belarus. The amount of these reserves depends on the level of funds attracted by the bank. The banks' ability to withdraw such deposits is significantly restricted by statutory legislation. Pursuant to law, Vnesheconombank creates no obligatory reserve to be maintained with the Bank of Russia.

At 31 December 2014, non-interest-bearing deposits include non-interest-bearing deposits in clearing currencies in the gross amount of RUB 8,454 million (31 December 2013: RUB 6,701 million). The use of these deposits is subject to certain restrictions as stipulated by agreements between the governments of the respective countries. The funds can be used to purchase goods and services by Russian importers who purchase clearing currencies at tenders organized by the Group under the supervision of the Russian Ministry of Finance.

At 31 December 2014, interbank loans and term interest-bearing deposits with banks with a carrying value of RUB 29,466 million (31 December 2013: RUB 5,504 million) are pledged as collateral under loans raised from the Bank of Russia (Note 9).

(in millions of Russian rubles)

13. Amounts due from banks (continued)

At 31 December 2014, mortgage bonds represent debt securities of a Russian banks in the amount of RUB 8,889 million (31 December 2013: RUB 6,306 million) at the rate below the market level and maturing in 2043-2048, which were purchased by Vnesheconombank under the 2010-2013 Investment Program to support affordable housing construction and mortgage projects. For the reporting year ended 31 December 2014, loss on initial recognition of the financial instruments in the amount of RUB 2,581 million (year ended 31 December 2013: RUB 1,561 million) was recognized in the consolidated statement of profit or loss.

Movements in the allowance for impairment of amounts due from banks were as follows:

	2014	2013
At 1 January	1,082	729
Charge	1,453	353
At 31 December	2,535	1,082

14. Derivative financial instruments

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

	2014			2013		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps – foreign	1,411	14	0	18,904	348	20
Forwards and swaps – domestic	7,720	329	195	21,206	182	195
Forward contracts for securities						
Debt securities	898	58	–	2,285	59	–
Equity securities	1,050	253	21	957	159	18
Interest rate swaps						
Foreign contracts	10,015	–	596	5,839	–	487
Domestic contracts	703	–	5	7,773	–	72
Option contracts with securities	2,627	3,293	–	50,021	24,379	–
Option contracts with foreign currency	3,301	733	–	–	–	–
Cross-currency interest rate swap	41,921	6,540	1,853	25,199	1,386	154
Total derivative assets/liabilities		11,220	2,670		26,513	946

In the table above, foreign contracts are understood as contracts concluded with non-residents of the Russian Federation, while domestic contracts are contracts concluded with residents of the Russian Federation.

Derivative financial assets are included in financial assets at fair value through profit or loss (Note 12).

(in millions of Russian rubles)

14. Derivative financial instruments (continued)

As at 31 December 2014, the Group has positions in the following types of derivatives:

Forwards

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

Swaps

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

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative financial instruments held or issued for trading purposes

Most of the Group's derivative trading activities relate to deals with banks. The Group may take positions in derivative financial instruments with the expectation of profiting from favorable movements in prices, rates or indices. Positions in derivative financial instruments may be closed by taking an offsetting position. This item also includes derivatives that do not qualify for hedging in accordance with IAS 39.

15. Loans to customers

	2014	2013
Loans to customers	3,218,199	2,138,528
Less allowance for impairment	(586,233)	(291,489)
Loans to customers	2,631,966	1,847,039
Loans to customers pledged under repurchase agreements	11,221	–
Less allowance for impairment	(188)	–
Total loans to customers pledged under repurchase agreements	11,033	–
Total loans to customers including those pledged under repurchase agreements	2,642,999	1,847,039

(in millions of Russian rubles)

15. Loans to customers (continued)

Loans to customers comprise:

	2014	2013
Project financing	1,345,701	918,160
Commercial loans, including loans to individuals	1,050,870	814,079
Net investment in leases	384,834	236,052
Financing of operations with securities	242,276	65,438
Export and pre-export financing	55,065	28,320
Reverse repurchase agreements	40,756	8,876
Back-to-back financing	35,905	35,330
Claims under letters of credit	20,952	15,960
Mortgage bonds	8,368	2,603
Promissory notes	3,530	5,918
Other	29,942	7,792
	3,218,199	2,138,528
Less allowance for impairment	(586,233)	(291,489)
Loans to customers	2,631,966	1,847,039
Loans to customers pledged under repurchase agreements		
Bonds	11,221	–
Less allowance for impairment	(188)	–
Total loans to customers pledged under repurchase agreements	11,033	–
Loans to customers including those pledged under repurchase agreements	2,642,999	1,847,039

At 31 December 2014, mortgage bonds represent debt securities in the amount of RUB 8,368 million maturing in 2044-2047 (31 December 2013: RUB 2,603 million maturing in 2044-2046), with an interest rate below market level, purchased by Vnesheconombank under Vnesheconombank's 2010-2013 Investment Program to support affordable housing construction and mortgage projects. For the reporting year ended 31 December 2014, loss on initial recognition of the financial instruments in the amount of RUB 3,935 million (year ended 31 December 2013: RUB 445 million) was recognized in the consolidated statement of profit or loss.

At 31 December 2014, loans with a carrying value of RUB 18,687 million related to project financing and other corporate loans are provided as collateral under funds raised from the Bank of Russia (Note 9). At 31 December 2013, no loans were provided as collateral.

(in millions of Russian rubles)

15. Loans to customers (continued)

Allowance for impairment of loans to customers

Provided below is a reconciliation of the allowance for impairment of loans to customers, by class:

2014	Project financing	Commercial loans	Export and pre-export financing	Net investment in leases	Financing of operations with securities	Promissory notes	Reverse repurchase agreements	Back-to-back financing	Claims under letters of credit	Mortgage bonds	Other	Total	Loans to customers pledged under repurchase agreements
At 1 January 2014	160,689	115,664	2,845	1,569	3,210	813	–	1,749	3,169	129	1,652	291,489	–
Charge/(reversal)	167,545	109,920	2,640	2,798	27,641	(25)	1,264	104	217	(129)	699	312,674	188
Write off	(2,024)	(6,332)	–	(296)	–	–	–	–	–	–	–	(8,652)	–
Interest accrued on impaired loans	(11,595)	(4,807)	–	–	(560)	–	–	–	–	–	–	(16,962)	–
Reversal of allowance previously written off	7,173	699	–	–	–	–	–	–	–	–	–	7,872	–
31 December 2014	321,788	215,144	5,485	4,071	30,291	788	1,264	1,853	3,386	–	2,351	586,421	188
Individual impairment	288,747	200,370	3,235	2,333	20,890	737	–	–	2,687	–	1,627	520,626	–
Collective impairment	33,041	14,774	2,250	1,738	9,401	51	1,264	1,853	699	–	724	65,795	188
	321,788	215,144	5,485	4,071	30,291	788	1,264	1,853	3,386	–	2,351	586,421	188
Total amount of individually impaired loans before allowance for impairment	642,049	430,660	4,621	124,087	59,260	737	–	–	2,923	–	6,022	1,270,359	–

(in millions of Russian rubles)

15. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Project financing 2013	Commercial loans 2013	Export and pre-export financing 2013	Net investment in leases 2013	Financing of operations with securities 2013	Promissory notes 2013	Reverse repurchase agreements 2013	Back-to-back financing 2013	Claims under letters of credit 2013	Mortgage bonds 2013	Other 2013	Total 2013
At 1 January 2013	92,565	87,946	2,510	900	2,348	549	4	1,605	3,075	79	1,855	193,436
Charge/(reversal)	75,332	44,282	335	930	862	264	(4)	144	94	50	675	122,964
Write off	(4)	(13,584)	–	(261)	–	–	–	–	–	–	(878)	(14,727)
Interest accrued on impaired loans	(7,204)	(3,995)	–	–	–	–	–	–	–	–	–	(11,199)
Reversal of allowance previously written off	–	1,015	–	–	–	–	–	–	–	–	–	1,015
31 December 2013	160,689	115,664	2,845	1,569	3,210	813	–	1,749	3,169	129	1,652	291,489
Individual impairment	126,499	99,617	1,926	740	–	737	–	–	2,617	–	1,605	233,741
Collective impairment	34,190	16,047	919	829	3,210	76	–	1,749	552	129	47	57,748
	160,689	115,664	2,845	1,569	3,210	813	–	1,749	3,169	129	1,652	291,489
Total amount of individually impaired loans before allowance for impairment	198,428	179,825	2,895	32,896	–	737	–	–	3,052	–	4,005	421,838

(in millions of Russian rubles)

15. Loans to customers (continued)

Individually impaired loans

Collateral and other credit enhancements

The amount and type of collateral required by the Group 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 export and pre-export financing – pledges of claims for revenues under export contracts, pledge of supplied property, guarantees and warranties;
- for financing operations with securities and reverse repurchase transactions – cash or securities;
- for project financing and commercial lending – charges over real estate properties, inventory, and trade receivables, securities and other claims to third parties;
- for loans to individuals – mortgages over residential properties and other subject matter of lending.

The Group also obtains guarantees from the Russian Government, parent companies for loans to their subsidiaries, and other guarantees from third parties as collateral for loans issued.

At 31 December 2014, reverse repurchase agreements were signed primarily with respect to marketable shares with a fair value of RUB 8,428 million, marketable corporate bonds with a fair value of RUB 7,159 million, and promissory notes of Russian banks with a fair value of RUB 298 million. Reverse repurchase agreements also include a loan to a state-related entity with a carrying value of RUB 9,965 million as at 31 December 2014, and a loan to an entity not related to the Group with a carrying value of RUB 14,540 million as at 31 December 2014. The Bank provided RUB 25,081 million to the former borrower through the acquisition of non-marketable shares of another state-related entity and recognized a loss from initial recognition in the amount of RUB 15,436 million in the consolidated statement of profit or loss.

At 31 December 2013, reverse repurchase agreements were signed with respect to marketable and non-marketable shares with a fair value of RUB 6,709 million, and marketable corporate bonds with a fair value of RUB 1,889 million.

Concentration of loans to customers

At 31 December 2014, the total outstanding amount of loans to three major borrowers / groups of related borrowers was RUB 482,702 million, equivalent to 14.9% of the Bank's gross loan portfolio (31 December 2014: RUB 329,177 million or 15.4%). At 31 December 2014, an impairment allowance of RUB 168,639 million was made against these loans (31 December 2013: RUB 81,429 million). At 31 December 2014, these loans included loans issued to an associate of the Group involved in the real estate business, which accounted for 6.0% of the gross loan portfolio (31 December 2013: 6.9%).

At 31 December 2014 and 2013, in addition to the three major borrowers mentioned above, loans were issued to ten major borrowers / groups of related borrowers in the amount of RUB 693,707 million and RUB 433,888 million, or 21.5% and 20.3% of the gross loan portfolio, respectively. At 31 December 2014 and at 31 December 2013, an allowance was created for these loans in the total amount of RUB 148,340 million and RUB 34,209 million, respectively.

(in millions of Russian rubles)

15. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans have been granted to the following types of customers:

	2014	2013
Private enterprises	2,535,968	1,677,689
State-controlled entities (Russian Federation)	516,335	346,475
Individuals	77,991	54,054
Companies under foreign state control	58,503	43,181
Foreign states	26,492	12,221
Regional authorities	9,248	396
Individual entrepreneurs	4,883	4,512
	3,229,420	2,138,528

Loans are made principally in the following industry sectors:

	2014	%	2013	%
Manufacturing, including heavy machinery and the production of military-related goods	713,778	22	445,223	21
Finance companies	694,606	22	347,439	16
Real estate and construction	570,773	18	486,000	23
Transport	423,412	13	260,156	12
Agriculture	172,696	5	130,668	6
Electric energy	122,454	4	112,340	5
Trade	111,240	4	97,472	5
Individuals	77,991	2	54,054	3
Oil and gas	72,083	2	43,850	2
Mining	65,031	2	31,444	1
Metallurgy	56,379	2	43,266	2
Research and education	34,925	1	24,460	1
Foreign states	26,492	1	12,221	1
Telecommunications	20,575	1	12,720	1
Regional authorities	9,248	0	396	0
Logistics	8,960	0	6,101	0
Mass media	904	0	673	0
Other	47,873	1	30,045	1
	3,229,420	100	2,138,528	100

At 31 December 2014, loans and similar debt included a total of RUB 2,489,636 million granted to companies operating in Russia, which is a significant concentration of 77% (31 December 2013: RUB 1,752,196 million, which is a significant concentration of 82%).

Finance lease receivables

The analysis of finance lease receivables at 31 December 2014 is as follows:

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total
Finance lease receivables	104,782	264,620	135,644	505,046
Unearned future finance income on finance leases	(6,426)	(63,138)	(50,648)	(120,212)
Net investment in leases	98,356	201,482	84,996	384,834

(in millions of Russian rubles)

15. Loans to customers (continued)

Finance lease receivables (continued)

The analysis of finance lease receivables at 31 December 2013 is as follows:

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total
Finance lease receivables	65,541	179,913	88,073	333,527
Unearned future finance income on finance leases	(4,955)	(50,266)	(42,254)	(97,475)
Net investment in leases	60,586	129,647	45,819	236,052

16. Investment financial assets

Investment financial assets available for sale

Investment financial assets available for sale comprise:

	2014	2013
Debt securities		
Corporate bonds	67,011	153,559
Debt instruments issued by foreign government bodies	20,649	17,882
Promissory notes	8,766	19,030
Federal loan bonds (OFZ)	2,067	2,677
Municipal and sub-federal bonds	1,872	89
	100,365	193,237
Eurobonds of Russian and foreign issuers	35,179	23,401
Eurobonds issued by the Russian Federation	15,187	6,730
	150,731	223,368
Equity securities	181,812	177,511
Other financial assets available for sale	36,174	41,455
Investment financial assets available for sale	368,717	442,334

Investment financial assets available for sale pledged as collateral under repurchase agreements comprise:

	2014	2013
Available-for-sale investment financial assets pledged under repurchase agreements		
Corporate bonds	46,918	12,259
Eurobonds issued by the Russian Federation	10,198	–
Eurobonds of Russian and foreign issuers	1,555	3,117
Federal loan bonds (OFZ)	501	–
Equity securities	255	–
Municipal and sub-federal bonds	97	–
Total investment financial assets available for sale pledged under repurchase agreements	59,524	15,376

The Group recognized an impairment loss of RUB 16,028 million on available-for-sale financial assets for the year ended 31 December 2014 (for the year ended 31 December 2013: RUB 4,559 million) in gains less losses from investment financial assets available for sale in the consolidated statement of profit or loss (Note 31).

(in millions of Russian rubles)

16. Investment financial assets (continued)

Investment financial assets available for sale (continued)

In June 2012, as a result of the early repayment of subordinated loans by a Russian bank (Note 13) Vnesheconombank received a financial asset with a fair value of RUB 47,715 million and classified it as available for sale. This financial asset represents rights for bank's shares and the Bank's liability to sell the shares of the mentioned bank pursuant to a written American call option exercisable in a period of eight years. Pursuant to the option agreement, Vnesheconombank receives a fixed premium on a semiannual basis, which is recognized in the consolidated statement of profit or loss in interest income from other investment financial assets available for sale.

During the fourth quarter of 2014, the Group reclassified certain financial assets that meet the definition of loans and receivables and financial assets held to maturity from the available-for-sale category, as the Group has the intention and ability to hold such assets for the foreseeable future or until maturity. The assets were reclassified as at 1 October 2014 and 31 December 2014 at fair value as of these dates. The impact of reclassification is as follows:

	Investment financial assets available for sale were reclassified to	
	Loans and receivables	Investment financial assets held to maturity
Fair value of reclassified assets at the date of reclassification	28,617	45,194
Carrying value of reclassified assets as at 31 December 2014	27,683	46,391
Fair value of reclassified assets as at 31 December 2014	26,067	42,821
Fair value loss on reclassified assets, which were recognized before the reclassification for the year ended 31 December 2014	(1,721)	(1,355)
Fair value loss recognized on reclassified assets for the year ended 31 December 2013	(251)	(461)
Impairment loss recognized in the statement of profit or loss before reclassification for the year ended 31 December 2014	–	–
Fair value loss that would have been recognized on the reclassified assets for the year ended 31 December 2014 if the reclassification had not been made	(3,664)	(4,886)
Gain/(loss) recognized after reclassification in the statement of profit or loss for the year ended 31 December 2014, including:		
- interest income	788	830
- provision for impairment of interest-earning assets	(406)	–
- amortization of revaluation costs	(155)	(144)
Effective interest rate at the date of reclassification	8.82%-9.0%	6.7%-45.8%
Estimated cash flows expected to be recovered at the date of reclassification	45,702	65,686

Investment financial assets held to maturity

Investment financial assets held to maturity comprise:

	2014	2013
Corporate bonds	17,007	593
Eurobonds of Russian and foreign issuers	3,422	–
Municipal and sub-federal bonds	790	245
Federal loan bonds (OFZ)	309	
	21,528	838
Less allowance for impairment (Note 21)	(81)	(74)
Investment financial assets held to maturity	21,447	764

(in millions of Russian rubles)

16. Investment financial assets (continued)

Investment financial assets held to maturity (continued)

Investment financial assets held to maturity pledged as collateral under repurchase agreements comprise:

	2014	2013
Corporate bonds	28,273	33
Eurobonds of Russian and foreign issuers	2,117	–
Municipal and sub-federal bonds	438	–
Total investment financial assets held to maturity pledged under repurchase agreements	30,828	33

17. Amounts due from the Russian Government

At 31 December 2014, amounts due from the Russian Government include claims to the Russian Ministry of Finance of RUB 400 million (31 December 2013: RUB 241 million) related to prior year settlements.

18. Investments in associates and jointly controlled entities

Associates

The Group's major associates accounted for under the equity method in the financial statements are presented in the table below:

	Ownership		Carrying value		Country of	Type of
Associates	2014	2013	2014	2013	incorporation	activity
OJSC "Ilyushin Finance Co."	21.39%	21.39%	4,031	4,160	Russia	Leasing
CJSC "Leader"	27.62%	27.62%	2,459	2,358	Russia	Management company
LLC "VEB-Invest"	19.00%	19.00%	–	–	Russia	Investment
	Share of assets:					
CMIF "Bioprocess Capital Ventures"	50.00%	50.00%	2,079	1,959	Russia	Investment
Other associates			2,323	1,996		
Investments in associates			10,892	10,473		

(in millions of Russian rubles)

18. Investments in associates and jointly controlled entities (continued)

Associates (continued)

The following table illustrates financial information on a significant associate:

OJSC "Ilyushin Finance Co."	2014	2013
Cash and cash equivalents	228	339
Amounts due from banks	–	1,108
Loans to customers	16,598	23,613
Investment financial assets available for sale	116	108
Property and equipment	933	1,038
Other assets	25,160	18,522
Total assets	43,035	44,728
Amounts due to banks	(16,862)	(15,298)
Amounts due to customers	–	(19)
Income tax liabilities	(816)	(19)
Other liabilities	(6,512)	(8,283)
Total liabilities	(24,190)	(23,619)
Net assets	18,845	21,109
The Group's share in net assets	4,031	4,515
Goodwill included in the carrying value of investment	–	(355)
Carrying value of investment in the associate	4,031	4,160

OJSC "Ilyushin Finance Co."	For the year ended 31 December 2014	For the year ended 31 December 2013
Interest income	109	122
Interest expense	(1,312)	(1,267)
Allowance for impairment of interest-earning assets	(1,045)	–
Non-interest income	10,414	13,693
Non-interest expense	(8,652)	(11,736)
Profit/(loss) for the year	(486)	812
The Group's share in profit/(loss) for the period	(104)	174
Total comprehensive income/(loss) for the year	(486)	812
Total share of the Group in comprehensive income/(loss)	(104)	174
Dividends received from the associate for the year	25	32

In 2014, the Group's share in the loss of individually insignificant associates amounted to RUB 1,610 million (2013: share in net profit was RUB 822 million).

At 31 December 2014, the Group's unrecognized share in the loss of its associates amounted to RUB 8,897 million (31 December 2013: RUB 1,399 million). At 31 December 2014, the Group's total unrecognized share in the accumulated loss of its associates amounted to RUB 15,820 million (31 December 2013: RUB 6,923 million).

Joint ventures

At 31 December 2013, insignificant investments in Resad LLC are included in joint ventures accounted for under the equity method in the consolidated financial statements.

(in millions of Russian rubles)

19. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Land	Equipment	Motor vehicles	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
Cost							
31 December 2013	33,104	201	10,177	5,262	421	15,122	64,287
Additions	145	–	702	220	22	3,066	4,155
Disposals	(1)	(4)	(807)	(346)	(61)	(458)	(1,677)
Reclassification of property and equipment to investment property and assets held for sale	(613)	–	–	(2)	–	(1)	(616)
Transfers	2,504	–	1,206	8	538	(4,256)	0
Effect of business combination (Note 7)	76	50	40	–	–	2,960	3,126
Translation effect	(339)	(8)	355	1,719	2	(41)	1,688
31 December 2014	34,876	239	11,673	6,861	922	16,392	70,963
Accumulated depreciation and impairment							
31 December 2013	4,295	–	4,743	1,149	198	–	10,385
Depreciation charge	868	–	1,623	422	135	–	3,048
Depreciation of property and equipment reclassified to investment property and assets held for sale	(90)	–	–	(2)	–	–	(92)
Disposals	–	–	(260)	(326)	(49)	–	(635)
31 December 2014	5,073	–	6,106	1,243	284	–	12,706
Net book value							
31 December 2013	28,809	201	5,434	4,113	223	15,122	53,902
31 December 2014	29,803	239	5,567	5,618	638	16,392	58,257

(in millions of Russian rubles)

19. Property and equipment (continued)

	Buildings	Land	Equipment	Motor vehicles	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
Cost							
31 December 2012	25,750	191	6,976	3,062	423	13,901	50,303
Additions	66	–	1,666	2,189	29	4,124	8,074
Disposals	(229)	–	(631)	(123)	(45)	(395)	(1,423)
Reclassification of property and equipment to investment property and assets held for sale	(130)	–	–	–	–	–	(130)
Transfers	906	–	1,685	57	10	(2,658)	0
Effect of business combination (Note 7)	6,519	–	259	5	–	–	6,783
Translation effect	222	10	222	72	4	150	680
31 December 2013	33,104	201	10,177	5,262	421	15,122	64,287
Accumulated depreciation and impairment							
31 December 2012	3,605	–	3,874	850	161	–	8,490
Depreciation charge	718	–	1,268	407	70	–	2,463
Depreciation of property and equipment reclassified to investment property and assets held for sale	(17)	–	–	–	–	–	(17)
Disposals	(11)	–	(399)	(108)	(33)	–	(551)
31 December 2013	4,295	–	4,743	1,149	198	–	10,385
Net book value							
31 December 2012	22,145	191	3,102	2,212	262	13,901	41,813
31 December 2013	28,809	201	5,434	4,113	223	15,122	53,902

(in millions of Russian rubles)

20. Taxation

Income tax comprises:

	2014	2013
Current tax charge	1,141	2,854
Deferred tax (benefit)/expense – origination and reversal of temporary differences in the statement of profit or loss	1,442	(80)
Income tax expense	2,583	2,774

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

Russian legal entities must file individual tax declarations. The tax rate for profits other than on state securities was 20% for 2014 and 2013. The tax rate for interest income on state securities was 15% for federal taxes.

The aggregate income tax rate effective in the Republic of Belarus was 18% for 2014 and 18% for 2013. The aggregate income tax rate effective in Ukraine was 18% for 2014 and 19% for 2013.

In accordance with federal legislation, effective from the reorganization date income and expenses received and paid by Vnesheconombank are not accounted when determining the taxable base for income tax purposes. Therefore, the income and expenses of the Bank for 2014 and 2013 are not included in the taxable base for income tax purposes, which had a significant impact on the Group's effective income tax rate for 2014 and 2013.

At 31 December, the Group's income tax assets and liabilities comprise:

	2014	2013
Current income tax asset	2,395	1,269
Deferred income tax asset	5,113	3,940
Income tax assets	7,508	5,209
Current income tax liability	178	339
Deferred income tax liability	7,151	4,456
Income tax liabilities	7,329	4,795

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

	2014	2013
Profit/(loss) before income tax	(247,073)	11,282
Statutory tax rate	20%	20%
Theoretical income tax (benefit)/expense at the statutory rate	(49,415)	2,256
Tax effect from the following income and expenses:		
Non-taxable income on state securities or taxed at different rates	(132)	(126)
Income taxed at different rate	175	(20)
Non-taxable income and non-deductible expenses	536	1,167
Translation differences	903	336
Vnesheconombank's income and expenses not included in the tax base for income tax purposes	46,790	(438)
Change in income tax resulting from a change in the tax rate and other changes in legislation	(537)	366
Change in unrecognized deferred tax assets	7,066	(735)
Other	(2,803)	(32)
Income tax expense	2,583	2,774

(in millions of Russian rubles)

20. Taxation (continued)

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

	2012	In the statement of profit or loss	Origination and reversal of temporary differences In other comprehen-sive income	Effect of business combination (Note 7)	Currency translation effect	2013	In the statement of profit or loss	Origination and reversal of temporary differences In other comprehen-sive income	Effect of business combination (Note 7)	Currency translation effect	2014
Tax effect of deductible temporary differences											
Allowance for impairment	1,534	152	–	–	4	1,690	1,948	–	–	32	3,670
Change in fair value of securities	104	(94)	4	–	(4)	10	–	452	–	(154)	308
Initial recognition of financial instruments at fair value	748	(254)	–	–	–	494	84	–	–	–	578
Tax losses carried forward	7,147	1,721	–	315	118	9,301	7,299	–	447	(181)	16,866
Accrued income and expense	41	6	–	–	–	47	27	–	–	(22)	52
Derivative financial instruments	86	(43)	–	–	–	43	123	–	–	–	166
Property and equipment	106	33	–	67	13	219	525	–	–	67	811
Other	3,240	(707)	(39)	148	95	2,737	3,107	–	–	147	5,991
	13,006	814	(35)	530	226	14,541	13,113	452	447	(111)	28,442
Unrecognized deferred tax assets	(7,997)	735	39	–	(101)	(7,324)	(7,066)	(138)	–	(248)	(14,776)
	5,009	1,549	4	530	125	7,217	6,047	314	447	(359)	13,666
Tax effect of taxable temporary differences											
Change in fair value of securities	(829)	30	2	–	(2)	(799)	71	–	–	–	(728)
Loans to customers	(216)	(1,357)	–	–	–	(1,573)	(5,275)	–	–	–	(6,848)
Initial recognition of financial instruments at fair value	(959)	159	–	–	–	(800)	106	–	–	–	(694)
Allowance for impairment	(97)	(73)	–	–	(8)	(178)	44	–	–	(25)	(159)
Accrued income and expense	(116)	(47)	–	–	23	(140)	(38)	–	(420)	(11)	(609)
Derivative financial instruments	(121)	93	–	–	(3)	(31)	(484)	–	–	(7)	(522)
Property and equipment	(700)	(133)	(6)	–	(10)	(849)	(343)	(121)	(55)	(3)	(1,371)
Other	(850)	(141)	–	(2,367)	(5)	(3,363)	(1,570)	–	–	160	(4,773)
	(3,888)	(1,469)	(4)	(2,367)	(5)	(7,733)	(7,489)	(121)	(475)	114	(15,704)
Deferred tax asset	2,560	989	4	321	66	3,940	1,232	193	26	(278)	5,113
Deferred tax liability	(1,439)	(909)	(4)	(2,158)	54	(4,456)	(2,674)	–	(54)	33	(7,151)

(in millions of Russian rubles)

21. Other impairment and provisions

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

	Investment securities	Other assets	Claims	Insurance activity	Guarantees and commitments	Total
31 December 2012	73	1,269	189	8	800	2,339
Charge/(reversal)	1	3,226	12	894	(330)	3,803
Write-offs	–	(186)	(116)	–	–	(302)
31 December 2013	74	4,309	85	902	470	5,840
Charge	7	6,941	256	1,538	3,194	11,936
Write-offs	–	(1)	–	–	–	(1)
31 December 2014	81	11,249	341	2,440	3,664	17,775

Allowance for the impairment of assets is deducted from the carrying value of the related assets. Provisions for claims, insurance activity, guarantees and commitments are recorded in liabilities.

22. Other assets and liabilities

Other assets comprise:

	2014	2013
Advances issued to leasing equipment suppliers	40,755	33,576
Settlements with suppliers and other debtors	30,311	18,620
Inventories of non-banking subsidiaries	18,858	21,814
Investment property	8,309	7,551
Investment property under construction	8,198	5,433
Assets held for sale	6,790	2,502
Repossessed collateral	4,778	3,182
Intangible assets	4,179	3,988
Fees and commissions and other claims under loan transactions	3,992	1,644
Other tax assets	3,670	4,572
Prepaid expenses	2,930	2,498
Equipment purchased for leasing purposes	2,595	4,536
Prepaid securities	2,070	905
Settlements on outstanding operations with securities	965	1,066
Spot transactions	551	72
Other	6,405	6,299
	145,356	118,258
Less allowance for impairment of other assets (Note 21)	(11,249)	(4,309)
Other assets	134,107	113,949

The growth in other assets of the Group during 2014 was primarily due to receivables under terminated lease contracts in the amount of RUB 10,863 million and advances issued by a leasing subsidiary to leasing equipment suppliers in the amount of RUB 7,179 million.

(in millions of Russian rubles)

22. Other assets and liabilities (continued)

Investment property

Investment property of the Group comprises real estate properties and land plots held by the Group for capital appreciation, as well as rented office space. Information on investment property is presented below:

	2014	2013
At 1 January	7,551	6,626
Additions	197	231
Transfer from property and equipment	399	104
Transfer from assets held for sale	27	248
Transfer from investment property under construction	44	556
Acquisition through business combinations (Note 7)	–	937
Revaluation	262	(639)
Disposals	(205)	(130)
Transfers to inventories	–	(466)
Transfer from other assets	295	–
Other	(261)	84
At 31 December	8,309	7,551
Amounts recorded in the consolidated statement of profit or loss:		
- rental income	146	114
- gain from sale of investment property	2	10

There are no restrictions regarding the sale of investment property or the receipt of profit and proceeds from its disposal.

Intangible assets

Included in other assets are intangible assets in the amount of RUB 6,757 million (31 December 2013: RUB 5,862 million), less accumulated amortization of RUB 2,578 million (31 December 2013: RUB 1,874 million). In 2014, the Group disposed of intangible assets in the amount of RUB 217 million (2013: RUB 297 million), less accumulated amortization of RUB 216 million (2013: RUB 296 million). The respective amortization charges for the year ended 31 December 2014 are RUB 908 million (for the year ended 31 December 2013: RUB 654 million), which are included in other operating expenses.

At 31 December 2014, intangible assets included goodwill in the amount of RUB 1,381 million related to the acquisition of Bank BelVEB OJSC and OJSC "VEB-Leasing" (31 December 2013: RUB 1,381 million).

Other liabilities

Other liabilities comprise:

	2014	2013 (Restated)
Future period income	6,421	5,290
Advance proceeds from sale of property	5,239	8,359
Deferred income related to government assistance	4,435	3,000
Other settlements with clients	4,429	2,845
Advances received from lessees	3,898	3,771
Settlements with employees	3,604	3,028
Other settlements with banks	2,835	1,437
Received and unused subsidies	2,328	–
Spot transactions	612	66
Settlements on operations with securities	303	71
Other	2,216	3,487
Other liabilities	36,320	31,354

(in millions of Russian rubles)

22. Other assets and liabilities (continued)

Other liabilities (continued)

At 31 December 2014 and 31 December 2013, other liabilities also include deferred income related to government assistance in the amount of RUB 4,435 million and RUB 3,000 million, respectively, which represents asset contributions provided by the Russian Ministry of Industry and Trade to Vnesheconombank as compensation for part of the costs related to supporting the manufacturers of high-tech products. Pursuant to Regulation of the Russian Government No. 1302 dated 13 December 2012, Vnesheconombank received government assistance in the amount of RUB 3,000 million in December 2012 and RUB 1,510 million in June 2014. At 31 December 2014, RUB 2,796 million from these funds was reserved for the entire term of loan agreements for export loans issued in 2014 to ensure the availability of funds on the established interest payment dates. At 31 December 2013, no loans to support manufacturers of high-tech products were provided using government assistance funds.

At 31 December 2014, other liabilities in the received and unused subsidies include a subsidy of RUB 2,328 million received in December 2014, which represents an asset contribution by the Russian Ministry of Finance to Vnesheconombank for the purpose of acquisition of additional units of Mutual Fund RDIF. The subsidy has not been used yet.

23. Amounts due to banks

Amounts due to banks comprise:

	2014	2013
Correspondent loro accounts of Russian banks	98,994	56,017
Correspondent loro accounts of other banks	3,150	2,069
Loans and other placements from OECD-based banks	460,385	354,592
Loans and other placements from Russian banks	246,356	138,648
Loans and other placements from other banks	201,655	129,469
Repurchase agreements	–	5,726
Amounts due to banks	1,010,540	686,521
Held as security against letters of credit	172	113

At 31 December 2014, loans and other placements from OECD-based banks include loans primarily denominated in RUB, USD, EUR and GBP with annual interest rates ranging from 8.5% to 31.6% for RUB-denominated loans (31 December 2013: from three-month MOSPRIME plus 1.1% to 9.9%), from three-month LIBOR plus 0.2% to 7.6% for USD–denominated loans (31 December 2013: from three-month LIBOR plus 0.2% to 8.7%), from six-month EURIBOR plus 0.3% to 16.7% for EUR-denominated loans (31 December 2013: from six-month EURIBOR plus 0.3% to 7.8%), from six-month interpolated LIBOR plus 1.9% to 7.9% for GBP-denominated loans (31 December 2013: from six-month LIBOR plus 1.5% to 7.9%). At 31 December 2014 and 31 December 2013, this item also includes deposits held as security against letters of credit.

At 31 December 2014, loans and other placements from Russian banks include loans denominated in RUB, USD and EUR with interest rates ranging from 0.3% to 25.0% for RUB-denominated loans (31 December 2013: from 0.3% to 13.8%), from 4.1% to 7.7% for USD-denominated loans (31 December 2013: from 0.1% to 8.5%), from 2.7% to 7.0% for EUR-denominated loans (31 December 2013: from 0.5% to 8.9%). At 31 December 2014 and 31 December 2013, this item also includes deposits held as security against letters of credit.

23. Amounts due to banks (continued)

At 31 December 2014, loans and other placements from non-OECD-based banks include loans denominated in RUB, USD, EUR, BYR and UAH with interest rates ranging from 10.3% to 11.0% for RUB-denominated loans (31 December 2013: from 6.5% to 6.8%), from 1.7% to 6.3% for USD-denominated loans (31 December 2013: from 0.1% to 6.4%), 2.9% for EUR-denominated loans (31 December 2013: from 3.1% to 7.0%). At 31 December 2014, loans and other placements from non-OECD-based banks also include loans denominated in BYR with interest rates of 50% (31 December 2013: no BYR-denominated balances) and loans denominated in UAH with interest rates of 19.5% (31 December 2013: from 2% to 18.5%). At 31 December 2014 and 31 December 2013, this item also includes deposits held as security against letters of credit.

At 31 December 2014, loans and other placements from other banks include loans from foreign banks in the amount of RUB 8,230 million, collateralized by debt instruments issued by foreign government bodies with a collateral value of RUB 9,709 million.

At 31 December 2014, there are no repurchase agreements with banks.

At 31 December 2013, repurchase agreements with banks included loans of RUB 4,420 million received from foreign banks and collateralized by debt securities available for sale with a fair value of RUB 4,642 million and loans of RUB 1,306 million received from Russian banks and collateralized by debt securities available for sale with a fair value of RUB 1,592 million (Note 16). The Group did not reclassify securities with a fair value of RUB 3,117 million pledged as collateral against a loan from a foreign bank of RUB 3,029 million in its consolidated statement of financial position, as the terms of the repurchase agreements do not allow foreign counterparty bank to sell or pledge collateral received under this repurchase agreement.

In 2014, the Group raised long-term financing on market terms from OECD-based banks totaling RUB 48,568 million (2013: RUB 88,247 million) and repaid long-term financing of RUB 130,617 million (2013: RUB 34,250 million) in accordance with contractual terms. In 2014, the Group also raised long-term financing on market terms from non-OECD-based banks totaling RUB 106,390 million (2013: RUB 23,248 million) and repaid long-term financing of RUB 8,499 million (2013: RUB 6,113 million) in accordance with the contractual terms.

In addition, in 2014, a leasing company of the Group raised long-term financing from Russian and foreign banks totaling RUB 62,360 million (2013: RUB 54,383 million) and repaid long-term financing of RUB 42,934 million (2013: RUB 29,811 million) in accordance with the contractual terms.

In December 2014, the Group raised loans from OECD-based banks with an interest rate below market level. For the reporting year ended 31 December 2014, gains from the initial recognition of financial instruments in the amount of RUB 709 million were recognized in the statement of profit or loss.

In December 2014, the Group raised loans from non-OECD-based banks with an interest rate below market level. For the reporting year ended 31 December 2014, gains from the initial recognition of financial instruments in the amount of RUB 2,767 million were recognized in the consolidated statement of profit or loss.

(in millions of Russian rubles)

24. Amounts due to customers

Amounts due to customers comprise:

	2014	2013
Current accounts	162,530	144,463
Term deposits	345,551	258,813
Repurchase agreements	636	–
Other amounts due to customers	11	16
Amounts due to customers	508,728	403,292
Held as security against guarantees	481	104
Held as security against letters of credit	5,459	4,537

At 31 December 2014 and 31 December 2013, amounts due to the Bank's four largest customers amounted to RUB 112,086 million and RUB 103,845 million, respectively, representing 22% and 25.7%, respectively, of the aggregate amounts due to customers.

Amounts due to the ten largest customers include accounts with customers operating in the following industry sectors:

	2014	2013
Finance companies	55,916	28,070
Manufacturing, including heavy machinery and the production of military-related goods	48,170	9,059
Telecommunications	35,911	76,961
Electric energy	12,131	933
Mining	8,453	–
Other	7,117	–
	167,698	115,023

Included in term deposits are deposits of individuals in the amount of RUB 118,055 million (31 December 2013: RUB 100,773 million). In accordance with the Russian Civil Code, the Bank and its Russian subsidiaries are obliged to repay such term deposits upon the demand of the depositor. In accordance with the Banking Code of the Republic of Belarus, the Belarusian subsidiary is obliged to repay the term deposits of individuals within five days of the demand of the depositor. In accordance with the banking legislation of Ukraine, the Ukrainian subsidiary is obliged to repay the term deposits of individuals within five days of the demand of the depositor. If a term deposit is repaid upon the demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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

	2014	2013
State and state-controlled entities	173,136	138,005
Private companies	199,337	145,326
Employees and other individuals	131,648	114,812
Companies under foreign state control	4,607	5,149
Amounts due to customers	508,728	403,292

At 31 December 2014, repurchase agreements with customers include funds of RUB 367 million received from a Russian entity and collateralized by debt securities available for sale with a fair value of RUB 400 million (Note 16) and funds of RUB 269 million received from a foreign entity and collateralized by equity securities available for sale with a fair value of RUB 255 million (Note 16). At 31 December 2013, there are no repurchase agreements with customers.

(in millions of Russian rubles)

25. Debt securities issued

Debt securities issued comprise:

	2014	2013
Eurobonds	552,028	330,024
Domestic bonds	415,161	248,541
Promissory notes	15,948	24,743
Savings certificates	8	11
Debt securities issued	983,145	603,319
Promissory notes held as security against guarantees	1,092	795

During 2014, the Group issued the following domestic bonds:

			Nominal value of securities issued		Nominal value of securities in the portfolios of the Group entities RUB, million
Issued, month	Maturity	Issue currency	Currency, million	At the placement date, RUB, million	
January	January 2024	RUB	5,000	5,000	5,000
February	January 2024	USD	100	3,476	3,476
February	January 2024	USD	100	3,476	3,476
February	January 2024	USD	100	3,476	3,476
February	January 2024	USD	100	3,476	3,476
May	May 2017	USD	500	17,919	–
June	June 2021	RUB	212,636	212,636	–
September	August 2029	RUB	1,000	1,000	–
November	November 2017	RUB	9,000	9,000	–
December	December 2015	RUB	3,000	3,000	–

As a result of the issue of Series 35 bonds by Vnesheconombank maturing in June 2021 with a nominal value of RUB 212,636 million at a coupon rate below market level in June 2014, the Group recognized income on the initial recognition of financial instruments in the consolidated statement of profit or loss in the amount of RUB 82,912 million.

In addition, in the reporting period ended 31 December 2014, a subsidiary bank placed previously purchased debt securities of the Group totaling RUB 1,331 million.

During 2014, a leasing company of the Group fulfilled its obligations, under the respective offer, to purchase Series 3, 8 and 9 bonds with a nominal value of RUB 15,000 million. In addition, a secondary placement of bonds of these Series in the total amount of RUB 13,533 million was made during the reporting period.

During 2014, a subsidiary bank, under the respective offer, purchased Series 04, BO-01, BO-02 bonds with the total nominal value of RUB 16,104 million, where bonds with a nominal value of RUB 1,230 million were purchased from the Group members. In addition, a secondary placement of bonds of these Series in the total amount of RUB 12,294 million was made during the reporting period, where bonds with a nominal value of RUB 2,482 million were sold to the Group members.

During 2014, a subsidiary bank, under the respective offer, purchased Series BO-07 and BO-09 bonds with a total nominal value of RUB 9,607 million, where bonds with a nominal value of RUB 5,320 million were purchased from the Group members. In addition, a secondary placement of bonds of these Series in the total amount of RUB 6,121 million was made during the reporting period, where bonds with a nominal value of RUB 175 million were sold to the Group members.

During 2014, the Bank sold previously purchased debt securities for the total amount of RUB 3,858 million.

(in millions of Russian rubles)

25. Debt securities issued (continued)

During 2014, the Group repaid the following domestic bonds:

Issued, month	Repaid, month	Issue currency	Nominal value of securities repaid: Currency, million	Nominal value of securities repaid: At the repayment date, RUB, million	Nominal value of securities in the portfolios of the Group entities at the repayment date, RUB, million	Offer
January 2011	January-July	UAH	591	2,383	–	–
July 2010	January	RUB	642	642	–	–
February 2012	February	RUB	2,000	2,000	–	–
June 2013	February	USD	100	3,476	3,476	Yes
June 2013	February	USD	100	3,476	3,476	Yes
June 2013	February	USD	100	3,476	3,476	Yes
June 2013	February	USD	100	3,476	3,476	Yes
March 2012	March	RUB	4,351	4,351	–	Yes
July 2010	July	RUB	692	692	–	–
August 2011	August	RUB	3,000	3,000	83	–
August 2011	August	RUB	2,000	2,000	795	–
August 2012	August	RUB	4,527	4,527	–	Yes

During 2013, the Group issued the following debt securities:

Type of debt securities issued	Issued, month	Maturity	Issue currency	Nominal value of securities issued: Currency, million	Nominal value of securities issued: At the placement date, RUB, million	Nominal value of securities in the portfolios of the Group entities RUB, million
Eurobonds	February	February 2018	EUR	1,000	40,339	–
Eurobonds	February	February 2023	EUR	500	20,170	–
Bonds	March	March 2018	RUB	5,000	5,000	–
Bonds	March	March 2018	RUB	5,000	5,000	–
Bonds	April	April 2016	RUB	5,000	5,000	368
Bonds	June	June 2018	USD	100	3,224	3,224
Bonds	June	June 2018	USD	100	3,224	3,224
Bonds	June	June 2018	USD	100	3,224	3,224
Bonds	June	June 2018	USD	100	3,224	3,224
Bonds	July	July 2016	RUB	20,000	20,000	242
Bonds	August	August 2016	RUB	3,000	3,000	3,000
Bonds	August	August 2016	RUB	3,000	3,000	3,000
Bonds	October	September 2018	RUB	10,000	10,000	–
Eurobonds	November	November 2018	USD	850	27,830	–
Eurobonds	November	November 2023	USD	1,150	37,653	–
Bonds	November	November 2016	RUB	4,000	4,000	220
Bonds	November	November 2016	RUB	5,000	5,000	275
Bonds	November	November 2018	RUB	5,000	5,000	315
Bonds	November	November 2018	RUB	5,000	5,000	315
Bonds	December	November 2020	RUB	7,500	7,500	7,500
Bonds	December	December 2018	RUB	15,000	15,000	–
Bonds	December	December 2016	RUB	5,000	5,000	5,000

(in millions of Russian rubles)

25. Debt securities issued (continued)

During 2013, the Group repaid the following domestic bonds:

Issued, month	Repaid, month	Issue currency	Nominal value of securities repaid: Currency, million	Nominal value of securities repaid: At the repayment date, RUB, million	Nominal value of securities in the portfolios of the Group entities at the repayment date RUB, million
February 2010	February	RUB	5,000	5,000	934
February 2010	February	RUB	2,000	2,000	–
February 2010	February-March	UAH	500	1,864	–
July 2010	July	RUB	5,000	5,000	133
December 2010	December	RUB	3,000	3,000	1,000
December 2010	December	RUB	2,000	2,000	1,025

At 31 December 2014, debt securities issued include Eurobonds placed at the market rate denominated in USD maturing from May 2016 to November 2025 (31 December 2013: from May 2016 to November 2025), in CHF maturing in February 2016 (31 December 2013: in February 2016) and in EUR maturing from February 2018 to February 2023 (31 December 2013: from February 2018 to February 2023).

At 31 December 2014, included in debt securities issued are bonds placed at the market rate denominated in RUB maturing from November 2015 to September 2032 (31 December 2013: from April 2014 to September 2032), denominated in USD maturing from February 2015 to May 2017 (31 December 2013: in February 2015); bonds denominated in UAH were repaid during the reporting period (31 December 2013: maturing from January 2014 to March 2014), as well as bonds denominated in BYR maturing from September 2016 to August 2017 (31 December 2013: in September 2016).

At 31 December 2014, the Group's debt securities issued include interest-bearing promissory notes denominated in RUB, USD and EUR maturing before December 2049 (31 December 2013: maturing before December 2049). At 31 December 2014, interest rates range from 8.5% to 14.5% for RUB-denominated promissory notes (31 December 2013: from 3% to 9.1%), from 0.2% to 1.7% for USD-denominated promissory notes (31 December 2013: from 0.2% to 8.5%) and 0.2% for EUR-denominated promissory notes (31 December 2013: 0.4%).

At 31 December 2014, debt securities issued include RUB-denominated saving certificates issued by a subsidiary bank at interest rates from 0.1% to 0.5% maturing from June 2016 to February 2022 (31 December 2013: saving certificates at interest rates from 0.1% to 0.5% maturing from March 2016 to February 2022).

26. Finance lease liabilities

Liabilities under finance lease agreements at 31 December 2014 are analyzed as follows:

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total
Minimum lease payments	8,869	34,616	50,820	94,305
Prepaid financial expenses	(40)	(979)	(3,501)	(4,520)
Net liabilities under finance lease agreements	8,829	33,637	47,319	89,785

(in millions of Russian rubles)

26. Finance lease liabilities (continued)

Liabilities under finance lease agreements at 31 December 2013 are analyzed as follows:

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total
Minimum lease payments	2,415	9,558	13,671	25,644
Prepaid financial expenses	(12)	(269)	(928)	(1,209)
Net liabilities under finance lease agreements	2,403	9,289	12,743	24,435

27. Equity

Charter capital

In accordance with Article 18 of the Federal Law, the Bank's charter capital is formed, in particular, from asset contributions of the Russian Federation made according to resolutions of the Russian Government.

In accordance with Resolution of the Russian Government No. 1687-r dated 27 November 2007, pursuant to Federal Law No. 246-FZ dated 2 November 2007, "On Introducing Amendments to Federal Law "On the Federal Budget for 2007", the Russian Federation contributed RUB 180,000 million to the charter capital of Vnesheconombank in November 2007.

In accordance with Resolution of the Russian Government No. 1766-r dated 7 December 2007, the Russian Federation contributed 100% of the state-owned shares of OJSC "SME Bank" and 5.2% of state-owned shares of EXIMBANK OF RUSSIA to the charter capital of Vnesheconombank. The transfer of shares was completed in 2008.

In accordance with Resolution of the Russian Government No. 1665-r dated 19 November 2008, pursuant to Federal Law No. 198-FZ dated 24 July 2007, "On the Federal Budget for 2008 and for the 2009 and 2010 Planned Period", the Russian Federation contributed RUB 75,000 million to the charter capital of Vnesheconombank in November 2008.

In accordance with Resolution of the Russian Government No. 854-r dated 23 June 2009, pursuant to Federal Law No. 204-FZ dated 31 October 2008, "On the Federal Budget for 2009 and for the 2010 and 2011 Planned Period", the Russian Federation contributed RUB 100,000 million to the charter capital of Vnesheconombank in June 2009.

In accordance with Resolution of the Russian Government No. 1891-r dated 10 December 2009, the Russian Federation contributed RUB 21,000 million to the charter capital of Vnesheconombank in December 2009 for further acquisition by the Bank of shares additionally issued by JSC "United Aircraft Corporation".

In December 2010 in accordance with Resolution of the Russian Government No. 603-r dated 21 April 2010, the Russian Federation contributed 100% of state-owned shares of OJSC "Federal Center for Project Finance" as an additional asset contribution to the charter capital of Vnesheconombank.

In August 2013 in accordance with Resolution of the Russian Government No. 670-r dated 2 May 2012, the Russian Federation contributed 1.1278% of state-owned shares of OJSC "Rostelecom" (1.2209% of voting shares of the company) as an additional asset contribution to the charter capital of Vnesheconombank.

27. Equity (continued)

Charter capital (continued)

In accordance with Resolution of the Russian Government No. 2526-r dated 12 December 2014 and Resolution of the Russian Government No. 1417 dated 18 December 2014 issued for the purpose of financial support as part of implementing the Bank's objectives, as set forth in the Federal Law and Vnesheconombank Memorandum, the Russian Federation contributed RUB 30,000 million to the charter capital of Vnesheconombank in December 2014.

Additional paid-in capital

In December 2011, pursuant to Federal Law No. 357-FZ dated 13 December 2010 "On the Federal Budget for 2011 and for the 2012 and 2013 Planned Period", the Bank received a subsidy from the Russian Ministry of Finance as an asset contribution in the amount of RUB 62,600 million for the purposes of creating a Russian equity fund, which was recognized in additional paid-in capital. Vnesheconombank used all the funds to acquire units in Mutual Fund RDIF.

In December 2012, pursuant to Federal Law No. 247-FZ dated 3 December 2012, "On Introducing Amendments to Federal Law "On the Federal Budget for 2012 and for the 2013 and 2014 Planned Period", the Bank received from the Russian Ministry of Finance the following subsidies:

- as an asset contribution in the amount of RUB 62,000 million for the purposes of creating Mutual Fund RDIF;
- as an asset contribution in the amount of RUB 15,000 million for implementing top-priority industrial, transport and energy infrastructure development projects in the Far East and the Baikal regions.

In the first quarter of 2013, all of these funds were used as intended and recognized in additional paid-in capital.

In August 2013, additional paid-in capital was changed for the difference of RUB 1,430 million between the cost of Rostelecom's shares transferred to the charter capital of Vnesheconombank and their fair value.

Nature and purpose of other reserves

Retained earnings / (uncovered loss)

This reserve is formed on a cumulative basis from the date of establishment of the Bank, and mainly includes retained earnings for 2013 and a loss attributable to the Russian Government for 2014.

A gain from the initial recognition of amounts due to the Russian Government totaling RUB 25,240 million is recorded directly in this reserve. In accordance with Resolution of the Russian Government No. 1749-r dated 6 September 2014, the reserves of the NWF in the amount of USD 5,966 million were deposited under subordination terms for the purpose of the additional capitalization of Vnesheconombank, maturing in 15 years at an interest rate below market level (Note 9).

(in millions of Russian rubles)

27. Equity (continued)

Nature and purpose of other reserves (continued)

Unrealized gains/(losses) on investment financial assets available for sale

This reserve records fair value changes on available-for-sale investments.

The movements in unrealized gains/(losses) on investment financial assets available for sale were as follows:

	2014	2013
Unrealized gains/(losses) on investment financial assets available for sale	(17,243)	21,290
Realized gains on investment financial assets available for sale, reclassified to the statement of profit or loss (Note 31)	1,324	(72,887)
Impairment loss on investment financial assets available for sale, reclassified to the statement of profit or loss	12,262	–
Change in unrealized gains/(losses) on operations with investment financial assets available for sale	(3,657)	(51,597)

Foreign currency translation reserve

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

28. Commitments and contingencies

Operating environment

The Russian, Belarusian and Ukrainian economies are vulnerable to the market downturns and economic slowdowns elsewhere in the world.

Russia continues economic reforms and the 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 the economic, financial and monetary measures undertaken by the Russian Government.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices, a significant devaluation of the Russian ruble, and certain sectoral sanctions imposed by several countries. In July and September 2014, Vnesheconombank and its subsidiaries became subject to these sanctions. The sanctions mainly affect the ability of Vnesheconombank Group to attract equity and debt financing in the USA, Canada and EU countries for more than 30 days.

These negative trends have resulted in the reduction of capital availability, an increased cost of capital, inflation growth and uncertainty regarding future economic growth. In January 2015, Russia's credit rating was downgraded by Fitch Ratings to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a ten-year period. In February 2015, Moody`s downgraded Russia's rating from Ba1 to Baa3. The forecast of all agencies is negative, meaning that the situation will likely deteriorate further.

The Group's management takes into consideration these sanctions and other negative trends when performing its activities and monitors and analyzes their effect on the Group's financial position and financial performance.

28. Commitments and contingencies (continued)

Operating environment (continued)

In 2014, the economic and political situation in Ukraine deteriorated significantly. This resulted in a decreased gross domestic product, significant negative foreign trade balance and a drastic reduction in foreign currency reserves. Moreover, during the period from 1 January 2014 to 14 April 2015, the Ukrainian hryvnia depreciated against major currencies by approximately 254%, and the National Bank of Ukraine imposed certain restrictions on transactions in foreign currencies, as well as on certain international settlements, including dividend payments. International rating agencies downgraded Ukraine's sovereign debt rating. Ukraine is currently in the process of negotiating a program for extending loans with the International Monetary Fund, which may require taking certain austerity measures. The combination of these events resulted in the deterioration of liquidity and tighter credit conditions when lending is available.

Information about the risk the Group is exposed to in Ukraine at 31 December 2014 is provided in Note 8, "Segment information". As disclosed earlier, Segment 3 includes PSC Prominvestbank: its income/expenses, profit/loss, assets and liabilities, and represents the Group's banking activity in Ukraine. As at 31 December 2014, assets of the Group exposed to the risks of consequences arising from the situation in Ukraine comprise loans to customers of the Group's subsidiary with a carrying value of RUB 17,124 million (allowance for impairment of these loans amounted to RUB 4,410 million as at 31 December 2014), and other assets in the amount of RUB 4,656 million (allowance for impairment amounted to RUB 2,774 million).

In March 2015, the National Bank of Ukraine raised the key rate from 19.5% to 30%. Any further possible negative developments in Ukraine could adversely impact the results and financial position of the Group in a manner not currently determinable.

As an emerging market, the Republic of Belarus does not possess a well-developed business and regulatory infrastructure that would generally exist in more mature market economies.

In November 2011, the Republic of Belarus was recognized as a hyperinflationary economy starting from 1 January 2011. The future stability of the Belarusian economy depends to a large extent on the reforms and developments and the effectiveness of the economic, financial and monetary measures taken by the Belarusian Government.

Management believes it is taking the appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal issues

The Group is involved in a number of legal actions related to the Group's ordinary activities. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group. Movement in provisions for legal claims is disclosed in Note 21.

(in millions of Russian rubles)

28. Commitments and contingencies (continued)

Taxation

A major part of the Group's business activity is carried out in the Russian Federation. Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of various provisions of this legislation and performing tax reviews. It is therefore possible that at any time in the future the tax authorities may challenge transactions and operations of the Group that have not been challenged in the past. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Tax field audits of the accuracy of tax calculation and payments conducted by tax authorities may cover three calendar years preceding the year during which the tax audit decision was made. Under certain circumstances reviews may cover longer periods.

At 31 December 2014, the Group's management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Commitments and contingencies

At 31 December, the Group's commitments and contingencies comprised:

	2014	2013
Credit-related commitments		
Undrawn loan commitments	590,772	500,391
Guarantees	482,391	278,195
Letters of credit	22,727	20,920
	1,095,890	799,506
Operating lease commitments		
Not later than 1 year	2,981	1,564
Later than 1 year but not later than 5 years	7,294	2,960
Later than 5 years	3,923	5,895
	14,198	10,419
Co-investment commitments	4,619	2,933
Capital expenditure commitments	54,009	19,737
	1,168,716	832,595
Less provisions (Note 21)	(3,664)	(470)
Commitments and contingencies (before deducting collateral)	1,165,052	832,125
Less deposits and securities issued, held as security against guarantees and letters of credit	(7,204)	(5,549)
Commitments and contingencies	1,157,848	826,576

At 31 December 2014, the Group advised export letters of credit for a total amount of RUB 141,835 million (31 December 2013: RUB 88,862 million). The Group bears no credit risks under export letters of credit.

(in millions of Russian rubles)

28. Commitments and contingencies (continued)

Commitments and contingencies (continued)

At 31 December 2014, credit-related commitments include liabilities in favor of one counterparty, a state company, in the amount of RUB 130,248 million, which accounts for 12% (31 December 2013: RUB 86,670 million, 11%) of all credit-related commitments.

At 31 December 2014, credit-related commitments also include guarantees of the Group under liabilities of other banks to the Bank of Russia in the amount of RUB 136,839 million (31 December 2013: RUB 60,000 million).

Insurance

At 31 December 2014, the Group's premises are insured for RUB 38,013 million (31 December 2013: RUB 25,400 million). Liability insurance is generally not available in Russia, the Republic of Belarus and Ukraine at present.

29. Interest income and expense

	2014	2013
Interest income		
Loans to customers	182,505	150,615
Amounts due from banks and cash equivalents	37,175	41,425
Investment securities	20,989	18,855
	240,669	210,895
Finance leases	34,222	26,718
Other investment financial assets available for sale	3,250	3,250
Financial assets at fair value through profit or loss	2,119	2,881
Government grant used	75	–
	280,335	243,744
Interest expense		
Amounts due to banks and the Bank of Russia	(66,735)	(50,420)
Amounts due to customers and the Russian Government	(67,153)	(63,321)
Debt securities issued	(45,660)	(30,861)
	(179,548)	(144,602)
Finance lease liabilities	(498)	(169)
	(180,046)	(144,771)

30. Net fee and commission income

Net fee and commission income comprises:

	2014	2013
Cash and settlement operations	4,460	4,180
Guarantees and letters of credit	4,068	3,860
Agency fees	540	556
Trust management of pension funds	557	433
Operations with securities	98	113
Other	858	1,027
Fee and commission income	10,581	10,169
Fee and commission expense	(2,459)	(2,542)
Net fee and commission income	8,122	7,627

(in millions of Russian rubles)

31. Gains less losses from investment financial assets available for sale

Gains less losses from investment financial assets available for sale recognized in the statement of profit or loss comprise:

	2014	2013
Gains less losses on sale of investment financial assets available for sale, previously recognized in other comprehensive income (Note 27)	(1,324)	72,887
Losses on impairment of investment financial assets available for sale	(16,028)	(4,559)
Other gains from sale and redemption of investment financial assets	695	74
Total gains less losses from investment financial assets available for sale	(16,657)	68,402

32. Other operating income and expenses

Other operating income comprises:

	2014	2013
Sales revenue	12,844	5,186
Income from financing activities	1,910	919
Penalties received	1,576	2,183
Rental income	1,443	434
Insurance	860	249
Gains from the revaluation of investment property	613	818
Gains from the disposal of leased assets	333	439
Gain from the disposal of investment property	–	216
Other	3,606	1,066
Total	23,185	11,510

Revenue of subsidiaries from the sale of inventories in the amount of RUB 12,844 million was recognized in other operating income for the year ended 31 December 2014.

Other operating expenses comprise:

	2014	2013
Cost of sales	10,741	2,448
Charity	2,803	2,065
Insurance	1,795	1,220
Advertising expenses	1,751	1,703
Administrative expenses	1,362	1,097
Legal services	1,321	1,780
Audit and consulting	1,211	1,176
Marketing and research	1,026	1,104
Loss on write-off of impaired assets	936	574
Amortization of intangibles	908	654
Deposits' insurance	674	556
Sponsorship	217	348
Loss on sale of financial assets (loans and accounts payable)	110	854
Other	5,839	6,068
Total	30,694	21,647

Cost of inventories sold by subsidiaries in the amount of RUB 10,741 million was recognized in other operating expense for the year ended 31 December 2014.

(in millions of Russian rubles)

33. Risk management

Introduction

The Group's operations expose it to financial risks, which it divides into credit risk, liquidity risk and market risk, the latter being subdivided into interest rate risk, currency risk and equity risk. Group members manage financial risks through a process of ongoing risk identification, measurement and monitoring, as well as by taking steps towards reducing the level of risk.

The Group is also subject to operational risk and strategic risk. Strategic risk is defined by the Group as a risk of a negative effect on the Group's operations arising from mistakes (deficiencies) made in decisions that determine strategy of the Group; this risk is managed by the Group in the course of its strategic planning process.

The process of risk management is critical to ensure that risks accepted by the Group would not affect its financial stability. Each business division within the Group involved in operations exposed to risk is accountable for controlling the level of risks inherent in its activities to the extent provided in the internal regulations.

Risk management structure in place at Group members

Typical organizational structure of risk management in place at Group members consists of the following elements:

- The supreme collegial management body (Supervisory Board, Board of Directors) takes strategic decisions aimed at organizing and supporting the operation of the risk management system.
- Collegial management bodies (Management Board, Banking Risk Management Committee, Financial Committee, Assets and Liabilities Committee, Credit Committee, Technology Committee) and sole executive bodies (Chairman of the Bank, Chairman of the Management Board) adopt/prepare management decisions within their established authority, over a particular type of activity or type of risk.
- Independent risk management business division (Risk Management Department, Risk Analysis and Control Department) coordinates activities carried out by independent business divisions to implement risk management decisions taken by management bodies, including development of a regulatory framework that underlies risk assessment and control, independent assessment and subsequent control of risk level, and prepares risk reports for Group member management on a regular basis.
- Business divisions engaging in/supporting operations exposed to risks perform initial risk identification and assessment, control compliance with established limits and generate risk reports subject to the requirements of the adopted/approved regulatory framework.
- The Internal Control Function controls compliance with requirements of internal regulations and evaluates the effectiveness of the risk management system. Following the completion of respective audits, the Internal Control Function reports its findings and recommendations to Group member management.

In 2014, risk management coordination continued under the implementation of the Risk Management Policy of Vnesheconombank's Group that established the primary objectives, goals, principles and procedures for consolidated risk management within Vnesheconombank and its subsidiaries (approved by the Decision of Vnesheconombank's Supervisory Board of 18 March 2013, Meeting Minutes No. 3).

(in millions of Russian rubles)

33. Risk management (continued)

Introduction (continued)

Vnesheconombank's risk management structure

The Supervisory Board is the supreme management body of the Bank. Within the scope of powers delegated to that body by the Memorandum on Financial Policies and the Federal Law No. 82-FZ the Supervisory Board is responsible for establishing specific parameters of the Bank's investing and financing activities including those related to risk management. Along with the Supervisory Board, the Bank's risk management structure comprises other management and collegial bodies and business divisions that are responsible for controlling and managing risks.

Supervisory Board

Pursuant to the Regulation on the Supervisory Board, powers of the Bank's Supervisory Board in the area of risk management include: the approval of procedures governing the activities of internal control function, credit policy regulations, procedures for providing guarantees, sureties and loans to banks and other legal entities, methodologies and procedures for measuring credit risk parameters and limits, methodology for calculating the Bank's equity (capital) amount and capital adequacy ratio, impairment and other losses provisioning procedures, regulations on the Bank's management bodies.

The Supervisory Board decides on approving transactions involving acquisition, disposal or potential disposal of assets whose carrying value accounts for at least 10% of the Bank's equity and establishes the maximum amount of funds allocated to manage the Bank's temporarily available cash (liquidity).

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

Management Board

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

The Management Board drafts proposals regarding Vnesheconombank's major lines of business and parameters of its investing and financing activities (including those related to risk management) and submits such proposals for approval by the Supervisory Board.

Chairman of Vnesheconombank

With regard to risk management-related aspects of the Bank's operations, the Chairman of Vnesheconombank issues orders and resolutions, approves policies and technical procedures governing banking transactions.

The Chairman of Vnesheconombank decides on other matters related to risk management except for those falling within the competence of the Supervisory Board and the Management Board.

(in millions of Russian rubles)

33. Risk management (continued)

Introduction (continued)

Group Risk Director

The key functions of the Group Risk Director include development and ensuring the efficiency of the risk management system of Vnesheconombank and the Group as a whole, the submission of consolidated reports on the risks posed to Vnesheconombank and the Group as a whole to the Management Board of Vnesheconombank, and the approval of the candidates responsible for resolving risk management issues for the members of the Group.

Vnesheconombank's Risk Management Committee

The Risk Management Committee is a standing collegial body of Vnesheconombank. Its purpose is to design and develop an efficient risk management system within the Group, to ensure risk level control and to notify the Management Board of Vnesheconombank of the Group's risk level.

The Risk Management Committee develops proposals on the risk appetite level for Vnesheconombank and the members of the Group; reviews reports on the usage of economic capital and on the compliance of assumed risks with the risk appetite established by the Group; reviews and submits for approval to Vnesheconombank's management bodies group-wide and general risk limits for Vnesheconombank and the members of the Group; recommends Standards for approval; organizes and controls the implementation of the Standards; approves development plans for the Group risk management system; reviews and provides recommendations for certain transactions of the members of the Group; reviews the improvement plan for the Group's risk management system and monitors its implementation; approves stress-testing scenarios; and reviews other issues in accordance with the Regulation on the Risk Management Committee.

Credit Committee

The Credit Committee is the Bank's standing collegial body whose primary objective is to develop conclusions as a result of considering suggestions for granting loans, guarantees, sureties and financing on a repayable basis, participation in share capital and/or purchase of bonds, setting limits by counterparty and issuer, as well as debt recovery and write-off.

Assets and Liabilities Committee

The Assets and Liabilities Committee is the Bank's standing collegial body whose primary objective is to develop conclusions and recommendations for assets and liabilities management, including issues related to managing the Bank's market and structural risks and ensuring that the Bank's operations are break-even.

Working Group on Coordination of Subsidiary Banks' and Financial Companies' Liquidity and Risk Management

Key competences of the Working Group include coordination of activity within the group of subsidiary banks and financial companies of Vnesheconombank in order to ensure consistent liquidity and risk management, provide conditions for efficient implementation of policies on managing assets and liabilities and risks within the group of subsidiary banks and financial companies of Vnesheconombank.

(in millions of Russian rubles)

33. Risk management (continued)

Introduction (continued)

Working Group on Coordination of Public Borrowings of Subsidiary Banks and Companies of Vnesheconombank

Key competences of the Working Group include assisting subsidiary banks and financial companies of Vnesheconombank by preparing reports and recommendations on the following activities of Vnesheconombank's group of companies: improvement of coordination of public borrowings of Vnesheconombank's subsidiary banks and companies, raising funds for Vnesheconombank's subsidiary banks and companies, and estimation of key parameters for this process.

Internal Control Function

The Internal Control Function is responsible for monitoring, on a continuous basis, the functioning of the banking risk management system as provided in the internal regulations. Following the completion of the respective audits, the Internal Control Function reports its findings and recommendations to the Bank's management.

Risk Management Department

The Risk Management Department is an independent business division designed to maintain the efficient functioning of the risk management system in compliance with the requirements of supervisory and regulatory bodies, international standards governing banking risk management practices in order to ensure the requisite reliability and financial stability of the Bank.

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

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

Directorate for Currency and Financial Transactions

To control the Bank's day-to-day liquidity, the Directorate for Currency and Financial Transactions monitors compliance with the established minimum levels of liquid assets and liquidity gaps in assets and liabilities. The Directorate prepares regular forecasts of the Bank's estimated leverage by source of funding, performs daily monitoring of open position limits by class of financial instruments and operations performed by the Directorate on cash, 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 cash, equity and currency markets.

(in millions of Russian rubles)

33. Risk management (continued)

Introduction (continued)

Economic Planning Department

The Economic Planning Department is involved in the development of methodological documents for managing the Bank's financial risks. The Department monitors the Bank's financial stability parameters, including capital adequacy ratio. The Department coordinates the activities across the Bank relating to the establishment of allowances for losses.

Risk management

Risk assessment and reporting systems

The Bank's risks are measured using the methodologies approved by the Bank's authorized bodies which allow assessing both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate possible loss at a given level of probability. Losses are measured on the basis of the analysis and processing of historical data relating to risk factors underlying such losses and the established patterns (models) used to determine the relationship between changes in risk factors and loss events. Statistical patterns derived from the analysis of historical data are adjusted, as appropriate, to account for the current operating environment of the Bank and situation on the markets.

The Bank also applies stress testing practices to run worst case scenarios that would arise in case extreme events which are unlikely to occur do, in fact, occur.

Monitoring and limiting risks is primarily performed based on limits established by the Bank. These limits reflect the level of risk which is acceptable for the Bank and set strategic priorities for each line of the Bank's business.

To assess and monitor the aggregate credit, market and operational risk exposure, the Bank computes capital adequacy ratio in accordance with the methodology approved by the Bank's Supervisory Board and based on approaches set out in regulations issued by the Bank of Russia. The minimum capital adequacy ratio of 10% has been set.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. The above information and analytical comments thereon are communicated regularly to the Bank's management bodies, heads of business divisions and the Internal Control Function. The reporting frequency is established by the Bank's management body. The reports include the level of risk and risk profile changes by each type of risks and main business line, respective estimated values, updates on compliance with the existing risk limits, assessment of the amount of unexpected losses based on the value at risk methodology (VaR), results of sensitivity analysis for market risks, and the Bank's liquidity ratios.

To ensure timely response to changes in internal and external operating environment, heads of business divisions are obliged to notify the Bank's management of any factors contributing to banking risks. Information is to be communicated in accordance with the procedure set forth in the corresponding internal documents governing the activities of the business divisions.

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

(in millions of Russian rubles)

33. Risk management (continued)

Risk management (continued)

Vnesheconombank develops documents regulating the procedure for determining the risk appetite and stress-testing, as well as a methodology for calculating the economic capital of Vnesheconombank.

Risk mitigation

As part of its risk management, the Bank may use derivatives and other instruments to manage exposures arising from changes in interest rates, currency rates, equity prices, credit risk factors, and exposures arising from changes in positions resulting from changes in the current or forecasted risk level.

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

Excessive risk concentration

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

In order to control the level of risk concentrations, the Bank's policies and procedures include guidelines and restrictions designed to maintain a diversified portfolio.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations in full when they fall due. The Bank manages and controls credit risk by placing limits on the amount of risk it is willing to accept in relation to one counterparty, groups of counterparties and to industry segments and regions, and by monitoring exposures in relation to the existing limits.

Within the framework of risk management, the Bank ensures compliance with the following limits established in the Memorandum on Financial Policies:

- the maximum limit of exposure per individual borrower or a group of related borrowers shall not exceed 25% of the Bank's equity (capital);
- the aggregate volume of major exposures shall not exceed 800% of the Bank's equity (capital).

Vnesheconombank's Supervisory Board is entitled to set additional limits, including those related to the structure of the Vnesheconombank's loan portfolio.

When extending guarantees under export operations and arranging for export loan insurance against political and commercial risks, the Bank complies with the limitations set forth in the Memorandum on Financial Policies, whereby the maximum value of the Bank's commitments in respect of one borrower or a group of related borrowers should not exceed 25% of the Bank's equity (capital).

The Bank adopts a systemic approach to managing risks associated with the Bank's entire asset portfolio and those attributable to individual transactions entered into with borrowers/counterparties (a group of related borrowers/counterparties). Such approach consists of the following steps:

- risk identification;
- risk analysis and assessment;
- risk acceptance and/or risk reduction;
- risk level control.

(in millions of Russian rubles)

33. Risk management (continued)

Credit risk (continued)

Credit risk is managed throughout all the stages of the lending process: loan application review, execution of a lending/documentary transaction (establishment of a corresponding credit limit), loan administration (maintaining loan files, etc.), monitoring the loan (credit limit) drawdown status, monitoring the borrower's financial position and repayment performance until full settlement has been made (credit/documentary limit has been closed), monitoring the status of the current investment project. Since transactions that are bearing credit risk may not only involve credit risk as such, but give rise to other risks (e.g. market risk, project risk, collateral risk), the Bank performs a comprehensive assessment of risks attributable to such transactions.

The principle of methodological integrity provides for the use of a consistent methodology for identifying and measuring credit risk which is in line with the nature and scale of operations conducted by the Bank. The assessment methodology for the credit risk of the Group members is being amended to harmonize approaches to credit risk assessment used within the Group and in order to comply with the Bank's standards.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a credit rating. Credit ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

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

Maximum exposure to credit risk

The maximum exposure to credit risk for the components of the consolidated statement of financial position is best represented by their carrying amounts.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 15.

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

(in millions of Russian rubles)

33. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the inputs for measuring the counterparty risk. Not past due and not impaired assets are subdivided into assets with high, standard and sub-standard grade. Grades are assigned based on the requirements of the national standards for assets quality assessment and international ratings of securities issuers. High grade assets comprise demands to counterparties with good financial position, absence of overdue payments, or secured by the guarantees of the Russian Government, and securities with high international credit ratings. Probability of the breach of contractual terms with regard to such assets can be evaluated as low. Standard grade assets comprise demands to counterparties with average financial position or assets with no overdue payments, which were not included in high grade assets. Probability of the breach of contractual terms with regard to such assets can be evaluated as average. Other financial assets, not past due and not impaired, are assigned a substandard grade. Since not all individually impaired assets are considered past due, not past due individually impaired assets and past due assets are separated. Credit risk assessment methodology has been approved by the Bank's Supervisory Board. Group-wide guidelines for assessing the credit quality of assets have been developed for the purpose of preparing Group's consolidated financial statements.

(in millions of Russian rubles)

33. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset for credit risk-related assets of the consolidated statement of financial position, based on the Group's credit rating system. The information is based on carrying amounts before allowance for impairment.

		Not past due					
		Not impaired					
	Notes	High grade 2014	Standard grade 2014	Sub-standard grade 2014	Individually impaired 2014	Past due 2014	Total 2014
Financial assets lent and pledged under repurchase agreements							
Amounts due from banks pledged under repurchase agreements	13	1,845	–	–	–	–	1,845
Loans to customers pledged under repurchase agreements	15	11,221	–	–	–	–	11,221
Debt investment securities pledged under repurchase agreements	16						
- available for sale		50,152	9,117	–	–	–	59,269
- held to maturity		27,013	3,815	–	–	–	30,828
		90,231	12,932	–	–	–	103,163
Amounts due from banks	13						
Subordinated loans		43,236	5,704	–	–	–	48,940
Interbank loans under small and medium-sized business support program		73,001	14,015	1,148	99	1,742	90,005
Mortgage bonds		8,889	–	–	–	–	8,889
Other amounts due from banks		27,024	5,967	8	–	–	32,999
		152,150	25,686	1,156	99	1,742	180,833
Loans to customers	15						
Project finance		93,727	389,866	171,635	427,223	263,250	1,345,701
Commercial loans, including loans to individuals		115,337	394,134	100,485	255,708	185,206	1,050,870
Net investment in leases		228,810	12,774	6,020	9,068	128,162	384,834
Financing of operations with securities		182,128	888	–	59,260	–	242,276
Export and pre-export finance		29,324	11,215	9,905	–	4,621	55,065
Reverse repurchase agreements		10,268	30,488	–	–	–	40,756
Back-to-back finance		35,905	–	–	–	–	35,905
Claims under letters of credit		6,809	5,315	–	88	8,740	20,952
Mortgage bonds		–	3,420	4,948	–	–	8,368
Promissory notes		2,779	14	–	–	737	3,530
Other		10,935	9,966	3,019	4,418	1,604	29,942
		716,022	858,080	296,012	755,765	592,320	3,218,199
Debt investment securities	16						
Available for sale		102,205	47,554	879	93	–	150,731
Held to maturity		15,898	5,556	–	–	74	21,528
		118,103	53,110	879	93	74	172,259
Total		1,076,506	949,808	298,947	755,957	594,136	3,674,454

(in millions of Russian rubles)

33. Risk management (continued)

Credit risk (continued)

	Notes	Not past due					
		Not impaired					
		High grade 2013	Standard grade 2013	Sub-standard grade 2013	Individually impaired 2013	Past due 2013	Total 2013
Amounts due from banks	13						
Subordinated loans		297,446	11,490	–	–	–	308,936
Interbank loans under small and medium-sized business support program		75,542	12,113	0	0	873	88,528
Mortgage bonds		6,306	–	–	–	–	6,306
Other amounts due from banks		26,703	4,344	–	–	80	31,127
		405,997	27,947	0	0	953	434,897
Loans to customers	15						
Project finance		154,413	333,323	194,466	131,516	104,442	918,160
Commercial loans		196,204	362,946	68,522	75,951	110,456	814,079
Net investment in leases		170,800	16,590	4,831	1,223	42,608	236,052
Financing of operations with securities		59,472	5,966	–	0	–	65,438
Back-to-back finance		35,330	–	–	–	–	35,330
Export and pre-export finance		18,864	3,685	2,876	–	2,895	28,320
Claims under letters of credit		6,198	3,102	3,608	584	2,468	15,960
Reverse repurchase agreements		5,215	3,661	–	–	–	8,876
Promissory notes		4,534	647	–	7	730	5,918
Mortgage bonds		–	2,603	–	–	–	2,603
Other		703	3,004	80	3,763	242	7,792
		651,733	735,527	274,383	213,044	263,841	2,138,528
Debt investment securities	16						
Available for sale, including those pledged under repurchase agreements		153,647	84,592	505	–	–	238,744
Held to maturity		797	–	–	–	74	871
		154,444	84,592	505	–	74	239,615
Total		1,212,174	848,066	274,888	213,044	264,868	2,813,040

Aging analysis of past due but not impaired loans per class of financial assets

The table below shows the carrying amounts of past due but not impaired loans by number of days past due:

	Less than 7 days 2014	7 to 30 days 2014	More than 30 days 2014	Total 2014
Loans to customers				
Project financing	370	–	48,054	48,424
Commercial loans	2,683	6,355	1,216	10,254
Net investment in leases	1,778	9,147	2,218	13,143
Claims under letters of credit	–	240	5,665	5,905
	4,831	15,742	57,153	77,726

(in millions of Russian rubles)

33. Risk management (continued)

Credit risk (continued)

	Less than 7 days 2013	7 to 30 days 2013	More than 30 days 2013	Total 2013
Loans to customers				
Project financing	4,210	5,222	28,098	37,530
Commercial loans	1,561	785	4,236	6,582
Net investment in leases	2,206	7,528	1,201	10,935
	7,977	13,535	33,535	55,047

See Note 15 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are also assessed and provision is made in a similar manner as for loans.

33. Risk management (continued)

Liquidity risk and funding management

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

The Group manages its liquidity risk at the following levels:

- Each member of the Group manages its liquidity on a standalone basis so that it can meet its obligations in full and comply with requirements of the national regulator; for this purpose relevant policies and procedures have been developed that detail the liquidity risk assessment and control process;
- Liquidity-related issues are considered on the Group's level at the meetings of the Working Group on Coordination of Subsidiary Banks' and Financial Companies' Liquidity and Risk Management and the Working Group on Coordination of Public Borrowings of Subsidiary Banks and Companies of Vnesheconombank.

Group members assess liquidity risk using analysis of the maturity structure of assets and liabilities, and a liquid asset cushion under various scenarios. To limit liquidity risk, Group members control liquidity gaps and the level of the liquid asset cushion. Subsidiary banks within the Group also forecast and control compliance with mandatory liquidity ratios established by national regulators.

As a part of the liquidity risk management process the Group members perform the following actions limiting the liquidity risk:

- Regularly monitor the bank's liquidity position, supervise the compliance with the established limits and review them;
- Maintain a well-balanced maturity and currency structure of assets and liabilities and an optimal liquid asset cushion;
- Maintain a diversified structure of funding sources and directions of investments by counterparties;
- Develop actions to raise debt funding;
- Assess sustained balances on customers' accounts, monitor the level of concentration of balances on customers' accounts in order to prevent an abrupt outflow of funds from customers' accounts;
- Perform cash flow modeling and supervise liquidity ratios under various scenarios that reflect changes in the macroeconomic and market operating environment;
- Perform stress testing of the Bank's exposure to liquidity risk and financial market conditions on a regular basis and as and when significant changes in external and internal factors arise or are expected.

Operational control over liquidity ratios, including liquidity gaps, is performed at the Bank by the Directorate for Currency and Financial Transactions. The subsequent control is performed by the Risk Management Department. Liquidity control results are reported to the Bank's management and used for making management decisions.

In addition, for the purposes of identifying available sources to cover an unexpected deficit of liquid assets, the Bank daily monitors and forecasts the liquidity reserve. The liquidity reserve comprises the following instruments:

- Cash on the Bank's correspondent accounts, cash on hand, cash on accounts in stock exchange and clearing centers, and the net balance of the Bank's overnight placements;
- Short-term deposits placed with banks considered by the Bank as highly reliable;
- Liquid securities measured at fair value less any discount for unexpected losses due to market risk realization that can be promptly converted into cash or used as a collateralized funding.
- Loans from the Bank of Russia secured by non-market assets (or rights to claim under loan agreements) under third-party guarantees.

33. Risk management (continued)

Liquidity risk and funding management (continued)

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

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

The Risk Management Department uses the procedure of liquidity ratios stress testing on a scheduled and unscheduled basis. Scheduled stress testing is carried out on a monthly basis. Unscheduled stress testing is carried out upon decision of an authorized body of the Bank, as well as in case of an indication of potential stress changes in internal and external risk factors, upon initiative of the Bank's functions involved in liquidity control activities. Findings of the analysis of the Bank's liquidity indicators calculated for various scenarios are communicated by the Risk Management Department to the Directorate for Currency and Financial Transactions and the Bank's management and are used in making decisions on measures required for regulating liquidity and planning the Bank's operations.

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

- selling the portfolio of highly liquid assets (concluding repurchase agreements);
- raising funds using the refinancing instruments of the Bank of Russia;
- taking measures to close positions in low liquid securities and to assign loan portfolio-related receivables;
- strengthening cooperation with Bank's customers for the purpose of short-term planning the Bank's liquidity situation and setting the funds withdrawal schedule;
- maintaining transparency of the Bank's operations.

(in millions of Russian rubles)

33. Risk management (continued)

Liquidity risk and funding management (continued)

At 31 December 2014, financial assets and liabilities of the Group had the following expected maturities:

	Up to 1 month	1 to 6 months	6 to 12 months	Over year	No stated maturity	Total
Financial assets						
Cash and cash equivalents	313,889	12,038	–	–	–	325,927
Precious metals	20	–	–	–	254	274
Financial assets at fair value through profit or loss	12,324	287	46	11,980	19,709	44,346
Financial assets lent and pledged under repurchase agreements	59,492	6,448	4,683	33,058	–	103,681
Amounts due from banks	11,977	12,834	23,673	129,814	–	178,298
Loans to customers	127,778	251,470	292,787	1,959,162	769	2,631,966
Investment financial assets:						
- available for sale	163,732	97,063	13,643	15,165	79,114	368,717
- held to maturity	501	1,245	3,858	15,843	–	21,447
Amounts due from the Russian Government	–	–	–	–	400	400
Investments in associates	–	–	–	24	10,868	10,892
Income tax assets	–	2,395	–	–	5,113	7,508
Other financial assets	5,579	32,961	11,647	26,723	1,120	78,030
	695,292	416,741	350,337	2,191,769	117,347	3,771,486
Financial liabilities						
Amounts due to banks	202,063	78,690	135,662	594,125	–	1,010,540
Financial liabilities at fair value through profit or loss	198	1,007	139	1,326	–	2,670
Amounts due to the Russian Government and the Bank of Russia	151,246	50,462	89,310	268,260	–	559,278
Amounts due to customers	266,480	121,216	67,024	54,008	–	508,728
Debt securities issued	5,908	70,775	38,887	867,575	–	983,145
Finance lease liabilities	781	3,826	4,222	80,956	–	89,785
Subordinated deposits	–	–	10,528	292,487	–	303,015
Income tax liabilities	–	178	–	–	7,151	7,329
Other financial liabilities	11,962	6,229	3,105	1,318	1,294	23,908
	638,638	332,383	348,877	2,160,055	8,445	3,488,398
Net position	56,654	84,358	1,460	31,714	108,902	283,088
Accumulated gap	*56,654*	*141,012*	*142,472*	*174,186*	*283,088*	

(in millions of Russian rubles)

33. Risk management (continued)

Liquidity risk and funding management (continued)

At 31 December 2013, financial assets and liabilities of the Group had the following maturities:

	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	Total
Financial assets						
Cash and cash equivalents	251,791	24,203	–	–	–	275,994
Precious metals	130	–	–	–	167	297
Financial assets at fair value through profit or loss	54,427	285	22	32,277	11,824	98,835
Financial assets lent and pledged under repurchase agreements	29,548	1,526	1	31	–	31,106
Amounts due from banks	12,313	20,326	19,430	381,746	–	433,815
Loans to customers	45,441	204,692	333,262	1,263,644	–	1,847,039
Investment financial assets:						
- available for sale	223,368	–	–	41,912	177,054	442,334
- held to maturity	1	296	128	339	–	764
Amounts due from the Russian Government	–	–	–	–	241	241
Investments in associates	–	–	–	–	10,473	10,473
Income tax assets	–	1,269	–	–	3,940	5,209
Other financial assets	4,598	23,346	16,707	19,153	316	64,120
	621,617	275,943	369,550	1,739,102	204,015	3,210,227
Financial liabilities						
Amounts due to banks	173,699	140,271	55,340	317,211	–	686,521
Financial liabilities at fair value through profit or loss	38	385	107	416	–	946
Amounts due to the Russian Government and the Bank of Russia	42,618	51,436	470,682	416,244	–	980,980
Amounts due to customers	211,308	80,596	45,598	65,790	–	403,292
Debt securities issued	9,308	33,202	34,651	526,158	–	603,319
Finance lease liabilities	–	–	–	24,435	–	24,435
Income tax liabilities	–	339	–	–	4,456	4,795
Other financial liabilities	7,164	6,038	4,918	22,751	777	41,648
	444,135	312,267	611,296	1,373,005	5,233	2,745,936
Net position	177,482	(36,324)	(241,746)	366,097	198,782	464,291
Accumulated gap	*177,482*	*141,158*	*(100,588)*	*265,509*	*464,291*	

Due to the fact that Standard & Poor's downgraded the long-term foreign currency credit rating of Vnesheconombank to BBB- in 2014, for a number of loan agreements lending banks obtained the right to demand the early repayment of the loans provided. As at 31 December 2014, the liabilities of Vnesheconombank under these agreements comprised RUB 124,945 million. As of the date of authorisation of these consolidated financial statements, Vnesheconombank did not receive notices demanding an early repayment of previously provided loans. The creditors under agreements that provide for credit rating compliance confirmed that they did not demand early repayment. The Bank classified these liabilities in "Up to 1 month" in the amount of RUB 1,812 million, in "1 to 6 months" in the amount of RUB 7,934 million, in "6 to 12 months" in the amount of RUB 9,657 million and in "Over 1 year" in the amount of RUB 105,542 million based on the expectations to repay the liabilities in due time, as set forth in the relevant agreements. The management of the Bank is taking all of the appropriate liquidity management measures and expects the state to provide support if necessary.

(in millions of Russian rubles)

33. Risk management (continued)

Liquidity risk and funding management (continued)

Amounts payable under settlements with the Russian Government, other than deposits, generally do not carry a specified maturity and are shown as having a maturity of up to one month. In practice, these amounts are available to the Bank for longer periods.

While the majority of available-for-sale securities are shown as “Up to 1 month”, disposal of such assets upon demand is dependent upon financial market conditions. Significant security positions may not always be disposed in a short period of time without adverse price effects.

At 31 December 2013, the Group used an approach where the substantial part of the investments in equity investment securities available for sale was recognized in "No stated maturity". At 31 December 2014, the approach to classification of investment financial assets available for sale has been changed. Financial assets that can be sold within a short period of time, with no restrictions for their disposal, are classified in "Up to 1 month". A more prudent approach is used for less liquid financial instruments, where they can be sold during the period from "1 to 6 months".

At 31 December 2013, the liquidity gap amounting to RUB 100,588 million in "6 to 12 months" was based mainly on the maturities of interest-bearing deposits of the Bank of Russia raised in 2008 for the purpose of implementing the program of financial support to "Sviaz-Bank" and JSC "GLOBEXBANK" in the amount of RUB 205,412 million, and on the repayment of USD-denominated deposits of the Russian Ministry of Finance received for the purpose of investment projects financing (Note 9) in the amount of RUB 213,024 million. In June 2014, the interest-bearing deposits of the Bank of Russia were replaced to issued Series 35 bonds with a total nominal value of RUB 212,636 million maturing in June 2021. In accordance with Resolution of the Russian Government No. 1749-r dated 6 September 2014, USD 5,966 million was deposited under subordination terms for the purpose of the additional capitalization of Vnesheconombank, maturing in 15 years. As a result, at 31 December 2014, there is no accumulated liquidity gap for any of the maturities.

(in millions of Russian rubles)

33. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2014 and 31 December 2013 based on contractual undiscounted repayment obligations. Exception is made for derivatives (assets and liabilities), which are shown by amounts payable and receivable as well as the cost of the realizable non-monetary assets and by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date they are entitled to, and the table does not reflect the expected cash flows calculated by the Group based on information for prior periods.

At 31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to banks	241,706	139,996	536,158	177,315	1,095,175
Gross settled derivative financial instruments					
- Contractual amounts payable	8,524	830	17,142	4,619	31,115
- Value of underlying assets to be sold	339	128	1,051	29,700	31,218
- Contractual amounts receivable	(2,161)	(365)	(649)	(5,427)	(8,602)
- Value of underlying assets to be purchased	(6,424)	(2,495)	(16,370)	(25,081)	(50,370)
Amounts due to the Russian Government and the Bank of Russia	185,339	119,411	264,733	89,840	659,323
Amounts due to customers	348,263	118,032	56,776	441	523,512
Debt securities issued	56,984	64,721	530,546	723,620	1,375,871
Finance lease liabilities	2,490	6,378	34,616	50,820	94,304
Subordinated deposits	–	10,968	54,839	506,393	572,200
Other liabilities	12,900	7,754	1,935	1,225	23,814
Total undiscounted financial liabilities	847,960	465,358	1,480,777	1,553,465	4,347,560

At 31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to banks	199,984	174,044	302,182	63,537	739,747
Gross settled derivative financial instruments					
- Contractual amounts payable	33,568	2,523	21,316	9	57,416
- Value of underlying assets to be sold	20,349	2,285	6,248	–	28,882
- Contractual amounts receivable	(54,870)	(4,717)	(50,576)	(10)	(110,173)
Amounts due to the Russian Government and the Bank of Russia	45,490	543,030	193,954	429,519	1,211,993
Amounts due to customers	269,565	76,512	70,153	168	416,398
Finance lease liabilities	625	1,784	9,556	13,668	25,633
Debt securities issued	27,798	54,235	387,051	382,319	851,403
Other liabilities	9,330	7,749	9,885	15,127	42,091
Total undiscounted financial liabilities	551,839	857,445	949,769	904,337	3,263,390

The maturity analysis of liabilities does not reflect the historical stability of customers' current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than 3 months" in the tables above.

(in millions of Russian rubles)

33. Risk management (continued)

Liquidity risk and funding management (continued)

Included in amounts due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor. According to the legislation of the Republic of Belarus and Ukraine, the Group is obliged to repay the amount of these deposits at the first call of the depositor within five days (Note 24).

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies (letters of credit, guarantees, undrawn loan facilities, reimbursement obligations). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2014	1,080,526	10,271	5,093	–	1,095,890
2013	747,803	14,914	22,926	13,863	799,506

The Group expects that not all of the contingent liabilities or contractual commitments will be drawn until expiry of the commitments.

At 31 December 2014, credit-related commitments presented in the 'less than 3 months' category include liabilities in the amount of RUB 136,061 million (31 December 2013: RUB 93,566 million) whose maturities are linked to settlements under export contracts.

Market risk

Market risk is the risk of adverse changes in the fair value or future cash flows of financial instruments due to changes in market variables such as interest rates, foreign exchange rates, prices for equities (equity risk) and commodities. The purpose of the Group's market risk management activities is providing a balance between the level of accepted risks and profitability of banking operations.

Group members monitor the market risk level on a daily basis. To control the market risk level and to set its limits the Group uses the sensitivity analysis, calculation based on VaR methodology and stress testing. Consolidated risks of the Group are primarily assessed using the sensitivity analysis.

At the parent entity level interest rate, currency and equity risks are primarily assessed using the VaR methodology which enables assessing maximum unexpected losses from the portfolio of financial instruments that can be incurred during a certain period of time (projection horizon) with a given confidence level. The VaR methodology is a probabilistically statistical approach that takes into account market fluctuations and risks diversification under normal market conditions. To assess the price risk of the portfolio of market securities, the Bank applies the VaR methodology according to which the weighing procedure for statistical data of risk factors depends on their historical distance from the date of calculation. The equally weighted calculation method is applied to assess the risk of the open currency position. For management and external reporting purposes, the Bank uses VaR calculations with a 99% confidence level and a 10-day projection horizon to assess the price risk of the portfolio of market securities and a 1-day projection horizon to assess the risk of the open currency position of the Bank. The depth of retrospective data used for VaR calculation is 670 working days.

33. Risk management (continued)

Market risk (continued)

VaR calculation results are assessed by the Bank subject to limitations inherent in the VaR methodology, i.e. possible failure to comply with initial assumptions, namely:

- historical observations used to calculate unexpected losses in the future period might not contain all possible future changes in risk factors, especially in case of any extreme market events;
- usage of a given projection horizon assumes that the Bank's positions in financial instruments can be liquidated or hedged over this period. Should the Bank have large or concentrated positions and/or should the market lose its liquidity, the used period of time might be insufficient for closing or hedging positions but unexpected losses estimated with VaR would remain within set limits;
- applying a 99% confidence level does not permit assessing losses that can be incurred beyond the selected confidence level;
- the VaR methodology assesses the amount of unexpected losses from the portfolio of financial instruments under the assumptions that the volume of positions will remain constant over the projection horizon and the Bank will not perform transactions that change the volume of positions. Should the Bank be engaged in purchase and sale of financial instruments over the projection horizon, VaR estimates can differ from estimates of actual losses.

To control the adequacy of the VaR calculation model, the Bank regularly uses back-testing procedures that enable it to assess differences between estimated and actual losses.

In order to obtain more precise estimates, the Bank is making efforts to enhance inputs used in the current model which provides adequate estimates under normal market conditions. Also, the Bank is making efforts to improve approaches that take into account extraordinary (stress) changes in the market behavior in the process of risk management.

The Bank performs stress testing procedures on a regular and unplanned basis that enables the Bank to assess stress losses from realization of unlikely extraordinary events on financial instruments' portfolios and open currency positions, i.e. losses that are out of predictive limits of probabilistically statistical methods. The above approach supplements the risk estimate obtained from the VaR methodology and sensitivity analysis. The Bank uses a wide range of historical and hypothetical (user) scenarios within stress testing procedures. Stress testing results are reported to the Bank's management and used for making management decisions.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will adversely affect the fair values or future cash flows of financial instruments.

The interest rate policy of Group members refers to maintenance of a balanced structure of claims and obligations sensitive to change in interest rates (interest rate position) that provides limitation of possible unfavorable change in net interest income and/or equity of a Group member at an acceptable level.

The procedures of identification, assessment and control of the level of interest rate risk in Group members are formalized through developed internal regulations and rules as well as requirements of national regulators. Group members perform sensitivity analysis of net interest income and equity using different scenarios of market interest rate changes for the purpose of controlling financial losses arising from unfavorable changes in interest rates.

(in millions of Russian rubles)

33. Risk management (continued)

Market risk (continued)

In addition, banks within the Group forecast and control the capital adequacy ratios subject to the effect of the interest rate risk.

Group members use a number of market instruments, including IRSs, to manage its interest rate sensitivity and repricing gaps related to changes in interest rates of assets and liabilities.

In performing the sensitivity analysis of the net interest income and equity the interest rate gap method is used. The interest rate gap method is used to assess changes in the amount of net interest income and equity by using data on mismatch of claims and obligations sensitive to interest rate changes aggregated at given maturity intervals. A combination of negative scenarios that take into account the effect of internal and external risk factors related to the market situation is used as a part of the analysis. Scenarios are prepared either based on hypothetical events that can occur in the future or based on past events – historical stress scenarios.

Sensitivity analysis is performed on regular and unplanned basis. The basis for an unplanned sensitivity calculation is as follows:

- expected appearance of large or concentrated positions in financial instruments' portfolios or significant changes in their value, which can significantly affect the balance of the interest rate position;
- expectations of significant changes in the market situation as well as socio-political and/or economic events that can have a significant adverse impact on the amount of net interest income/equity.

The Bank uses two approaches in modeling risk factors. The statistical approach is based on the following assumptions:

- the actual structure of volume and maturities of claims and obligations is kept constant in the whole projection horizon;
- changes in the term structure of interest rates occur instantly as of the reporting date and once during the projection horizon.

In addition to the statistical approach to modeling risk factors, the Bank performs the sensitivity analysis by modeling dynamic changes in interest rates and the volume and maturity structure of claims and obligations using a more complex set of assumptions made by the Bank on a case-by-case basis.

The sensitivity of the statement of profit or loss is the estimate of the effect of the assumed changes in interest rates on the net interest income before tax for one year calculated for floating rate financial assets and financial liabilities held at 31 December 2014 and at 31 December 2013, as well as the amount of revaluation of fixed rate trading financial assets and derivative financial instruments. The sensitivity of equity to changes in interest rates is calculated as the amount of revaluation of fixed rate available-for-sale financial assets in case of assumed change in interest rates. The effect of revaluation of financial assets was calculated based on the assumption that there are parallel shifts in the yield curve.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates by key reference rates, with all other variables held constant, of the Group's statement of profit or loss.

The sensitivity was calculated for instruments within the Group's portfolio, excluding bonds held within the Bank's portfolio. The interest rate risk for this bond portfolio was calculated using the VaR methodology.

(in millions of Russian rubles)

33. Risk management (continued)

Market risk (continued)

Rate	Increase in %, 2014	Sensitivity of the statement of profit or loss 2014	Sensitivity of equity 2014
3-m LIBOR USD	0.25%	(778)	–
3-m LIBOR EUR	0.05%	10	–
3-m MosPrime	3.00%	98	–
KRCBRF	1.00%	(56)	–
YTM 5Y USTreasuries	0.60%	150	(252)
RGBEY	1.00%	37	(129)
YTM Ukrainian sovereign bonds	30.00%	–	(2,929)
Refinancing rate of the Bank of Russia	1.00%	2,512	–
Refinancing rate of NB RB	7.50%	841	–
CPI in Russia	6.00%	26	–
Interest curve for KZT	4.00%	–	–

Rate	Decrease in %, 2014	Sensitivity of the statement of profit or loss 2014	Sensitivity of equity 2014
3-m LIBOR USD	-0.05%	156	–
3-m LIBOR EUR	-0.08%	(16)	–
3-m MosPrime	-10.00%	(327)	–
KRCBRF	-7.00%	32	–
YTM 5Y USTreasuries	-0.10%	(25)	42
RGBEY	-3.00%	(110)	388
YTM Ukrainian sovereign bonds	-7.00%	–	683
Refinancing rate of the Bank of Russia	-0.25%	(628)	–
Refinancing rate of NB RB	-7.50%	(841)	–
CPI in Russia	-2.00%	(9)	–
Interest curve for KZT	-4.00%	33	–

Rate	Increase in %, 2013	Sensitivity of the statement of profit or loss 2013	Sensitivity of equity 2013
3-m LIBOR USD	0.25%	(449)	–
3-m LIBOR EUR	0.50%	30	–
3-m MosPrime	1.00%	(27)	–
3-m Ukrainian Interbank	9.50%	(4)	–
YTM 5Y USTreasuries	0.80%	182	(450)
RGBEY	1.00%	(197)	(1,025)
YTM Ukrainian sovereign bonds	7.50%	–	(314)
Refinancing rate of the Bank of Russia	0.25%	791	–
Refinancing rate of NB RB	7.50%	525	–
Refinancing rate of NBU	0.50%	9	–
CPI in Russia	2.00%	9	–

(in millions of Russian rubles)

33. Risk management (continued)

Market risk (continued)

Rate	Decrease in %, 2013	Sensitivity of the statement of profit or loss 2013	Sensitivity of equity 2013
3-m LIBOR USD	-0.05%	90	–
3-m LIBOR EUR	-0.10%	(6)	–
3-m MosPrime	-1.00%	27	–
3-m Ukrainian Interbank	-9.50%	4	–
YTM 5Y USTreasuries	-0.80%	(182)	450
RGBEY	-1.00%	197	1,025
YTM Ukrainian sovereign bonds	-10.00%	–	314
Refinancing rate of the Bank of Russia	-1.00%	(3,163)	–
Refinancing rate of NB RB	-7.50%	(525)	–
Refinancing rate of NBU	-0.50%	(9)	–
CPI in Russia	-2.00%	(9)	–

Below are VaR measures for the bond portfolio of the Bank at 31 December 2014 and at 31 December 2013:

	2014	2013
VaR	17,259	2,543

Currency risk

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

Group members calculate on a daily basis open currency positions by assets and liabilities recorded in the statement of financial position, and claims and obligations not recorded in the statement of financial position, which are subject to changes in currency and precious metals rates. Banks of the Group set limits on the cumulative open position as well as limits on open positions in each currency and for precious metals based on the requirements of the national regulator.

The VaR estimate obtained using the historical modeling method with a 99% confidence level and a 1-day projection horizon is used by the Bank as a currency risk estimate. The aggregate currency risk in respect of the Bank's open currency positions is estimated subject to historical correlation of exchange rates of foreign currencies against the Russian ruble.

(in millions of Russian rubles)

33. Risk management (continued)

Market risk (continued)

The table below shows open currency positions of the Bank at 31 December 2014 and 31 December 2013, which include items of the statement of financial position and currency positions in derivative financial instruments by currencies against the Russian ruble (open positions).

Currency	2014	2013
USD	(37,459)	877
EUR	(2,781)	(2,962)
CZK	446	221
GBP	322	(301)
HKD	217	1,205
CAD	101	69
CHF	93	(766)
SEK	66	46
JPY	41	117
BYR	0	0
UAH	0	0
Other currencies	88	110

Below is the Bank's VaR measure for open currency positions at 31 December 2014 and 31 December 2013:

	2014	2013
VaR	1,535	40

In order to assess this factor, positions in UAH and BYR based mainly on investments in subsidiary banks are eliminated from the open currency position since currency revaluation of these shares that are not traded in the market may not reflect changes in the real economic value of these companies. Moreover, these investments are not considered for the purpose of calculation of the open currency position pursuant to the regulation issued by the Bank of Russia concerning changes in accounting for investments in subsidiary and associate joint-stock companies denominated in foreign currencies.

(in millions of Russian rubles)

33. Risk management (continued)

Market risk (continued)

The table below shows the sensitivity of open currency positions of the Group (excluding the Bank) at 31 December 2014 and at 31 December 2013. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Russian ruble on the statement of profit or loss (due to the fair value of currency sensitive financial assets and liabilities). All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in %, 2014	Sensitivity of the statement of profit or loss, 2014	Change in currency rate in %, 2013	Sensitivity of the statement of profit or loss, 2013
USD	15.82%	(2,686)	10.06%	(813)
	-15.82%	2,686	-10.06%	813
UAH	20.59%	3,455	10.33%	444
	-20.59%	(3,455)	-10.33%	(444)
CZK	16.70%	548	10.21%	157
	-16.70%	(548)	-10.21%	(157)
EUR	15.37%	(166)	8.08%	13
	-15.37%	166	-8.08%	(13)
CHF	17.83%	(1)	12.13%	(3)
	-17.83%	1	-12.13%	3
GBP	15.78%	3	9.40%	(2)
	-15.78%	(3)	-9.40%	2
BYR	29.27%	(443)	27.17%	1
	-29.27%	443	-27.17%	(1)
JPY	18.64%	1	14.78%	0
	-18.64%	(1)	-14.78%	(0)
CNY	15.73%	(1)	9.81%	0
	-15.73%	1	-9.81%	(0)

Operational control over open currency positions is performed by the Directorate for Currency and Financial Transactions. The subsequent control is performed by the Risk Management Department. Results of control over open currency positions are reported to the Bank's management and used for making management decisions.

Equity price risk

Equity price risk is the risk of adverse changes in the fair values or future cash flows of a financial instrument as a result of changes in the levels of equity indices and the value of individual equities.

Group members use the VaR methodology and/or portfolio sensitivity analysis to assess the equity price risk.

Below are VaR measures for the equity portfolio of the Bank at 31 December 2014 and at 31 December 2013:

	2014	2013
VaR	22,219	16,480

(in millions of Russian rubles)

33. Risk management (continued)

Market risk (continued)

The Bank sets aggregate exposure limits for each portfolio by class of securities in order to limit equity price risk. Within a portfolio "risk borrowing" is permitted, i.e. changing the volume of open positions under individual financial instruments subject to compliance with the set limit of the aggregate market risk for the portfolio and with credit risk limits by issuer.

The limits are approved by a Decision of the Chairman of Vnesheconombank at the suggestion of the Risk Management Department as agreed with Bank's business units. The set limits are revised on a regular basis.

The effect on profit before tax and equity of other Group members of reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market index	Change in index in %, 2014	Change in equity price in %, 2014	Sensitivity of the statement of profit or loss, 2014	Sensitivity of equity 2014
	22%	22%	1,345	3,404
MICEX index	-22%	-22%	(1,345)	(3,404)
	30%	31%	0	339
Russian Depositary Index USD	-30%	-31%	(0)	(339)

Market index	Change in index in %, 2013	Changes in equity price in %, 2013	Sensitivity of the statement of profit or loss, 2013	Sensitivity of equity 2013
	22%	15%	1,267	2,765
MICEX index	-22%	-15%	(1,267)	(2,765)

Analysis of sensitivity of the value of unquoted equity financial instruments to changes in reasonable possible alternative assumptions is presented in Note 34.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. Management believes that the Group's exposure to prepayment risk is insignificant.

Operational risk

Operational risk is defined as the risk of losses resulting from using inadequate internal procedures of banking transactions, unintentional or deliberate misconduct (omission to act) of an entity's personnel and unrelated parties, inadequacy and/or failures of technological, IT or other systems applied, or ensuing from the effect of external events.

The Group's operational risk management is aimed at enhanced performance of the Group, loss minimization and the Group's compliance with the laws and regulations as currently in effect.

33. Risk management (continued)

Operational risk (continued)

The Group's operational risks are properly managed through applying unified processes and procedures, including identification of risks faced by the Group, assessment and monitoring the risk levels, and taking measures to control and mitigate the identified risks. All the banks within the Group measure operational risk exposures to estimate the amount of capital required to cover operational risks.

In order to continue as a going concern, discharge all existing obligations and limit the amount of possible losses in case of emergencies that impact business operations, Group members develop business continuity and/or disaster recovery plans ('BC/DR plans') that are aligned with the nature, scope and complexity of each entity's operations. The procedure for developing BC/DR plans is based on identifying processes, systems, items and obligations that are vital to an organization, analyzing various scenarios that Group members may have to deal with, and measuring potential implications of business continuity damage when implementing such scenarios.

BC/DR plans determine the action strategy that Group members are to follow in case of business continuity damage, and include at least three blocks: tactical response, activities intended to mitigate negative consequences, activities aimed at business activity recovery at the pre-crisis level, and procedures to identify reasons that entailed the crisis situation and develop preventive measures.

34. Fair value measurement

The Group determines the policies and procedures for recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives, investment property and for non-recurring measurement, such as assets held for sale.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(in millions of Russian rubles)

34. Fair value measurement (continued)

The tables below present an analysis of assets carried at fair value in the financial statements and assets whose fair value is disclosed separately, by level of fair value hierarchy at 31 December 2014:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Trading financial assets	11,954	80	–	12,034
- Corporate bonds	3,942	80	–	4,022
- Federal Loan Bonds (OFZ)	88	–	–	88
- Eurobonds issued by the Russian Federation	347	–	–	347
- Eurobonds of Russian and foreign issuers	706	–	–	706
- Equity securities	6,245	–	–	6,245
- Other debt financial assets	626	–	–	626
Derivative financial instruments	–	11,220	–	11,220
- Foreign exchange contracts: foreign	–	14	–	14
- Foreign exchange contracts: domestic	–	329	–	329
- Forward contracts: debt securities	–	58	–	58
- Forward contracts: equity securities	–	253	–	253
- Cross-currency interest rate swap	–	6,540	–	6,540
- Option contracts with securities	–	3,293	–	3,293
- Option contracts with foreign currency	–	733	–	733
Financial assets designated as at fair value through profit or loss	2,767	–	18,325	21,092
Trading financial assets pledged under repurchase agreements	451	–	–	451
Investment financial assets available for sale	241,070	79,962	47,685	368,717
- Corporate bonds	25,731	41,280	–	67,011
- Debt instruments issued by foreign government bodies	3,103	17,546	–	20,649
- Promissory notes	–	8,764	2	8,766
- Federal Loan Bonds (OFZ)	2,067	–	–	2,067
- Municipal and sub-federal bonds, bonds of the Bank of Russia	1,872	–	–	1,872
- Eurobonds of Russian and foreign issuers	27,972	7,207	–	35,179
- Eurobonds issued by the Russian Federation	11,904	3,283	–	15,187
- Equity securities	168,421	1,882	11,509	181,812
- Other financial assets available for sale	–	–	36,174	36,174
Investment financial assets available for sale pledged under repurchase agreements	24,807	34,717	–	59,524
- Corporate bonds	12,201	34,717	–	46,918
- Eurobonds issued by the Russian Federation	10,198	–	–	10,198
- Eurobonds of Russian and foreign issuers	1,555	–	–	1,555
- Federal Loan Bonds (OFZ)	501	–	–	501
- Equity securities	255	–	–	255
- Municipal and sub-federal bonds, bonds of the Bank of Russia	97	–	–	97
Investment property	–	–	8,309	8,309
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	325,927	325,927
Amounts due from banks	–	–	177,451	177,451
Loans to customers including pledged under repurchase agreements	–	33,201	2,498,110	2,531,311
Investment financial assets held to maturity	9,410	9,665	106	19,181
Investment financial assets held to maturity pledged under repurchase agreements	16,038	13,172	–	29,210
	306,497	182,017	3,075,913	3,564,427

(in millions of Russian rubles)

34. Fair value measurement (continued)

The tables below present an analysis of liabilities carried at fair value in the financial statements and liabilities whose fair value is disclosed separately, by level of fair value hierarchy at 31 December 2014:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities measured at fair value				
Derivative financial liabilities	–	2,670	–	2,670
- Foreign exchange contracts: foreign	–	0	–	0
- Foreign exchange contracts: domestic	–	195	–	195
- Forward contracts: equity securities	–	21	–	21
- Interest rate swaps: foreign	–	596	–	596
- Interest rate swaps: domestic	–	5	–	5
- Cross-currency interest rate swap	–	1,853	–	1,853
Liabilities for which fair values are disclosed				
Amounts due to banks	–	–	962,649	962,649
Amounts due to the Russian Government and the Bank of Russia	–	–	559,380	559,380
Amounts due to customers	–	34,145	475,555	509,700
Debt securities issued	648,268	165,790	25,834	839,892
Subordinated deposits	–	–	303,015	303,015
	648,268	202,605	2,326,433	3,177,306

(in millions of Russian rubles)

34. Fair value measurement (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of fair value hierarchy as at 31 December 2013:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Trading financial assets	49,024	2,385	–	51,409
- Corporate bonds	12,273	2,381	–	14,654
- Federal Loan Bonds (OFZ)	660	–	–	660
- Eurobonds issued by the Russian Federation	3,041	–	–	3,041
- Eurobonds of Russian and foreign issuers	892	–	–	892
- Equity securities	31,846	4	–	31,850
- Other debt financial assets	312	–	–	312
Derivative financial instruments	–	26,513	–	26,513
- Foreign exchange contracts: foreign	–	348	–	348
- Foreign exchange contracts: domestic	–	182	–	182
- Forward contracts: debt securities	–	59	–	59
- Forward contracts: equity securities	–	159	–	159
- Cross-currency interest rate swap	–	1,386	–	1,386
- Option contracts	–	24,379	–	24,379
Financial assets designated as at fair value through profit or loss	9,392	–	11,521	20,913
Trading financial assets pledged under repurchase agreements	14,783	914	–	15,697
Investment financial assets available for sale	291,698	99,446	51,190	442,334
- Corporate bonds	91,387	62,172	–	153,559
- Promissory notes	–	19,028	2	19,030
- Debt instruments issued by foreign government bodies	11,022	6,860	–	17,882
- Federal Loan Bonds (OFZ)	2,677	–	–	2,677
- Municipal and sub-federal bonds, bonds of the Bank of Russia	89	–	–	89
- Eurobonds of Russian and foreign issuers	15,926	7,475	–	23,401
- Eurobonds issued by the Russian Federation	4,452	2,278	–	6,730
- Equity securities	166,145	1,633	9,733	177,511
- Other financial assets available for sale	–	–	41,455	41,455
Investment financial assets available for sale pledged under repurchase agreements	15,376	–	–	15,376
- Corporate bonds	12,259	–	–	12,259
- Eurobonds of Russian and foreign issuers	3,117	–	–	3,117
Investment property	–	–	7,551	7,551
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	275,994	275,994
Amounts due from banks	1,003	–	433,319	434,322
Loans to customers	696	10,615	1,826,003	1,837,314
Investment financial assets held to maturity	765	–	–	765
Investment financial assets held to maturity pledged under repurchase agreements	34	–	–	34
	382,771	139,873	2,605,578	3,128,222

(in millions of Russian rubles)

34. Fair value measurement (continued)

The tables below present an analysis of liabilities carried at fair value in the financial statements and liabilities whose fair value is disclosed separately, by level of fair value hierarchy at 31 December 2013:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities measured at fair value				
Derivative financial liabilities	–	946	–	946
- Foreign exchange contracts: foreign	–	20	–	20
- Foreign exchange contracts: domestic	–	195	–	195
- Forward contracts: equity securities	–	18	–	18
- Interest rate swaps: foreign	–	487	–	487
- Interest rate swaps: domestic	–	72	–	72
- Cross-currency interest rate swap	–	154	–	154
Liabilities for which fair values are disclosed				
Amounts due to banks	–	–	687,628	687,628
Amounts due to the Russian Government and the Bank of Russia	–	–	981,568	981,568
Amounts due to customers	–	–	400,238	400,238
Debt securities issued	554,823	20,595	40,456	615,874
	554,823	21,541	2,109,890	2,686,254

Financial instruments not recorded at fair value in the statement of financial position

Set out below is a comparison, by class, of the carrying values and fair values of the Group's financial instruments that are not recorded at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2014	Fair value 2014	Unrecognized gain/(loss) 2014	Carrying value 2013	Fair value 2013	Unrecognized gain/(loss) 2013
Financial assets						
Cash and cash equivalents	325,927	325,927	–	275,994	275,994	–
Amounts due from banks	178,298	177,451	(847)	433,815	434,322	507
Loans to customers	2,631,966	2,520,716	(111,250)	1,847,039	1,837,314	(9,725)
Investment financial assets held to maturity	21,447	19,181	(2,266)	764	765	1
Financial assets lent and pledged under repurchase agreements	43,706	41,553	(2,153)	33	34	1
Financial liabilities						
Amounts due to banks	1,010,540	962,649	47,891	686,521	687,628	(1,107)
Amounts due to the Russian Government and the Bank of Russia	559,278	559,380	(102)	980,980	981,568	(588)
Amounts due to customers	508,728	509,700	(972)	403,292	400,238	3,054
Debt securities issued	983,145	839,892	143,253	603,319	615,874	(12,555)
Subordinated deposits	303,015	303,015	–	–	–	–
Total unrecognized change in unrealized fair value			73,554			(20,412)

(in millions of Russian rubles)

34. Fair value measurement (continued)

Financial instruments not recorded at fair value in the statement of financial position (continued)

Valuation methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in these financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that their carrying value approximates their fair value. This assumption also applies to demand deposits and assets without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from banks and amounts due to the CBR and banks and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates determined using internal methodology which allows to include the effect of change in credit risk and risk-free rate since the initial recognition of the loan.

The fair value of floating interest rate instruments is generally their carrying amount. Interest rates on loans to customers and amounts due from banks bearing a fixed interest rate may be revised in case of material changes in the market situation. Consequently, interest rates on loans issued shortly before the reporting date do not differ materially from interest rates applicable to new instruments with similar credit risk and maturity. If the Group determines that interest rates on previously issued loans differ materially from those applicable to similar instruments at the reporting date, the Group estimates the fair value of these loans. Such estimates are based on the discounted cash flow method using discount rates which are determined from the current yield on government bonds with similar maturity, and credit spreads.

Assets and liabilities recorded at fair value

Valuation methodologies and assumptions

Derivatives

Derivatives valued using a valuation technique with significant observable inputs are primarily interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap pricing models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Derivative instruments valued using a valuation technique with significant non-market observable inputs are primarily long-term option contracts. Such derivative products are valued using models, which imply the exercise of options in the shortest possible period of time.

(in millions of Russian rubles)

34. Fair value measurement (continued)

Assets and liabilities recorded at fair value (continued)

Trading securities and available-for-sale investment securities

Trading securities and investment securities available for sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. Such assets are valued using valuation models which incorporate either only observable data or both observable and non-observable data. The non-observable inputs include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in Level 3 assets and liabilities measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

	At 1 January 2014	Gains/(losses) recorded in the statement of profit or loss	Gains/(losses) recorded in other comprehen-sive income	Disposals	Purchases	Transfers from Level 1 and Level 2	At 31 December 2014
Assets							
Financial assets designated as at fair value through profit or loss	11,521	2,408	–	(2,983)	3,203	4,176	18,325
Investment financial assets available for sale	51,190	205	(5,891)	(80)	2,261	–	47,685
Investment property	7,551	262	–	(205)	197	504	8,309
Total Level 3 assets	70,262	2,875	(5,891)	(3,268)	5,661	4,680	74,319

	At 1 January 2013	Gains/(losses) recorded in the statement of profit or loss	Gains/(losses) recorded in other comprehen-sive income	Disposals	Purchases	Other changes	At 31 December 2013
Assets							
Derivative financial instruments	881	(288)	–	(1,782)	1,782	(593)	–
Financial assets designated as at fair value through profit or loss	8,771	307	–	(1,942)	4,385	–	11,521
Investment financial assets available for sale	65,872	(25)	(3,819)	(99)	5,747	(16,486)	51,190
Investment property	6,626	(639)	–	(130)	1,168	526	7,551
Total Level 3 assets	82,150	(645)	(3,819)	(3,953)	13,082	(16,553)	70,262

During the year ended 31 December 2014, the Group transferred certain financial instruments from Level 1 to Level 3 of the fair value hierarchy. The total amount of assets transferred was RUB 4,176 million. The reason for the transfers from Level 1 to Level 3 is that the market for these securities has become inactive, which has led to a change in the method used to determine fair value. Prior to the transfer, the fair value of the financial instruments was determined using observable market transactions. Since the transfer, these financial instruments have been valued using valuation models incorporating significant non-market observable inputs.

(in millions of Russian rubles)

34. Fair value measurement (continued)

Assets and liabilities recorded at fair value (continued)

Other changes in 2013 include the transfer of equity financial instruments available for sale issued by a Russian company from Level 3 to Level 1 in the amount of RUB 12,389 million. The transfer from Level 3 to Level 1 was due to the fact that during the reporting period those instruments started trading in an active market and their fair value at 31 December 2013 was determined on the basis of quoted market prices.

Transfers between levels of the fair value hierarchy are considered performed at the end of the reporting period.

Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities, which are recorded at fair value, during the reporting period:

	Transfers from Level 2 to Level 1	
	2014	2013
Financial assets		
Investment financial assets available for sale	253	1,878

	Transfers from Level 1 to Level 2	
	2014	2013
Financial assets		
Trading financial assets	81	1,442
Investment financial assets available for sale	21,883	18,708

In 2014 and 2013, the above financial assets were transferred from Level 2 to Level 1, as they became actively traded during the reporting year.

In 2014 and 2013, the above financial assets were transferred from Level 1 to Level 2, as they ceased to be actively traded during the year and their fair values were consequently obtained through valuation techniques using observable market inputs.

Gains or losses on Level 3 instruments included in profit or loss for the reporting period were as follows:

	2014			2013		
	Realized gains/(losses)	Unrealized gains/(losses)	Total gains/(losses)	Realized gains/(losses)	Unrealized gains/(losses)	Total gains/(losses)
Gains/(losses) recorded in the statement of profit or loss	292	2,583	2,875	20	(665)	(645)

(in millions of Russian rubles)

34. Fair value measurement (continued)

Assets and liabilities recorded at fair value (continued)

Significant unobservable inputs and sensitivity of Level 3 instruments measured at fair value to changes in key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

31 December 2014	Carrying value	Valuation technique	Unobservable input	Range (weighted average)
Financial assets designated as at fair value through profit or loss				
Group of financial assets 1	10,149	Other valuation techniques	Not applicable	Not applicable
Group of financial assets 2	8,176	Discounted cash flows	WACC	11.26%-15.30%
			Terminal period growth	2.30%-3.00%
Investment financial assets available for sale				
Group 3 of promissory notes	2	Other valuation techniques	Not applicable	Not applicable
Group 4 of equity securities	3,581	Other valuation techniques	Not applicable	Not applicable
Group 5 of other financial assets available for sale	36,174	Multiplier	Fair value / Net assets	0.867
Group 6 of equity securities	5,221	Discounted cash flows	WACC	11.78%-21.01%
			Terminal period growth	2%-3%
			Discount for non-controlling interest	10%-15%
			Assets growth rate	6.06%
Group 7 of equity securities	2,707	Weighted average multiplier	EV/PAX	0.007
			EV/EBITDA	11.740
			EV/Sales	3.646
Investment property	8,309	Other valuation techniques	Not applicable	Not applicable

(in millions of Russian rubles)

34. Fair value measurement (continued)

Assets and liabilities recorded at fair value (continued)

31 December 2013	Carrying value	Valuation technique	Unobservable input	Range (weighted average)
Financial assets designated as at fair value through profit or loss				
Group of financial assets 1	6,049	Other valuation techniques	Not applicable	Not applicable
Group of financial assets 2	5,472	Discounted cash flows	WACC	10.13%-15.3%
			Terminal period growth	2.3%
			Liquidity discount	12%
			Discount for absence of an active market	10%
Investment financial assets available for sale				
Group 3 of promissory notes	2	Other valuation techniques	Not applicable	Not applicable
Group 4 of equity securities	3,615	Other valuation techniques	Not applicable	Not applicable
Group 5 of other financial assets available for sale	41,455	Multiplier	Fair value / Net assets	0.963
Group 6 of equity securities	3,411	Discounted cash flows	WACC	13.5%-17.7%
			Terminal period growth	2%
			Discount for non-controlling interest	10%-18.4%
			Discount for absence of an active market	10%-20%
			Assets growth rate	6.63%
Group 7 of equity securities	2,707	Discounted cash flows	WACC	12.13%
			Terminal period growth	4.84%
			Discount for non-controlling interest	24.13%
Investment property	7,551	Other valuation techniques	Not applicable	Not applicable

In order to determine reasonably possible alternative assumptions, the Group adjusted the above key unobservable model inputs as follows:

- For one financial instrument in Group of financial assets 1, designated as at fair value through profit or loss, the Group adjusted the value of the underlying asset comprising units of the closed-end mutual fund by decreasing it by 3%.
- For a financial instrument in Group of financial assets 2, the Group adjusted the weighted average cost of capital and the terminal growth rate used for discounting expected cash flows by 0.5%.
- For the financial asset in Group 5 designated as other financial assets available for sale, the Group adjusted the value of the multiplier Fair value / Net assets used for determining the fair value of investments by 2%.
- For the first financial instrument in Group of financial assets 6, classified into investment financial assets available for sale, the Group adjusted the weighted average cost of capital used for discounting expected cash flows by 2%.
- For the second financial instrument in Group of financial assets 6, the Group adjusted the weighted average cost of capital and the terminal growth rate used for discounting expected cash flows by 0.5%.
- For the financial asset in Group 7, included in investment financial assets available for sale, the Group adjusted the weighted average value of multipliers by increasing and decreasing the values by 2%.

(in millions of Russian rubles)

34. Fair value measurement (continued)

Assets and liabilities recorded at fair value (continued)

To determine the impact of possible alternative assumptions relating to investment financial assets available for sale, the Group took a prudent approach and adjusted key unobservable inputs at the lower interval boundary of possible assumptions. If the upper interval boundary of possible assumptions were applied, their positive impact would amount to RUB 1,188 million (for the year ended 31 December 2013: RUB 6,689 million).

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	31 December 2014	
	Carrying value	Effect of reasonably possible alternative assumptions
Assets		
Derivative financial instruments		
Financial assets designated as at fair value through profit or loss	18,325	(42)
Investment financial assets available for sale	47,685	(1,108)
Investment property	8,309	–

	31 December 2013	
	Carrying value	Effect of reasonably possible alternative assumptions
Assets		
Financial assets designated as at fair value through profit or loss	11,521	(419)
Investment financial assets available for sale	51,190	3,108
Investment property	7,551	–

35. Transferred financial assets and assets held or pledged as collateral

Transferred financial assets that are not derecognized in their entirety

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

		Trading financial assets	Financial assets available for sale			Investment financial assets held to maturity				
	Transferred financial asset	Other debt securities 2014	Government debt securities 2014	Other debt securities 2014	Equity securities 2014	Government debt securities 2014	Other debt securities 2014	Loans to customers 2014	Amounts due from banks 2014	Total 2014
Carrying value of assets	Repurchase agreements	451	10,796	48,473	255	438	30,390	11,221	1,845	103,869
Total		451	10,796	48,473	255	438	30,390	11,221	1,845	103,869
Carrying value of associated liabilities	Repurchase agreements with the Bank of Russia	411	10,848	44,264	–	383	25,812	8,970	1,670	92,358
	Repurchase agreements with customers	–	–	367	269	–	–	–	–	636
Total		411	10,848	44,631	269	383	25,812	8,970	1,670	92,994

(in millions of Russian rubles)

35. Transferred financial assets and assets held or pledged as collateral (continued)

Transferred financial assets that are not derecognized in their entirety (continued)

	Transferred financial asset	Trading financial assets Other debt securities 2013	Financial assets available for sale Other debt securities 2013	Investment financial assets held to maturity Other debt securities 2013	Total 2013
Carrying value of assets	Repurchase agreements	15,697	18,493	33	34,223
	Other	–	923	–	923
Total		15,697	19,416	33	35,146
Carrying value of associated liabilities	Repurchase agreements with the Bank of Russia	12,652	9,537	28	22,217
	Repurchase agreements with banks	–	5,726	–	5,726
	Other	–	857	–	857
Total		12,652	16,120	28	28,800

Repurchase agreements

The securities sold under repurchase agreements are transferred to a third party while the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received.

Similarly, the Group may sell or re-pledge securities borrowed or purchased under reverse repurchase agreements, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead records a separate asset for any possible cash collateral given.

Under the contracts, the counterparty is allowed to sell or repledge the securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract.

Assets pledged as collateral

The Group pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. The Group pledged securities as collateral in repurchase agreements for RUB 103,869 million (31 December 2013: RUB 34,223 million) – *"Transferred financial assets that are not derecognized in their entirety."*

(in millions of Russian rubles)

35. Transferred financial assets and assets held or pledged as collateral (continued)

Assets provided as collateral

The Group provides assets that are on its statement of financial position as collateral in various day-to-day transactions that are conducted under the usual terms and conditions applying to such transactions. The Group provided securities as collateral for interbank loans of RUB 8,230 million in the amount of RUB 9,709 million. In addition, as collateral for amounts due to the Bank of Russia equal to RUB 37,416 million (31 December 2013: RUB 3,602 million), the Group provided receivables from loans to customers and amounts due from banks of RUB 18,687 million (31 December 2013: nil) and RUB 29,466 million (31 December 2013: RUB 5,504 million), respectively.

Assets held as collateral

The Group holds certain assets as collateral which it is permitted to sell or repledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements. The Group received securities as collateral in reverse repurchase agreements with banks up to 90 days with a fair value of RUB 11,214 million (31 December 2013: RUB 7,002 million). In addition, the Group received securities as collateral in reverse repurchase agreements with customers with a fair value of RUB 40,391 million (31 December 2013: RUB 8,598 million).

As at 31 December 2014, of these, securities with a fair value of RUB 4,117 million (31 December 2013: RUB 2,961 million) have been sold under repurchase agreements with the Bank of Russia.

As at 31 December 2014, securities with a fair value of RUB 655 million have been sold under repurchase agreements with customers. As at 31 December 2013, the Group did not enter into repurchase agreements with customers.

In addition, the Group holds RUB 173 million included in amounts due to banks (31 December 2013: RUB 113 million) (Note 23), RUB 5,940 million included in amounts due to customers (31 December 2013: RUB 4,641 million) (Note 24) and RUB 1,092 million of promissory notes issued by the Group (31 December 2013: RUB 795 million) (Note 25) as collateral for letters of credit and issued guarantees. The Group is obliged to return the collateral at maturity of the letters of credit and guarantees.

(in millions of Russian rubles)

36. Offsetting of financial instruments

The tables below show financial assets offset against financial liabilities in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the statement of financial position:

2014	Gross amount of recognized financial instruments	Gross amount of recognized financial instruments set off in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not set off in the statement of financial position Financial instruments	Net amount
Financial assets					
Cash and cash equivalents (reverse repurchase agreements)	8,798	–	8,798	(8,798)	–
Loans to customers (reverse repurchase agreements)	40,756	–	40,756	(40,756)	–
Other assets (spot transactions)	551	–	551	(416)	135
Total	50,105	–	50,105	(49,970)	135
Financial liabilities					
Amounts due to the Russian Government and the Bank of Russia (repurchase agreements)	96,182	–	96,182	(96,182)	–
Amounts due to customers (repurchase agreements)	636	–	636	(636)	–
Other liabilities (spot transactions)	612	–	612	(416)	196
Total	97,430	–	97,430	(97,234)	196

There are no offset financial instruments in the statement of financial position as at 31 December 2014.

2013	Gross amount of recognized financial instruments	Gross amount of recognized financial instruments set off in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not set off in the statement of financial position Financial instruments	Net amount
Financial assets					
Cash and cash equivalents (reverse repurchase agreements)	5,924	–	5,924	(5,924)	–
Derivative financial assets	26,513	–	26,513	(81)	26,432
Loans to customers (reverse repurchase agreements)	9,461	(585)	8,876	(8,876)	–
Total	41,898	(585)	41,313	(14,881)	26,432
Financial liabilities					
Amounts due to banks (repurchase agreements)	6,311	(585)	5,726	(5,726)	–
Derivative financial liabilities	946	–	946	(81)	865
Amounts due to the Russian Government and the Bank of Russia (repurchase agreements)	24,928	–	24,928	(24,928)	–
Total	32,185	(585)	31,600	(30,735)	865

(in millions of Russian rubles)

37. 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 or jointly control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

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

Related parties include the state, key management of the Group, associates and jointly controlled entities. Since Vnesheconombank is a state corporation, all state-controlled entities or entities on which the state has a significant influence (collectively – state-related entities) are considered to be related parties of the Group.

Transactions with associates, jointly controlled entities and key management personnel

The volumes of transactions with associates, jointly controlled entities and key management personnel, outstanding balances at the year end, and related expense and income for the year are as follows:

	At 31 December 2014			At 31 December 2013		
	Associates	Jointly controlled entities	Key management personnel	Associates	Jointly controlled entities	Key management personnel
Loans to customers at 1 January	154,587	10,844	93	152,189	–	96
Loans granted during the year	3,117	923	65	2,086	5,998	96
Loans repaid during the year	(2,478)	–	(46)	(6,599)	(130)	(100)
Proceeds related to changes in the Group	(407)	(4,614)	–	–	4,614	–
Other changes	47,753	3,692	(8)	6,911	362	(3)
Hyperinflation effect	(2)	–	(4)	0	–	0
Loans to customers at 31 December	202,570	10,845	100	154,587	10,844	89
Less allowance for impairment	(108,521)	–	(0)	(74,906)	(2,235)	–
Loans to customers at 31 December, net	94,049	10,845	100	79,681	8,609	89

	2014			2013		
	Associates	Jointly controlled entities	Key management personnel	Associates	Jointly controlled entities	Key management personnel
Current accounts	1,352	–	53	1,035	–	41
Customer deposits at 1 January	13,263	1	2,541	1,486	–	2,104
Deposits received during the year	8,026	–	7,037	15,408	1	2,934
Deposits repaid during the year	(4,544)	(1)	(6,129)	(3,640)	–	(2,518)
Other changes	27	–	510	9	0	24
Hyperinflation effect	–	–	10	–	–	(3)
Customer deposits at 31 December	16,772	–	3,969	13,263	1	2,541
Guarantees issued and undrawn loan commitments	1,467	–	18	2,740	1,709	13

(in millions of Russian rubles)

37. Related party transactions (continued)

Transactions with associates, jointly controlled entities and key management personnel (continued)

	For the year ended 31 December					
	2014			2013		
	Associates	Jointly controlled entities	Key management personnel	Associates	Jointly controlled entities	Key management personnel
Interest income on loans	4,773	624	10	6,858	504	10
Interest expense on amounts due to customers	(1,391)	(0)	(300)	(862)	(0)	(219)
Provision for impairment of interest-earning assets	(35,402)	(9)	(2)	(42,686)	(4)	0

Compensation to key management personnel comprises the following:

	2014	2013
Salaries and other short-term benefits	2,533	2,462
Mandatory contributions to the pension fund	183	169
Social security contributions	34	52
Total compensation to key management personnel	2,750	2,683

Transactions with the state, state institutions and state-related entities

Information about transactions with the Russian Government, its authorized institutions, and the Bank of Russia is provided in Note 9.

The Bank is servicing, in an agency capacity, government foreign financial assets and, until the date determined by the Russian Government, the government foreign debt of the former USSR and the Russian Federation (Note 10).

In addition, at 31 December 2014 transactions with state-related entities include the Group's deposits and balances in current accounts with the Bank of Russia that mature within 90 days totaling RUB 8,500 million (31 December 2013: RUB 10,430 million) (Note 11) and cash non-interest-bearing deposits (obligatory reserves) maintained by the Group's subsidiary banks with the Bank of Russia in the amount of RUB 4,388 million (31 December 2013: RUB 4,845 million) (Note 13).

(in millions of Russian rubles)

37. Related party transactions (continued)

Transactions with the state, state institutions and state-related entities (continued)

In the normal course of business, the Bank and the Group's subsidiaries grant loans to state-related banks, as well as raise financing and issue guarantees in regard to these banks (the list of transactions with banks is not complete). These transactions are carried out primarily under market conditions. Transactions with state-related banks account for a major portion of the Group's operations on granting loans to banks, and a minor portion of financing raised from banks and guarantees issued. Balances of significant transactions with state-related banks at 31 December 2014 and 31 December 2013 are stated in the table below:

		Amounts due from banks	
Bank	Type of transaction	31 December 2014	31 December 2013
Bank 1	Interest-bearing loans and deposits with banks maturing within 90 days	22,378	17,072
Bank 2	Interest-bearing loans and deposits with banks maturing within 90 days	21,500	–
Bank 2	Term interest-bearing deposits with banks	14,055	12,735
Bank 1	Subordinated loans	–	185,637
Bank 3	Subordinated loans	–	38,924
Bank 4	Subordinated loans	–	23,205
Bank 5	Subordinated loans	–	10,326
		57,933	287,899

		Amounts due to banks	
Bank	Type of transaction	31 December 2014	31 December 2013
Bank 1	Loans and other placements from Russian banks	126,647	19,890
Bank 6	Loans and other placements from Russian banks	59,335	63,262
Bank 8	Loans and other placements from Russian banks	6,676	–
Bank 3	Loans and other placements from Russian banks	5,032	5,008
Bank 7	Loans and other placements from non-resident banks	–	5,958
		197,690	94,118

In 2014, the Bank issued guarantees totaling RUB 121,476 million in favor of state-related banks under an agreement to secure loans provided by the Bank of Russia.

At 31 December 2013, the Bank provided a guarantee of RUB 60,000 million to a bank under an agreement to secure loans provided by the Bank of Russia for the period through December 2014.

(in millions of Russian rubles)

37. Related party transactions (continued)

Transactions with the state, state institutions and state-related entities (continued)

In the normal course of business, the Bank and the Group's subsidiaries grant loans to state-related customers, as well as issue guarantees to these customers, maintain their current accounts, and raise deposits from them (the list of transactions with customers is not complete). These transactions are carried out primarily under market conditions. Transactions with state-related customers account for a major portion of the Group's operations with customers. Balances of the most significant transactions with state-related institutions and entities at 31 December 2014 and at 31 December 2013 are stated in the tables below:

Borrower	Industry	Loans to customers	Undrawn loan commitments	Loans to customers	Undrawn loan commitments
		At 31 December 2014		At 31 December 2013	
Customer 1	Transport	87,558	–	28,855	–
Customer 2	Financing	74,218	26,675	33,980	19,534
Customer 3	Manufacturing, including heavy machinery and the production of military-related goods	59,726	25,715	27,162	22,481
Customer 4	Real estate and construction	51,583	–	54,305	5,431
Customer 5	Financing	40,641	–	37,933	–
Customer 6	Transport	32,552	–	15,768	–
Customer 7	Transport	28,940	–	18,499	–
Customer 8	Electric energy	28,642	–	26,135	–
Customer 9	Oil and gas	26,103	–	17,078	–
Customer 10	Manufacturing, including heavy machinery and the production of military-related goods	25,414	–	28,260	7,568
Customer 11	Manufacturing, including heavy machinery and the production of military-related goods	19,032	2,243	5,360	–
Customer 12	Transport	15,045	10,000	11,290	13,750
Customer 13	Manufacturing, including heavy machinery and the production of military-related goods	14,649	10,927	0	24,494
Customer 14	Research and education	13,200	–	7,200	–
Customer 15	Manufacturing, including heavy machinery and the production of military-related goods	9,669	35,489	2,117	23,112
Customer 16	Transport	9,641	–	6,856	3,098
Customer 17	Electric energy	9,187	–	15,005	–
Customer 18	Electric energy	9,178	–	5,341	–
Customer 19	Other	8,305	0	4,034	1,565
Customer 20	Financing	7,434	2,339	6,993	2,044
Customer 21	Manufacturing, including heavy machinery and military-related goods production	5,995	12,101	2,014	7,052
Customer 22	Transport	5,515	–	3,355	–
Customer 23	Telecommunications	5,500	0	2,936	3,064
Customer 24	Transport	5,472	–	3,331	–
Customer 25	Electric energy	5,239	6,821	4,850	7,030
Customer 26	Manufacturing, including heavy machinery and the production of military-related goods	4,306	–	5,382	–
Customer 27	Telecommunications	3,007	2,798	0	8,229
Customer 28	Manufacturing, including heavy machinery and the production of military-related goods	1,294	6,502	–	–
		607,045	141,610	374,039	148,452

(in millions of Russian rubles)

37. Related party transactions (continued)

Transactions with the state, state institutions and state-related entities (continued)

Customer	Industry	Amounts due to customers At 31 December 2014	Amounts due to customers At 31 December 2013
Customer 29	Manufacturing, including heavy machinery and the production of military-related goods	48,170	9,059
Customer 23	Telecommunications	35,911	76,961
Customer 30	Electric energy	12,131	0
Customer 5	Financing	8,670	1,644
Customer 31	Financing	8,603	8,601
Customer 32	Other	7,117	–
Customer 33	Infrastructure development	6,022	–
Customer 13	Manufacturing, including heavy machinery and the production of military-related goods	5,520	0
Customer 34	Real estate and construction	–	9,658
		132,144	105,923

Customer	Industry	Guarantees issued At 31 December 2014	Guarantees issued At 31 December 2013
Customer 29	Manufacturing, including heavy machinery and the production of military-related goods	130,248	86,614
		130,248	86,614

As at 31 December 2014 and 31 December 2013, the Group's investments in debt securities issued by the Russian Government comprised:

	At 31 December 2014	At 31 December 2013
Financial assets at fair value through profit or loss	435	3,701
Investment financial assets:		
- available for sale	19,126	9,497
- held to maturity	1,099	245
Investment financial assets pledged under repurchase agreements		
- available for sale	10,796	–
- held to maturity	438	–

As at 31 December 2014 and 31 December 2013, there were no transactions involving derivative financial instruments with the Russian Government.

(in millions of Russian rubles)

37. Related party transactions (continued)

Transactions with the state, state institutions and state-related entities (continued)

In the normal course of business, the Group invests in securities issued by state-related issuers and enters into derivative contracts with such counterparties. As at 31 December 2014 and 31 December 2013, the Group's investments into securities issued by state-related issuers, as well as derivative transactions with such counterparties comprised:

	At 31 December 2014			At 31 December 2013		
	Equity securities	Debt securities	Derivative financial instruments	Equity securities	Debt securities	Derivative financial instruments
Financial assets at fair value through profit or loss	9,853	2,076	3,619	37,900	6,088	24,451
Financial assets lent and pledged under repurchase agreements	255	48,077	–	–	10,352	–
Investment financial assets						
- available for sale	134,682	75,462		142,757	128,394	–
- held to maturity	–	6,783	–	–	–	–
Financial liabilities at fair value through profit or loss	–	–	193	–	–	139

As at 31 December 2014, investment financial assets available for sale also include a financial asset issued by a state-related bank with a fair value of RUB 36,174 million (31 December 2013: RUB 41,455 million).

Significant financial results related to transactions with the state are presented below:

	2014	2013
Interest expense		
Amounts due to the Bank of Russia	(26,535)	(24,034)
Amounts due to the Russian Government	(42,844)	(42,615)
Gains less losses on the initial recognition of financial instruments, restructuring and early repayment	62,771	11,353

The table above shows a gain on the initial recognition of financial instruments in the amount of RUB 82,912 million received from the placement of bonds in favor of the Bank of Russia (Note 25).

In 2014, the Bank received RUB 6,395 million from the Ministry of Finance of the Russian Federation as an asset contribution in accordance with Resolution of the Russian Government No. 951-r, dated 2 October 2014. The funds were used to compensate for the costs (losses) recorded within other operating expenses in the consolidated statement of profit or loss and related to the Bank's free-of-charge transfer of property representing a complex of ski jumping hills received as a loan compensation to the state treasury of the Russian Federation.

(in millions of Russian rubles)

38. Capital adequacy

The capital adequacy ratio is one of the most important indicators characterizing the level of risks accepted by the Bank and, therefore, determining its financial stability. To comply with the minimum level of 10% set out in the Memorandum on Financial Policies and to maintain a high credit rating, the Bank monitors its capital adequacy ratio on an ongoing basis.

Methodology of calculation of the capital adequacy ratio are elaborated on the basis of regulations issued by the Bank of Russia and with regard to the generally acceptable international practices of computing capital adequacy ratios, and approved by the Supervisory Board of the Bank.

In 2014 and 2013, the Bank complied with capital adequacy ratio requirements.

At 31 December, the Bank's capital adequacy ratio calculated in accordance with the above methods was as follows:

	2014	2013
Main capital	705,385	515,200
Additional capital	335,655	139,618
Less deductions from capital	(534,012)	(320,458)
Total capital	507,028	334,360
Risk-weighted assets	3,545,689	3,216,964
Capital adequacy ratio	14.3%	10.4%

In order to maintain or adjust the capital structure and in accordance with the Federal Law No. 82-FZ, the charter capital of the Bank may be increased pursuant to a resolution of the Russian Government on the account of additional asset contribution of the Russian Federation or retained earnings of Vnesheconombank. Proposals regarding income distribution are drafted by the Management Board of the Bank and further approved by the Supervisory Board.

39. Subsequent events

In January 2015, international rating agencies downgraded the ratings of Vnesheconombank to BBB- (long-term foreign currency issuer default rating assigned by Fitch), Baa3 (long-term foreign currency issuer credit rating assigned by Moody's) and BB+ (long-term credit rating for foreign currency obligations assigned by Standard & Poor’s).

In February 2015, Moody's downgraded the long-term foreign currency credit rating of Vnesheconombank to Ba1.

As Standard & Poor’s downgraded the ratings lending banks for a number of loan agreements obtained the right to demand the early repayment of the loans provided. However, lenders under those agreements confirmed that they would not demand early repayment. The management of the Bank is currently taking all appropriate liquidity management measures and expects the state to provide support if necessary.

In February 2015, 441,542,360 additionally issued ordinary registered shares of PSC Prominvestbank were transferred to the securities account of Vnesheconombank with PSC Prominvestbank (depository institution). As a result of the placement of additional shares in PSC Prominvestbank, Vnesheconombank's interest in the share capital of the subsidiary bank increased to 99.09%.

(in millions of Russian rubles)

39. Subsequent events (continued)

In March 2015, an interest-bearing deposit of NWF in the amount of RUB 30,000 million was extended for a period of 10 years (Note 9).

In February 2015, the Bank repaid Series 01v bonds with a total nominal value of USD 500 million (equivalent to RUB 31,065 million at the repayment date) in accordance with the terms of the issue.

In February 2015, a subsidiary bank fulfilled its obligations to purchase its own Series BO-09 bonds totaling RUB 1,195 million under the respective offer.

In February 2015, a subsidiary bank placed exchange-traded Series BO-03 bonds with a total nominal value of RUB 5,000 million, maturing in February 2018. This issue of exchange-traded bonds provides for a one-year offer.

In February 2015, the Group's leasing company issued Series BO-04 and Series BO-05 exchange-traded bonds. Each issue has a nominal value of RUB 5,000 million. The bonds mature in January-February 2025. These issues provide for a one-year offer.

In March 2015, the Group's leasing company issued Series BO-06 and Series BO-07 exchange-traded bonds. Each issue has a nominal value of RUB 5,000 million. The bonds mature in February 2025. These issues provide for a one-year-and-a-half offer.

In March 2015, the Group's leasing company placed BO-08 exchange-traded bonds with a nominal value of RUB 5,000 million. This issue provides for the partial early repayment of the nominal value: 25% on the date of the expiry of the first-fourth coupon periods.

In March 2015, the Bank fulfilled its obligations, under the respective offer, to purchase 828,090 bonds with a nominal value of RUB 828 million, representing Series 21 bonds with the total nominal value of RUB 15,000 million, maturing in 2032. All of the purchased bonds were resold in the MICEX stock market on the same day. This issue provides for a half-year offer.

In March 2015, a subsidiary bank placed exchange-traded Series BO-04 bonds with a nominal value of RUB 5,000 million, maturing in March 2018. This issue of exchange-traded bonds provides for a one-year offer.

In March 2015, Vnesheconombank received a subsidy from the federal budget in the form of an asset contribution of the Russian Federation as compensation for part of the costs to incur within activity to support the manufacturers of high-tech products in the amount of RUB 4,466 million in accordance with Resolution of the Russian Government No. 1302, dated 13 December 2012 (Note 22).

In March 2015, the Bank purchased 50,337,125 ordinary registered shares additionally issued by JSC "GLOBEXBANK" for the total amount of RUB 5,034 million. As a result of the placement of the additional shares of JSC "GLOBEXBANK", the Bank's interest in the share capital of the subsidiary remained unchanged at 99.99%.

In April 2015, the National Securities and Stock Market Commission of Ukraine registered the report on the results of PSC Prominvestbank's placement of additionally issued shares (Vnesheconombank paid for the additional shares of PSC Prominvestbank in December 2014) (Note 3).

(in millions of Russian rubles)

39. Subsequent events (continued)

In April 2015, the Bank transferred the full amount of the subsidy (RUB 2,328 million) received in December 2014 as an asset contribution pursuant to Federal Law No. 349-FZ dated 2 December 2013 "On the Federal Budget for 2014 and for the 2015 and 2016 Planned Period" (Note 22), to purchase 2,129 additional units of its subsidiary Mutual Fund RDIF.

In April 2015, Vnesheconombank made an additional contribution to the charter capital of LLC "VEB Capital" in the amount of RUB 400 million. The Bank's share in the charter capital of the company remained unchanged at 100%.