Translation from the Russian original

Auditor's Report and Consolidated Financial Statements of State corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries for the year ended 31 December 2015

April 2016

Translation from the Russian original

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Translation from the Russian original

AUDITOR'S REPORT

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

Audited Entity

State corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (Vnesheconombank)
Vnesheconombank is registered by Department of the Federal Tax Service for the City of Moscow on 8 June 2007; Main State

Registration Number 1077711000102.

Registered office: 9 Prospekt Akademika Sakharova, Moscow, 107996, Russia.

Auditor

BDO Unicon Aktsionernoe Obshchestvo (BDO Unicon AO)

Registered by Tax Inspectorate No. 26 of the RF Ministry of Taxation in the Southern Administrative District of the City of Moscow, Certificate of Registration No. 1037739271701.

Registered office: 11/1, 125 Warshavskoye Shosse, Moscow, 117587, Russian Federation.

BDO Unicon AO is a member of the professional audit association Self-regulated organisation of auditors "Audit Chamber of Russia" (Association) (Main State Registration No. 10201018307 in the State Register of Auditors and Audit Organisations).

Authority to sign the Auditor's Report rests with Denis A. Taradov, Partner, by way of Power of Attorney No. 7-01/2016-БДО of 1 January 2016.

We have audited the accompanying consolidated financial statements of Vnesheconombank and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, 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 then ended, and explanatory notes to the consolidated financial statements for the year ended 31 December 2015 which comprise a summary of significant accounting policies and other explanatory information.

Audited Entity's Responsibility for the Consolidated Financial Statements

Management of Vnesheconombank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements, and for the internal control system necessary for 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with Federal Standards on Auditing and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

An audit also included evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluation of the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vnesheconombank and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 36 to the consolidated financial statements which describes the Group's liquidity deficit for the term up to 1 year as at 31 December 2015. Measures taken by management to maintain financial stability of the Group are described in Note 2 to these consolidated financial statements. The ability of the Group to continue as a going concern depends, to a significant extent, upon implementation of these measures and obtaining of other forms of financial support.

Other Matter

The consolidated financial statements for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 29 April 2015.

BDO Unicon AO

АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1037739271701 * МОСКВА *
«БДО Юникон»

This translation is true and correct

D.A. Taradov
Partner

19 April 2016

Total number of pages bound: 160

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Statement of Management's Responsibility for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2015

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the auditor's report is made with a view to distinguishing the respective responsibilities of management of the Group of state corporation «Bank for Development and Foreign Economic Affairs (Vnesheconombank)» (the Group) and those of the independent auditor in relation to the Group's consolidated financial statements.

The Group's management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2015, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout in all Group divisions;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Group's management the consolidated financial statements for the year ended 31 December 2015 were authorized for issue on 19 April 2016 by:

S.N. Gorkov — Chairman of the Bank

V.D. Shaprinskiy — Chief Accountant

Vnesheconombank

Russian Federation, Moscow

19 April 2016

Consolidated statement of financial position
As at 31 December 2015
(in millions of Russian rubles)

Translation from the Russian original

	Notes	2015	2014 (Restated)	2013 (Restated)
Assets				
Cash and cash equivalents	11	400,485	325,927	275,994
Precious metals		270	274	297
Financial assets at fair value through profit or loss	12	52,571	44,346	98,835
Financial assets lent and pledged under repurchase agreements	13	78,010	103,681	31,106
Amounts due from banks	14	53,480	129,358	124,879
Non-current assets held for sale	16	137,173	6,790	2,502
Loans to customers	17	2,580,297	2,251,203	1,612,556
Net investment in leases	18	343,060	380,763	234,483
Investment financial assets:	19			
- available for sale		390,844	368,717	442,334
- held to maturity		27,546	21,447	764
Amounts due from the Russian Government	20	511	400	241
Subordinated loans to banks	14	50,419	48,940	308,936
Investments in associates and jointly controlled entities	21	9,960	10,892	10,473
Property and equipment	22	68,872	58,257	53,902
Income tax assets	23	11,258	7,508	5,209
Other assets	25	177,671	127,317	111,447
Total assets		**4,382,427**	**3,885,820**	**3,313,958**
Liabilities				
Amounts due to banks	26	1,019,417	1,010,540	686,521
Financial liabilities at fair value through profit or loss	15	2,834	2,670	946
Amounts due to the Russian Government and the Bank of Russia	9	706,392	559,278	980,980
Liabilities of disposal groups held for sale	16	69,018	188	–
Amounts due to customers	27	642,316	508,728	403,292
Debt securities issued	28	1,179,895	983,145	603,319
Finance lease liabilities	29	105,898	89,785	24,435
Subordinated deposits	9	102,128	303,015	–
Income tax liabilities	23	10,532	7,329	4,795
Provisions	24	14,790	6,445	1,457
Other liabilities	25	48,350	36,132	31,354
Total liabilities		**3,901,570**	**3,507,255**	**2,737,099**
Equity	30			
Authorized capital		445,571	418,069	388,069
Additional paid-in capital		150,498	138,170	138,170
Retained earnings / (uncovered loss)		(154,176)	(169,021)	54,744
Unrealized revaluation of investment financial assets available for sale		35,308	(13,940)	(10,491)
Foreign currency translation reserve		(877)	976	958
Equity attributable to the Russian Government		**476,324**	**374,254**	**571,450**
Non-controlling interests		4,533	4,311	5,409
Total equity		**480,857**	**378,565**	**576,859**
Total equity and liabilities		**4,382,427**	**3,885,820**	**3,313,958**

S.N. Gorkov — Chairman of the Bank

V.D. Shaprinskiy — Chief Accountant

19 April 2016

The accompanying notes 1 to 42 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss
For the year ended 31 December 2015
(in millions of Russian rubles)

Translation from the Russian original

	Notes	2015	2014 (Restated)
Interest income	32	325,292	280,335
Interest expense	32	(258,273)	(180,046)
Net interest income		**67,019**	**100,289**
Provision for impairment of interest-earning assets	14, 17, 18	(292,852)	(314,127)
Net interest expense after provision for impairment of interest-earning assets		**(225,833)**	**(213,838)**
Net fee and commission income	33	**9,141**	**8,122**
Gains less losses from financial instruments at fair value through profit or loss		7,951	6,317
Gains less losses from investment financial assets available for sale	34	(28,390)	(16,657)
Gains less losses from foreign currencies:			
- dealing		3,520	(2,093)
- translation differences		1,754	(32,863)
Gains less losses on initial recognition of financial instruments, restructuring and early repayment	16, 17	(12,940)	75,596
Share in net loss of associates and jointly controlled entities	21	(6,548)	(1,714)
Dividends		9,176	8,713
Government subsidies	9, 16	330,289	(17,690)
Other operating income	35	28,044	23,185
Non-interest income		**332,856**	**42,794**
Payroll and other staff costs		(24,642)	(24,604)
Occupancy and equipment		(8,432)	(7,371)
Depreciation of property and equipment	22	(3,812)	(3,048)
Taxes other than income tax		(5,265)	(5,171)
Other provisions and provisions for impairment of other assets	24	(21,279)	(11,936)
Other operating expenses	35	(37,512)	(30,694)
Non-interest expense		**(100,942)**	**(82,824)**
Profit/(loss) before income tax and hyperinflation effect		**15,222**	**(245,746)**
Loss on net monetary position resulting from hyperinflation		–	(1,327)
Profit/(loss) before income tax		**15,222**	**(247,073)**
Income tax expense	23	(282)	(2,583)
Profit/(loss) for the reporting year		**14,940**	**(249,656)**
Attributable to:			
- the Russian Government		16,489	(249,024)
- non-controlling interests		(1,549)	(632)
		14,940	**(249,656)**

S.N. Gorkov — Chairman of the Bank

V.D. Shaprinskiy — Chief Accountant

19 April 2016

Consolidated statement of comprehensive income
For the year ended 31 December 2015
(in millions of Russian rubles)

Translation from the Russian original

	Notes	2015	2014
Profit/(loss) for the reporting year		**14,940**	**(249,656)**
Other comprehensive income/(loss)			
Other comprehensive gain/(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	30	50,528	(3,657)
Translation differences		(1,832)	127
Income tax relating to components of other comprehensive income	23	(1,263)	193
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**47,433**	**(3,337)**
Other comprehensive income/(loss) for the reporting year, net of tax		**47,433**	**(3,337)**
Total comprehensive income/(loss) for the reporting year		**62,373**	**(252,993)**
Attributable to:			
- the Russian Government		64,318	(252,442)
- non-controlling interests		(1,945)	(551)
		62,373	**(252,993)**

S.N. Gorkov — Chairman of the Bank

V.D. Shaprinskiy — Chief Accountant

19 April 2016

Consolidated statement of changes in equity
For the year ended 31 December 2015
(in millions of Russian rubles)

Translation from the Russian original

	Attributable to the Russian Government							
	Authorized 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 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 30)	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**
31 December 2014	**418,069**	**138,170**	**(169,021)**	**(13,940)**	**976**	**374,254**	**4,311**	**378,565**
Profit/(loss) for the period	–	–	16,489	–	–	**16,489**	(1,549)	**14,940**
Other comprehensive income/(loss)	–	–	–	49,256	(1,427)	**47,829**	(396)	**47,433**
Total comprehensive income/(loss) for the period	**–**	**–**	**16,489**	**49,256**	**(1,427)**	**64,318**	**(1,945)**	**62,373**
Contribution of the Russian Government (Note 30)	27,502	12,328	–	–	–	**39,830**	–	**39,830**
Subsidiaries acquired (Note 7)	–	–	–	–	–	–	(858)	**(858)**
Change in interest in existing subsidiaries (Note 7)	–	–	(1,644)	(8)	(426)	**(2,078)**	3,030	**952**
Dividends from subsidiaries	–	–	–	–	–	–	(5)	**(5)**
31 December 2015	**445,571**	**150,498**	**(154,176)**	**35,308**	**(877)**	**476,324**	**4,533**	**480,857**

S.N. Gorkov — Chairman of the Bank

V.D. Shaprinskiy — Chief Accountant

19 April 2016

Consolidated statement of cash flows
For the year ended 31 December 2015
(in millions of Russian rubles)

Translation from the Russian original

	Notes	2015	2014 (Restated)
Cash flows from operating activities			
Profit/(loss) for the reporting year		14,940	(249,656)
Adjustments:			
Change in interest accruals		(48,010)	(78,045)
Impairment and other provisions	14, 17, 18, 24	314,131	326,063
Changes in unrealized revaluation of trading securities and derivative financial instruments		(4,604)	(3,230)
Government subsidies	9,16	(330,289)	17,690
Gains less losses from investment financial assets available for sale, net of impairment loss		979	629
Impairment of investment financial assets available for sale	19	27,411	16,028
Changes in translation differences		(1,754)	32,863
Gains less losses on initial recognition of financial instruments, restructuring and early repayment	16,17	12,940	(75,596)
Share in net loss of associates and jointly controlled entities	21	6,548	1,714
Loss on net monetary position resulting from hyperinflation		–	1,327
Depreciation and amortization		4,721	3,956
Deferred income tax	23	(1,899)	1,442
Other changes		(2,124)	(2,235)
Cash flows from operating activities before changes in operating assets and liabilities		**(7,010)**	**(7,050)**
Net (increase)/decrease in operating assets			
Precious metals		(8)	111
Financial assets at fair value through profit or loss		(20,605)	58,238
Amounts due from banks		(6,174)	2,542
Loans to customers		(90,527)	(368,974)
Net investment in leases		25,169	(17,436)
Amounts due from the Russian Government		(1)	(4)
Other assets		(17,585)	(18,361)
Net increase/(decrease) in operating liabilities			
Amounts due to banks, net of long-term interbank financing		(35,925)	6,680
Amounts due to the Russian Government and the Bank of Russia, net of long-term financing		141,971	134,503
Amounts due to customers		64,399	42,717
Debt securities issued		(3,810)	(20,423)
Finance lease liabilities		(8,092)	(3,812)
Other liabilities		363	1,906
Net cash from/(used in) operating activities		**42,165**	**(189,363)**

Consolidated statement of cash flows
For the year ended 31 December 2015 (continued)
(in millions of Russian rubles)

Translation from the Russian original

	Notes	2015	2014 (Restated)
Cash flows from investing activities			
Purchase of investment financial assets		(256,109)	(187,921)
Proceeds from sale and redemption of investment financial assets		281,351	167,273
Investments in associates and jointly controlled entities		(159)	29
Acquisition of subsidiaries, net of cash acquired	7	12	1
Purchase of property and equipment		(3,595)	(2,507)
Proceeds from sale of property and equipment		95	230
Purchase of investment property	25	(643)	(197)
Disposal of investment property	25	158	205
Subordinated loans repaid by Russian banks		–	278,992
Net cash from investing activities		**21,110**	**256,105**
Cash flows from financing activities			
Long-term interbank financing raised	26	22,245	217,318
Long-term interbank financing repaid	26	(191,775)	(182,050)
Long-term financing raised from the Bank of Russia		75,667	93,000
Long-term financing repaid to the Bank of Russia		(26,530)	(212,636)
Long-term financing repaid to the Russian Ministry of Finance		–	(278,992)
Placement of bonds	28	86,400	244,886
Redemption of bonds	28	(46,077)	(9,839)
Purchase of bonds issued by the Group		(48,847)	(47,640)
Proceeds from sale of previously purchased bonds		44,818	39,194
Change in interest in existing subsidiaries		1,173	53
Contributions to authorized and additional paid-in capitals from the Russian Government	30	39,830	30,000
Government grants and government assistance received	25	9,036	10,158
Dividends from subsidiaries		(5)	(8)
Net cash used in financing activities		**(34,065)**	**(96,556)**
Effect of changes in foreign exchange rates against the Russian ruble on cash and cash equivalents		49,482	79,747
Net increase in cash and cash equivalents		**78,692**	**49,933**
Cash and cash equivalents, beginning	11	**325,927**	**275,994**
Cash and cash equivalents, ending	11	**400,485**	**325,927**
Cash and cash equivalents recognized within non-current assets classified as held for sale	16	**4,134**	**–**
Supplemental information:			
Income tax paid		(1,640)	(2,435)
Interest paid		(225,776)	(163,430)
Interest received		244,346	186,361
Dividends received		9,164	8,751

S.N. Gorkov — Chairman of the Bank

V.D. Shaprinskiy — Chief Accountant

19 April 2016

(in millions of Russian rubles)

Translation from the Russian original

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 is presented in Note 21.

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 defence contracts and involved in federal-level defence 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 Federation and bonds issued by Russian companies, which have been assigned a long-term credit rating for liabilities in the currency of the Russian Federation or in foreign currency not lower than Russia's sovereign rating for liabilities in the currency of the Russian Federation and foreign currency assigned by an international credit rating agency approved in accordance with the procedure established by the Russian legislation.

As a legislative initiative aimed at deoffshorization of the Russian economy, Resolution No. 16 of the RF Government dated 16 January 2015 “On amendments to certain acts of the RF Government” supplemented the Memorandum with a new paragraph under which Vnesheconombank can carry out transactions with counterparties of offshore zones included into a list approved by the RF Ministry of Finance only in the order approved by the Supervisory Board of Vnesheconombank.

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)

Translation from the Russian original

1. Principal activities (continued)

As detailed in Note 30, the Bank's authorized 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 JSC "Russian Bank for Small and Medium Enterprises Support" ("SME Bank"), CJSC "State Specialized Russian Export-Import Bank" (EXIMBANK OF RUSSIA), the Federal Centre for Project Finance (FCPF), and long-distance electrical communication operator Public Joint-Stock Company Rostelecom (PJSC "Rostelecom") to the authorized 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 for 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, Additional Agreement No. 5 dated 16 April 2014, and Additional Agreement No. 6 dated 1 October 2015 (collectively, "Agency Agreement").

Based on the 2015 performance results, Vnesheconombank received a fee for agency services as provided for by Federal Law No. 384-FZ *" On federal budget for 2015 and the planned period of 2016 and 2017"* dated 1 December 2014 in the total amount of RUB 534 million (2014: RUB 534 million) net of VAT. This fee is shown as agency fees within the Group's fee and commission income (Note 33).

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 labour 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 Labour 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.

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.

(in millions of Russian rubles)

Translation from the Russian original

1. Principal activities (continued)

During 2015, the Bank, as a state management company, invested pension savings in state securities denominated in Russian rubles and corporate bonds of highly credible Russian issuers. As at 31 December 2015 and 31 December 2014, total funds of the State Pension Fund of the Russian Federation placed in management to the state management company amounted to RUB 2,018,418 million and RUB 1,905,621 million, respectively.

In 2015, Vnesheconombank, as the state trust management company for pension savings received a consideration in the amount of RUB 548 million (31 December 2014: RUB 557 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 14 and 17, 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 at the following address: 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).

As at 31 December 2015 and 31 December 2014 the Group had 18,382 and 18,026 employees, respectively.

Translation from the Russian original

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.

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.

Going concern

These consolidated financial statements reflect the Group management's current assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the RF Government and other factors, including regulatory and political developments which are beyond the Group's control. The Group's management cannot predict the impact of the above factors on the financial position of the Group in future.

These consolidated financial statements were prepared on a going concern assumption.

At 31 December 2015, accumulated liquidity deficit with maturities of "Up to 1 month", "1 to 6 months" and "6 to 12 months" primarily occurred because the Group classified its liabilities as amounts due to the Russian Government and the Bank of Russia in accordance with contractual maturities. As at the date of authorization of these consolidated financial statements, part of liabilities included in amounts due to the Russian Government and the Bank of Russia were restructured into long-term liabilities. In addition, in March 2016, the Russian Government made a cash contribution of RUB 73,793 million to the authorized capital of Vnesheconombank. Besides, and in February and March 2016 federal budget funds in the amount of RUB 45,000 million and RUB 55,000 million, accordingly, were transferred to Vnesheconombank. These steps are sufficient to cover the accumulated liquidity deficit for all maturities (Notes 36 and 42).

The Group's ability to maintain the required liquidity level and continue its operation as a going concern depends, to a significant extent, upon future financial support from the Russian Government.

To maintain the required liquidity level the Group has a possibility to attract additional funds from the Russian Government, the Bank of Russia and in the interbank lending market, restructure current borrowings, etc. (Notes 9, 36 and 42).

Translation from the Russian original

2. Basis of preparation (continued)

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. The foreign subsidiary VEB Asia Limited – 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 as at 31 December 2015 and 31 December 2014.

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 consolidated 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 consolidated 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 favour 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)

Translation from the Russian original

3. Reclassification of comparatives

The Group has changed the presentation of certain items in the consolidated statement of financial position as at 31 December 2015 in view of materiality of leasing activities of the Group's subsidiaries and disposal groups and subordinated loans held for sale. The following reclassifications have been made to 2014 and 2013 balances to conform to the 2015 presentation:

	As previously reported	Reclassification amount	As reclassified
Consolidated statement of financial position as at 31 December 2014			
Amounts due from banks	178,298	(48,940)	129,358
Subordinated loans to banks	–	48,940	48,940
Other assets	134,107	(6,790)	127,317
Non-current assets held for sale	–	6,790	6,790
Loans to customers	2,631,966	(380,763)	2,251,203
Net investment in leases	–	380,763	380,763
Other liabilities	36,320	(188)	36,132
Liabilities of disposal groups held for sale	–	(188)	36,132
Consolidated statement of profit or loss for the year ended 31 December 2014			
Gains less losses on initial recognition of financial instruments, restructuring and early repayment	57,906	17,690	75,596
Government subsidies	–	(17,690)	(17,690)

	As previously reported	Reclassification amount	As reclassified
Consolidated statement of cash flows as at 31 December 2014			
Gains less losses on initial recognition of financial instruments, restructuring and early repayment	(57,906)	(17,690)	(75,596)
Government subsidies	–	17,690	17,690
Loans to customers	(389,912)	20,938	(368,974)
Other changes	1,267	(3,502)	(2,235)
Net investment in leases	–	(17,436)	(17,436)
Other assets	(18,353)	(8)	(18,361)
Purchase of investment property	–	(197)	(197)
Disposal of investment property	–	205	205

	As previously reported	Reclassification amount	As reclassified
Consolidated statement of financial position as at 31 December 2013			
Amounts due from banks	433,815	(308,936)	124,879
Subordinated loans to banks	–	308,936	308,936
Other assets	113,949	(2,502)	111,447
Non-current assets held for sale	–	2,502	2,502
Loans to customers	1,847,039	(234,483)	1,612,556
Net investment in leases	–	234,483	234,483

The effect of the above changes is also disclosed in Notes 9, 14, 16, 17, 18, and 25.

(in millions of Russian rubles)

Translation from the Russian original

4. Major subsidiaries

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

Subsidiaries	Ownership 31 December 2015	Ownership 31 December 2014	Country of incorporation	Type of activity
Bank BelVEB OJSC	97.52%	97.52%	Republic of Belarus	Banking
OJSC "VEB-Leasing"	99.11%	98.96%	Russia	Leasing
JSC “SME Bank”	100%	100%	Russia	Banking
Sviaz-Bank	99.65%	99.65%	Russia	Banking
PSC Prominvestbank	99.39%	98.6%	Ukraine	Banking
JSC “Kraslesinvest”	100%	100%	Russia	Production and processing of materials
JSC "GLOBEXBANK"	99.99%	99.99%	Russia	Banking
Rose Group Limited (the former 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%	100%	Russia	Investment project implementation services
FCPF	100%	100%	Russia	Financial intermediary
OJSC "North Caucasus Development Corporation"	100%	100%	Russia	Advisory services, investment project support
RDIF Management Company LLC	100%	100%	Russia	Management company
JSC “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%	85%	Russia	Electric energy
Resort Zolotoe Koltso LLC	100%	100%	Russia	Real estate and construction
JSC “ Russian Export Centre”	100%	–	Russia	Support of export operations
	Share of assets:			
Mutual Fund RDIF	100%	100%	Russia	Mutual fund

Translation from the Russian original

4. Major subsidiaries (continued)

As at 31 December 2015 and 31 December 2014, the Group owned 100% of the voting shares of OJSC «VEB-Leasing».

As at 31 December 2015 and 31 December 2014 the Group owns 100% shares in 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 as at 31 December 2015 and 31 December 2014.

As at 31 December 2015 and at 31 December 2014, the Group owns 100% shares in 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 a 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 as at 31 December 2015 and 31 December 2014.

In February 2015, 441,542,360 additionally issued ordinary registered shares in PSC Prominvestbank were transferred to the securities account of Vnesheconombank with PSC Prominvestbank (payment by Vnesheconombank of the additionally issued shares in PSC Prominvestbank was made in December 2014). As a result of the placement of additional shares in PSC Prominvestbank, Vnesheconombank's interest in the authorized capital of the subsidiary bank increased to 99.09%.

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 authorized capital of the subsidiary remained unchanged at 99.99%.

In April and June 2015, Vnesheconombank made an additional contribution to the of LLC "VEB Capital" in the amount of RUB 400 million and RUB 225 million, accordingly. The Bank's share in the authorized capital of the company remained unchanged at 100%.

JSC National Export Centre (currently named JSC Russian Export Centre, hereinafter the Centre) was registered in April 2015. Vnesheconombank is the sole founder of the Centre. A contribution to the authorized capital of the Centre was made by the Bank in May 2015 in the amount of RUB 3,000 million. Federal Law No. 185-FZ *"On amendments to the Federal Law "On the Bank for Development" and Article 970, Part II of the Russian Civil Code"* of 29 June 2015 came into force on 30 June 2015. According to the amended version of the Federal Law, the export supporting functions are performed by Vnesheconombank, the Centre, JSC EXIAR, JSC EXIMBANK OF RUSSIA and their subsidiaries. Vnesheconombank ensures coordination of activities carried out by the Centre, JSC EXIAR and JSC EXIMBANK OF RUSSIA.

In April 2015, the Bank transferred a subsidy of RUB 2,328 million received in December 2014 for the purpose of acquisition of additional units of Mutual Fund RDIF (Note 30).

In May 2015, the Bank transferred USD 303 million (RUB 15,844 million at the date of transfer) in payment of 637,761,278 ordinary registered additionally issued shares in PSC Prominvestbank. In July 2015 ownership of PSC Prominvestbank's shares was transferred to the Bank. As a result of placement of additionally issued shares in PSC Prominvestbank, the interest of Vnesheconombank in the subsidiary bank's authorized capital increased to 99.39%.

(in millions of Russian rubles)

Translation from the Russian original

4. Major subsidiaries (continued)

In June 2015, Vnesheconombank acquired 12 153,476 ordinary registered additionally issued shares in JSC “EXIAR” in the total amount of RUB 12,153 million. The Bank's share in the authorized capital of its subsidiary remained unchanged at 100%.

In July 2015, Vnesheconombank transferred RUB 10,000 million for the purchase of 1,304,291 additionally issued shares in OJSC "VEB-Leasing”. The Group's share in the authorized capital of the company after placement of the additional issue is 99.11%.

In December 2015, Vnesheconombank and JSC Russian Export Centre signed a sale/purchase agreement under which 1 share in EXIMBANK OF RUSSIA and 43,529,913 ordinary shares in JSC EXIAR (100%) were transferred into ownership of JSC Russian Export Centre. Earlier in November 2014 under a sale/purchase agreement Vnesheconombank transferred a block of shares in EXIMBANK OF RUSSIA in the amount of 100% less 1 share to the subsidiary JSC EXIAR. The Group's share in the authorized capital of JSC EXIAR remained unchanged at 100%.

As at 31 December 2015 and 31 December 2014, the Group’s share in the authorized capital of EXIMBANK OF RUSSIA is 100%.

As at 31 December 2015, the Group owned 100% of the voting shares in the holding company United Group S.A. registered in Luxembourg. United Group S.A. is a beneficiary owner of a metallurgical enterprise in the Czech Republic. The Group’s participation in its authorized capital is explained by the Bank’s financing of a respective investment project (Note 17). Net assets of United Group S.A. represent an immaterial amount for the Group.

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 2015 and 31 December 2014.

	2015		
	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%	(471)	2,129

	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

(in millions of Russian rubles)

Translation from the Russian original

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.	2015	2014
Cash and cash equivalents	881	1,826
Amounts due from banks	–	–
Loans to customers	59	–
Investments in associates and jointly controlled entities	532	505
Property and equipment	6,261	6,471
Income tax assets	1,374	906
Other assets	22,226	18,390
Total assets	**31,333**	**28,098**
Amounts due to banks	11,289	8,838
Income tax liabilities	2,598	2,539
Other liabilities	8,311	5,741
Total liabilities	**22,198**	**17,118**
Equity attributable to shareholders	**8,005**	**9,767**
Non-controlling interests	**1,130**	**1,213**
Total equity	**9,135**	**10,980**

R.G.L.	For the year ended 31 December 2015	For the year ended 31 December 2014
Interest income	69	68
Non-interest income	1,301	7,119
Non-interest expense	(3,625)	(8,878)
Provision for loan impairment	(2)	–
Income tax benefit	404	173
Loss for the reporting year	**(1,853)**	**(1,518)**
Other comprehensive income/(loss)	–	–
Total comprehensive loss for the year	**(1,853)**	**(1,518)**
Comprehensive loss for the year attributable to the shareholders	**(1,769)**	**(1,797)**
Comprehensive loss for the year attributable to non-controlling interests	**(84)**	**279**
	(1,853)	**(1,518)**
Net cash flows from operating activities	(1,825)	1,412
Net cash flows from investing activities	(338)	(175)
Net cash flows from financing activities	379	(406)
Net increase in cash and cash equivalents	**(1,784)**	**831**

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies

Changes in accounting policies

Amendments introduced to the accounting policies

Since 1 January 2015, the Group changed its Accounting policies with respect to recognition of business combination of entities under common control, and decided not to restate comparatives in the consolidated financial statements for the periods preceding such combination. The Group's previous accounting policy for transactions on acquisition of subsidiaries involving entities under common control which required restatement of comparatives, was developed when the major user of the consolidated financial statements was the Bank's owner represented by the State. Considering the restatement of comparatives, the State, acting as the controlling owner of both purchasing and transferring parties, could assess the Group's performance as if it always included the new subsidiary and results of its operations. The range of major users of the Group's consolidated financial statements has significantly expanded and includes Russian and foreign investors requesting comparison of data and reflection of actual situation. Restatement of prior period comparatives in the consolidated financial statements due to acquisition of the new subsidiary will not reflect the actual amount of the Group's income, expenses and cash flows and, correspondingly, will be less appropriate from the point of view of users performing the financial statements analysis.

New adopted standards

The Group has adopted the following amended IFRS and IFRIC, which are effective for annual periods beginning on or after 1 January 2015.

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. These amendments have no impact on the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010 -2012 cycle

These improvements are effective since 1 July 2014 and are applied in these consolidated financial statements for the first time. They include the following changes:

Amendment to IFRS 2 Share-based Payment

The amendment 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.

Translation from the Russian original

5. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The above definitions are consistent with those applied by the Group in prior periods for determining service conditions which are vesting conditions. Therefore, these amendments have no impact on the Group's accounting policies.

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). This approach is consistent with the Group's current accounting policies. Therefore, this amendment has no impact on the Group's accounting policies.

Amendments to 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 economically '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.

The Group did not apply the aggregation criteria provided in paragraph 12 of IFRS 8. The reconciliation of segment assets to total assets was disclosed by the Group in prior periods. The Group continues the disclosure in Note 8 to these consolidated financial statements as such reconciliation is reported to the chief operating decision maker.

IFRS 13 Fair Value Measurement

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. These provisions are consistent with the Group's current accounting policies, and therefore they were not affected by this amendment.

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

The amendments are applied retrospectively and clarify 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. During the reporting period the Group did not reflect adjustments based on revaluation.

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. This amendment is not applicable to the Group as it does not use the services of external management entities.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are applied in these consolidated financial statements for the first time. They include the following changes:

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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.
The Group is not involved in a joint arrangement and, therefore, this amendment is not applied to the Group and its subsidiaries.

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). The Group does not apply the exception provided in IFRS 13 for companies holding a group of financial assets and liabilities (portfolio) and managing this group as a whole.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner - occupied property (i.e., property, plant 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. In determining if the transaction is the purchase of an asset or business combination, the Group applied IFRS 3, and not IFRS 40. Therefore, these amendments have no impact on the Group's accounting policies.

Meaning of Effective IFRSs – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards

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. The amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

Basis of consolidation

Subsidiaries, i.e. the companies whose activities are controlled by the Group, are consolidated. Control is exercised when the Group has exposure, or rights, to variable returns from its involvement with the investees or has the ability to use its power over the investees to affect the amount of investor's returns. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- Ability to use its power over the investee to affect its returns.

As a rule, the majority of votes provide control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Translation from the Russian original

5. Summary of accounting policies (continued)

Basis of consolidation (continued)

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.

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 acquiree, 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.

Translation from the Russian original

5. Summary of accounting policies (continued)

Business combinations (continued)

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.

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 results 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.

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

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 37.

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.

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 consolidated 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 consolidated 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.

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. 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.

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.

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

Financial assets (continued)

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 consolidated financial asset at the date of reclassification becomes its new cost or amortized cost, as applicable.

(in millions of Russian rubles)

Translation from the Russian original

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.

Amortized cost of financial instruments

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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), balances on correspondent and current accounts of the Group and amounts due from banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

Translation from the Russian original

5. Summary of accounting policies (continued)

Precious metals

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

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions in consolidated financial statement. 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 financial 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 being recognized in profit or loss.

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

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 the consolidated financial statements 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 deposits. 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.

If the Group purchases its own debt, it is removed from the statement of consolidated 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 consolidated statement of financial position. This benefit is accounted for in accordance with IAS 20.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized in profit or loss of the period in which it becomes receivable.

Translation from the Russian original

5. Summary of accounting policies (continued)

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.

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.

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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.

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.

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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.

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.

Translation from the Russian original

5. Summary of accounting policies (continued)

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 consolidated 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.

Financial liabilities

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

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

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

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 consolidated reporting date to the taxable base.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the assets и 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 consolidated 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.

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.

Translation from the Russian original

5. Summary of accounting policies (continued)

Impairment of non-financial assets

Non-financial assets, other than deferred taxes and investment property, are assessed at each reporting date for any indications of impairment. If such indicators exist, the Bank determines the recoverable amount of the respective assets. An impairment loss is recognized when the carrying amount exceeds its recoverable amount. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. Costs to sell are the costs associated with disposal of an asset tested for impairment, less finance costs. Value in use of an asset reviewed for impairment is the present value of the future cash flows expected to be derived from the use of an asset and its subsequent disposal.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill

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

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

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

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

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

Translation from the Russian original

5. Summary of accounting policies (continued)

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.

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.

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

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.

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 a defined contribution pension scheme, 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.

Authorized capital

Asset contributions of the Russian Federation made for the formation of the Bank's authorized capital are recorded in equity. Vnesheconombank's authorized 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 consolidated financial statements are authorized for issue.

Translation from the Russian original

5. Summary of accounting policies (continued)

Fiduciary assets

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

Segment reporting

The Group's segment reporting is based on 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.

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 in consolidated financial statement 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.

Translation from the Russian original

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 exchange 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 as at 31 December 2015 and 31 December 2014 were RUB 72,8827 and RUB 56,2584 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. Since 1 January 2015 the economy of the Republic of Belarus ceased to be considered hyperinflationary.

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)

Translation from the Russian original

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 International Accounting Standard Board (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 (2009, 2010 and 2013) 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. The Group expects that impairment requirements of IFRS 9 will have a significant impact on its equity. The Group will require more detailed analysis including all relevant and acceptable information, including prospective data, to assess the impact.

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 simplified application is required for annual periods beginning on or after 1 January 2018. Early application is permitted. 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.

(in millions of Russian rubles)

Translation from the Russian original

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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. Early application is permitted. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases

IFRS 16 Leases is issued In January 2016 and effective for the annual periods beginning on or after 1 January 2019). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a ‘right of use’ asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17 Leases.

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 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 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.

Translation from the Russian original

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 27 - Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. First time adopters of IFRS electing to use the equity method in its separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted). The Bank currently considers whether to apply these amendments for preparation of its separate financial statements. These amendments are not expected to have any impact on the Group's consolidated financial statements.

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 amendments are applied prospectively. The effective date will be indicated later by IASB.

Disclosure Initiative - Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are issued in December 2014 and effective for annual periods on or after 1 January 2016. Earlier application is permitted. These amendments are not expected to have any impact on the Group.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods on or after 1 January 2016. These amendments must be applied retrospectively. Earlier application is permitted. These amendments are not expected to have any impact on the Group.

Translation from the Russian original

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual improvements 2010-2012 Cycle

These improvements become effective on or after 1 January 2016 and are not expected to have any 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 derecognised 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 must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such 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 “An 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 must be applied retrospectively 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 must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(in millions of Russian rubles)

Translation from the Russian original

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 should be applied retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

6. Significant accounting judgments and estimates

The preparation of consolidated 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 37.

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. The provision for loan impairment recognized in the consolidated statement of financial position as at 31 December 2015 is RUB 769,871 million (31 December 2014: RUB 588,956 million).). More details are provided in Notes 14, 17 and 18.

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. As at 31 December 2015, the carrying value of goodwill amounted to RUB 1,381 million (as at 31 December 2014: RUB 1,381 million). More details are provided in Note 25.

(in millions of Russian rubles)

Translation from the Russian original

7. Business combinations

Acquisitions in 2015

On 2 July 2015 Pilsen Toll s.r.o. , the subsidiary of LLC "VEB Capital", acquired 85% of voting shares in the holding company United Group S.A. registered in Luxembourg. United Group S.A. is a beneficiary owner of a metallurgical enterprise in the Czech Republic. The Group's participation in its authorized capital is explained by the Bank's financing of the respective investment project.

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	12
Property and equipment (Note 22)	6,953
Deferred income tax assets (Note 23)	138
Other assets	664
	7,767
Amounts due to banks	9,104
Amounts due to customers	2,363
Deferred income tax liabilities (Note 23)	890
Provisions (Note 24)	167
Other liabilities	960
	13,484
Total identifiable net assets	**(5,717)**
Less liabilities to the Group	12,102
Non-controlling interests	858
Goodwill on acquisition	4,859
Consideration transferred on acquisition	**12,102**

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

As a result of impairment testing, goodwill of RUB 4,859 million was written off to expense and recorded within other operating expenses of the consolidated statement of profit or loss .

At the date of acquisition the Group recognized loans and other assets provided to United Group S.A. in the amount of RUB 6,984 million. The fair value of these funds reported in the financial statements of United Group S.A. within amounts due to banks, amounts due to customers and other liabilities determined by an independent appraiser at the date of acquisition amounted to RUB 12,102 million. Transactions representing the earlier existing relations between the Group's participants were eliminated in business combination accounting and gain on such elimination in the amount of RUB 5,118 million is recorded in other operating income of the consolidated statement of profit or loss . The funds raised from the Group were eliminated from the identifiable liabilities of United Group S.A. and consideration transferred on acquisition was increased by the fair value of the above liabilities.

(in millions of Russian rubles)

Translation from the Russian original

7. Business combinations (continued)

Acquisitions in 2015 (continued)

Cash outflow on acquisition of the subsidiary

Net cash acquired with the subsidiary (included in cash flows from investing activities)	12
Cash paid at the acquisition of control (included in cash flows from investing activities)	-
Net cash flow	**12**

From the date of acquisition, the contribution of United Group S.A to the Group's non-interest income is RUB 2,001 million. Its contribution to the financial result of the Group is a loss of RUB 5,905 million. If the combination had taken place at the beginning of the year, the Group's net profit for 2015 would have been RUB 13,829 million.

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 authorized 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 LLC, 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 LLC 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 are presented in the table below.

	Fair value recognized on the acquisition of control over Resad LLC	Fair value recognized on the acquisition of control over of Resort Zolotoe Koltso LLC
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)

Translation from the Russian original

7. Business combinations (continued)

Acquisitions in 2014 (continued)

At the acquisition dates, the Group recognized loans to Resad LLC and Resort Zolotoe Koltso LLC, 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 LLC 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 LLC , 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.

Changes in ownership interest in subsidiaries in 2015

In the first quarter of 2015, following the results of the additional issue of shares of PSC Prominvestbank which started in December 2014, the carrying amount of net assets of PSC Prominvestbank increased by RUB 16,993 million and the contribution of non-controlling shareholders amounted to RUB 2 million. In addition, during 2015, PSC Prominvestbank repurchased 2,164,558 shares from non-controlling shareholders and sold 2,673,090 treasury shares to the third parties. In the third quarter of 2015, following the results of the next additional issue of shares of PSC Prominvestbank which started in May 2015, the carrying amount of net assets of PSC Prominvestbank increased by RUB 15,845 million and the contribution of non-controlling shareholders amounted to RUB 1 million. As a result of the reallocation of interests between the Bank and other shareholders, non-controlling interests increased by RUB 245 million; the Group's retained earnings, unrealized revaluation of investment financial assets available for sale and foreign currency translation reserve decreased by RUB 214 million, RUB 8 million and RUB 5 million, respectively.

In 2015 RDIF long-term direct investment mutual fund repurchased non-controlling interests in some of its subsidiaries. The reallocation of interests resulted in an increase of the Group’s non-controlling interests by RUB 931 million.

In December 2015, Pilsen Toll s.r.o., a subsidiary of LLC "VEB-Capital", repurchased 150 shares of the B class from the owners of non-controlling interests. After this acquisition the Group’s share in the authorized capital of United Group s.a. amounts to 100%. As a result of the reallocation of interests, non-controlling interests increased by RUB 1,851 million and the Group's retained earnings and foreign currency translation reserve decreased by RUB 1,430 million and RUB 421 million, respectively.

Translation from the Russian original

7. Business combinations (continued)

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.

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 LLC, 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.

The operating segments were not combined for the purpose of creating the above reporting operating business segments

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 Centre for Exports Credit and Insurance Support on the basis of EXIAR. The established Centre for Exports Credit and Insurance Support was included in Segment 6. The comparative information was not restated, since the effect on the consolidated financial statements is insignificant.

(in millions of Russian rubles)

Translation from the Russian original

8. Segment information (continued

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 2015 and 2014, 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, 2 and 5.

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

2015	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	183,691	63,485	16,837	13,620	44,304	3,355	**325,292**	–	**325,292**
Fee and commission income	4,810	2,630	1,744	2,611	37	72	**11,904**	–	**11,904**
Gains less losses from financial instruments at fair value through profit or loss	3,052	175	(3)	–	1,798	2,929	**7,951**	–	**7,951**
Gains less losses arising from investment securities available for sale	(27,841)	(663)	(2)	4	–	112	**(28,390)**	–	**(28,390)**
Gains less losses from foreign currencies	(17,714)	(1,795)	(518)	8,285	7,723	9,293	**5,274**	–	**5,274**
Share in net income/(loss) of associates and jointly controlled entities	561	(458)	–	(10)	(5,735)	(906)	**(6,548)**	–	**(6,548)**
Other income	336,512	2,061	1,175	1,314	5,625	7,882	**354,569**	–	**354,569**
Total external income	**483,071**	**65,435**	**19,233**	**25,824**	**53,752**	**22,737**	**670,052**	**–**	**670,052**
Intersegment income									
Interest income	21,972	2,947	–	19	1,043	15,834	**41,815**	(41,815)	–
Other intersegment income less expenses	4,248	181	(450)	(5,511)	658	(2,108)	**(2,982)**	2,982	–
Total intersegment income	**26,220**	**3,128**	**(450)**	**(5,492)**	**1,701**	**13,726**	**38,833**	**(38,833)**	–
Total income	**509,291**	**68,563**	**18,783**	**20,332**	**55,453**	**36,463**	**708,885**	**(38,833)**	670,052
Interest expense	(178,543)	(46,393)	(5,846)	(4,864)	(21,597)	(1,030)	**(258,273)**	–	**(258,273)**
Fee and commission expense	(993)	(869)	(141)	(713)	(22)	(25)	**(2,763)**	–	**(2,763)**
Provision for loan impairment	(154,739)	(32,237)	(60,513)	(5,867)	(38,536)	(960)	**(292,852)**	–	**(292,852)**
Payroll and other staff costs	(7,521)	(6,583)	(1,573)	(2,195)	(2,020)	(4,750)	**(24,642)**	–	**(24,642)**
Depreciation of property and equipment	(747)	(800)	(467)	(296)	(695)	(807)	**(3,812)**	–	**(3,812)**
Other provisions and provisions for impairment of other assets	(1,663)	(874)	(9,488)	(18)	(6,952)	(2,284)	**(21,279)**	–	**(21,279)**
Other expenses	(17,436)	(8,456)	(2,411)	(2,279)	(7,622)	(13,005)	**(51,209)**	–	**(51,209)**
Total external expense	**(361,642)**	**(96,212)**	**(80,439)**	**(16,232)**	**(77,444)**	**(22,861)**	**(654,830)**	**–**	**(654,830)**
Intersegment expenses									
Interest expense	(10,644)	(10,832)	(5,738)	(2,576)	(11,149)	(1,706)	**(42,645)**	42,645	–
Other intersegment (expenses)	(121,576)	(78)	–	(196)	(95)	(37)	**(121,982)**	121,982	–
Total intersegment expenses	**(132,220)**	**(10,910)**	**(5,738)**	**(2,772)**	**(11,244)**	**(1,743)**	**(164,627)**	**164,627**	–
Total expenses	**(493,862)**	**(107,122)**	**(86,177)**	**(19,004)**	**(88,688)**	**(24,604)**	**(819,254)**	**164,627**	**(654,830)**
Segment results	**15,429**	**(38,559)**	**(67,394)**	**1,328**	**(33,235)**	**11,859**	**(110,572)**	**125,794**	**15,222**
Income tax expense							**(282)**	–	**(282)**
Profit /(loss) for the year							**(110,854)**	**125,794**	**14,940**
Other segment information									
Capital expenditure	533	228	710	1,187	153	784	**3,595**	–	**3,595**
Investments in associates and jointly controlled entities	5,126	622	–	153	–	4,059	**9,960**	–	**9,960**

(in millions of Russian rubles)

Translation from the Russian original

8. Segment information (continued)

In 2015, the Group recognized a RUB 27,411 million loss from impairment of available-for-sale financial assets of Segments 1,2 and 6 in gains less losses from investment financial assets available for sale.

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**
Interest expense	(129,550)	(25,933)	(5,680)	(3,084)	(15,799)	–	**(180,046)**	–	**(180,046)**
Fee and commission expenses	(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)**
Other provisions and provision for impairment of other assets	(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							**(2,583)**	–	**(2,583)**
Profit /(loss) for the year							**(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)

Translation from the Russian original

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.

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

	2015	2014 (Restated)
Segment assets		
Segment 1	3,056,366	2,642,182
Segment 2	623,074	667,691
Segment 3	127,392	180,125
Segment 4	128,838	93,527
Segment 5	551,463	510,615
Segment 6	354,214	255,029
Total before deducting intersegment assets	**4,841,347**	**4,349,169**
Intersegment assets	(583,524)	(525,793)
Adjustments	124,604	62,444
Total assets	**4,382,427**	**3,885,820**

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

	2015	2014 г. (Restated)
Segment liabilities		
Segment 1	2,901,306	2,626,673
Segment 2	605,480	618,868
Segment 3	165,368	169,503
Segment 4	114,137	79,938
Segment 5	547,109	483,682
Segment 6	149,936	49,211
Total before deducting intersegment liabilities	**4,483,336**	**4,027,875**
Intersegment liabilities	(583,524)	(525,793)
Adjustments	1,758	5,173
Total liabilities	**3,901,570**	**3,507,255**

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 the 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)

Translation from the Russian original

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 2015 and 2014 and for the years then ended is presented in the table below:

	2015				2014			
	Russia	**Ukraine**	**Other countries**	**Total**	**Russia**	**Ukraine**	**Other countries**	**Total**
Interest income from external clients	294,835	16,837	13,620	**325,292**	254,747	15,422	10,166	**280,335**
Non-current assets	56,556	9,483	5,824	**71,863**	47,578	10,190	4,667	**62,435**

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 authorized institutions and the Bank of Russia consisted of the following:

	2015	**2014**
Interest-bearing loans and deposits from the Bank of Russia	374,282	219,594
Interest-bearing loans and deposits from the Federal Treasury	181,130	204,339
Repurchase agreements with the Bank of Russia	64,134	96,182
Settlements related to redemption of Russian Government loans	62,965	28,848
Deposits of non-budgetary funds	23,621	10,042
Other funds	260	273
Amounts due to the Russian Government, its institutions and the Bank of Russia	**706,392**	**559,278**

As at 31 December 2015, interest-bearing loans and deposits from the Bank of Russia include short-term and long-term loans with the carrying amount of RUB 77,269 million (31 December 2014: RUB 181,853 million) secured by bank guarantees.

As at 31 December 2015, interest-bearing loans and deposits from the Bank of Russia also include loans in the amount of RUB 294,291 million (31 December 2014: RUB 14,461 million) secured by the pledge of the rights of claims under loans to customers in the amount of RUB 434,911 million (31 December 2014: RUB 18,687 million) (Note 17).

As at 31 December 2015, interest-bearing loans and deposits from the Bank of Russia also include loans in the amount of RUB 1,118 million (31 December 2014: RUB 22,955 million) secured by the pledge of the rights of claims under amounts due from banks in the amount of RUB 1,573 million (31 December 2014: RUB 29,466 million) (Note 14).

(in millions of Russian rubles)

Translation from the Russian original

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

As at 31 December 2015 and 31 December 2014, interest-bearing loans and deposits from the Federal Treasury represent ruble-denominated funds of the National Welfare Fund ("NWF") placed as deposits with Vnesheconombank in accordance with Federal Law No. 173-FZ in the amount of RUB 72,787 million (31 December 2014: RUB 72,135 million) at annual interest rates of 6.25% and 7.25% maturing from November 2017 to December 2020 (31 December 2014: at annual interest rates of 6.25% and 7.25% maturing from November 2017 to December 2020).

As at 31 December 2015, interest-bearing loans and deposits from the Federal Treasury represent ruble-denominated funds of the National Welfare Fund ("NWF") in the amount of RUB 36,638 million (31 December 2014: RUB 35,935 million) placed as deposits with Vnesheconombank in accordance with Federal Law No. 173-FZ at annual interest rates of 6.25% maturing in May 2020 for providing loans to OJSC "The Agency for Housing Mortgage Lending" (OJSC "AHML") (Note 17).

As at 31 December 2015, interest-bearing loans and deposits from the Federal Treasury include a ruble-denominated deposit for acquisition of a financial asset (Note 19) maturing in June 2016 in the amount of RUB 49,944 million (31 December 2014: RUB 49,410 million).

As at 31 December 2015 and 31 December 2014, interest-bearing loans and deposits from the Federal Treasury include a RUB-denominated deposit intended to finance banks and legal entities within the state program, supporting small and medium enterprises, through JSC SME Bank, a subsidiary. As at 31 December 2015, such deposit amounted to RUB 16,336 million (31 December 2014: RUB 29,068 million).

In September 2014, an agreement for depositing the foreign currency funds of the National Welfare Fund ("NWF") with Vnesheconombank in the total amount of USD 288 million (equivalent to RUB 11,031 million as at the agreement date) was signed. As at 31 December 2015, the deposit placed until 26 September 2034 amounted to RUB 4,969 million (31 December 2014: RUB 16,377 million). These funds are placed subject to Resolution No. 18 of the RF Government dated 19 January 2008.

As at 31 December 2015, under the repurchase agreements with the Bank of Russia, the Group sold debt securities with a fair value of RUB 67,823 million, subject to repurchase (31 December 2014: RUB 100,873 million). Pledged securities are classified as trading financial assets with a fair value of RUB 4,385 million (31 December 2014: RUB 451 million) (Note 12), investment financial assets available for sale with a fair value of RUB 58,193 million (31 December 2014: RUB 58,869 million), investment financial assets held to maturity with a fair value of RUB 5,245 million (31 December 2014: RUB 29,210 million) (Note 13).

As at 31 December 2015, there were no pledged securities treated as loans to customers and amounts due from banks. As at 31 December 2014, the fair value of pledged securities treated as loans to customers was RUB 10,595 million (Note 17) and treated as amounts due from banks – RUB 1,748 million (Note 14).

As at 31 December 2015, repurchase agreements with the Bank of Russia also include funds received from the Bank of Russia and collateralized by securities that were acquired under reverse repurchase agreements with a fair value of RUB 53 million (31 December 2014: RUB 4,117 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. As at 31 December 2015 and 31 December 2014, these amounts are classified as due to the Russian Government.

As at 31 December 2015, deposits of non-budgetary funds include RUB-denominated short-term deposits with the subsidiary banks in the amount of RUB 23,621 million (31 December 2014: RUB 10,042 million).

Translation from the Russian original

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

Subordinated deposits

In September 2014, the agreements for depositing the foreign currency funds of the National Welfare Fund ("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 at an interest rate below market level. 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. The early termination of the agreements for NWF funds, placement and the signing of deposit agreements under subordination terms did not involve cash flows. As at 31 December 2015 these deposits amounted to RUB 102,128 million (31 December 2014: RUB 303,015 million).

In September 2015, pursuant to Resolution No. 2756-r of the Russian Government dated 29 December 2014, a subsidiary bank entered into agreements with the State Corporation Deposit Insurance Agency under the state program for the additional capitalization of Russian banks. According to the terms of the agreements, the bank received five subordinated loans in the total amount of RUB 11,853 million carrying interest ranging from 13.8% p.a. to 15.5% p.a. and maturing from January 2025 through December 2034 in the form of Russian Federation Bonds (OFZ) of five issues which should be returned upon the maturity of subordinated loans. In accordance with IAS 39, securities received under an agreement stipulating for their return to the transferor, as well as a related liability to return, are not subject to recognition in the consolidated statement of financial position.

Changes in provisions for deposits of the National Welfare Fund ("NWF")

In March 2015, a RUB-denominated deposit from the Federal Treasury intended to finance banks and legal entities supporting small and medium enterprises was extended by ten years at an interest rate below market level. JSC SME Bank, a subsidiary bank, is responsible for implementing such financial support. Vnesheconombank derecognized the initial liability and recognized a new one. There was no movement in cash flows.

For the reporting period ended 31 December 2015, gain from government subsidies due to renegotiation of contractual terms in the amount of RUB 13,146 million was recognized in the consolidated statement of profit or loss within government subsidies.

In accordance with RF Government Resolution No.2750-r of 30 December 2015 changes were introduced into the provisions for placement of funds of the National Welfare Fund ("NWF") earlier deposited with Vnesheconombank subject to Resolution No. 1749-r of the Russian Government dated 6 September 2014 and Resolution No. 18 of the Russian Government dated 19 January 2008, in the total nominal amount of USD 6,254 million, extending the term of deposits until 26 September 2034, reducing the interest rate to 0.25% p.a. and introducing a three year grace period for interest payment. Due to significant changes in the terms, the Bank derecognized liabilities in the total carrying amount of RUB 418,899 million and recognized a new liability. Gain on a new loan provided by the Government at the rate below market level was recorded as a government subsidy. The subsidy was provided to compensate expenses recognized in the consolidated statement of profit or loss for 2015 and prior reporting periods. The subsidy is recognized in full amount in the consolidated statement of profit or loss as a government subsidy in the amount of RUB 312,291 million. There were no cash flows involved.

For the reporting year ended 31 December 2014, the item “government subsidies” of the consolidated statement of profit or loss includes a loss from the early repayment of deposits from the Russian Ministry of Finance in the amount of RUB 18,180 million, intended to provide subordinated loans to Russian banks in accordance with Law No. 173-FZ in 2008-2009. This item also includes gain on initial recognition of the deposit from the Russian Ministry of Finance extended for the term of 5 years at the interest rate below market level in the amount of RUB 490 million.

(in millions of Russian rubles)

Translation from the Russian original

10. Agency operations

As at 31 December 2015 and 31 December 2014, 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.

11. Cash and cash equivalents

Cash and cash equivalents comprise:

	2015	2014
Cash on hand	23,944	22,424
Current accounts with the Bank of Russia	68,475	37,728
Correspondent nostro accounts with banks and current accounts with other non-banking organizations:		
- Russian Federation	79,216	56,352
- other countries	144,326	112,677
Interest-bearing loans and deposits maturing within 90 days:		
- due from the Bank of Russia	–	8,500
- due from banks	62,741	79,448
Other cash equivalents	795	–
Reverse repurchase agreements with banks for up to 90 days	20,988	8,798
Cash and cash equivalents	**400,485**	**325,927**

At 31 December 2015, reverse repurchase agreements include loans of RUB 11,482 million (31 December 2014: RUB 8,798 million) issued to banks and secured by corporate bonds with a fair value of RUB 13,545 million (31 December 2014: RUB 11,214 million). At 31 December 2015, reverse repurchase agreements include loans of RUB 9,506 million issued to banks and secured by corporate shares with a fair value of RUB 11,267 million. At 31 December 2014, there were no reverse repurchase agreements with banks secured by corporate shares.

Other cash equivalents include short-term receivables from a non-resident financial company concerning payment of the coupon income on bonds issued by the subsidiary.

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 2015, a part of these funds in the amount of RUB 513 million (31 December 2014: RUB 11,341 million) was temporarily invested in money market instruments maturing in less than 90 days. For the year ended 31 December 2015, a portion of unused funds in the amount of USD 192 million was returned (Note 19).

(in millions of Russian rubles)

Translation from the Russian original

12. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2015	2014
Trading financial assets	8,811	12,034
Derivative financial assets (Note 15)	2,703	11,220
Financial assets designated as at fair value through profit or loss	41,057	21,092
Financial assets at fair value through profit or loss	**52,571**	**44,346**

Financial assets designated as at fair value through profit or loss include investments in associates in the amount of RUB 16,976 million (31 December 2014: RUB 11,874 million) and jointly controlled entities in the amount of RUB 13,352 million (31 December 2014: RUB 4,001 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.

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.)	**2015**	**2014**
Cash and cash equivalents	–	112
Financial assets designated as at fair value through profit or loss	13,352	3,889
Total fund assets	**13,352**	**4,001**
Fair value of investments in the jointly controlled entity	**13,352**	**4,001**

Though the Group owns 94.25% 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:

	2015	2014
Debt securities		
Corporate bonds	–	4,022
Russian Federation bonds (OFZ)	617	88
	617	**4,110**
Eurobonds issued by the Russian Federation	422	347
Eurobonds of Russian and foreign issuers	443	706
	1,482	**5,163**
Equity securities	6,838	6,245
Other financial assets	491	626
Trading financial assets	**8,811**	**12,034**

(in millions of Russian rubles)

Translation from the Russian original

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

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

	2015	2014
Financial assets at fair value through profit or loss pledged under repurchase agreements		
Russian Federation bonds (OFZ)	3,977	–
Corporate bonds	408	451
Total financial assets at fair value through profit or loss pledged under repurchase agreements	**4,385**	**451**

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:

Reclassified assets are presented in the table below:

	Trading financial assets were reclassified to	
	Available-for-sale financial assets	**Financial assets held to maturity**
Carrying value of reclassified assets as at 31 December 2015	6,858	1,580
Fair value of reclassified assets as at 31 December 2015	6,858	1,624
Fair value gain on reclassified assets recognised for the year ended 31 December 2015	786	148
Gains/(losses) recognised in the consolidated statement of profit or loss for the year ended 31 December 2015 , including:		
- interest income	1,480	148
- gain on disposal	805	–
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 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)

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.

(in millions of Russian rubles)

Translation from the Russian original

13. Financial assets pledged under repurchase agreements

Financial assets pledged as collateral under repurchase agreements comprise:

	31 December 2015	31 December 2014
Financial assets at fair value through profit or loss pledged under repurchase agreements		
Russian Federation bonds (OFZ)	3,977	–
Corporate bonds	408	451
Total financial assets at fair value through profit or loss pledged under repurchase agreements	**4,385**	**451**
Investment financial assets available for sale pledged under repurchase agreements		
Corporate bonds	55,440	46,918
Russian Federation bonds (OFZ)	4,525	501
Municipal and sub-federal bonds	–	97
	59,965	**47,516**
Eurobonds issued by the Russian Federation	1,054	10,198
Eurobonds of Russian and foreign issuers	1,876	1,555
	62,895	**59,269**
Equity securities	1	255
Total investment financial assets available for sale pledged under repurchase agreements	**62,896**	**59,524**
Investment financial assets held to maturity pledged under repurchase agreements		
Corporate bonds	6,388	28,273
Eurobonds of Russian and foreign issuers	2,378	2,117
Municipal and sub-federal bonds	797	438
Total investment financial assets held to maturity pledged under repurchase agreements	**9,563**	**30,828**
Amounts due from banks pledged under repurchase agreements	280	1,845
Total amounts due from banks pledged under repurchase agreements	**280**	**1,845**
Loans to customers pledged under repurchase agreements (Note 17)		
Other	897	11,221
Less allowance for impairment (Note 17)	(11)	(188)
Total loans to customers pledged under repurchase agreements	**886**	**11,033**
Total financial assets pledged under repurchase agreements	**78,010**	**103,681**

(in millions of Russian rubles)

Translation from the Russian original

14. Amounts due from banks

Amounts due from banks comprise:

	2015	2014
Obligatory reserve with central banks	3,488	4,710
Non-interest-bearing deposits	27,339	11,448
Interbank loans and term interest-bearing deposits with banks	18,198	106,846
Mortgage bonds	7,639	8,889
	56,664	**131,893**
Less allowance for impairment	(3,184)	(2,535)
Amounts due from banks	**53,480**	**129,358**
Amounts due from banks pledged under repurchase agreements	280	1,845
Amounts due from banks, including amounts pledged under repurchase agreements	**53,760**	**131,203**

As at 31 December 2015, non-interest-bearing deposits include amounts placed on the correspondent account with the Bank of Russia for a designated purpose, in the total amount of RUB 10,131 million.

As at 31 December 2015, interbank loans and term interest-bearing deposits with banks with the carrying amount of RUB 1,573 million (31 December 2014: RUB 29,466 million) are pledged as collateral under loans raised from the Bank of Russia (Note 9).

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.

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

	2015	2014
At 1 January	**2,535**	**1,082**
Charge	6,644	1,453
Reclassification of the provision for the disposal group	(5,995)	–
At 31 December	**3,184**	**2,535**

Subordinated loans issued to banks

As at 31 December 2015, subordinated loans issued to Russian banks include loans in the amount of RUB 50,419 million (31 December 2014: RUB 48,940 million), issued to eleven Russian banks in accordance with Federal Law No. 173-FZ carrying interest at 6.5% p.a. and 7.5% p.a. and maturing from November 2017 through December 2020.

(in millions of Russian rubles)

Translation from the Russian original

15. 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 in consolidated financial statement 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.

	2015			2014		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Foreign exchange contracts						
Forwards and swaps – foreign	48,177	75	6	1,411	14	-
Forwards and swaps – domestic	1,959	1	1	7,720	329	195
Forward contracts for securities						
Debt securities	19	3	–	898	58	–
Equity securities	1,144	346	–	1,050	253	21
Interest rate swaps						
Foreign contracts	10,090	–	475	10,015	–	596
Domestic contracts	–	–	–	703	–	5
Option contracts with securities	–	–	–	2,627	3,293	–
Option contracts with foreign currency	4,858	2,278	–	3,301	733	–
Cross-currency interest rate swap	38,219	–	2,352	41,921	6,540	1,853
Total derivative assets/liabilities		**2,703**	**2,834**		**11,220**	**2,670**

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 15).

As at 31 December 2015, 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.

(in millions of Russian rubles)

Translation from the Russian original

15. Derivative financial instruments (continued)

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign exchange 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 favourable 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.

16. Assets and disposal groups classified as held for sale

Non-current assets held for sale comprise the following:

	2015	2014
Non-current assets held for sale:		
Assets of disposal groups held for sale	122,836	4,307
Assets held for sale	14,337	2,483
Total non-current assets held for sale	**137,173**	**6,790**

The Group's management intends to dispose 100% shares of JSC SME Bank within 1 year from the initial classification of this subsidiary as a disposal group.

Pursuant to Decree No. 287 of the President of the Russian Federation dated 5 June 2015 and Federal Law No. 156-FZ dated 29 June 2015, Concerning Introducing Amendments to Certain Legislative Acts of the Russian Federation Regarding Measures for Further Development of Small and Medium Enterprises in the Russian Federation, Vnesheconombank shall pay for an additional issue of shares of JSC "Federal Corporation for Development of Small and Medium Enterprises" with the shares of JSC SME Bank.

(in millions of Russian rubles)

Translation from the Russian original

16. Disposal groups classified as held for sale (continued)

Below are the assets and liabilities of JSC SME Bank classified as a disposal group held for sale as at 31 December 2015:

	2015
Cash and cash equivalents	4,134
Financial assets at fair value through profit or loss	13,011
Amounts due from banks	85,512
Loans to customers	9,264
Net investments in leases	143
Investment financial assets:	
- available for sale	6,304
- held to maturity	403
Property and equipment	220
Income tax assets	66
Other assets	3,779
Assets of the disposal group held for sale	**122,836**
Amounts due to banks	16,474
Amounts due to the Russian Government and the Bank of Russia	36,085
Amounts due to customers	3,027
Securities issued	11,232
Income tax liabilities	1,527
Provisions	75
Other liabilities	598
Liabilities of the disposal group held for sale	**69,018**
Net assets of the disposal group held for sale	**53,818**

Loss of RUB 7,825 million on initial recognition of loans issued under the program of extending loans to small and medium enterprises through JSC SME Bank was recorded in line "Gains less losses on the initial recognition of financial instruments, restructuring and early repayment" of the consolidated statement of profit or loss for the year ended 31 December 2015.

Profit of RUB 4,852 million on initial recognition of loans granted by the Bank of Russia for the purposes of further issue to banks and legal entities through JSC SME Bank under the program of extending loans to small and medium enterprises was also recorded in the line "Government subsidies" of the consolidated statement of profit or loss for the year ended 31 December 2015.

As at 31 December 2014, an insignificant subsidiary of the Group's leasing company was recorded in disposal groups.

As at 31 December 2015, assets held for sale comprise assets of a subsidiary leasing company in the amount of RUB 13,294 million since management intends to sell them within 1 year from the date of initial classification.

(in millions of Russian rubles)

Translation from the Russian original

17. Loans to customers

	2015	2014 (Restated)
Loans to customers	3,343,433	2,833,365
Less allowance for impairment	(763,136)	(582,162)
Loans to customers	**2,580,297**	**2,251,203**
Loans to customers pledged under repurchase agreements	897	11,221
Less allowance for impairment	(11)	(188)
Total loans to customers pledged under repurchase agreements	**886**	**11,033**
Total loans to customers including those pledged under repurchase agreements	**2,581,183**	**2,262,236**

Loans to customers comprise:

	2015	2014 (Restated)
Project financing	1,652,311	1,371,069
Commercial loans, including loans to individuals	1,106,889	1,025,502
Financing of operations with securities	327,088	242,276
Export and pre-export financing	100,946	55,065
Reverse repurchase agreements	46,046	40,756
Back-to-back financing	36,518	35,905
Claims under letters of credit	19,618	20,952
Mortgage bonds	7,060	8,368
Promissory notes	3,593	3,530
Other	43,364	29,942
	3,343,433	**2,833,365**
Less allowance for impairment	(763,136)	(582,162)
Loans to customers	**2,580,297**	**2,251,203**
Loans to customers pledged under repurchase agreements		
Other	897	11,221
Less allowance for impairment	(11)	(188)
Total loans to customers pledged under repurchase agreements	**886**	**11,033**
Loans to customers including those pledged under repurchase agreements	**2,581,183**	**2,262,236**

As at 31 December 2015, a loan with the carrying amount of RUB 871 million issued at the below-market rate due to restructuring was recorded in loans under project financing. For the reporting period ended 31 December 2015, a loss related to restructuring in the amount of RUB 1,882 million was recorded in the line "Gains less losses on initial recognition of financial instruments, restructuring and early repayment" in the consolidated statement of profit or loss.

(in millions of Russian rubles)

Translation from the Russian original

17. Loans to customers (continued)

For the year ended 31 December 2015, the Bank entered into an agreement for providing project financing to a state-related entity at the below-market interest rate. Loss of RUB 1,617 million was recognized upon initial recognition of the respective commitment. As at 31 December 2015, the carrying amount of the loan was RUB 6,278 million, the carrying amount of the commitment to provide the loan at the below-market interest rate recognized in "Other liabilities" was RUB 873 million.

For the year ended 31 December 2015, a subsidiary bank provided corporate loans with the carrying value of RUB 3,240 million on a non-arms length basis. A loss on initial recognition of loans in the amount of RUB 781 million was recorded in line "Gains less losses on initial recognition of financial instruments, restructuring and early repayment" in the consolidated statement of profit or loss.

As at 31 December 2015, mortgage bonds represent debt securities in the amount of RUB 7,060 million maturing in 2044-2047 (31 December 2014: RUB 8,368 million maturing in 2044-2047), 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.

As at 31 December 2015, loans in the amount of RUB 434,911 million related primarily to project financing and commercial lending are provided as collateral for funds raised from the Bank of Russia (31 December 2014: RUB 18,687 million) (Note 9).

(in millions of Russian rubles)

Translation from the Russian original

17. 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:

2015	Project financing	Commercial loans	Export and pre-export financing	Financing of operations with securities	Promissory notes	Reverse repurchase agreements	Back-to-back financing	Claims under letters of credit	Other	Total	Loans to customers pledged under repurchase agreements
At 1 January 2015 (Restated)	**327,104**	**209,856**	**5,457**	**30,291**	**788**	**1,264**	**1,853**	**3,386**	**2,163**	**582,162**	**188**
Charge/(reversal)	134,340	100,422	2,627	12,112	111	2,520	185	3,512	237	**256,066**	**(177)**
Write off	(11,585)	(23,866)			(22)	–	–	(242)	(8)	**(35,723)**	
Interest accrued on impaired loans	(28,304)	(3,126)	–	(2,182)	–	–	–	(31)	–	**(33,643)**	–
Reversal of allowance previously written off	–	85	–	–	–	–	–	–	–	**85**	–
Reclassification of provision for disposal group	(212)	(2,169)	–	–	–	–	–	–	–	**(2,381)**	–
Effect of business combination (IFRS 3)	(2,995)	(435)	–	–	–	–	–	–	–	**(3,430)**	–
31 December 2015	**418,348**	**280,767**	**8,084**	**40,221**	**877**	**3,784**	**2,038**	**6,625**	**2,392**	**763,136**	**11**
Individual impairment	378,988	263,443	3,353	26,254	838	1,980	–	6,297	1,755	**682,908**	–
Collective impairment	39,360	17,324	4,731	13,967	39	1,804	2,038	328	637	**80,288**	**11**
	418,348	**280,767**	**8,084**	**40,221**	**877**	**3,784**	**2,038**	**6,625**	**2,392**	**763136**	**11**
Total amount of individually impaired loans before allowance for impairment	**843,001**	**546,347**	**5,135**	**76,771**	**838**	**4,380**	–	**10,681**	**3,575**	**1,490,728**	-

(in millions of Russian rubles)

Translation from the Russian original

17. Loans to customers (continued)

2014	Project financing	Commercial loans	Export and pre-export financing	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**	**3,210**	**813**	**–**	**1,749**	**3,169**	**129**	**1,652**	**289,920**	–
Charge/(reversal)	167,545	109,920	2,640	27,641	(25)	1,264	104	217	(129)	511	**309,688**	**188**
Write off	(2,024)	(6,332)	–	–	–	–	–	–	–	–	**(8,356)**	–
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**	**30,291**	**788**	**1,264**	**1,853**	**3,386**	**–**	**2,163**	**582,162**	**188**
Individual impairment	288,747	200,370	3,235	20,890	737	–	–	2,687	–	1,627	**518,293**	–
Collective impairment	33,041	14,774	2,250	9,401	51	1,264	1,853	699	–	536	**63,869**	**188**
	321,788	**215,144**	**5,485**	**30,291**	**788**	**1,264**	**1,853**	**3,386**	**–**	**2,163**	**582,162**	**188**
Total amount of individually impaired loans before allowance for impairment	**642,049**	**430,660**	**4,621**	**59,260**	**737**	**–**	**–**	**2,923**	**–**	**6,022**	**1,146,272**	–

Translation from the Russian original

17. 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.

As at 31 December 2015, reverse repurchase agreements with a carrying amount of RUB 13,716 million were signed primarily in respect of marketable corporate bonds with a fair value of RUB 53 million and marketable shares with a fair value of RUB 9,868 million and. As at 31 December 2014, reverse repurchase agreements with a carrying amount of RUB 5 983 million were signed in respect of marketable shares with a fair value of RUB 1,601 million and marketable corporate bonds with a fair value of RUB 5,988 million.

Reverse repurchase agreements also include a loan to a state-related entity with a carrying value of RUB 10,964 million as at 31 December 2015 (31 December 2014: RUB 9,965 million), and a loan to an entity not related to the Bank with a carrying value of RUB 20,409 million as at 31 December 2015 (31 December 2014: RUB 14,540 million). The Bank provided RUB 25,081 million to the former borrower through the acquisition of non-marketable shares of another state-related entity.

For the year ended 31 December 2015, the Bank signed a reverse repurchase agreement on a non-arm's length basis with a state-related entity. A loss on initial recognition of the loan in the amount of RUB 350 million was recorded in the consolidated statement of profit or loss. As at 31 December 2015, the carrying value of the loan was RUB 957 million.

Concentration of loans to customers

As at 31 December 2015, the total outstanding amount of loans to three major borrowers / groups of related borrowers was RUB 579,755 million, equivalent to 17.3% of the Bank's gross loan portfolio (31 December 2014: RUB 482,700 million or 17.0%). At 31 December 2015, an impairment allowance of RUB 201, 007 million was made against these loans (31 December 2014: RUB 168,639 million). At 31 December 2015, these loans included loans issued to an associate of the Group involved in the real estate business, which accounted for 6.7% (31 December 2014: 6.8%) of the gross loan portfolio.

As at 31 December 2015 and 31 December 2014, 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 722,717 million and RUB 598,796 million, or 21.6% and 21.1% of the gross loan portfolio, respectively. At 31 December 2015 and at 31 December 2014, an impairment allowance was created for these loans in the total amount of RUB 158,900 million and RUB 151,274 million, respectively.

(in millions of Russian rubles)

Translation from the Russian original

17. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans have been granted to the following types of customers:

	2015	2014 (Restated)
Private enterprises	2,729,703	2,290,075
State-controlled entities (Russian Federation)	403,784	380,555
Individuals	87,193	77,988
Companies under foreign state control	75,843	58,455
Foreign states	45,673	26,492
Individual entrepreneurs	1,315	1,773
Regional authorities	819	9,248
	3,344,330	**2,844,586**

Loans are made principally in the following industry sectors:

	2015	%	2014 (Restated)	%
Manufacturing, including heavy machinery and the production of military-related goods	922,257	28	705,299	25
Finance companies	829,512	25	681,137	24
Real estate and construction	612,451	18	563,520	20
Agriculture	196,505	6	171,008	6
Transport	115,917	3	94,002	3
Electric energy	112,952	3	118,445	4
Trade	92,006	3	100,914	4
Individuals	87,193	3	77,988	3
Oil and gas	83,807	3	72,010	3
Mining	83,720	3	60,379	2
Metallurgy	65,040	2	56,321	2
Foreign states	45,673	1	26,492	1
Telecommunications	18,689	1	20,437	1
Science and education	18,514	0	34,737	1
Logistics	8,572	0	8,242	0
Regional authorities	819	0	9,248	0
Mass media	794	0	904	0
Other	49,909	1	43,503	1
	3,344,330	**100**	**2,844,586**	**100**

As at 31 December 2015, loans and similar debt included a total of RUB 2,401,404 million granted to companies and individuals operating in Russia, which is a significant concentration of 72% (31 December 2014: RUB 2,122,524 million, which is a significant concentration of 75%).

(in millions of Russian rubles)

Translation from the Russian original

18. Net investments in leases

Net investments in leases comprise:

	2015	2014 (Restated)
Gross investments in leases	453,694	505,046
Less unearned finance lease income	(107,094)	(120,212)
	346,600	**384,834**
Less allowance for impairment	(3,540)	(4,071)
Net investments in leases	**343,060**	**380,763**

As at 31 December 2015 and 31 December 2014, certain leased-out assets were pledged as collateral under loans received. As at 31 December 2015 and 31 December 2014, the amount of net investments in leases related to assets pledged as collateral under loan agreements was RUB 59,078 million and RUB 49,968 million, respectively.

As at 31 December 2015, the share of the largest Russian lessee was RUB 101,437 million, or 29% of total net investments in leases before allowance for impairment. The second largest amount of net investments in leases issued to the group of related lessees was RUB 36,729 million or 11% of total net investments in leases before allowance for impairment. As at 31 December 2015, the amount of allowance with respect to the assets attributable to the first lessee is RUB 304 million, attributable to the second lessee is RUB 327 million. The mentioned lessee and the group of related lessees operate in the transport sector.

As at 31 December 2014, the share of the largest Russian lessee was RUB 87,558 million, or 23% of total net investments in leases before allowance for impairment. The second-largest amount of net investments in leases issued to the group of related lessees was RUB 53,276 million or 14% of total net investments in leases before allowance for impairment. As at 31 December 2014, the amount of allowance with respect to the assets attributable to the first lessee is RUB 263 million, attributable to the second group is RUB 373 million. The mentioned lessee and the group of related lessees operate in the transport sector.

Below is the maturity profile of gross and net investments in leases as at 31 December 2015:

	Not later than 1 year	1 to 5 years	Later than 5 years	Total
Gross investments in leases	91,015	245,526	117,153	**453,694**
Less unearned finance lease income	(6,449)	(58,320)	(42,325)	**(107,094)**
Net investments in leases before allowance	**84,566**	**187,206**	**74,828**	**346,600**

Below is the maturity profile of gross and net investments in leases as at 31 December 2014:

	Not later than 1 year	1 to 5 years	Later than 5 years	Total
Gross investments in leases	104,781	264,621	135,644	**505,046**
Less unearned finance lease income	(6,426)	(63,138)	(50,648)	**(120,212)**
Net investments in leases before allowance	**98,355**	**201,483**	**84,996**	**384,834**

(in millions of Russian rubles)

Translation from the Russian original

18. Net investments in leases (continued)

Movements in the allowance for impairment for net investments in leases are as follows:

	2015	2014
As at 1 January	**4,071**	**1,569**
Charge	30,319	2,798
Write-offs	(30,843)	(296)
Reclassification of provision for disposal group	(7)	–
As at 31 December	**3,540**	**4,071**
Individual impairment	915	2,333
Collective impairment	2,625	1,738
	3,540	**4,071**
Total net investments in leases, individually assessed as impaired, before allowance for impairment	**1,044**	**124,087**

19. Investment financial assets

Investment financial assets available for sale

Investment financial assets available for sale comprise:

	2015	2014
Debt securities		
Corporate bonds	52,750	67,011
Federal loan bonds (OFZ)	35,063	2,067
Debt instruments issued by foreign government bodies	22,457	20,649
Municipal and sub-federal bonds	4,804	1,872
Promissory notes	–	8,766
	115,074	**100,365**
Eurobonds of Russian and foreign issuers	32,563	35,179
Eurobonds issued by the Russian Federation	8,801	15,187
	156,438	**150,731**
Equity securities	202,572	181,812
Other financial assets available for sale	31,945	36,174
Investment financial assets available for sale	390,955	368,717
Less impairment allowance (Note 24)	(111)	–
	390,844	**368,717**

As at 31 December 2015, the Group pledged securities as collateral with the fair value of RUB 1, 054 million (31 December 2014: RUB 9,709 million) against interbank loans in the amount of RUB 843 million (31 December 2014: RUB 8, 230 million) (Note 26).

(in millions of Russian rubles)

Translation from the Russian original

19. Investment financial assets available for sale (continued)

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

	2015	2014
Available-for-sale investment financial assets pledged under repurchase agreements		
Corporate bonds	55,440	46,918
Federal loan bonds (OFZ)	4,525	501
Equity securities	1	255
Municipal and sub-federal bonds	–	97
	59,966	**47,771**
Eurobonds issued by the Russian Federation	1,054	10,198
Eurobonds of Russian and foreign issuers	1,876	1,555
Total investment financial assets available for sale pledged under repurchase agreements	**62,896**	**59,524**

As at 31 December 2015, equity securities include the Bank's investments with the fair value of RUB 1,136 million (31 December 2014: RUB 1,231 million) in the Russian Bank Capitalization Fund (the RBCF) (Note 11).

The Group recognized an impairment loss of RUB 27, 411 million on available-for-sale financial assets for the year ended 31 December 2015 (for the year ended 31 December 2014: RUB 16 028 million) in gains less losses from investment financial assets available for sale in the consolidated statement of profit or loss (Note 34).

In June 2012, as a result of the early repayment of subordinated loans by a Russian bank (Note 14) 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:

(in millions of Russian rubles)

Translation from the Russian original

19. Investment financial assets available for sale (continued)

	Investment financial assets available for sale were reclassified to	
	Loans and receivables	**Investment financial assets held to maturity**
Carrying value of reclassified assets as at 31 December 2015	24,308	29,061
Fair value of reclassified assets as at 31 December 2015	23,574	29,125
Fair value gain that would have been recognized on the reclassified assets for the year ended 31 December 2015 if the reclassification had not been made	1,238	4,588
Gain/(loss) recognized in the consolidated statement of profit or loss for the year ended 31 December 2015, including:		
- interest income	3,185	3,972
- provision for impairment of interest-earning assets	(66)	–
- amortization of revaluation costs	(660)	(723)
Carrying value of reclassified assets as at 31 December 2014	24,308	46,391
Fair value of reclassified assets as at 31 December 2014	23,574	42,821
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	(3,164)	(4,886)
Gain/(loss) recognized after reclassification in the consolidated 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)

(in millions of Russian rubles)

Translation from the Russian original

19. Investment financial assets available for sale (continued)

Investment financial assets held to maturity

Investment financial assets held to maturity comprise:

	2015	2014
Corporate bonds	19,368	17,007
Eurobonds of Russian and foreign issuers	7,474	3,422
Municipal and sub-federal bonds	374	790
Russian Federation bonds (OFZ)	330	309
	27,546	**21,528**
Less allowance for impairment (Note 24)	–	(81)
Investment financial assets held to maturity	**27,546**	**21,447**

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

	2015	2014
Corporate bonds	6,388	28,273
Eurobonds of Russian and foreign issuers	2,378	2,117
Municipal and sub-federal bonds	797	438
Total investment financial assets held to maturity pledged under repurchase agreements	**9,563**	**30,828**

20. Amounts due from the Russian Government

At 31 December 2015, amounts due from the Russian Government include claims to the Russian Ministry of Finance of RUB 511 million (31 December 2014: RUB 400 million) related to prior year settlements.

(in millions of Russian rubles)

Translation from the Russian original

21. Investments in associates and jointly controlled entities

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

Associates and jointly controlled entities	Ownership 2015	Ownership 2014	Carrying value 2015	Carrying value 2014	Country of incorporation	Type of activity
OJSC "Ilyushin Finance Co."	21.39%	21.39%	3,061	4,031	Russia	Leasing
CJSC "Leader"	27.62%	27.62%	2,784	2,459	Russia	Management company
LLC "VEB-Invest"	19.00%	19.00%	–	–	Russia	Investment
	Share of assets:					
CMIF "Bioprocess Capital Ventures"	50.00%	50.00%	2,252	2,079	Russia	Investment
Other associates and jointly controlled entities			2,569	2,323		
			10,666	**10,892**		
Provision for impairment of investments in associates (Note 24)			**(706)**	**–**		
Total carrying value of investments in associates and jointly controlled entities, net of provision			**9,960**	**10,892**		

The following table illustrates financial information on a significant associate:

OJSC "Ilyushin Finance Co."	**2015**	**2014**
Cash and cash equivalents	288	228
Amounts due from banks	–	–
Loans to customers	–	–
Net investment in leases	10,988	16,598
Investment financial assets available for sale	1,901	116
Property and equipment	729	933
Other assets	18,189	25,160
Total assets	**32,095**	**43,035**
Amounts due to banks	(16,365)	(16,862)
Amounts due to customers	–	–
Income tax liabilities	(251)	(816)
Other liabilities	(1,170)	(6,512)
Total liabilities	**(17,786)**	**(24,190)**
Net assets	**14,309**	**18,845**
The Group's share in net assets	3,061	4,031
Carrying value of investment in the associate	**3,061**	**4,031**

(in millions of Russian rubles)

Translation from the Russian original

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

OJSC "Ilyushin Finance Co."	For the year ended 31 December 2015	For the year ended 31 December 2014
Interest income	290	109
Interest expense	(2,172)	(1,312)
Allowance for impairment of interest-earning assets	(2,862)	(1,045)
Non-interest income	22,318	10,414
Non-interest expense	(22,110)	(8,652)
Profit/(loss) for the year	**(4,536)**	**(486)**
The Group's share in profit/(loss) for the year	(970)	(104)
Total comprehensive income/(loss) for the year	**(4,536)**	**(486)**
Total share of the Group in comprehensive income/(loss)	(970)	(104)
Dividends received from the associate for the year	**–**	**32**

In 2015, the Group's share in the loss of individually insignificant associates and jointly controlled entities amounted to RUB 5,578 million (2014: share in loss was RUB 1,610 million).

At 31 December 2015, the Group's unrecognized share in the loss of its associates amounted to RUB 7,075 million (31 December 2014: RUB 8,897 million). At 31 December 2015, the Group's total unrecognized share in the accumulated loss of its associates amounted to RUB 22,895 million (31 December 2014: RUB 15,820 million).

(in millions of Russian rubles)

Translation from the Russian original

22. 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 2014	**34,876**	**239**	**11,673**	**6,861**	**922**	**16,392**	**70,963**
Additions	303	9	2,817	133	34	4,435	**7,731**
Disposals	(48)	–	(493)	(187)	(55)	(55)	**(838)**
Reclassification of property and equipment to investment property	608	9	–	(4)	–	3	**616**
Transfers	242	–	1,024	41	33	(1,340)	**-**
Effect of business combination (Note 7)	4,163	1,255	1,489	33	–	13	**6,953**
Translation effect	585	375	147	293	(91)	197	**1,506**
Reclassification to non-current assets held for sale	(156)	–	(446)	(84)	–	(1)	**(687)**
31 December 2015	**40,573**	**1,887**	**16,211**	**7,086**	**843**	**19,644**	**86,244**
Accumulated depreciation and impairment							
31 December 2014	**5,073**	**–**	**6,106**	**1,243**	**284**	**–**	**12,706**
Depreciation charge	1,065	–	2,068	498	181	–	**3,812**
Depreciation of property and equipment reclassified to investment property	(77)	–	–	–	–	–	**(77)**
Disposals	(10)	–	(439)	(174)	(53)	–	**(676)**
Impairment	1,953	–	**–**	**–**	**–**	–	**1,953**
Reclassification to non-current assets held for sale	(45)	–	(249)	(52)	–	–	**(346)**
31 December 2015	**7,959**	**–**	**7,486**	**1,515**	**412**	**–**	**17,372**
Net book value							
31 December 2014	**29,803**	**239**	**5,567**	**5,618**	**638**	**16,392**	**58,257**
31 December 2015	**32,614**	**1,887**	**8,725**	**5,571**	**431**	**19,644**	**68,872**

(in millions of Russian rubles)

Translation from the Russian original

22. Property and equipment (continued)

	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	(528)	–	–	–	–	–	**(528)**
Reclassification of property and equipment to assets held for sale	(85)	–	–	(2)	–	–	**(87)**
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	(42)	**1,687**
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	(70)	–	–	–	–	–	**(70)**
Depreciation of property and equipment reclassified to assets held for sale	(20)	–	–	(2)	–	–	**(22)**
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)

Translation from the Russian original

23. Taxation

Income tax comprises:

	2015	2014
Current tax charge	2,181	1,141
Deferred tax (benefit)/expense – origination and reversal of temporary differences in the statement of profit or loss	(1,899)	1,442
Income tax expense	**282**	**2,583**

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 2015 and 2014. 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 25% for 2015 and 18% for 2014. The aggregate income tax rate effective in Ukraine was 18% for 2015 and 2014.

In accordance with federal legislation, effective from the reorganization date income and expenses received and paid by Vnesheconombank are not accounted for when determining the taxable base for income tax purposes. Therefore, the income and expenses of the Bank for 2015 and 2014 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 2015 and 2014.

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

	2015	2014
Current income tax asset	2,005	2,395
Deferred income tax asset	9,253	5,113
Income tax assets	**11,258**	**7,508**
Current income tax liability	334	178
Deferred income tax liability	10,198	7,151
Income tax liabilities	**10,532**	**7,329**

(in millions of Russian rubles)

Translation from the Russian original

23. Taxation (continued)

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:

	2015	2014
Profit/(loss) before income tax	**15,222**	**(247,073)**
Statutory tax rate	20%	20%
Theoretical income tax expense/ (benefit) at the statutory rate	**3,044**	**(49,415)**
Tax effect from the following income and expenses:		
Non-taxable income on state securities or taxed at different rates	(368)	(132)
Income taxed at different rate	417	175
Non-taxable income and non-deductible expenses	3,586	536
Translation differences	1,068	903
Vnesheconombank's income and expenses not included in the tax base for income tax purposes	(14,941)	46,790
Change in income tax resulting from a change in the tax rate and other changes in tax legislation	80	(537)
Change in differed tax assets unrecognized in the statement of financial position	19,268	7,066
Intercompany transaction influence	(9,335)	2,128
Other	(2,537)	(4,931)
Income tax (expence)/benefit	**282**	**2,583**

(in millions of Russian rubles)

Translation from the Russian original

23. Taxation (continued)

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

	2013	Origination and reversal of temporary differences: In the statement of profit or loss	Origination and reversal of temporary differences: In other comprehensive income	Effect of business combination (Note 7)	Currency translation effect	2014	Origination and reversal of temporary differences: In the statement of profit or loss	Origination and reversal of temporary differences: In other comprehensive income	Effect of business combination (Note 7)	Currency translation effect	2015	Effect of classification of disposal group held for sale	2015 (net of disposal group)
Tax effect of deductible temporary differences													
Allowance for impairment	1,690	1,948	–	–	32	3,670	9,343	–	93	89	13,195	–	13,195
Change in fair value of securities	10	–	452	–	(154)	308	530	(1,213)		80	(295)	5	(290)
Initial recognition of financial instruments at fair value	494	84	–	–	–	578	1,658	–	–	–	2,236	(2,102)	134
Tax losses carried forward	9,301	7,299	–	447	(181)	16,866	12,782	–	45	(70)	29,623	–	29,623
Accrued income and expense	47	27	–	–	(22)	52	136	–	–	–	188	–	188
Net investment in leases	–	–	–	–	–	–	13			1	14	–	14
Derivative financial instruments	43	123	–	–	–	166	9	–	–	–	175	–	175
Property and equipment	219	525	–	–	67	811	(130)	(121)	–	(45)	515	–	515
Other	2,765	3,080	–	–	150	5,995	260	–	–	(201)	6054	(11)	6043
	14,569	13,086	452	447	(108)	28,446	24,601	(1,334)	138	(146)	51,705	(2,108)	49,597
Deferred tax assets unrecognized in the statement of financial position	(7,324)	(7,066)	(138)	–	(248)	(14,776)	(19,268)	904	–	4	(33,136)	–	(33,136)
	7,245	6,020	314	447	(356)	13,670	5,333	(430)	138	(142)	18,569	(2,108)	16,461
Tax effect of taxable temporary differences													
Change in fair value of securities	(799)	71	–	–	–	(728)	120	(959)	–	–	(1,567)	–	(1,567)
Loans to customers	(72)	(1,167)	–	–	–	(1,239)	1,066	–	–	75	(98)	–	(98)
Initial recognition of financial instruments at fair value	(800)	106	–	–	–	(694)	(3,344)	–	–	–	(4,038)	3,874	(164)
Allowance for impairment	(178)	44	–	–	(25)	(159)	40	–	–	(1)	(120)	–	(120)
Accrued income and expense	(140)	(38)	–	(420)	(11)	(609)	147	4	(150)	(42)	(650)	(112)	(762)
Net investment in leases	(1,529)	(4,081)	–	–	(3)	(5,613)	252			20	(5,341)	–	(5,341)
Derivative financial instruments	(31)	(484)	–	–	(7)	(522)	303	–	–	1	(218)	(14)	(232)
Property and equipment	(849)	(343)	(121)	(55)	(3)	(1,371)	(115)	121	(740)	(212)	(2,317)	(28)	(2,345)
Other	(3,363)	(1,570)	–	–	160	(4,773)	(1,903)	–	–	(16)	(6,692)	(85)	(6,777)
	(7,761)	(7,462)	(121)	(475)	111	(15,708)	(3,434)	(834)	(890)	(175)	(21,041)	3,635	(17,406)
Deferred tax asset	3,940	1,204	193	26	(250)	5,113	4,553	(309)	138	(242)	9,253	–	9,253
Deferred tax liability	(4,456)	(2,646)	–	(54)	5	(7,151)	(2,654)	(955)	(890)	(75)	(11,725)	1,527	(10,198)

(in millions of Russian rubles)

Translation from the Russian original

24. Other impairment and provisions

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

	Investment securities	Other assets	Investments in associates	Claims	Insurance activity	Guarantees and commitments	Total
31 December 2013	**74**	**4,309**	**–**	**85**	**902**	**470**	**5,840**
Charge/(reversal)	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**
Charge	111	9,394	**706**	360	1,581	9,127	**21,279**
Write-offs	(7)	(1,019)		(66)		(2,749)	**(3,841)**
Reclassification of provision for disposal group	(74)	(777)	–	–	–	(75)	**(926)**
Effect of business combination (IFRS 3) (Note 7)	–	–	–	167	–	–	**167**
31 December 2015	**111**	**18,847**	**706**	**802**	**4,021**	**9,967**	**34,454**

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

25. Other assets and liabilities

Other assets comprise:

	2015	2014 (restated)
Settlements with suppliers and other debtors	48,214	30,311
Advances issued to leasing equipment suppliers	44,680	40,755
Equipment purchased for leasing purposes	41,121	2,595
Inventories of non-banking subsidiaries	23,712	18,858
Investment property	8,416	8,309
Investment property under construction	7,257	8,198
Repossessed collateral	6,470	4,778
Fees and commissions and other claims under loan transactions	5,069	3,992
Intangible assets	4,375	4,179
Prepaid expenses	3,031	2,930
Prepaid securities	1,565	2,070
Other tax assets	1,476	3,670
Settlements on outstanding operations with securities	201	965
Spot transactions	157	551
Other	774	6,405
	196,518	**138,566**
Less provision allowance for impairment of other assets (Note 24)	(18,847)	(11,249)
Other assets	**177,671**	**127,317**

(in millions of Russian rubles)

Translation from the Russian original

25. Other assets and liabilities (continued)

The growth in other assets of the Group during 2015 was primarily due to increasing in receivables under contracts for equipment purchased for leasing purposes in the amount of RUB 38,526 million and restructuring of lease contracts in the amount of RUB 12,543 million.

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:

	2015	**2014**
At 1 January	**8,309**	**7,551**
Additions	643	197
Repossessed collateral	600	–
Transfer from property and equipment	–	399
Transfer from assets held for sale	15	27
Transfer from investment property under construction	2	44
Revaluation	(430)	262
Disposals	(158)	(205)
Reclassification to property and equipment	(438)	–
Reclassification to assets held for sale	(25)	–
Transfer from other assets	344	295
Other	(446)	(261)
At 31 December	**8,416**	**8,309**
Amounts recorded in the consolidated statement of profit or loss:		
- rental income	202	146
- gain from sale of investment property	2	2
- operating expenses affecting rental income	(20)	(17)
- operating expenses not affecting rental income	(44)	(54)

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 6,671 million (31 December 2014: RUB 6,757 million), less accumulated amortization of RUB 2,296 million (31 December 2014: RUB 2,578 million). In 2015, the Group disposed of intangible assets in the amount of RUB 640 million (2014: RUB 217 million), less accumulated amortization of RUB 605 million (2014: RUB 216 million). The respective amortization charges for the year ended 31 December 2015 are RUB 909 million (for the year ended 31 December 2014: RUB 908 million), which are included in other operating expenses.

As at 31 December 2015, 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 2014: RUB 1,381 million).

(in millions of Russian rubles)

Translation from the Russian original

25. Other assets and liabilities (continued)

Other liabilities

Other liabilities comprise:

	2015	2014 (Restated)
Deferred income related to government assistance	11,533	4,435
Advance proceeds from sale of property	7,689	5,239
Future period income	7,021	6,421
Other settlements with clients	4,726	4,429
Received and unused subsidies	1,570	2,328
Settlements with employees	1,581	3,604
Other settlements with banks	3,030	2,835
Settlements on operations with securities	121	303
Advances received from lessees	6,062	3,898
Spot transactions	105	612
Other	4,912	2,216
Other liabilities	**48,350**	**36,320**

As at 31 December 2015 and 31 December 2014, other liabilities also include deferred income related to government assistance in the amount of RUB 11,533 million and RUB 4,435 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, as well as a subsidy of RUB 3,000 million received by a subsidiary bank in June 2015, which represents an asset contribution provided by the Russian Ministry of Industry and Trade as compensation of shortfall in income on loans granted to support the manufacturers of high-tech products. Government assistance was provided to Vnesheconombank in December 2012 in the amount of RUB 3,000 million, in June 2014 in the amount of RUB 1,510 million and in March 2015 in the amount of RUB 4,466 million pursuant to Resolution of the Russian Government No. 1302 dated 13 December 2012. As at 31 December 2015, part of these funds in the amount of RUB 5,631 million was reserved for the entire term of loan agreements for export loans issued in 2015 to ensure the availability of funds on the established interest payment dates. At 31 December 2014, RUB 2,796 million was reserved for export loans issued in 2014.

As at 31 December 2015, other liabilities in the received and unused subsidies include a subsidy of RUB 1,570 million received in December 2015, which represents an asset contribution by the Russian Federation to Vnesheconombank for implementing top-priority development projects in the Baikal region within the framework of the RF government program “Socio-economic development of the Far East and the Baikal regions” through payment of additional share issue of OJSC “Far East and Baikal Region Development Fund”.

(in millions of Russian rubles)

Translation from the Russian original

26. Amounts due to banks

Amounts due to banks comprise:

	2015	2014
Correspondent loro accounts of Russian banks	113,165	98,994
Correspondent loro accounts of other banks	2,710	3,150
Loans and other placements from OECD-based banks	418,555	460,385
Loans and other placements from Russian banks	257,023	246,356
Loans and other placements from other banks	219,384	201,655
Repurchase agreements	8,580	–
Amounts due to banks	**1,019,417**	**1,010,540**
Held as security against letters of credit	196	172

As at 31 December 2015, 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 three-month MosPrime plus 2.4% for RUB-denominated loans (31 December 2014: from 8.5% to 31.6%), from three-month LIBOR plus 0.2% to 7.6% for USD–denominated loans (31 December 2014: from three-month LIBOR plus 0.2% to 7.6%), from six-month EURIBOR plus 0.3% to 6.6% for EUR-denominated loans (31 December 2014: from six-month EURIBOR plus 0.3% to 16.7%) and 5.7% for GBP-denominated loans (31 December 2014: from six-month interpolated LIBOR plus 1.9% to 7.9%). At 31 December 2015 and 31 December 2014, this item also includes deposits held as security against letters of credit.

As at 31 December 2015, loans and other placements from Russian banks include loans denominated in RUB, USD and EUR with interest rates ranging from 4.0% to 18.5% for RUB-denominated loans (31 December 2014: from 0.3% to 25.0%), from 0.5% to 8.8% for USD-denominated loans (31 December 2014: from 4.1% to 7.7%), from three-month EURIBOR plus 5.1% to 9.0% for EUR-denominated loans (31 December 2014: from 2.7% to 7.0% At 31 December 2015 and 31 December 2014, this item also includes deposits held as security against letters of credit.

As at 31 December 2015, loans and other placements from non-OECD-based banks include loans denominated in RUB, USD, EUR, CNY, BYR and UAH with interest rates of 10.1% for RUB-denominated loans (31 December 2014: from 10.3% to 11.0%), from 1.9% to 7.0% for USD-denominated loans (31 December 2014: from 1.7% to 6.3%), from 3.0% to six-month EURIBOR plus 4.0% for EUR-denominated loans (31 December 2014: 2.9%). At 31 December 2015, loans and other placements from non-OECD-based banks also include CNY-denominated loans with interest rates ranging from 4.6% to 4.7% (31 December 2014: no balances), BYR-denominated loans with interest rates of 29.1% (31 December 2014: 50%), UAH-denominated loans with interest rates of 22.1% (31 December 2014: 19.5%). At 31 December 2015 and 31 December 2015, this item also includes deposits held as security against letters of credit.

As at 31 December 2015, loans and other placements from other banks include loans from foreign banks in the amount of RUB 843 million, collateralized by debt instruments issued by foreign government bodies with a collateral value of RUB 1,054 million. 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.

(in millions of Russian rubles)

Translation from the Russian original

26. Amounts due to banks (continued)

As at 31 December 2015, repurchase agreements with banks include loans of RUB 340 million received from foreign banks and collateralized by debt securities available for sale with a fair value of RUB 357 million, loans of RUB 3,682 million received from Russian banks and collateralized by debt securities available for sale with a fair value of RUB 4,265 million, loans of RUB 3,700 million received from Russian banks and collateralized by debt securities held to maturity with a fair value of RUB 4,356 million as well as loans of RUB 1 million received from Russian banks and collateralized by equity securities available for sale with a fair value of RUB 1 million (Note 13).

As at 31 December 2015, repurchase agreements with banks include loans of RUB 616 million received from Russian banks and collateralized by debt securities recorded as loans to customers with a fair value of RUB 898 million, loans of RUB 241 million received from Russian banks and collateralized by debt securities recorded as amounts due from banks with a fair value of RUB 284 million. At 31 December 2014, there were no balances of repurchase agreements with banks.

In 2015, the Group raised long-term financing from OECD-based banks totaling RUB 7,243 million (2014: RUB 48,568 million) and repaid long-term financing of RUB 104,842 million (2014: RUB 130,617 million) in accordance with the contractual terms. In 2015, the Group also raised long-term financing from non-OECD-based banks totaling RUB 2,989 million (2014: RUB 106,390 million) and repaid long-term financing of RUB 23,438 million (2014: RUB 8,499 million) in accordance with the contractual terms.

In addition, in 2015, a leasing company of the Group raised long-term financing from Russian and foreign banks totaling RUB 12,013 million (2014: RUB 62,360 million) and repaid long-term financing of RUB 63,495 million (2013: RUB 42,934 million) in accordance with the contractual terms.

27. Amounts due to customers

Amounts due to customers comprise:

	2015	**2014**
Current accounts	205,004	162,530
Term deposits	437,230	345,551
Repurchase agreements	82	636
Other amounts due to customers	–	11
Amounts due to customers	**642,316**	**508,728**
Held as security against guarantees	**620**	**481**
Held as security against letters of credit	**3,063**	**5,459**

At 31 December 2015 and 31 December 2014, amounts due to the Bank's four largest customers amounted to RUB 149,921 million and RUB 96,656 million, respectively, representing 23.3% and 19%, 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:

(in millions of Russian rubles)

Translation from the Russian original

27. Amounts due to customers (continued)

	2015	2014
Manufacturing, including heavy machinery and production of military-related goods	76,394	48,170
Finance services	75,344	43,159
Telecommunications	38,720	35,911
Transport	9,503	–
Agriculture and food industry	14,071	–
Total	**214,032**	**127,240**

Term deposits include deposits of individuals in the amount of RUB 140,221 million (31 December 2014: RUB 118,055 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 bank 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. In accordance with the Civil Code of Ukraine, the return of a fixed-term deposit and the accrued interest on demand of the depositor before expiration of their term or before occurrence of other circumstances specified in the agreement is only possible if it is explicitly provided in the deposit agreement.

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

	2015	2014
State and state-controlled entities	206,150	173,136
Private companies	265,853	199,337
Employees and other individuals	161,680	131,648
Companies under foreign state control	8,633	4,607
Amounts due to customers	**642,316**	**508,728**

At 31 December 2015, repurchase agreements with customers include funds of RUB 81 million received from a Russian entity and collateralized by debt securities available for sale with a fair value of RUB 80 million as well as funds of RUB 1 million received from a Russian entity and collateralized by equity securities available for sale with a fair value of RUB 0 million (Note 13). 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 13) 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 13).

(in millions of Russian rubles)

Translation from the Russian original

28. Debt securities issued

Debt securities issued comprise:

	2015	2014
Eurobonds	702,879	552,028
Domestic bonds	457,584	415,161
Promissory notes	18,384	15,948
Saving and deposit certificates	1,048	8
Debt securities issued	**1,179,895**	**983,145**
Promissory notes held as security against guarantees	**859**	**1,092**

(in millions of Russian rubles)

Translation from the Russian original

28. Debt securities issued (continued)

During 2015, the Group issued /placed for the second time in the domestic market the following bonds:

			Nominal value of securities issued		
Issued, month	**Maturity**	**Issue currency**	**Currency, million**	**At the placement date, RUB million**	**Secondary placement**
January	December 2021	RUB	920	920	Yes
January - February	April 2022	RUB	559	559	Yes
January - March	April 2016	RUB	2,143	2,143	Yes
February	February 2018	RUB	5,000	5,000	–
February	February 2025	RUB	5,000	5,000	–
February	February 2025	RUB	5,000	5,000	–
March	December 2016	BYR	21,202	87	Yes
March	February 2025	RUB	5,000	5,000	–
March	February 2025	RUB	5,000	5,000	–
March	March 2017	RUB	5,000	5,000	–
March	March 2018	RUB	5,000	5,000	–
March	February 2032	RUB	828	828	Yes
March	November 2015	RUB	1,932	1,932	Yes
April	April 2021	RUB	125	125	Yes
April-May	March 2022	RUB	2,009	2,009	Yes
May	May 2017	USD	1	50	Yes
May	May 2018	RUB	5,000	5,000	–
May	September 2016	BYR	12,372	44	Yes
May	September 2017	BYR	14,965	53	Yes
May	December 2021	RUB	3,525	3,525	Yes
May	November 2015	RUB	189	189	Yes
June -July	June 2020	RUB	5,000	5,000	–
July	July 2025	USD	200	11,953	–
July	June 2020	RUB	4,665	4,665	Yes
July	May 2017	USD	73	4,249	Yes
July	July 2016	RUB	281	281	Yes
July	July 2018	RUB	10,000	10,000	–
August	December 2021	RUB	1,210	1,210	Yes
August	August 2025	RUB	5,000	5,000	–
August	August 2020	RUB	5,000	5,000	–
August	December 2016	RUB	2,000	2,000	Yes
September	February 2032	RUB	6,194	6,194	Yes
September	September 2025.	RUB	3,000	3,000	–
October	September 2032	RUB	647	647	Yes
October	September 2032	RUB	706	706	Yes
October	October 2021	RUB	61	61	–
October	October 2021	RUB	588	588	Yes
October	October 2021	RUB	1,386	1,386	–
October - November	April 2022	RUB	600	600	Yes
November	October 2021	RUB	281	281	Yes
November	November 2025	RUB	5,000	5,000	–
November	December 2021	RUB	1	1	Yes
November	April 2016	RUB	305	305	Yes
November	September 2016	BYR	1,491	5	Yes
December	November 2017	RUB	2,500	2,500	Yes
December	August 2016	RUB	1,900	1,900	Yes

(in millions of Russian rubles)

Translation from the Russian original

28. Debt securities issued (continued)

During 2015, the Group repaid /repurchased in the domestic market the following 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	Purchase under offer
July 2010	January	RUB	787	787	–	Yes
February 2012	February	RUB	2,000	2,000	–	–
February 2012	February	USD	500	31,065	–	–
December 2013	February	RUB	1,195	1,195	1,170	Yes
June 2012	February	BYR	20,210	85	–	Yes
December 2011	March	BYR	4,000	17	–	Yes
March 2012	March	RUB	828	828	–	Yes
November 2011	March	RUB	649	649	–	Yes
April 2011	April	RUB	125	125	–	Yes
May 2014	May	USD	334	16,669	–	Yes
November 2012	May	RUB	189	189	–	Yes
April ь 2013	May	RUB	3,209	3,209	–	Yes
November 2013	May	RUB	625	625	–	–
November 2013	May	RUB	625	625	–	–
December 2011	June	RUB	2,682	2,682	–	Yes
December 2011	June	BYR	2,770	10	–	Yes
October 2011	June	BYR	1,260	5	–	Yes
September 2012	June	BYR	14,600	52	–	Yes
July 2010	June	RUB	673	673	158	Yes
July 2013	June	RUB	281	281	–	Yes
April 2011	June	BYR	2,460	9	–	Yes
March 2012	July	RUB	6,194	6,194	–	Yes
October 2011	September	BYR	10,940	41	–	Yes
March 2013	September	RUB	1,250	1,250	–	–
November 2012	October - December	RUB	5,000	5,000	2,000	–
October 2012	October	RUB	647	647	–	Yes
October 2012	October	RUB	706	706	–	Yes
October 2014	October	RUB	588	588	–	Yes
April 2012	October	RUB	2,570	2,570	–	Yes
November 2014	November	RUB	5,307	5,307	–	Yes
November 2013	November	RUB	625	625	–	–
November 2013	November	RUB	625	625	–	–
November 2014	November	RUB	280	280	–	Yes
April 2013	November	RUB	1,980	1,980	–	Yes
October 2011	December	BYR	1,420	5	–	Yes
June 2015	December	RUB	500	500	–	–
December 2012	December	RUB	5,762	5,762	–	–

(in millions of Russian rubles)

Translation from the Russian original

28. Debt securities issued (continued)

During 2014, the Group issued /placed for the second time in the domestic market the following bonds:

Issued, month	Repaid, month	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	Secondary placement
January	January 2024	RUB	5,000	5,000	5,000	–
January - December	September 2016	BYR	71,895	309	–	Yes
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	–
March - September	August 2017	BYR	101,836	414	–	Yes
April	April 2021	RUB	5,000	5,000	–	Yes
April - December	April 2022	RUB	7,560	7,560	988	Yes
May	May 2017	USD	500	17,919	–	Yes
May - December	November 2015	RUB	4,654	4,654	1,194	Yes
June	June 2021	RUB	212,636	212,636	–	–
September	August 2029	RUB	1,000	1,000	–	–
October	December 2016	RUB	295	295	175	Yes
October	October 2021	RUB	4,939	4,939	–	Yes
November	November 2017	RUB	9,000	9,000	–	–
November	October 2021	RUB	3,614	3,614	–	Yes
November	April 2016	RUB	80	80	–	Yes
December	December 2015	RUB	3,000	3,000	–	–
December	September 2017	BYR	1,952	8	–	Yes
December	December 2015	RUB	5,826	5,826	–	Yes

(in millions of Russian rubles)

Translation from the Russian original

28. Debt securities issued (continued)

During 2014, the Group repaid /purchased in the domestic market the following bonds:

			Nominal value of securities repaid			
Issued, month	**Repaid, month**	**Issue currency**	**Currency, million**	**At the repayment date, RUB, million**	**Nominal value of securities in the portfolios of the Group entities at the repayment date RUB, million.**	**Purchased under offer**
January 2011	January - July	UAH	591	2,383	–	–
July 2010	January	RUB	642	642	–	–
October 2011	January - December	BYR	75,181	292		Yes
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
Julne 2012	March - September	BYR	80,533	312		Yes
March 2012	March	RUB	4,351	4,351	–	Yes
April 2011	April	RUB	5,000	5,000	–	Yes
April 2012	April - December	RUB	7,462	7,462	700	Yes
April 2013	May-December	RUB	7,111	7,000		Yes
December 2013	June	RUB	5,000	5,000	5,000	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
November 2011	October	RUB	5,000	5,000	–	Yes
November 2011	November	RUB	5,000	5,000	–	Yes
November 2011	November	RUB	1,531	1,531	5	Yes
December 2012	December	RUB	4,607	4,607	320	Yes
September 2012	December	BYR	1,896	7	–	Yes

During 2015, the Bank sold previously purchased debt securities in the total amount of RUB 2,688 million (during 2014: RUB 3,858 million).

At 31 December 2015, debt securities issued include Eurobonds placed at the market rate denominated in USD maturing from May 2016 to November 2025 (31 December 2014: from May 2016 to November 2025), in CHF maturing in February 2016 (31 December 2014: in February 2016) and in EUR maturing from February 2018 to February 2023 (31 December 2014: from February 2018 to February 2023).

At 31 December 2015, included in debt securities issued are bonds placed at the market rate denominated in RUB maturing from April 2016 to September 2032 (31 December 2014: from November 2015 to September 2032), denominated in USD maturing from May 2017 to July 2025 (31 December 2014: from February 2015 to May 2017), as well as bonds denominated in BYR maturing from September 2016 to December 2016 (31 December 2014: from September 2016 to August 2017).

(in millions of Russian rubles)

Translation from the Russian original

28. Debt securities issued (continued)

At 31 December 2015, the Group's debt securities issued include interest-bearing promissory notes denominated in RUB, maturing before December 2049 (31 December 2014: maturing before December 2049), denominated in USD, maturing before August 2019 (31 December 2014: before May 2018) and denominated in EUR, maturing before March 2016 (31 December 2014: before January 2016). At 31 December 2015, interest rates range from 8.5% to 13.5% on RUB-denominated promissory notes (31 December 2014: from 8.5% to 14.5%), from 0.3% to 1.6% on USD-denominated promissory notes (31 December 2014: from 0.2% to 1.7%) and on a collateralized EUR-denominated promissory note issued by a subsidiary bank at the rate of 0% (31 December 2014: 0.2%).

At 31 December 2015, debt securities issued include RUB-denominated saving certificates issued by a subsidiary bank at interest rates from 0.1% to 0.5% maturing from July 2019 to February 2022 and USD-denominated deposit certificates issued by a subsidiary bank at interest rates from 9% to 12.1%, maturing from December 2015 to December 2016, EUR-denominated deposit certificates at interest rates from 8.3% to 11.5%, maturing from January to December 2016, and also UAH-denominated deposit certificates at interest rates of 23-24%, maturing from February to December 2016 (31 December 2014 : interest rates on saving certificates range from 0.1% to 0.5%, maturing from June 2016 to February 2022, there are no deposit certificates).

29. Finance lease liabilities

Liabilities under finance lease agreements at 31 December 2015 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	11,825	45,434	54,355	**111,614**
Prepaid financial expenses	(63)	(1,510)	(4,143)	**(5,716)**
Net liabilities under finance lease agreements	**11,762**	**43,924**	**50,212**	**105,898**

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)

Translation from the Russian original

30. Equity

Authorized capital

In accordance with Article 18 of the Federal Law, the Bank's authorized 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 authorized 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 authorized 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 authorized 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 authorized 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 authorized 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 authorized 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 authorized capital of Vnesheconombank.

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 authorized capital of Vnesheconombank in December 2014.

Pursuant to Federal Law No. 109-FZ of 2 May 2015 “On the Specifics of Transfer in 2015 of the Profit Received by the Central Bank of the Russian Federation on the Results of 2014” , the Bank of Russia in May 2015 made an asset contribution to the authorized capital of Vnesheconombank in the amount of RUB 27,502 million (15% of profit).

(in millions of Russian rubles)

Translation from the Russian original

30. Equity (continued)

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 Planning 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 Planning 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 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 authorized capital of Vnesheconombank and their fair value.

In December 2014, pursuant to Federal Law No. 349-FZ dated 2 December 2013 "On the Federal Budget for 2014 and for the 2015 and 2016 Planning Period", the Russian Ministry of Finance granted to the Bank a subsidy in the form of an asset contribution of RUB 2,328 million to purchase 2,129 additional units of its subsidiary Mutual Fund RDIF. In April 2015, the full amount of the subsidy was used as intended and recognised as additional paid-in capital.

In June 2015, pursuant to Federal Law No. 384-FZ dated 1 December 2014 "On the Federal Budget for 2015 and for the 2016 and 2017 Planning Period", Vnesheconombank received a subsidy from the federal budget in the form of an asset contribution of the Russian Federation to purchase EXIAR shares for the purposes of increasing the share capital of EXIMBANK OF RUSSIA under the subprogram "Creation of the National System to Support Development of Foreign Economic Activity" of the RF Government Program "Development of Foreign Economic Activity". Vnesheconombank allocated full amount of these funds to purchase 10,000,000 shares of EXIAR.

(in millions of Russian rubles)

Translation from the Russian original

30. Equity (continued)

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 2014 and a loss attributable to the Russian Government for 2015.

A gain on 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).

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 are as follows:

	2015	**2014**
Unrealized gains/(losses) on investment financial assets available for sale	25,546	(17,243)
Realized gains on investment financial assets available for sale, reclassified to the statement of profit or loss (Note 34)	2,337	1,324
Impairment loss on investment financial assets available for sale, reclassified to the statement of profit or loss	22,645	12,262
Change in unrealized gains/(losses) on operations with investment financial assets available for sale	**50,528**	**(3,657)**

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.

(in millions of Russian rubles)

Translation from the Russian original

31. 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 2015, the Russian economy continued to be negatively impacted by a significant drop in oil prices, significant devaluation of the Russian ruble, and certain sanctions imposed against Russia by several countries in 2014. Despite gradual decrease in the key rate of the Bank of Russia during 2015 and after its sharp rise in December 2014, the level of interest rates in rubles remained high.

In January 2015, Fitch Ratings downgraded Russia’s credit rating to BBB-, the credit rating assigned by Moody's was Baa3, while Standard & Poor's cut it to BB+ for the first time in a ten-year period. In February 2015, Moody`s downgraded Russia's rating from Baa3 to Ba1. The forecast of all agencies is negative.

In January 2015, international rating agencies downgraded Vnesheconombank ratings. The long-term foreign currency issuer default rating assigned by Fitch was BBB-, the long-term foreign currency issuer credit rating assigned by Moody's was Baa3, the long-term credit rating for foreign currency obligations assigned by Standard & Poor’ was BB+. In February 2015, Moody's downgraded the long-term foreign currency credit rating of Vnesheconombank to Ba1. In July 2015, in addition to Vnesheconombank, the US sectoral sanctions were imposed on the Group’s subsidiaries.

The combination of these factors caused reduction in capital availability and increased its cost and also led to a rise in inflation and uncertainty regarding future economic growth, which subsequently may negatively affect the Group’s financial position, its performance and economic prospects.

The Group's management considers all these factors and believes that it takes all adequate steps to support the Group’s sustainability under current conditions.

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. Since 1 January 2015, the Belarusian economy has ceased to be treated as hyperinflationary. 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.

(in millions of Russian rubles)

Translation from the Russian original

31. Commitments and contingencies (continued)

Operating environment (continued)

In 2015, the Government of the Republic of Belarus continued to take stabilization measures aimed to support the economy in order to overcome the consequences of the global financial crisis. The global financial crises caused uncertainties regarding future economic growth, availability of financing and cost of capital, which could have a negative effect on the Group's activities and economic prospects.

In 2015, 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 31 December 2015, the Ukrainian hryvnia depreciated against major currencies by approximately 52%, 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. In March 2015, Ukraine completed its negotiations on the 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 2015 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 2015, 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 27,029 million net of allowance (allowance for impairment of these loans amounted to RUB 20,128 million as at 31 December 2015), and other assets in the amount of RUB 5,299 million net of allowance (allowance for impairment amounted to RUB 4,769 million). As at 31 December 2015, loans to customers of the Group's subsidiary amounted to RUB 17,124 million (allowance for impairment amounted to RUB 4,410 million), and other assets in the amount of RUB 4,656 million (allowance for impairment amounted to RUB 2,774 million).

The Group's management considers that as at 31 December 2015 the risks of consequences caused by the situation in Ukraine could also affect Vnesheconombank loans issued to third parties for acquisition of securities and financing of steel companies of Ukraine with a carrying value of RUB 618,169 million before allowance (31 December 2014: RUB 474,495 million). Allowance for impairment of these loans as at 31 December 2015 amounted to RUB 183,036 million (31 December 2014: RUB 149,559 million).

The Group keeps monitoring the situation in Ukraine and taking the relevant steps to mitigate the effect of such risks. Any further possible deterioration of the current situation in Ukraine could adversely impact the results and financial position of the Group in a manner not currently determinable.

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 24.

(in millions of Russian rubles)

Translation from the Russian original

31. 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, are often unclear, contradictory, and subject to varying interpretations (which may have the retrospective effect). In addition, the provisions of the Russian tax law applicable to financial instruments (including derivative and securities transactions) are subject to significant uncertainty and lack interpretive guidance. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional or federal authorities.

Interpretation of the said provisions of the Russian tax legislation along with recent trends in law enforcement practice points to possible increases in both the amount of tax paid and tax penalties, among other things, due to the fact 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. At the same time, determination of size and possibility of adverse results of such tax claims could not be measured. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

At 31 December 2015, 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:

	2015	2014
Credit-related commitments		
Undrawn loan commitments	535,362	590,772
Guarantees	428,663	482,391
Letters of credit	19,131	22,727
	983,156	**1,095,890**
Operating lease commitments		
Not later than 1 year	3,063	2,981
Later than 1 year but not later than 5 years	6,217	7,294
Later than 5 years	4,700	3,923
	13,980	**14,198**
Co-investment commitments	5,705	4,619
Capital expenditure commitments	82,830	54,009
	1,085,671	**1,168,716**
Less provisions (Note 24)	(9,967)	(3,664)
Commitments and contingencies (before deducting collateral)	**1,075,704**	**1,165,052**
Less deposits and securities issued, held as security against guarantees and letters of credit	(4,738)	(7,204)
Commitments and contingencies	**1,070,966**	**1,157,848**

(in millions of Russian rubles)

Translation from the Russian original

31. Commitments and contingencies (continued)

At 31 December 2015, the Group advised export letters of credit for a total amount of RUB 117,388 million (31 December 2014: RUB 141,835 million). The Group bears no credit risks under export letters of credit.

At 31 December 2015, credit-related commitments include liabilities in favor of one counterparty, a state company, in the amount of RUB 198,595 million, which accounts for 20% (31 December 2014: RUB 130,248 million, 12%) of all credit-related commitments.

At 31 December 2015, credit-related commitments do not include guarantees of the Group under liabilities of other banks to the Bank of Russia (31 December 2014: RUB 136,839 million).

Insurance

At 31 December 2015, the Group's premises are insured for RUB 35,821 million (31 December 2014: RUB 38,013 million). At present, liability insurance is not widely spread in Russia, the Republic of Belarus and Ukraine.

32. Interest income and expense

	2015	2014
Interest income		
Loans to customers	229,761	182,505
Amounts due from banks and cash equivalents	25,072	37,175
Investment securities	26,412	20,989
	281,245	**240,669**
Finance leases	39,496	34,222
Other investment financial assets available for sale	3,250	3,250
Financial assets at fair value through profit or loss	934	2,119
Government subsidy used	367	75
	325,292	**280,335**
Interest expense		
Amounts due to banks and the Bank of Russia	(102,005)	(66,735)
Amounts due to customers and the Russian Government	(80,489)	(67,153)
Debt securities issued	(74,853)	(45,660)
	(257,347)	**(179,548)**
Finance lease liabilities	(926)	(498)
	(258,273)	**(180,046)**

33. Net fee and commission income

Net fee and commission income comprises:

	2015	2014
Cash and settlement operations	4,983	4,460
Guarantees and letters of credit	4,871	4,068
Agency fees	534	540
Trust management of pension funds	548	557
Operations with securities	176	98
Other	792	858
Fee and commission income	**11,904**	**10,581**
Fee and commission expense	(2,763)	(2,459)
Net fee and commission income	**9,141**	**8,122**

(in millions of Russian rubles)

Translation from the Russian original

34. 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:

	2015	2014
Gains less losses on sale of investment financial assets available for sale, previously recognized in other comprehensive income (Note 30)	(2,337)	(1,324)
Losses on impairment of investment financial assets available for sale (Note 19)	(27,411)	(16,028)
Other gains from sale and redemption of investment financial assets	1,358	695
Total gains less losses on sale of investment financial assets available for sale	**(28,390)**	**(16,657)**

35. Other operating income and expenses

Other operating income comprises:

	2015	2014
Sales revenue	6,020	12,844
Effect of business combination	5,118	–
Income from financing activities	4,009	1,910
Penalties received	3,825	1,576
Insurance	2,420	860
Rental income	1,032	1,443
Gains from disposal of property and equipment	441	358
Gains from disposal of leased assets	415	333
Gains from revaluation of investment property	97	613
Other	4,667	3,248
Total	**28,044**	**23,185**

35. Other operating income and expenses (continued)

Other operating expenses comprise:

	2015	2014
Loss on impairment of goodwill	4,859	–
Cost of sales	4,630	10,741
Charity	4,382	2,803
Legal services	2,456	1,321
Insurance	2,332	1,795
Advertising expenses	2,002	1,751
Loss on impairment of property and equipment	1,901	9
Administrative expenses	1,820	1,362
Audit and consulting	1,633	1,211
Loss on write-off of impaired assets	983	936
Marketing and research	973	1,026
Amortization of intangibles	909	908
Deposits' insurance	780	674
Loss on revaluation of investment property	527	351
Sponsorship	349	217
Loss on sale of loans	4	110
Other	6,972	5,088
Total	**37,512**	**30,694**

(in millions of Russian rubles)

Translation from the Russian original

36. 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 risk management process 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 2015, risk management coordination continued under the implementation of the Risk Management Policy of Vnesheconombank 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).

Vnesheconombank's risk management structure

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

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Introduction (continued)

Supervisory Board

Pursuant to the Regulation on the Supervisory Board, powers of the Bank's Supervisory Board in the area of risk management include: approval of the 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.

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, submission of consolidated reports on the risks posed to Vnesheconombank and the Group as a whole to the Management Board of Vnesheconombank, and approval of the candidates responsible for resolving risk management issues for the members of the Group.

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Introduction (continued)

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 on 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 on assets and liabilities management, including issues related to managing the Bank's market and structural risks and ensuring that the Bank's operations are break-even.

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

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

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

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

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Introduction (continued)

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, drafting proposals to limit the risk level, performing follow-up monitoring of compliance with the established risk limits and relevant risk decisions, and preparing reports by types of risks and the Bank's business lines.

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)

Translation from the Russian original

36. 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.

Risks are monitored and limited primarily based on the limits established by the Bank. These limits reflect the level of risk which is acceptable for the Bank and set strategic priorities for each line of the Bank's business.

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

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

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

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

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

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 function, the Bank uses derivatives and other instruments to manage exposures arising from changes in interest rates, currency rates, equity prices, credit risk factors, and from changes in positions caused by the changed level of the current or forecasted risk.

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 is 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 procedures, 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.

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Credit risk (continued)

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

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

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

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

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

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

Credit-related commitments risks

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

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

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Credit risk (continued)

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 17.

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

Credit quality per class of financial assets

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

Translation from the Russian original

36. 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. Assets within cash and cash equivalents are categorized as high grade because the Bank believes they do not carry credit risk.

2015	Notes	Not past due				Past due	Total
		Not impaired			Individually impaired		
		High grade	Standard grade	Sub-standard grade			
Cash and cash equivalents except cash on hand	11	**376,541**	**–**	**–**	**–**	**–**	376,541
Financial assets lent and pledged under repurchase agreements	13						
Amounts due from banks pledged under repurchase agreements		280	–	–	–	–	280
Loans to customers pledged under repurchase agreements		–	897	–	–	–	897
Investment securities pledged under repurchase agreements							
- Available for sale		58,219	4,677	–	–	–	62,896
- Held to maturity		6,757	2,806	–	–	–	9,563
		65,256	**8,380**	–	–	–	**73,636**
Amounts due from banks	14						
Interbank loans under small and medium-sized business support program							
Mortgage bonds		7,639	–	–	–	–	7,639
Other amounts due from banks		**39,093**	**6,872**	**10**	**3,050**	–	**49,025**
		46,732	**6,872**	**10**	**3,050**	–	**56,664**
Loans to customers	17						
Project finance		107,409	478,806	196,822	410,930	458,344	1,652,311
Commercial loans, including loans to individuals		107,516	367,598	81,975	322,715	227,085	1,106,889
Financing of operations with securities		250,317	–	–	76,771	–	327,088
Export and pre-export finance		52,994	30,463	12,354	–	5,135	100,946
Reverse repurchase agreements		39,694	1,972	–	–	4,380	46,046
Back-to-back finance		36,518		–	–	–	36,518
Claims under letters of credit		1,944	6,989	–	1,341	9,344	19,618
Mortgage bonds		–	7,060	–	–	–	7,060
Promissory notes		2,745	10	–	66	772	3,593
Other		30,748	6,035	3,006	1,978	1,597	43,364
		629,885	**898,933**	**294,157**	**813,801**	**706,657**	**3,343,433**
Net investment in leases	18	**315,682**	**8,696**	**5,599**	**56**	**16,567**	**346,600**
Debt investment securities	19						
Available for sale		124,096	32,231	–	111	–	156,438
Held to maturity		19,466	7,705	375	–	–	27,546
		143,562	**39,936**	**375**	**111**	–	**183,984**
Subordinated loans to banks	14	**40,231**	**6,344**	**3,844**	**–**	**–**	**50,419**
Financial assets of disposal group		**78,071**	**35,623**	**3,419**	**3,558**	**4,275**	**124,946**
Total		**1,630,704**	**996,404**	**307,404**	**820,576**	**727,499**	**4,482,587**

(in millions of Russian rubles)

Translation from the Russian original

2014	Notes	Not past due Not impaired High grade	Standard grade	Sub-standard grade	Individually impaired	Past due	Total
Cash and cash equivalents except cash on hand	11	**303,503**	–	–	–	–	**303,503**
Financial assets lent and pledged under repurchase agreements	13						
Amounts due from banks pledged under repurchase agreements		1,845	–	–	–	–	**1,845**
Loans to customers pledged under repurchase agreements		11,221	–	–	–	–	**11,221**
Investment securities pledged under repurchase agreements							
- 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	14						
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	16						
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**
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**
		487,212	**845,306**	**289,992**	**746,697**	**464,158**	**2,833,365**
Net investment in leases	**17**	**228,810**	**12,774**	**6,020**	**9,068**	**128,162**	**384,834**
Debt investment securities	19						
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**
Subordinated loans to banks	14	**43,236**	**5,704**	**–**	**–**	**–**	**48,940**
Total		**1,076,506**	**949,808**	**298,047**	**755,957**	**594,136**	**3,674,454**

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans to customers and net investment in leases per class of financial assets

The table below shows the carrying amounts of past due but not impaired loans to customers and net investment in leases by number of days past due:

2015	Less than 7 days	7 to 30 days	More than 30 days	Total
Loans to customers				
Project finance	–	11,975	14,298	26,273
Commercial loans	1,178	755	1,520	3,453
Claims under letters of credit	4			4
	1,182	**12,730**	**15,818**	**29,730**
Net investment in leases	**2,480**	**2,097**	**11,002**	**15,579**
	3,662	**14,827**	**26,820**	**45,309**

2014	Less than 7 days	7 to 30 days	More than 30 days	Total
Loans to customers				
Project finance	370	–	48,054	**48,424**
Commercial loans	2,683	6,355	1,216	**10,254**
Claims under letters of credit	–	240	5,665	**5,905**
	3,053	**6,595**	**54,935**	**64,583**
Net investment in leases	**1,778**	**9,147**	**2,218**	**13,143**
	4,831	**15742**	**57,153**	**77,726**

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Credit risk (continued)

See Note 17 for more details on 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.

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Credit risk (continued)

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

Liquidity risk and funding management

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

The Group manages its liquidity risk at the following levels:

- Each 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 distribution 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 modelling 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 follow-up monitoring is performed by the Risk Management Department. Liquidity control results are reported to the Bank's management and used for management decisions-making.

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Liquidity risk and funding management (continued)

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 with market makers 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 of claim under loan agreements) under third-party guarantees.

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-fulfilment 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 covenants in respect of the Bank’s financial performance as stipulated in the respective contracts.

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 millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Liquidity risk and funding management (continued)

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;
- maintaining close cooperation with Bank's customers for the purpose of setting the funds withdrawal schedule;
- maintaining transparency of the Bank's operations.

At 31 December 2015, 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 1 year	No stated maturity	Total
Financial assets						
Cash and cash equivalents	377,717	22,768	–	–	–	**400,485**
Precious metals	28	–	–	–	242	**270**
Financial assets at fair value through profit or loss	8,911	123	149	3,575	39,813	**52,571**
Financial assets lent and pledged under repurchase agreements	68,203	4,789	269	4,749	–	**78,010**
Amounts due from banks	18,639	9,057	11,830	13,954	–	**53,480**
Assets of disposal group held for sale	–	-	–	–	122,836	**122,836**
Loans to customers	100,663	214,117	267,926	1,995,875	1,716	**2,580,297**
Net investment in leases	8,755	36,519	37,756	260,030		**343,060**
Investment financial assets:						
- available for sale	186,983	93,906	6,562	18,078	85,315	**390,844**
- held to maturity	618	6,828	2,929	17,171	–	**27,546**
Amounts due from the Russian Government	–	–	–	–	511	**511**
Subordinated loans to banks	3	1,957	1,884	46,575		**50,419**
Investments in associates	–	–	8	21	9,931	**9,960**
Income tax assets	–	2,005			9,253	**11,258**
Other financial assets	5,389	81,135	24,002	14,171	525	**125,222**
	775,909	**473,204**	**353,315**	**2,374,199**	**270,142**	**4 246,769**
Financial liabilities						
Amounts due to banks	221,905	109,526	133,504	554,482	–	**1,019,417**
Financial liabilities at fair value through profit or loss	7	2,065	115	647	–	**2,834**
Amounts due to the Russian Government and the Bank of Russia	244,316	309,430	5,042	147,604	–	**706,392**
Liabilities of disposal group held for sale	–		–	–	69,018	**69,018**
Amounts due to customers	324,656	172,087	94,782	50,791	–	**642,316**
Debt securities issued	8,663	127,596	82,586	961,050	–	**1,179,895**
Finance lease liabilities	1,104	5,028	5,561	94,205	–	**105,898**
Subordinated deposits	–	–	–	102,128	–	**102,128**
Income tax liabilities	–	334	–	–	10,198	**10,532**
Other financial liabilities	18,499	6,971	4,094	938	1,621	**32,123**
	819,150	**733,037**	**325,684**	**1,911,845**	**80,837**	**3,870,553**
Net position	**(43,241)**	**(259,833)**	**27,631**	**462,354**	**189,305**	**376,216**
Accumulated gap	***(43,241)***	***(303,074)***	***(275,443)***	***186,911***	***376,216***	

(in millions of Russian rubles)

Translation from the Russian original

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 1 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	11,974	10,860	21,781	84,743	–	**129,358**
Assets of disposal group held for sale	–	–	4,037	–	–	**4,037**
Loans to customers	111,177	212,081	251,885	1,675,291	769	**2,251,203**
Net investment in leases	16,601	39,389	40,902	283,871	–	**380,763**
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**
Subordinated loans to banks	3	1,974	1,892	45,071		**48,940**
Investments in associates	–	–	–	24	10,868	**10,892**
Income tax assets	–	2,395	–	–	5,113	**7,508**
Other financial assets	5,579	32,961	7,610	26,723	1,120	**73,993**
	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**
Liabilities of disposal group held for sale	–	–	188	–	–	**188**
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	2,917	1,318	1,294	**23,720**
	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)

Translation from the Russian original

36. Risk management (continued)

Liquidity risk and funding management (continued)

At 31 December 2015, accumulated liquidity deficit with maturities of «Up to 1 month», «1 to 6 months» and «6 to 12 months» was primarily established because the Bank classified its liabilities as amounts due to the Russian Government and the Bank of Russia and amounts due to customers in accordance with contractual maturities. As at the date of authorisation of these consolidated financial statements, part of liabilities included in amounts due to the Russian Government and the Bank of Russia were reclassified to long-term liabilities. In addition, in March 2016, the Russian Government made a cash contribution of RUB 73,793 million to the authorized capital of Vnesheconombank (Note 42). These steps are sufficient to cover the accumulated liquidity deficit for all maturities. Also, such classification of maturities for liabilities classified as amounts due to customers does not reflect the historical stability of customers' current accounts. Their liquidation has taken place over longer periods.

Due to the fact that in 2014 S&P downgraded Vnesheconombank’s long-term foreign currency rating to BBB- and then in January 2015 to BB+ and Moody's downgraded the long-term foreign currency credit rating of Vnesheconombank to Ba1, the lending banks for a number of loan agreements obtained the right to demand early repayment of the loans provided. As at 31 December 2015, Vnesheconombank’s liabilities under such agreements totalled RUB 491,385 million (31 December 2014: 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 management of the Bank is taking all of the appropriate liquidity management measures and expects the Government to provide support if necessary. At the end of 2015, the Bank was allowed to extend the terms of deposits of the National Welfare Fund of the Russian Federation ("NWF") and decrease the active rate.

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Liquidity risk and funding management (continued)

Amounts payable under settlements with the Russian Government, other than the Bank of Russia's deposits, generally do not carry a specified maturity and are shown as having a residual 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.

As at 31 December 2014, there is no liquidity deficit for all maturities.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2015 and 31 December 2014 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.

As at 31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to banks	259,968	203,499	599,182	47,919	**1,110,568**
Gross settled derivative financial instruments					
- Contractual amounts payable	67,308	1,030	1,122	–	**69,461**
- Value of underlying assets to be sold	–	–	1,144	–	**1,144**
- Contractual amounts receivable	(66,561)	278	(1,167)	–	**(67,450)**
Amounts due to the Russian Government and the Bank of Russia	431,683	86,860	181,910	65,311	**765,764**
Amounts due to customers	433,560	170,795	48,050	28,249	**680,654**
Debt securities issued	56,424	127,708	552,927	335,790	**1,072,849**
Finance lease liabilities	2,793	8,409	45,502	54,355	**111,059**
Subordinated deposits	–	–	9,031	450,036	**459,067**
Other liabilities	21,178	9,457	647	1,617	**32,899**
Total undiscounted financial liabilities	**1,206,353**	**608,036**	**1,438,348**	**983,277**	**4,236,014**

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Liquidity risk and funding management (continued)

As 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**

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Liquidity risk and funding management (continued)

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.

Amounts due to customers (Note 27) include 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, the Group is obliged to repay the amount of these deposits at the first call of the depositor within five days. In accordance with the legislation of Ukraine, the return of a fixed-term deposit and the accrued interest on demand of the depositor before expiration of their term or before occurrence of other circumstances specified in the agreement is only possible if it is explicitly provided in the bank deposit agreement.

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
2015	870,769	10,535	47,556	54,296	**983,156**
2014 (restated)	974,684	18,842	51,599	50,765	**1,095,890**

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

At 31 December 2015, credit-related commitments presented in the 'less than 3 months' category include liabilities in the amount of RUB 209,700 million (31 December 2014: RUB 136,061 million), whose maturities are linked to settlements under export contracts.

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Market risk

Market risk is the risk of adverse changes in the fair value 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 is based on the data of changes in market risk factors and allows to take account of risks diversification. 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.

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;
- 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 millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Market risk (continued)

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.

The Bank sets aggregate exposure limits for each portfolio by class of securities in order to limit 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.

Interest rate risk

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

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

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

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

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

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Market risk (continued)

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 a 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 modelling risk factors, the Bank performs the sensitivity analysis by modelling 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 2015 and at 31 December 2014, 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 of the Group's statement of profit or loss to a reasonably possible change in interest rates by key reference rates, with all other variables held constant.

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)

Translation from the Russian original

36. Risk management (continued)

Market risk (continued)

Rate	Increase in %, 2015	Sensitivity of the statement of profit or loss 2015	Sensitivity of equity 2015
3-m LIBOR USD	0.15%	34	(36)
3-m LIBOR EUR	0.0%	-	-
3-m MosPrime	1.00%	(138)	-
KRCBRF	1.00%	2,421	-
YTM 5Y US Treasuries	0.20%	36	(155)
YTM 5Y German Treasuries	0.10%	(1)	-
RGBEY	1.00%	(32)	(219)
YTM Ukrainian sovereign bonds	15.00%	-	(1,663)
Refinancing rate of NB RB	7.50%	624	-
CPI in Russia	3.00%	17	-
Interest curve for KZT	4.00%	545	-

Rate	Increase in %, 2015	Sensitivity of the statement of profit or loss 2015	Sensitivity of equity 2015
3-m LIBOR USD	-0.05%	(11)	71
3-m LIBOR EUR	-0.10%	(17)	-
3-m MosPrime	-3.00%	413	-
KRCBRF	-3.00%	(7,262)	-
YTM 5Y US Treasuries	-0.10%	(18)	78
YTM 5Y German Treasuries	-0.20%	1	-
RGBEY	-2.00%	65	438
YTM Ukrainian sovereign bonds	-2.00%	-	222
Refinancing rate of NB RB	-7.50%	(624)	-
CPI in Russia	-2.00%	(11)	-
Interest curve for KZT	-2.25%	(306)	-

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 US Treasuries	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%	–	–

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Market risk (continued)

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 US Treasuries	-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	–

Below are VaR measures for the bond portfolio of the Bank at 31 December 2015 and at 31 December 2014.

	2015	2014
VaR	3,020	17,259

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 modelling 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)

Translation from the Russian original

36. Risk management (continued)

Market risk (continued)

The table below shows open currency positions of the Bank at 31 December 2015 and 31 December 2014, 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	2015	2014
EUR	(25,447)	(2,781)
USD	(6,805)	(37,459)
GBP	1,425	322
HKD	591	217
CZK	538	446
JPY	269	41
SGD	165	7
CHF	(61)	93
HUF	44	37
Other currencies	43	211

Below is the Bank's VaR measure for open currency positions at 31 December 2015 and 31 December 2014:

	2015	2014
VaR	1,334	1,535

(in millions of Russian rubles)

Translation from the Russian original

36. 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 2015 and at 31 December 2014. 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 exchange rate, %, 2015	Sensitivity of the statement of profit or loss, 2015	Change in exchange rate, %, 2014	Sensitivity of the statement of profit or loss, 2014
UAH	37.94%	19,290	20.59%	3,455
	-37.94%	(19,290)	-20.59%	(3,455)
EUR	20.21%	(7,832)	15.37%	(166)
	-20.21%	7,832	-15.37%	166
USD	19.74%	(4,924)	15.82%	(2,686)
	-19.74%	4,924	-15.82%	2,686
KZT	25.09%	(1,132)	–	–
	-25.09%	1,132	–	–
BYR	23.36%	1,125	29.27%	(443)
	-23.36%	(1,125)	-29.27%	443
CZK	20.95%	43	16.70%	548
	-20.95%	(43)	-16,.70%	(548)
GBP	19.85%	(23)	15.78%	3
	-19.85%	23	-15.78%	(3)
CHF	23.33%	(5)	17.83%	(1)
	-23.33%	5	-17.83%	1
CNY	19.6%	(1)	15.73%	(1)
	-19.6%	1	-15.73%	1

Operational control over open currency positions is performed by the Directorate for Currency and Financial Transactions. The follow-up monitoring 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 2015 and at 31 December 2014.

	2015	2014
VaR	18,739	22,219

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Market risk (continued)

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, %, 2015	Change in equity price, %, 2015	Effect on profit before tax, 2015	Effect on equity, 2015
	20%	18%	5,035	3,971
MICEX index	-20%	-18%	(5035)	(3,971)
Russian Depositary	30%	21%	0	1,062
Index USD	-30%	-21%	(0)	(1,062)

Market index	Change in index, %, 2014	Change in equity price, %, 2014	Effect on profit before tax, 2014	Effect on equity, 2014
	22%	22%	1,345	3,404
MICEX index	-22%	-22%	(1,345)	(3,404)
Russian Depositary	30%	31%	-	339
Index USD	-30%	-31%	-	(339)

Sensitivity analysis for sensitivity of the value of unquoted equity financial instruments to changes in reasonable possible alternative assumptions is presented in Note 37.

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.

(in millions of Russian rubles)

Translation from the Russian original

36. Risk management (continued)

Operational risk

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

To limit possible losses from realization of operational risk, the relevant mechanisms and procedures are developed and applied at Vnesheconombank, namely:

- regulation of business processes;
- internal control over compliance with transaction procedures, internal rules and regulations;
- control over compliance with credit limit discipline;
- control over compliance with regulatory requirements, including anti-money laundering and terrorism financing legislation;
- identification of areas of potential conflict of interests and their monitoring;
- segregation of employee functions and duties;
- segregation of rights of access to information and tangible assets;
- establishment of procedures for decision-making and reporting across all lines of business;
- upgrading business process automation;
- backup of information stored in information systems;
- professional development and improvement of employee incentive system;
- improvement of organization and security of employee labor;
- property and liability insurance.

Work is underway to improve a set of measures aimed to ensure the Group's ability to operate as a going concern or restore its operations in case of emergency caused by full or partial loss (unavailability) of the Group's resources.

The business units of Vnesheconombank and its subsidiaries appointed employees responsible for gathering and providing information on operational risk events. Divisions are established and functioning at Vnesheconombank and its subsidiaries, which organize gathering, systematization and analysis of information on operational risks and losses caused by them, as well as development, implementation and permanent improvement of operational risk management instruments and methods.

A new version of the operational risk management procedure is being prepared for approval, which is based on best world practices, more precisely specifies risk identification and assessment methods, establishes steps to determine operational risk appetite and monitoring level, and regulates management decision-making procedures in the process of operational risk management.

When the internal base of operational risk events is formed, the operational risk level is calculated using the basic indicative approach recommended by the Basel Committee on Banking Supervision and the Bank of Russia and based on the statement of profit or loss data.

(in millions of Russian rubles)

Translation from the Russian original

37. 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)

Translation from the Russian original

37. 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 as at 31 December 2015:

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	**8,320**	**491**	–	**8,811**
- Corporate bonds	–	–	–	
- Russian Federation bonds (OFZ)	617	–	–	**617**
- Eurobonds issued by the Russian Federation	422	–	–	**422**
- Eurobonds of Russian and foreign issuers	443	–	–	**443**
- Equity securities	6,838	–	–	**6,838**
- Other debt financial assets	–	491	–	**491**
Derivative financial instruments	–	**2,703**	–	**2,703**
- Foreign exchange contracts: foreign	–	75	–	**75**
- Foreign exchange contracts: domestic	–	1	–	**1**
- Forward contracts: debt securities	–	3	–	**3**
- Forward contracts: equity securities	–	346	–	**346**
- Option contracts with foreign currency	–	2,278	–	**2,278**
Financial assets designated as at fair value through profit or loss	–	–	**41,057**	**41,057**
Trading financial assets pledged under repurchase agreements	**4,385**	–	–	**4,385**
- Russian Federation bonds (OFZ)	**3,977**	–	–	**3,977**
- Corporate bonds	**408**	–	–	**408**
Investment financial assets available for sale	**280,996**	**68,039**	**41,809**	**390,844**
- Corporate bonds	33,401	19,238	–	**52,639**
- Debt instruments issued by foreign government bodies	2,558	19,899	–	**22,457**
- Promissory notes				
- Russian Federation bonds (OFZ)	14,217	20,846	–	**35,063**
- Municipal and sub-federal bonds	4,617	187	–	**4,804**
- Eurobonds of Russian and foreign issuers	31,040	1,523	–	**32,563**
- Eurobonds issued by the Russian Federation	4,426	4,375	–	**8,801**
- Equity securities	190,737	1,971	9,864	**202,572**
- Other financial assets available for sale	–	–	31,945	**31,945**
Investment financial assets available for sale pledged under repurchase agreements	**10,884**	**52,012**	–	**62,896**
- Corporate bonds	5,224	50,216	–	**55,440**
- Eurobonds issued by the Russian Federation	1,054	–	–	**1,054**
- Eurobonds of Russian and foreign issuers	80	1,796	–	**1,876**
- Russian Federation bonds (OFZ)	4,525	–	–	**4,525**
- Equity securities	1	–	–	**1**
Investment property (classified as other assets)	–	–	**8,416**	**8,416**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	**400,485**	–	**400,485**
Amounts due from banks, including pledged under repurchase agreements	–	–	**53,876**	**53,876**
Investment financial assets held to maturity	**17,965**	**9,311**	**363**	**27,639**
Investment financial assets held to maturity pledged under repurchase agreements	**4,607**	**4,994**	–	**9,601**
Subordinated loans to banks			**54,436**	**54,436**
Loans to customers, including pledged under repurchase agreements	**691**	**34,458**	**2,507,338**	**2,542,487**
Net investment in leases	–	–	**301,742**	**301,742**
M.J. Total	**327,848**	**572,493**	**3,009,037**	**3,909,378**

(in millions of Russian rubles)

Translation from the Russian original

37. 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 2015:

	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	**–**	**2,834**	**–**	**2,834**
- Foreign exchange contracts: foreign	–	6	–	**6**
- Foreign exchange contracts: domestic	–	1	–	**1**
- Interest rate swaps: foreign	–	475	–	**475**
- Cross-currency interest rate swap	–	2,352	–	**2,352**
Liabilities for which fair values are disclosed				
Amounts due to banks	–	–	1,012,759	**1,012,759**
Amounts due to the Russian Government and the Bank of Russia	–	–	700,121	**700,121**
Amounts due to customers	–		646,274	**646,274**
Debt securities issued	440,364	606,914	102,304	**1,149,582**
Subordinated deposits	–	–	102,128	**102,128**
	440,364	**609,748**	**2,563,586**	**3,613,698**

(in millions of Russian rubles)

Translation from the Russian original

37. Fair value measurement (continued)

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy as 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**
- Russian Federation 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**
- Russian Federation 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**
- Russian Federation bonds (OFZ)	501	–	–	**501**
- Equity securities	255	–	–	**255**
- Municipal and sub-federal bonds, bonds of the Bank of Russia	97	–	–	**97**
Investment property (classified as other assets)	–	–	**8,309**	**8,309**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	**325,927**	–	**325,927**
Amounts due from banks, including pledged under repurchase agreements	–	–	**166,678**	**166,678**
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**
Loans to customers including pledged under repurchase agreements	–	**33,201**	**2,151,719**	**2,184,920**
Subordinated loans to banks			**12,521**	**12,521**
Net investment in leases	–	–	**346,391**	**346,391**
	306,497	**507,944**	**2,751,734**	**3,566,175**

(in millions of Russian rubles)

Translation from the Russian original

37. 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 as 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	–	-	–	**-**
- 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)

Translation from the Russian original

37. Fair value measurement (continued)

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 2015	Fair value 2015	Unrecognized gain/(loss) 2015	Carrying value 2014	Fair value 2014	Unrecognized gain/(loss) 2014
Financial assets						
Cash and cash equivalents	400,485	400,485	–	325,927	325,927	–
Amounts due from banks	53,481	53,593	112	165,045	164,930	(115)
Loans to customers	2,580,297	2,541,589	(38,708)	2,251,203	2,174,325	(76,878)
Net investment in leases	343,060	301,742	(41,318)	380,763	346,391	(34,372)
Investment financial assets held to maturity	27,546	27,639	93	21,447	19,181	(2,266)
Financial assets lent and pledged under repurchase agreements	10,729	10,783	54	43,706	41,553	(2,153)
Subordinated loans to banks	50,419	54,436	4,017	13,253	12,521	(732)
Financial liabilities						
Amounts due to banks	1,019,417	1,012,759	6,658	1,010,540	962,649	47,891
Amounts due to the Russian Government and the Bank of Russia	706,392	700,121	6,271	559,278	559,380	(102)
Amounts due to customers	642,316	646,274	(3,958)	508,728	509,700	(972)
Debt securities issued	1,179,895	1,149,582	30,313	983,145	839,892	143,253
Subordinated deposits	102,128	102,128	–	303,015	303,015	–
Total unrecognized change in unrealized fair value			**(36,466)**			**73,554**

(in millions of Russian rubles)

Translation from the Russian original

37. Fair value measurement (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

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.

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.

(in millions of Russian rubles)

Translation from the Russian original

37. Fair value measurement (continued)

Assets and liabilities carried at fair value (continued)

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 2015	Gains/(losses) recorded in the statement of profit or loss	Gains/(losses) recorded in other comprehensive income	Disposals	Additions	Transfers to Level 1	Other changes	At 31 December 2015
Assets								
Financial assets designated as at fair value through profit or loss	18,325	(670)	–	–	23,512	–	(110)	41,057
Investment financial assets available for sale	47,685	(1,002)	(513)	(3,362)	137	(1,136)	–	41,809
Investment property (classified as other assets)	8,309	–	–	(158)	643	–	(378)	8,416
Total Level 3 assets	**74,319**	**(1,672)**	**(513)**	**(3,520)**	**24,292**	**(1,136)**	**(488)**	**91,282**

Unrealized losses on financial assets designated as at fair value through profit or loss in the amount of RUB 670 million are recognized in the consolidated statement of profit or loss as gains less losses/(losses less gains) from financial instruments at fair value through profit or loss.

Gains on investment financial assets available for sale in the amount of RUB 3,250 million are recognized in the consolidated statement of profit or loss as interest income.

Losses on investment financial assets available for sale in the amount of RUB 4,252 million are recognized in the consolidated statement of profit or loss as gains less losses from investment financial assets available for sale.

Unrealized revaluation of investment financial assets available for sale in the amount of RUB 513 million are recognized in the consolidated statement of comprehensive income as 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.

In 2015, financial assets representing a contribution to the Russian Bank Capitalization Fund with a fair value of RUB 1,136 million were reclassified to Level 1 of the fair value hierarchy because the shares into which these funds are invested started to be actively traded on the open market and their fair value was determined on the basis of market quotations.

(in millions of Russian rubles)

Translation from the Russian original

37. Fair value measurement (continued)

Assets and liabilities carried at fair value (continued)

	At 1 January 2014	Gains/(losses) recorded in the statement of profit or loss	Gains/(losses) recorded in other comprehensive income	Disposals	Additions	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 (classified as other assets)	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**

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.

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	
	2015	**2014**
Financial assets		
Investment financial assets available for sale	14,110	253

	Transfers from Level 1 to Level 2	
	2015	**2014**
Financial assets		
Investment financial assets available for sale	2,212	19,127

(in millions of Russian rubles)

Translation from the Russian original

37. Fair value measurement (continued)

Assets and liabilities carried at fair value (continued)

In 2015 and 2014, the above financial assets were transferred from Level 2 to Level 1, as they became actively traded during the reporting year.

In 2015 and 2014, 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:

	2015			2014		
	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	3,045	(4,717)	(1,672)	292	2,583	2,875

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

(in millions of Russian rubles)

Translation from the Russian original

37. Fair value measurement (continued)

Assets and liabilities carried at fair value (continued)

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 2015	Carrying value	Valuation technique	Unobservable input	Range (weighted average)
Financial assets designated as at fair value through profit or loss				
Group 1 of financial assets	27,789	Other valuation techniques	Not applicable	Not applicable
Group 2 of financial assets	13,268	Discounted cash flows	WACC	12.75% - 16.46%
			Terminal period growth	1.00% - 3.00%
Investment financial assets available for sale				
Group 3 of equity securities	4,204	Other valuation techniques	Not applicable	Not applicable
Group 4 of other financial assets available for sale	31,945	Multiplier	Fair value / Net assets	0.56
Group 5 of equity securities	2,953	Discounted cash flows	WACC	11.69%-14.33%
			Terminal period growth	2.00%-4.00%
Group 6 of equity securities	2,707	Weighted average multiplier	EV/PAX (PAX)	0.008
			EV/EBITDA	11.303
			EV/Sales	3.729
Investment property (classified as other assets)				
Group 7 of investment property	2,525	Other valuation techniques	Not applicable	Not applicable
Group 8 of investment property	1,275	Discounted cash flows	Cost of 1 sqm	RUB 342 thousand - RUB 418 thousand
			Discount rate	18%
Group 9 of investment property	1,777	Discounted cash flows	Discount	8.0%-12.8%
Group 10 of investment property	2,839	Sales comparison method	Cost of 1 sqm	RUB 8.04 thousand - RUB 22.21 thousand

(in millions of Russian rubles)

Translation from the Russian original

37. Fair value measurement (continued)

Assets and liabilities carried at fair value (continued)

31 December 2014	Carrying value	Valuation technique	Unobservable input	Range (weighted average)
Financial assets designated as at fair value through profit or loss				
Group 1 of financial assets	10,149	Other valuation techniques	Not applicable	Not applicable
Group 2 of financial assets	8,176	Discounted cash flows	WACC	11.26%-15.30%
			Terminal period growth	2.30%-3.00%
Investment financial assets available for sale	2	Other valuation techniques	Not applicable	Not applicable
Group 3 of promissory notes	3,581	Other valuation techniques	Not applicable	Not applicable
Group 4 of equity securities	36,174	Multiplier	Fair value / Net assets	0.867
Group 5 of other financial assets available for sale	5,221	Discounted cash flows	WACC	11.78%-21.01%
Group 6 of equity securities			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 (classified as other assets)				
Group 8 of investment property	3,150	Other valuation techniques	Not applicable	Not applicable
Group 9 of investment property	3,155	Discounted cash flows	Discount rate	11.95%-19.6%
Group 10 of investment property	1,662	Discounted cash flows	Discount rate	18%
Group 11 of investment property	342	Comparative sales method	Discount	7.3%

(in millions of Russian rubles)

Translation from the Russian original

37. Fair value measurement (continued)

Assets and liabilities carried at fair value (continued)

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 1 of financial assets 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 the financial instrument in Group 2 of financial assets 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 4 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 financial instruments in Group 5 of financial assets 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 6 classified as investment financial assets available for sale the Group adjusted the weighted average value of multipliers by increasing and decreasing the values by 2%;
- For the asset in Group 8 classified as investment property the Group adjusted the cost of land/ real estate used for discounting expected cash flows by 5%;
- For the asset in Group 9 classified as investment property the Group adjusted the discount rate used for discounting expected cash flows by 1%;
- For the asset in Group 10 classified as investment property the Group adjusted the cost of land/ real estate used for discounting expected cash flows by 5% and the discount (minimum by 2%/ maximum by 5%).

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 811 million (for the year ended 31 December 2014: RUB 1,188 million).

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

	31 December 2015	
	Carrying value	**Effect of reasonably possible alternative assumptions**
Assets		
Derivative financial instruments		
Financial assets designated as at fair value through profit or loss	41,057	(139)
Investment financial assets available for sale	41,809	(760)
Investment property (classified as other assets)	8,416	(651)

(in millions of Russian rubles)

Translation from the Russian original

37. Fair value measurement (continued)

Assets and liabilities carried at fair value (continued)

	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 (classified as other assets)	8,309	(258)

38. 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:

	Transferred financial asset	**Trading financial assets**		**Financial assets available for sale**			**Investment financial assets held to maturity**		**Loans to custo-mers**	**Amounts due from banks**	**Total**
		Govern-ment debt securities	**Other debt securities**	**Govern-ment debt securities**	**Other debt securities**	**Equity securities**	**Govern-ment debt securities**	**Other debt securities**			
		2015	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**
Carrying value of assets	Repurchase agreements	3,977	408	5,579	57,316	1	797	8,766	897	280	78,021
Total		3,977	408	5,579	57,316	1	797	8,766	897	280	78,021
Carrying value of associated liabilities	Repurchase agreements with the Bank of Russia	4,021	388	4,573	50,248	–		4,856	–	–	64,086
	Repurchase agreements with customers	–	–	–	81	1	–	–	–	–	82
	Repurchase agreements with credit institutions	–	–	961	3,061	1	652	3,048	616	241	8,580
Total		4,021	388	5,534	53,390	2	652	7,904	616	241	72,748

(in millions of Russian rubles)

Translation from the Russian original

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

	Transferred financial asset	Trading financial assets	Financial assets available for sale			Investment financial assets held to maturity		Loans to customers	Amounts due from banks	Total
		Other debt securities	Government debt securities	Other debt securities	Equity securities	Government debt securities	Other debt securities			
		2014	**2014**	**2014**	**2014**	**2014**	**2014**	**2014**	**2014**	**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**

Repurchase agreements

The securities sold under repurchase agreements are transferred to a third party while the Group receives cash or other financial assets in exchange. 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.

(in millions of Russian rubles)

Translation from the Russian original

38. 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 under repurchase agreements in the amount of RUB 78,021 million (31 December 2014: RUB 103,869 million) – Section "Transferred financial assets that are not derecognized in their entirety".

Assets pledged

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 with a fair value of RUB 1,054 million (31 December 2014: RUB 9,709 million) for interbank loans of RUB 843 million (31 December 2014: RUB 8,230 million). In addition, the Group pledged receivables from loans to customers and amounts due from banks of RUB 434,911 million (31 December 2014: RUB 18,687 million) and RUB 1,573 million (31 December 2014: RUB 29,466 million), respectively, for amounts due to the Bank of Russia equal to RUB 295,409 million (31 December 2014: RUB 37,416 million).

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 24,812 million (31 December 2014: RUB 11,214 million). In addition, the Group received securities as collateral in reverse repurchase agreements with customers with a fair value of RUB 42,251 million (31 December 2014: RUB 40,391 million).

As at 31 December 2015, of these, securities with a fair value of RUB 53 million (31 December 2014: RUB 4,117 million) have been sold under repurchase agreements with the Bank of Russia.

As at 31 December 2015, securities with a fair value of RUB 80 million have been sold under repurchase agreements with customers (31 December 2014: RUB 655 million).

In addition, the Group holds RUB 196 million included in amounts due to banks (31 December 2014: RUB 173 million) (Note 26), RUB 3,683 million included in amounts due to customers (31 December 2014: RUB 5,940 million) (Note 27) and RUB 859 million of promissory notes issued by the Group (31 December 2014: RUB 1,092 million) (Note 28) 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)

Translation from the Russian original

39. 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 (ISDA, RISDA, etc.) that do not result in an offset in the statement of financial position:

2015	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)	20,988	–	20,988	(20,988)	–
Loans to customers (reverse repurchase agreements)	46,046	–	46,046	(46,046)	–
Other assets (spot transactions)	145	–	145	(29)	116
Total	**67,179**		**67,179**	**(67,063)**	**116**
Financial liabilities					
Amounts due to the Russian Government and the Bank of Russia (repurchase agreements)	64,134	–	64,134	(64,134)	–
Amounts due to banks (repurchase agreements)	8,580	–	8,580	(8,580)	–
Amounts due to customers (repurchase agreements)	82	–	82	(82)	–
Other liabilities (spot transactions)	98	–	98	(29)	69
Total	**72,894**	**–**	**72,894**	**(72,825)**	**69**

(in millions of Russian rubles)

Translation from the Russian original

39. Offsetting of financial instruments (continued)

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 2015 and 31 December 2014.

(in millions of Russian rubles)

Translation from the Russian original

40. 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 2015			At 31 December 2014		
	Associates	**Jointly controlled entities**	**Key management personnel**	**Associates**	**Jointly controlled entities**	**Key management personnel**
Loans to customers at 1 January	**198,153**	**10,846**	**100**	**154,587**	**10,844**	**93**
Loans granted during the year	2,058	1,405	30	3,117	923	65
Loans repaid during the year	(606)	–	(59)	(2,478)	–	(46)
Proceeds related to changes in the Group		–	–	(407)	(4,614)	–
Other changes	36,407	1,963	3	47,753	4,804	(8)
Hyperinflation effect	–	–	–	(2)	–	(4)
Loans to customers at 31 December	**236,012**	**14,214**	**74**	**202,570**	**11,957**	**100**
Less allowance for impairment	(119,810)	(7,313)	(1)	(108,521)	(1,112)	-
Loans to customers at 31 December, net	**116,202**	**6,901**	**73**	**94,049**	**10,845**	**100**

(in millions of Russian rubles)

Translation from the Russian original

40. Related party transactions (continued)

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

	2015			2014		
	Associates	Jointly controlled entities	Key management personnel	Associates	Jointly controlled entities	Key management personnel
Current accounts	**556**	–	**95**	**1,352**	**–**	**53**
Customer deposits at 1 January	**16,772**	–	**3,969**	**13,263**	**1**	**2,541**
Deposits received during the year	13,644	–	10,259	8,026	–	7,037
Deposits repaid during the year	(20,097)	–	(9,679)	(4,544)	(1)	(6,129)
Other changes	(643)	–	(55)	27	–	510
Hyperinflation effect	–	–	–	–	–	10
Customer deposits at 31 December	**9,676**	–	**4,494**	**16,772**	–	**3,969**
Guarantees issued and undrawn loan commitments	–	–	**12**	**1,467**	–	**18**

	For the year ended 31 December					
	2015			2014		
	Associates	Jointly controlled entities	Key managemen t personnel	Associates	Jointly controlled entities	Key managemen t personnel
Interest income on loans	7,836	1,058	11	4,773	624	10
Interest expense on amounts due to customers	(1,271)	–	(379)	(1,391)	-	(300)
Provision for impairment of interest-earning assets	(11,051)	(5,000)	(1)	(35,402)	(1,121)	(2)

Compensation to key management personnel comprises the following:

	2015	2014
Salaries and other short-term benefits	2,087	2,387
Mandatory contributions to the pension fund	172	168
Social security contributions	84	33
Total compensation to key management personnel	**2,343**	**2,588**

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 millions of Russian rubles)

Translation from the Russian original

40. Related party transactions (continued)

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

At 31 December 2015, transactions with state-related entities include cash non-interest-bearing deposits (obligatory reserves) maintained by the Group's subsidiary banks with the Bank of Russia in the amount of RUB 3,176 million (31 December 2014: RUB 4,388 million) (Note 14).

At 31 December 2015, transactions with state-related entities include cash non-interest-bearing deposits maintained on the correspondent account with the Bank of Russia in the amount of RUB 13,131 million (Note 11).

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 2015 and 31 December 2014 are stated in the table below:

		Amounts due from banks	
Bank	**Type of transaction**	**31 December 2015**	**31 December 2014**
Bank 1	Interest-bearing loans and deposits with banks maturing within 90 days	23,533	22,378
Bank 2	Interest-bearing loans and deposits with banks maturing within 90 days	6,982	–
Bank 3	Interest-bearing loans and deposits with banks maturing within 90 days	6,793	–
Bank 4	Term interest-bearing deposits with banks	6,445	14,055
Bank 4	Interest-bearing loans and deposits with banks maturing within 90 days	–	21,500
		43,753	**57,933**

		Amounts due from banks	
Bank	**Type of transaction**	**31 December 2015**	**31 December 2014**
Bank 1	Loans and other placements from Russian banks	152,839	126,647
Bank 5	Loans and other placements from Russian banks	60,296	59,335
Bank 3	Loans and other placements from Russian banks	5,341	5,032
Bank 6	Loans and other placements from Russian banks	–	6,676
		218,476	**197,690**

At 31 December 2014, the Bank recognized guarantees totaling RUB 121,476 million issued in favor of state-related banks under an agreement to secure loans provided by the Bank of Russia. At 31 December 2015, there are no such guarantees.

(in millions of Russian rubles)

Translation from the Russian original

40. 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 2015 and at 31 December 2014 are stated in the tables below:

Borrower	Industry	Loans to customers	Undrawn loan commitments	Loans to customers	Undrawn loan commitments
		At 31 December 2015		At 31 December 2014	
Customer 1	Manufacturing, including heavy machinery and the production of military-related goods	119,997	11,578	74,218	26,675
Customer 2	Manufacturing, including heavy machinery and the production of military-related goods	86,596	23,707	59,726	25,715
Customer 3	Real estate and construction	48,800	–	51,583	–
Customer 4	Financing	40,698	–	40,641	
Customer 5	Transport	40,401	–	32,552	–
Customer 6	Oil and gas	30,431	–	26,103	–
Customer 7	Manufacturing, including heavy machinery and the production of military-related goods	28,237	20,949	9,669	35,489
Customer 8	Electric energy	27,879	–	28,642	–
Customer 9	Manufacturing, including heavy machinery and the production of military-related goods	27,745	–	14,649	10,927
Customer 10	Manufacturing, including heavy machinery and the production of military-related goods	22,721	–	19,032	2,243
Customer 11	Transport	21,514	3,550	15,045	10,000
Customer 12	Manufacturing, including heavy machinery and the production of military-related goods	18,096	–	5,995	12,101
Customer 13	Manufacturing, including heavy machinery and the production of military-related goods	13,615	–		–
Customer 14	Research and education	13,200	–	13,200	–
Customer 15	Transport	9,504	–	9,641	–
Customer 16	Transport	9,386	–		
Customer 17	Financing	9,067	–	7,434	2,339
Customer 18	Electric energy	8,030	–	9,187	–
Customer 19	Other	7,954	–	8,305	0
Customer 20	Manufacturing, including heavy machinery and the production of military-related goods	6,278	8,021	–	–
Customer 21	Financing	5,856	1,089	5,686	1,851
Customer 22	Telecommunications	5,500	–	5,500	0
Customer 23	Electric energy	5,241	6,821	5,239	6,821
Customer 24	Telecommunications	5,063	–	4,884	0
Customer 25	Manufacturing, including heavy machinery and the production of military-related goods	5,006	4,400	3,007	2,798
Customer 26	Manufacturing, including heavy machinery and the production of military-related goods	2,958	4,832	1,294	6,502
Customer 27	Manufacturing, including heavy machinery and the production of military-related goods	1,300	–	25,414	–
Customer 28	Electric energy		–	9,178	–
		621,073	**84,947**	**485,824**	**143,461**

(in millions of Russian rubles)

Translation from the Russian original

40. Related party transactions (continued)

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

Customer	Industry	Net investment in leases 31 December 2015 (Unaudited)	31 December 2014
Customer 16	Transport	101,437	87,558
Customer 29	Transport	32,675	28,940
Customer 30	Transport	6,796	5,515
Customer 31	Transport	6,736	5,472
		147,644	**127,485**

Customer	Industry	Amounts due to customers 31 December 2015	31 December 2014
Customer 32	Manufacturing, including heavy machinery and the production of military-related goods	76,394	48,170
Customer 22	Telecommunications	38,720	35,911
Customer 33	Transport	9,503	–
Customer 34	Financing	7,475	–
Customer 16	Transport	7,014	–
Customer 35	Infrastructure development	5,914	3,000
Customer 36	Financing	5,501	–
Customer 37	Telecommunications	5,010	3,189
Customer 38	Oil and gas	5,002	–
Customer 39	Other	3,511	7,117
Customer 40	Electric energy	2,407	12,131
Customer 41	Financing	2,084	8,603
Customer 9	Manufacturing, including heavy machinery and the production of military-related goods	1,050	5,520
Customer 4	Financing	–	8,670
Customer 42	Infrastructure development	–	6,022
		169,585	**138,333**

Customer	Industry	Guarantees issued 31 December 2015	31 December 2014
Customer 32	Manufacturing, including heavy machinery and the production of military-related goods	198,595	130,248
		198,595	**130,248**

(in millions of Russian rubles)

Translation from the Russian original

40. Related party transactions (continued)

As at 31 December 2015 and 31 December 2014, the Group's investments in debt securities issued by the Russian Government comprised:

	31 December 2015	31 December 2014
Financial assets at fair value through profit or loss	1,039	435
Financial assets at fair value through profit or loss provided as collateral under repurchase agreements	3,977	–
Investment financial assets:		
- available for sale	48,668	19,126
- held to maturity	704	1,099
Investment financial assets provided as collateral under repurchase agreements		
- available for sale	5,579	10,796
- held to maturity	797	438

As at 31 December 2015 and 31 December 2014, there were no transactions involving derivative financial instruments with the Russian Government.

In the normal course of business, the Group invests in securities issued by state-related issuers and enters into derivative contracts with such counterparties. As at 31 December 2015 and 31 December 2014, the Group's investments into securities issued by state-related issuers, as well as derivative transactions with such counterparties comprised:

:

	At 31 December 2015			At 31 December 2014		
	Equity securities	Debt securities	Derivative financial instruments	Equity securities	Debt securities	Derivative financial instruments
Financial assets at fair value through profit or loss	19,005	306	–	9,853	2,076	3,619
Financial assets provided as collateral under repurchase agreements:						
- at fair value through profit or loss	–	408	–	–	–	–
- available for sale	1	57,733	–	255	48,077	–
- held to maturity	–	1,405	–	–	–	–
Investment financial assets						
- available for sale	153,995	49,625	–	134,682	75,462	–
- held to maturity	–	–	–	–	6,783	–
Financial liabilities at fair value through profit or loss	–	–	-	–	–	193

As at 31 December 2015, investment financial assets available for sale also include a financial asset issued by a state-related bank with a fair value of RUB 31,945 million (31 December 2014: RUB 36,174 million).

(in millions of Russian rubles)

Translation from the Russian original

40. Related party transactions (continued)

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

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

	2015	2014
Interest expense		
Amounts due to the Bank of Russia	(45,842)	(26,535)
Amounts due to the Russian Government	(38,549)	(42,844)
Gains less losses on the initial recognition of financial instruments, restructuring and early repayment	–	80,461
Government subsidies	330,289	(17,690)

The table above for 2015 shows a government subsidy in respect of deposits raised from the Federal Treasury in the amount of RUB 312 291 million (Note 9).

In addition, government subsidies for 2015 include gain on government subsidy in the amount of RUB 13 146 million in connection with changes in contractual provisions in respect of a deposit from the Federal Treasury (Note 9).

Also, government subsidies for 2015 include gain on initial recognition of loans in the amount of RUB 4,852 million (Note 16).

(in millions of Russian rubles)

Translation from the Russian original

41. 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.

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

In 2015 and 2014, 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:

	2015	**2014**
Core capital	598,532	705,385
Additional capital	434,835	335,655
Less deductions from capital	(573,288)	(534,012)
Total capital	**460,079**	**507,028**
Risk-weighted assets	**3,925,430**	**3,545,689**
Capital adequacy ratio	11.7%	14.3%

In order to maintain or adjust the capital structure and in accordance with Federal Law No. 82-FZ, the authorized 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.

(in millions of Russian rubles)

Translation from the Russian original

42. Subsequent events

In January 2016, the Bank acquired 45,800,000,000 additional shares issued by JSC Russian Export Center in the total amount of RUB 45,800 million. The Bank's interest in the share capital of Russian Export Center remained unchanged at 100%.

In February 2016, Sergei N. Gorkov was appointed as the Chairman of Vnesheconombank pursuant to Decree No. 85 by the President of the Russian Federation dated 26 February 2016.

In February 2016, Vnesheconombank made an additional contribution of RUB 7,979 million to the share capital of Resort Zolotoe Koltso LLC. The Bank's interest in the share capital of the company remained unchanged at 100%.

In February 2016, Vnesheconombank made an additional contribution of RUB 7,043 million to the share capital of Resad LLC. The Bank's interest in the share capital of the company comprised 99.99997%. In March 2016, Resad LLC was renamed as LLC Infrastructure Molzhaninovo.

In February 2016, the Bank repaid Series 4 Eurobonds with a total nominal value of CHF 500 million (equivalent to RUB 38,632 million at the repayment date) in accordance with the terms of the issue.

In February 2016, Vnesheconombank made an additional contribution of RUB 40,400 million to the share capital of LLC VEB Capital. The Bank's interest in the share capital of the company remained unchanged at 100%.

In February 2016, the Bank placed exchange-trade Series PBO-001P-01 bonds with a nominal value of RUB 19,575 million maturing in February 2025. No offer is provided for this issue of bonds. These bonds were fully repurchased by the Group's participant.

In February 2016, a change was registered in the share capital of LLC VEB Capital associated with share capital increase by RUB 1,898 million. The Bank's interest in the share capital of the company remained unchanged at 100%.

In February 2016, the Bank transferred funds of USD 486 million (RUB 37,157 million at the transfer date) and Euro 226 million (RUB 19,018 million at the transfer date) as payment for 1,999,984,200 shares additionally issued by PSC Prominvestbank. The report on the results of PSC Prominvestbank's placement of additionally issued shares was not registered at the date of authorization of these financial statements.

In February 2016, Vnesheconombank made an asset contribution of RUB 1,706 million to the share capital of LLC VEB Capital. The Bank's interest in the share capital of the company remained unchanged at 100%.

In February and March 2016, in accordance with Resolution of the Russian Government No. 1495 of 30 December 2015 "On Rules of Placement of Federal Budget Funds in Deposits with the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", federal budget funds of RUB 45,000 million and RUB 55,000 million, respectively, were placed for the term of 270 days at the key rate of the Bank of Russia to maintain liquidity.

In February, a leasing company of the Group fulfilled its obligations to repurchase own Series BO-04 and BO-05 bonds in the total amount of RUB 8,597 million within the framework of the provided offer. Series BO-04 bonds with a nominal value of RUB 623 million were placed for the second time.

In March 2016, a subsidiary bank fulfilled its obligations to repurchase own exchange-traded Series BO-03 bonds with a nominal value of RUB 4,110 million and Series BO-04 bonds with a nominal value of RUB 5,000 million within the framework of the provided offers. Series BO-03 bonds with a nominal value of RUB 398 million were placed for the second time.

Translation from the Russian original

In March 2016, the Bank fulfilled its obligations to repurchase own Series 9 bonds totaling RUB 3,016 million within the framework of the provided offer. All repurchased bonds of the above series maturing in March 2021 were placed by the Bank for the second time. This issue of bonds provides for an 18-month offer.

In March and April 2016, the Bank for the second time placed its earlier repurchased exchange-traded Series BO-02 bonds with a nominal value of RUB 1,826 million maturing in November 2017.

In March 2016, Vnesheconombank received a subsidy of RUB 73,793 million from the federal budget in the form of an asset contribution of the Russian Federation as compensation for part of the costs to incur in 2016 in relation to external borrowing obligations in capital markets. Total expected subsidies for these purposes amount to RUB 150,000 million.

In March 2016, a subsidiary made a contribution-of RUB 4,002 million in jointly-controlled entity engaged in development of Russia's logistics infrastructure. This contribution will be recognized in the financial statements of the Group as financial assets designated as at fair value through profit or loss.

In April 2016, a leasing company of the Group fulfilled its obligation to repurchase own Series 03, 04, 05 bonds in the total amount of RUB 8,433 million within the framework of the provided offer.

S.N. Gorkov — Chairman of the Bank

V.D. Sharpinsky — Chief Accountant

19 April 2016