Independent auditor's report
on the consolidated financial statements of
State corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries
for the year ended 31 December 2016

April 2017

Independent auditor's report on the consolidated financial statements of State corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters	Consideration of the matter in the course of our audit
Allowance for impairment of loans to customers	
The significance of loans to customers, which represent for 53% of total assets, and the application of professional judgment by the Group's management for timely identification and measurement of loans impairment losses, makes impairment allowance a key audit matter. The identification of impairment and the determination of the recoverable amount require the significant professional judgment, the use of assumptions and analysis of various factors, including financial performance of counterparties, expected future cash flows and collateral value. The use of different techniques and assumptions could produce significantly different results. Information on the impairment of loans to customers and the Group's management approach to assessing and managing credit risk are included in Note 17 *Loans to customers* and Note 36 *Risk management* to the consolidated financial statements.	We analysed the following areas during our audit: ▸ management's judgment in relation to the identification of impairment events for significant loans to customers; ▸ projected future cash flows (including collateral-sourced cash flows) in relation to loans with signs of impairment. Our audit procedures included an evaluation of the methodologies used by the Group in identifying impairment events and calculating impairment allowance. For a sample of significant credit exposures subject to individual impairment assessment, we inspected assumptions of the Group on the expected future cash flows, including those from current operations of the borrowers and those from foreclosure of collateral based on available market information. For collectively assessed allowance for impairment we tested key inputs and assumptions used. We also analysed the disclosures in the consolidated financial statements about the allowance for impairment of loans to customers.
Fair value measurement of securities not quoted in an active market	
A significant part of the Group's investments in securities is attributable to instruments not quoted in an active market (Level 2 and Level 3 financial instruments). The fair value of these securities is determined by the Group using valuation models that may use complex assumptions and rely on unobservable inputs (Level 3). Various valuation methods and assumptions may have a material impact on the fair value measurement. Due to significance of professional judgment and potential effect on the consolidated financial statements, we considered the fair value measurement of securities not quoted in an active market to be one of the key audit matters. The information on the fair value measurement is included in Note 37 *Fair value measurement* to the consolidated financial statements.	Our audit procedures included an assessment of the valuation models and the sources of significant assumptions used in determining fair value. For a sample of individually significant estimates, we engaged our valuation specialists to analyse the appropriateness of the models and assumptions used. We also analysed the disclosures in the consolidated financial statements about the fair value measurement of securities not quoted in an active market.

Other matters

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who issued the auditor's report dated 19 April 2016 and expressed an unmodified opinion, including the Emphasis of Matter paragraph drawing attention to the Group's accumulated liquidity deficit for the term of up to one year as at 31 December 2015 and to the fact that the Group's ability to continue as a going concern depends, to a significant extend, upon implementation of the measures taken by management to maintain the financial stability of the Group and on the obtaining of other forms of financial support.

Other information included in the Annual report 2016 of Vnesheconombank

Other information consists of the information included in the Annual report 2016 of Vnesheconombank, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for other information. The Annual report 2016 of Vnesheconombank is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover other information, and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease its operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is G.A. Shinin.

G.A. Shinin
Partner
Ernst & Young LLC

28 April 2017

Details of the audited entity

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

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002; State Registration Number 1027739707203.
Address: Russia, 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of the Self-regulated Organization of Auditors "Russian Union of Auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648, and also included in the control copy of the register of auditors and audit organizations, main registration number 10301017410.

Consolidated statement of financial position
As at 31 December 2016
(in billions of Russian rubles)

	Notes	2016	2015 (Restated)	2014 (Restated)
Assets				
Cash and cash equivalents	11	350.1	322.1	304.5
Financial assets at fair value through profit or loss	12	19.2	52.6	44.3
Financial assets lent and pledged as collateral under repurchase agreements	13	4.7	78.0	103.7
Special purpose accounts	20	79.9	63.5	29.9
Amounts due from banks and treasury	14	92.3	68.3	120.9
Non-current assets held for sale and assets of disposal groups	16	13.0	137.2	6.8
Loans to customers	17	1,904.5	2,580.3	2,251.2
Net investments in leases	18	283.6	343.1	380.8
Investment financial assets:	19			
- available for sale		470.3	390.8	368.7
- held to maturity		18.0	27.5	21.4
Subordinated loans to banks	14	57.4	50.4	48.9
Investments in associates and jointly controlled entities	21	39.7	9.9	10.9
Property and equipment	22	100.4	68.9	58.3
Income tax assets	23	6.5	11.3	7.5
Other assets	25	133.8	178.5	128.0
Total assets		**3,573.4**	**4,382.4**	**3,885.8**
Liabilities				
Amounts due to banks	26	644.5	1,019.4	1,010.5
Financial liabilities at fair value through profit or loss	15	0.5	2.8	2.7
Amounts due to the Russian Government and the Bank of Russia	9	553.8	706.4	559.3
Liabilities of disposal groups held for sale	16	–	69.0	0.2
Amounts due to customers	27	532.1	642.3	508.7
Debt securities issued	28	1,024.6	1,179.9	983.2
Finance lease liabilities	29	75.9	105.9	89.8
Subordinated deposits	9	92.5	102.1	303.0
Income tax liabilities	23	14.2	10.5	7.3
Provisions	24	33.4	14.8	6.4
Other liabilities	25	46.2	48.5	36.1
Total liabilities		**3,017.7**	**3,901.6**	**3,507.2**
Equity	30			
Authorized capital		596.6	445.6	418.1
Additional paid-in capital		164.3	150.5	138.2
Uncovered loss		(264.3)	(154.2)	(169.0)
Unrealized revaluation of investment financial assets available for sale		45.3	35.3	(13.9)
Foreign currency translation reserve		8.4	(0.9)	0.9
Equity attributable to the Russian Government		**550.3**	**476.3**	**374.3**
Non-controlling interests		5.4	4.5	4.3
Total equity		**555.7**	**480.8**	**378.6**
Total equity and liabilities		**3,573.4**	**4,382.4**	**3,885.8**

S.N. Gorkov — Chairman of the Bank

V.D. Shaprinskiy — Chief Accountant

28 April 2017

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

Consolidated statement of profit or loss
For the year ended 31 December 2016
(in billions of Russian rubles)

	Notes	2016	2015 (Restated)
Interest income	32	316.8	325.3
Interest expense	32	(227.7)	(258.3)
Net interest income		**89.1**	**67.0**
Provision for impairment of interest-earning assets	14, 17, 18	(510.4)	(292.8)
Net interest expense after provision for impairment of interest-earning assets		**(421.3)**	**(225.8)**
Net fee and commission income	33	**9.2**	**9.1**
Net gains/(losses) from financial instruments at fair value through profit or loss		4.3	7.9
Net gains/(losses) from investment financial assets available for sale	34	22.4	(28.4)
Net gains/(losses) from foreign currencies:			
- dealing		7.2	3.5
- translation differences		(44.8)	1.7
Net gains/(losses) on initial recognition of financial instruments, restructuring and early repayment	16, 17	(5.5)	(12.9)
Share in net loss of associates and jointly controlled entities	21	(4.3)	(6.5)
Dividends		3.8	9.2
Government grants	9, 16	211.9	330.3
Insurance premiums	35	25.9	2.4
Other operating income	35	212.5	25.6
Non-interest income		**433.4**	**332.8**
Payroll and other staff costs		(26.1)	(24.6)
Occupancy and equipment		(8.0)	(8.4)
Depreciation of property and equipment	22	(5.6)	(3.8)
Taxes other than income tax		(2.8)	(5.3)
Other provisions and provisions for impairment of other assets	24	(29.8)	(21.3)
Other operating expenses	35	(53.8)	(37.5)
Non-interest expense		**(126.1)**	**(100.9)**
Profit/(loss) before income tax		**(104.8)**	**15.2**
Income tax expense	23	(7.1)	(0.3)
Profit/(loss) for the year		**(111.9)**	**14.9**
Attributable to:			
- the Russian Government		(111.6)	16.4
- non-controlling interests		(0.3)	(1.5)
		(111.9)	**14.9**

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

Consolidated statement of comprehensive income
For the year ended 31 December 2016
(in billions of Russian rubles)

	Notes	2016	2015
Profit/(loss) for the reporting year		**(111.9)**	**14.9**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be subsequently reclassified to profit or loss when specific conditions are met			
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	16.9	50.5
Translation differences		9.3	(1.8)
Income tax relating to components of other comprehensive income	23	–	(1.3)
Net other comprehensive income to be subsequently reclassified to profit or loss		**26.2**	**47.4**
Other comprehensive income for the reporting year, net of tax		**26.2**	**47.4**
Total comprehensive income/(loss) for the reporting year		**(85.7)**	**62.3**
Attributable to:			
- the Russian Government		(85.2)	64.2
- non-controlling interests		(0.5)	(1.9)
		(85.7)	**62.3**

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

Consolidated statement of changes in equity
For the year ended 31 December 2016

(in billions of Russian rubles)

	Attributable to the Russian Government							
	Authorized capital	Additional paid-in capital	Uncovered loss	Unrealized revaluation on investment financial assets available for sale	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
31 December 2014	**418.1**	**138.2**	**(169.0)**	**(13.9)**	**0.9**	**374.3**	**4.3**	**378.6**
Profit/(loss) for the reporting year	–	–	16, 4	–	–	**16.4**	(1.5)	**14.9**
Other comprehensive income/(loss)	–	–	–	49.2	(1.4)	**47.8**	(0.4)	**47.4**
Total comprehensive income/(loss) for the reporting year	**–**	**–**	**16.4**	**49.2**	**(1.4)**	**64.2**	**(1.9)**	**62.3**
Contributions of the Russian Government	27.5	12.3	–	–	–	**39.8**	–	**39.8**
Subsidiary acquired	–	–	–	–	–	**–**	(0.8)	**(0.8)**
Change in interest in existing subsidiaries	–	–	(1.6)	–	(0.4)	**(2.0)**	2.9	**0.9**
31 December 2015	**445.6**	**150.5**	**(154.2)**	**35.3**	**(0.9)**	**476.3**	**4.5**	**480.8**
31 December 2015	**445.6**	**150.5**	**(154.2)**	**35.3**	**(0.9)**	**476.3**	**4.5**	**480.8**
Loss for the reporting year	–	–	(111.6)	–	–	**(111.6)**	(0.3)	**(111.9)**
Other comprehensive income/(loss)	–	–	–	16.9	9.5	**26.4**	(0.2)	**26.2**
Total comprehensive income/(loss) for the reporting year	**–**	**–**	**(111.6)**	**16.9**	**9.5**	**(85.2)**	**(0.5)**	**(85.7)**
Contributions of the Russian Government (Note 30)	150.0	13.8	–	–	–	**163.8**	–	**163.8**
Distribution of capital to the Russian Government (Note 30)	1.0	–	2.3	(6.9)	(0.2)	**(3.8)**	(1.4)	**(5.2)**
Subsidiaries acquired (Note 7)	–	–	–	–	–	**–**	2.1	**2.1**
Change in interest in existing subsidiaries (Note 7)	–	–	(0.8)	–	–	**(0.8)**	0.8	**–**
Dividends from subsidiaries	–	–	–	–	–	**–**	(0.1)	**(0.1)**
31 December 2016	**596.6**	**164.3**	**(264.3)**	**45.3**	**8.4**	**550.3**	**5.4**	**555.7**

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

Consolidated statement of cash flows
For the year ended 31 December 2016
(in billions of Russian rubles)

	Notes	2016	2015 (Restated)
Cash flows from operating activities			
Profit/(loss) for the reporting year		(111.9)	14.9
Adjustments:			
Change in interest accruals		(38.4)	(48.0)
Impairment and other provisions	14, 17, 18, 24	540.2	314.1
Changes in unrealized revaluation of trading securities and derivative financial instruments		(5.9)	(4.6)
Government grants	9, 16	(211.9)	(330.3)
Gains less losses from investment financial assets available for sale, net of impairment loss		(25.5)	1.0
Impairment of investment financial assets available for sale	19	3.1	27.4
Changes in translation differences		44.8	(1.7)
Gains less losses on initial recognition of financial instruments, restructuring and early repayment	16, 17	5.5	12.9
Share in net loss of associates and jointly controlled entities	21	4.3	6.5
Impairment of goodwill	35	6.9	–
Depreciation and amortization		6.4	4.7
Gain from disposal of loans	35	(184.0)	–
Deferred income tax	23	4.4	(1.9)
Loss on write-off of impaired assets	35	11.5	–
Other changes		(3.1)	(2.0)
Cash flows from operating activities before changes in operating assets and liabilities		**46.4**	**(7.0)**
Net (increase)/decrease in operating assets			
Financial assets at fair value through profit or loss		6.6	(20.6)
Special purpose accounts		(29.2)	(19.3)
Amounts due from banks and treasury		2.2	(32.2)
Loans to customers		161.3	(90.5)
Net investments in leases		0.8	25.2
Other assets		9.7	(17.6)
Net increase/(decrease) in operating liabilities			
Amounts due to banks, net of long-term interbank financing		(172.8)	(35.9)
Amounts due to the Russian Government and the Bank of Russia, net of long-term financing		(230.1)	142.0
Amounts due to customers		(162.2)	64.4
Debt securities issued, net of bonds and Eurobonds		18.7	(3.8)
Finance lease liabilities		(13.0)	(8.1)
Other liabilities		(2.2)	0.3
Net cash used in operating activities		**(363.8)**	**(3.1)**

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

Consolidated statement of cash flows
For the year ended 31 December 2016 (continued)

(in billions of Russian rubles)

	Notes	2016	2015 (Restated)
Cash flows from investing activities			
Purchase of investment financial assets		(230.3)	(256.1)
Proceeds from sale and redemption of investment financial assets		403.6	281.3
Disposal of subsidiaries, net of cash		(30.5)	–
Investments in associates and jointly controlled entities		(1.2)	(0.2)
Purchase of property and equipment		(2.2)	(3.6)
Proceeds from sale of property and equipment		0.3	0.1
Purchase of investment property	25	(0.7)	(0.6)
Disposal of investment property	25	0.1	0.2
Net cash from investing activities		**139.1**	**21.1**
Cash flows from financing activities			
Long-term interbank financing raised	26	70.8	22.2
Long-term interbank financing repaid	26	(200.0)	(191.8)
Long-term financing raised from the Bank of Russia and the Russian Government	9	393.2	75.7
Long-term financing repaid to the Bank of Russia and the Russian Government	9	(106.1)	(26.5)
Placement of bonds		78.4	86.4
Redemption of bonds and Eurobonds		(102.9)	(46.1)
Purchase of bonds and Eurobonds issued by the Group		(78.0)	(48.8)
Proceeds from sale of previously purchased bonds and Eurobonds		36.6	44.8
Change in interest in existing subsidiaries		–	1.2
Contributions to authorized and additional paid-in capitals from the Russian Government	30	150.0	39.8
Government grants and assistance received	30	12.2	9.0
Dividends from subsidiaries		(0.1)	–
Net cash from/(used in) financing activities		**254.1**	**(34.1)**
Effect of changes in foreign exchange rates against the Russian ruble on cash and cash equivalents		(5.5)	37.8
Net increase in cash and cash equivalents		**23.9**	**21.7**
Cash and cash equivalents, beginning	11	**322.1**	**304.5**
Cash and cash equivalents, ending	11	**350.1**	**322.1**
Cash recognized within non-current assets held for sale, beginning		**4.1**	**–**
Cash recognized within non-current assets held for sale, ending		**–**	**4.1**
Supplemental information:			
Income tax paid		(1.9)	(1.6)
Interest paid		(204.4)	(225.8)
Interest received		254.4	244.3
Dividends received		4.6	9.2

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

(in billions of Russian rubles, unless otherwise stated)

1. Principal activities

The Group of the state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" comprises state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" ("Vnesheconombank" or the "Bank"), subsidiary Russian banks and CIS-based banks, as well as subsidiary Russian and foreign companies (collectively, the "Group"). A list of major subsidiaries is presented in Note 4, and a list of associates and jointly controlled entities is presented in Note 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 defense contracts and involved in federal-level defense and security programs. In addition, the Memorandum was amended by adding a section on the formal process for Vnesheconombank to make decisions on investing pension savings in bonds covered by guarantees of the Russian 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 Russian Government dated 16 January 2015 *On Amendments to Certain Acts of the Russian 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 billions of Russian rubles, unless otherwise stated)

1. Principal activities (continued)

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" ("JSC SME Bank"), State Specialized Russian Export-Import Bank (joint-stock company) (EXIMBANK OF RUSSIA), the Federal Centre for Project Finance (FCPF), and international and domestic 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 of an agent of the Russian Government under the Agreement entered into with the Ministry of Finance of the Russian Federation (the "Russian Ministry of Finance") on 25 December 2009, Additional Agreement No. 1 dated 23 December 2010, Additional Agreement No. 2 dated 8 December 2011, Additional Agreement No. 3 dated 23 July 2012, Additional Agreement No. 4 dated 19 August 2013, Additional Agreement No. 5 dated 16 April 2014, Additional Agreement No. 6 dated 1 October 2015, and Additional Agreement No. 7 dated 21 September 2016 (collectively, "Agency Agreement").

Based on the 2016 performance results, Vnesheconombank received a fee for agency services as provided for by Federal Law No. 359-FZ, *On the Federal Budget for 2016 and the Planned Period of 2016 and 2017* dated 14 December 2015 in the total amount of RUB 0.5 billion (2015: RUB 0.5 billion) 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 accumulated pension savings of insured citizens who have not selected a non-state pension fund or a private management company and who have selected the Bank as the management company.

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

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

(in billions of Russian rubles, unless otherwise stated)

1. Principal activities (continued)

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

During 2016, the Bank, as a state management company, invested pension savings in state securities denominated in Russian rubles, corporate bonds of highly credible Russian issuers, and in corporate bonds collateralised by guarantees of the Russian Federation and mortgage securities. As at 31 December 2016 and 31 December 2015, total funds of the State Pension Fund of the Russian Federation placed in management to the state management company amounted to RUB 1,977.8 billion and RUB 2,018.4 billion, respectively.

In 2016, Vnesheconombank, as the state trust management company for pension savings received a consideration in the amount of RUB 0.6 billion (31 December 2015: RUB 0.5 billion), 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 JSC "The Agency for Housing Mortgage Lending" (JSC "AHML").

The Bank is located in Moscow, Russia at the following address: 9 Prospekt Akademika Sakharova, Moscow.

The Bank has representative offices in 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 2016 and 31 December 2015, the Group had 17,540 and 18,382 employees, respectively.

2. Basis of preparation

General

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

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

(in billions of Russian rubles, unless otherwise stated)

2. Basis of preparation (continued)

General (continued)

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

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

Going concern

These consolidated financial statements have been prepared on a going concern assumption.

These consolidated financial statements reflect the Group management's current assessment of the impact of the Russian business environment on the performance and the financial position of the Group. The future development of the Russian economy is largely dependent upon the effectiveness of measures undertaken by the Russian 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 may have on the financial position of the Group in future.

The ability to continue as a going concern depends, to a significant extent, upon future financial support from the Russian Government.

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 2016 and 31 December 2015.

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.

(in billions of Russian rubles, unless otherwise stated)

2. Basis of preparation (continued)

General (continued)

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 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 and not used in current activities;
- Participation claims and liabilities related to the reorganization of former USSR-owned foreign banks, which are subject to trilateral settlement by the Bank of Russia, the Russian Ministry of Finance, and Vnesheconombank, and equity participations financed by borrowings, the responsibility for which was assumed by the Russian Ministry of Finance;
- Claims against Russian commercial banks and other commercial entities for guarantees in favor of the Russian Ministry of Finance under centralized operations, as well as other claims and liabilities that resulted from, or arise as a result of, operations conducted at the expense of the Russian Government.

3. Reclassification of comparatives

In the consolidated statement of financial position as at 31 December 2015, amounts on the correspondent account with the Bank of Russia and amounts on correspondent accounts with foreign banks intended for a designated purpose are included in amounts due from banks and special purpose accounts, respectively. In addition, the Group has changed the presentation of other assets following the reclassification of precious metals and amounts due from the Russian Government due to their insignificance. The following reclassifications have been made to 2015 and 2014 balances to ensure their comparability with the 2016 data:

Consolidated statement of financial position as at 31 December 2015	As previously reported	Reclassification amount	As reclassified
Cash and cash equivalents	400.5	(78.4)	322.1
Precious metals	0.3	(0.3)	–
Special purpose accounts	–	63.5	63.5
Amounts due from banks and treasury	53.4	14.9	68.3
Amounts due from the Russian Government	0.5	(0.5)	–
Other assets	177.7	0.8	178.5

Consolidated statement of financial position as at 31 December 2014	As previously reported	Reclassification amount	As reclassified
Cash and cash equivalents	326.0	(21.5)	304.5
Precious metals	0.3	(0.3)	–
Special purpose accounts	–	29.9	29.9
Amounts due from banks and treasury	129.3	(8.4)	120.9
Amounts due from the Russian Government	0.4	(0.4)	–
Other assets	127.3	0.7	128.0

(in billions of Russian rubles, unless otherwise stated)

3. Reclassification of comparatives (continued)

Consolidated statement of cash flows for the year ended 31 December 2015	As previously reported	Reclassification amount	As reclassified
Amounts due from banks and treasury	(6.2)	(26.0)	(32.2)
Special purpose accounts	–	(19.3)	(19.3)
Net cash from/(used in) operating activities	**42.2**	**(45.3)**	**(3.1)**
Effect of changes in foreign exchange rates against the Russian ruble on cash and cash equivalents	49.5	(11.7)	37.8
Net increase in cash and cash equivalents	**78.7**	**(57.0)**	**21.7**
Cash and cash equivalents, beginning	**326.0**	**(21.5)**	**304.5**
Cash and cash equivalents, ending	**400.5**	**(78.4)**	**322.1**

The effect of the changes is also disclosed in Notes 9, 11, 14, 25 36, 37 and 40.

The Group changed the presentation of the consolidated statement of profit or loss for the year ended 31 December 2015 in these consolidated financial statements due to significant results from insurance operations.

Consolidated statement of profit or loss for the year ended 31 December 2015	As previously reported	Reclassification amount	As reclassified
Other operating income	28.0	(2.4)	25.6
Insurance premiums	–	2.4	2.4

4. Major subsidiaries

The Group's subsidiaries owned directly by Vnesheconombank included in the consolidated financial statements are presented in the table below:

	Ownership			
Subsidiaries	**31 December 2016**	**31 December 2015**	**Country of incorporation**	**Type of activity**
Bank BelVEB OJSC	97.52%	97.52%	Republic of Belarus	Banking
JSC "VEB-Leasing"	99.79%	99.11%	Russia	Leasing
JSC SME Bank	–	100%	Russia	Banking
Sviaz-Bank	99.77%	99.65%	Russia	Banking
PSC Prominvestbank	99.72%	99.39%	Ukraine	Banking
JSC "Kraslesinvest"	100%	100%	Russia	Production and processing of materials
JSC "GLOBEXBANK"	99.99%	99.99%	Russia	Banking
VEB Capital LLC	100%	100%	Russia	Financial intermediary
VEB Engineering LLC	100%	100%	Russia	Investment project implementation services
FCPF	100%	100%	Russia	Financial intermediary
JSC "North Caucasus Development Corporation"	100%	100%	Russia	Advisory services, investment project support
RDIF Management Company LLC	–	100%	Russia	Management company
JSC "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
Infrastructure Molzhaninovo LLC (former Resad LLC)	99.99%	85%	Russia	Electric energy
Resort Zolotoe Koltso LLC	100%	100%	Russia	Real estate and construction
Russian Export Center JSC	100%	100%	Russia	Support of export operations
Caspian Flat Glass JSC	100%	–	Russia	Manufacturing

(in billions of Russian rubles, unless otherwise stated)

4. Major subsidiaries (continued)

Significant subsidiaries, controlled by Vnesheconombank through mentioned above entities, are present in the table below:

Subsidiaries	Ownership 31 December 2016	Ownership 31 December 2015	Country of incorporation	Type of activity
Rose Group Limited (ранее R.G.I. International Limited)	73.4%	73.4%	Guernsey	Real estate development business
United Group S.A.	100%	100%	Luxembourg	Holding company

As at 31 December 2015, the Group's subsidiaries also included Mutual Fund RDIF with 100% ownership.

As at 31 December 2016 and 31 December 2015, the Group owned 100% of the voting shares of JSC "VEB-Leasing".

As at 31 December 2016 and 31 December 2015, the Group's subsidiaries include EXIMBANK OF RUSSIA and EXIAR through the subsidiary Russian Export Center JSC (REC JSC). The Group's interest in the authorized capital of the subsidiaries remains unchanged at 100%.

As at 31 December 2016 and 31 December 2015, 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 activities of the parent company of the AMURMETAL HOLDING LIMITED group 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 2016 and 31 December 2015.

United Group S.A. is a beneficiary owner of a metallurgical enterprise in the Czech Republic.

In February 2016, Vnesheconombank made an additional contribution to the authorized capital of Resad LLC in the amount of RUB 7.0 billion. The Bank's share in the authorized capital of the company is 99.99997%. In March 2016, Resad LLC was renamed Infrastructure Molzhaninovo LLC.

In February 2016, the Bank transferred funds in the amount of USD 500 million (RUB 37.2 billion at the date of transfer) and EUR 0.2 billion (RUB 19.0 billion at the date of transfer) in payment for 1,999,984,200 shares additionally issued by PSC Prominvestbank. In May 2016, the report on the results of PSC Prominvestbank's placement of additionally issued shares was registered by the National Securities and Stock Market Commission of Ukraine.

In March 2016, as a result of repurchase of 16.11% of own shares by Rose Group Limited, the Group's ownership reduced to 68.28%. In the third quarter of 2016, as a result of a reverse exchange of shares, the Group's ownership in Rose Group Limited increased to 73.4%.

In April 2016, pursuant to Decree No. 287 of the President of the Russian Federation dated 5 June 2015 and Federal Law No. 156-FZ, *On Amendments to Certain Legislative Acts of the Russian Federation Regarding Measures for Further Development of Small and Medium Enterprises in the Russian Federation*, dated 29 June 2015, Vnesheconombank paid for an additional issue of shares in JSC "Russian Small and Medium Business Corporation" (hereinafter, "JSC RSMB Corporation") with 19,240 shares of JSC SME Bank (100% as at 31 December 2015), thus losing control over the bank (Notes 21, 30, 40).

As on 2 June 2016 Federal Law No. 154-FZ, *On the Russian Direct Investment Fund*, became effective, Vnesheconombank lost control over RDIF Management Company LLC. Therefore, the Bank deconsolidated the assets and liabilities of Mutual Fund RDIF and classified 100% of units in Mutual Fund RDIF owned by the Bank as investment financial assets available for sale (Notes 19, 30, 40). As at 31 December 2015, the Bank was holding 100% of shares in the authorized capital of RDIF Management Company LLC.

(in billions of Russian rubles, unless otherwise stated)

4. Major subsidiaries (continued)

In June 2016, Vnesheconombank exercised its preemptive right to purchase additional shares in PSC Prominvestbank and paid for 160,682,620 shares additionally issued by PSC Prominvestbank in the amount of USD 64.6 million and EUR 0.04 million (total equivalent of RUB 4.2 billion at the date of purchase). The Bank's share in the authorized capital of the company changed to 99.72%. In October 2016, the National Securities and Stock Market Commission of Ukraine registered the report on the results of PSC Prominvestbank's placement of additionally issued shares.

In August 2016, Vnesheconombank made an additional contribution to the authorized capital of Infrastructure Molzhaninovo LLC in the amount of RUB 1.2 billion. The Bank's share in the authorized capital of the company is 99.99998%.

In October 2016, funds of subsidy from the federal budget (RUB 8.1 billion) that Vnesheconombank received in September 2016 were transferred to EXIMBANK OF RUSSIA as intended. The report on the results of the additional issue of shares by EXIMBANK OF RUSSIA was registered in November 2016.

In November 2016, the Bank acquired title to 100% votes conferred by ordinary shares of Caspian Flat Glass JSC. The shares were transferred to the Bank under the agreement on out-of-court sale of the shares, due to the Bank's financing of the respective project of RUB 3.0 billion.

In December 2016, the Bank purchased 30,902,348 shares additionally issued by JSC VEB-Leasing for the total amount of RUB 75.0 billion. The Group's ownership in the share capital of JSC VEB-Leasing increased to 99.79%.

In December 2016, the Bank purchased 7,988,262,200,000 shares additionally issued by Sviaz-Bank for the total amount of RUB 16.0 billion. The Bank's ownership in the share capital of Sviaz-Bank increased to 99.77%.

The Bank has no subsidiaries with material non-controlling interests.

5. Summary of accounting policies

Changes in accounting policies

New adopted standards

The Group has adopted the following amended IFRS, which are effective for annual periods beginning on or after 1 January 2016.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statements of profit or loss, statement of other comprehensive income and 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 other comprehensive income 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

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position, statement of profit or loss and statement of comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. 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 *Investments in Associates and Joint Ventures* 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.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered 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. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

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 the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must 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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

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

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Business combinations (continued)

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

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

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

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

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

Acquisition of subsidiaries from parties under common control

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

The assets and liabilities of the subsidiary transferred under common control are recorded in consolidated financial statements at the carrying amounts of the transferring entity (the predecessor) at the date of the transfer. Related goodwill inherent in the predecessor's original acquisition is also recorded in consolidated financial statements. Any difference between the total book value of net assets, including the predecessor's goodwill, and the consideration paid is accounted for in consolidated financial statements as an equity adjustment. On disposal of a subsidiary during a transaction under common control the difference between the carrying value of disposable assets and liabilities is recognized in profit or loss. The financial data in the consolidated financial statements for the periods preceding the combination of entities under common control are not restated.

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 amount 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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Investments in associates and jointly controlled entities (continued)

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.

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 billions of Russian rubles, unless otherwise stated)

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.

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Financial assets (continued)

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.

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Offsetting of financial assets (continued)

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.

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending (continued)

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.

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

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.

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Impairment of financial assets

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

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

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

Amounts due from 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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

Held-to-maturity financial investments

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

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

Available-for-sale financial investments

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

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

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

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The accounting treatment of such restructuring is as follows:

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

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

Derecognition of financial assets and liabilities

Financial assets

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

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or 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 settling any financial obligation arising as a result of the guarantee.

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

Taxation

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

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Property and equipment

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

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount 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 estimated useful lives. Assets' useful lives are determined on the basis of their estimated benefit for the Bank's activities using experienced judgments.

	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.

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Goodwill (continued)

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

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

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

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

Intangible assets other than goodwill

Intangible assets other than goodwill include computer software and licenses.

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

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

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.

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 measured at fair value, if it can be reliably measured. Otherwise, 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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

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.

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Income and expense recognition

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

Interest and similar income and expense

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

Once the recorded 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 and commission 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 and commission 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.

Gains and losses from transactions between entities under common control

If IFRSs require transaction to be initially recognized at fair value, the transaction is recorded at fair value regardless of the consideration received. In such cases, the difference between the fair value and the consideration received is recorded as an equity transaction, i.e. as a contribution to equity or payment from equity.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Income and expense recognition (continued)

In all other cases, when the fair value does not equal the amount of consideration, the transaction is recorded at the amount of consideration received, as stated in the agreement related to the transaction.

This approach is not used to recognize a business combination or business transfer between parent company and its subsidiary.

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 2016 and 31 December 2015 were RUB 60.6569 and RUB 72.8827 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.

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.

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.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the statement of profit or loss. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to 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 a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on or after 1 January 2018, with early application permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Group does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

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

Amendments to IFRS 10 and IAS 28 were issued in September 2014 (with latest changes on 15 December 2015); effective date is not set. The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the remeasurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary. The Group is currently evaluating the amendments' impact.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IFRS 15 Revenue from Contracts with Customers

Amendments to IFRS 15 were issued on 12 April 2016 and become effective for annual periods beginning on or after 1 January 2018. The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently evaluating the amendments' impact.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Group.

(in billions of Russian rubles, unless otherwise stated)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual Improvements to IFRSs 2014-2016 cycle

These improvements become effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28. The improvements impact three standards. The Group is currently evaluating the improvements' impact.

The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The interpretation was issued on 8 December 2016 and becomes effective for annual periods beginning on or after 1 January 2018. The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and nonmonetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a nonmonetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Group is currently evaluating the interpretation's impact.

Amendments to IAS 40 – Transfers of Investment Property

Amendments were issued on 8 December 2016 and become effective for annual periods beginning on or after 1 January 2018. The amendments clarify the requirements on transfers into, or out of, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Group is currently evaluating the amendments' impact.

(in billions of Russian rubles, unless otherwise stated)

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 at 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 2016 is RUB 806.2 billion (31 December 2015: RUB 769.8 billion). 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 2016, there was no goodwill (as at 31 December 2015: the carrying amount of goodwill is insignificant).

(in billions of Russian rubles, unless otherwise stated)

7. Business combinations

Acquisitions in 2016

Acquisition of LLC "VEB-Invest"

On 30 March 2016, the Group increased its share in its associate LLC "VEB-Invest" from 19% to 100%. The cost of acquisition paid for in cash was insignificant. The fair value and the carrying amount of the previously recorded 19% share in the capital of LLC "VEB-Invest" amount to RUB 0.

LLC "VEB-Invest" is the parent company of a group of companies primarily engaged in the implementation of investment projects involving the development and construction of real estate properties of various classes in Moscow and Russian regions.

The Group increased its share in the authorized capital of LLC "VEB-Invest" in 2016, as the Bank participates in the financing of investment projects implemented by the LLC "VEB-Invest" Group.

The fair values of the acquired identifiable assets and liabilities of LLC "VEB-Invest", as determined by an independent appraiser, were as follows:

	Fair value recognized on control acquisition
Investments in associates and jointly controlled entities	0.4
Property and equipment	0.6
Other assets	27.4
	28.4
Income tax liabilities	3.5
Other liabilities	0.8
	4.3
Total identifiable net assets	**24.1**
Less non-controlling interest	(2.1)
Goodwill arising on acquisition	4.3
Consideration transferred on acquisition	**26.3**

The Group decided to measure the non-controlling interests in LLC "VEB-Invest" at the proportionate share of non-controlling participants in its identifiable net assets.

As a result of impairment testing, goodwill of RUB 4.3 billion was expensed and recorded within other operating expenses in the consolidated statement of profit or loss (Note 35).

Transactions representing previous relations between the participants of the Group within cash and amounts due to banks with a fair value of RUB 2.0 billion and RUB 28.3 billion, respectively, at the acquisition date were excluded in the process of accounting for the business combination. Funds provided to and received from the Group were excluded from the identifiable assets and liabilities of the LLC "VEB-Invest" Group, and the consideration transferred upon acquisition was adjusted by the fair value of the funds.

The contribution of the LLC "VEB-Invest" Group to the Group's financial result was insignificant. If the business combination had occurred at the beginning of the year, the Group's net loss would not have changed significantly.

(in billions of Russian rubles, unless otherwise stated)

7. Business combinations (continued)

Acquisitions in 2016 (continued)

Acquisition of Caspian Flat Glass JSC

On 23 November 2016, the Bank acquired a 100% interest in Caspian Flat Glass JSC engaged in production of flat glass.

The Bank's participation in the company's authorized capital is connected with the Bank's financing of the respective project.

The fair values of the acquired identifiable assets and liabilities of Caspian Flat Glass JSC as determined by an independent appraiser were as follows:

	Fair value recognized on control acquisition
Property and equipment	4.9
Other assets	0.6
	5.5
Other liabilities	4.3
	4.3
Total identifiable net assets	**1.2**
Goodwill arising on acquisition	1.1
Consideration transferred on acquisition	**2.3**

As a result of impairment testing, goodwill of RUB 1.1 billion was expensed and recorded within other operating expenses in the consolidated statement of profit or loss (Note 35).

Transactions representing previous relations between the participants of the Group within cash and amounts due to banks with a fair value of RUB 0.7 billion and RUB 3.0 billion, respectively, at the acquisition date were excluded in the process of accounting for the business combination. Funds provided to and received from the Group were excluded from the identifiable assets and liabilities of Caspian Flat Glass JSC, and the consideration transferred upon acquisition was adjusted by the fair value of the funds.

The contribution of Caspian Flat Glass JSC to the Group's financial result was insignificant. If the business combination had occurred at the beginning of the year, the Group's net loss would not have changed significantly.

Changes in ownership interests in 2016

During 2016, as a result of additional issues of shares of PSC Prominvestbank, the carrying amount of the net assets of PSC Prominvestbank increased, and the contribution of non-controlling shareholders was insignificant. In addition, PSC Prominvestbank repurchased 4,303,568 shares (less than 1% of total shares) from non-controlling shareholders and sold 4,080,103 treasury shares (less than 1% of total shares) to third parties. As a result of the reallocation of interests between the Bank and other shareholders, the non-controlling interest increased by RUB 0.3 billion, and the Group's uncovered loss increased by RUB 0.3 billion.

In February 2016, Vnesheconombank made an additional contribution to the authorized capital of Infrastructure Molzhaninovo LLC in the amount of RUB 7.0 billion. As a result of the reallocation of interests between the participants, the non-controlling interest increased by RUB 0.5 billion, and the Group's uncovered loss increased by RUB 0.5 billion.

(in billions of Russian rubles, unless otherwise stated)

7. Business combinations (continued)

Acquisitions in 2015

On 2 July 2015, Pilsen Toll s.r.o., a subsidiary of VEB Capital LLC, 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 control acquisition
Property and equipment	7.0
Income tax assets	0.1
Other assets	0.7
	7.8
Income tax liabilities	0.9
Provisions (Note 21)	0.2
Other liabilities	0.3
	1.4
Total identifiable net assets	**6.4**
Less non-controlling interest	0.8
Consideration transferred on acquisition	**7.2**

Transactions representing previous relations between the acquired subsidiary and participants of the Group accounted for within loans and other assets of the Group with a fair value of RUB 6.5 billion and RUB 0.7 billion, respectively, at the acquisition date were excluded in the process of accounting for the business combination. Funds received from the Group were excluded from the identifiable liabilities of United Group S.A., and the consideration transferred upon acquisition was adjusted by the respective fair value of the above liabilities.

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

From the acquisition date, the contribution of United Group S.A to the Group's non-interest income is RUB 2.0 billion. Its contribution to the financial result of the Group is a loss of RUB 5.9 billion. If the combination had taken place at the beginning of the year, the Group's net profit for 2015 would have been RUB 13.8 billion.

Changes in ownership interests 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 17.0 billion, and the contribution of non-controlling shareholders was insignificant. In addition, during 2015, PSC Prominvestbank repurchased 2,164,558 shares from non-controlling shareholders and sold 2,673,090 treasury shares to 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 15.9 billion, and the contribution of non-controlling shareholders was insignificant. As a result of the reallocation of interests between the Bank and other shareholders, the non-controlling interest increased by RUB 0.2 billion, and the Group's uncovered loss increased by RUB 0.2 billion.

(in billions of Russian rubles, unless otherwise stated)

7. Business combinations (continued)

Changes in ownership interests in 2015 (continued)

In 2015, RDIF long-term direct investment mutual fund sold and repurchased non-controlling interests in some of its subsidiaries. The reallocation of interests resulted in an increase of the non-controlling interests by RUB 0.9 billion.

In December 2015, Pilsen Toll s.r.o., a subsidiary of VEB Capital LLC , 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 1.8 billion, and the Group's retained earnings and foreign currency translation reserve decreased by RUB 1.4 billion and RUB 0.4 billion, respectively.

8. Segment information

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

Segment 1	Vnesheconombank
Segment 2	Sviaz-Bank, JSC "GLOBEXBANK"
Segment 3	PSC Prominvestbank (Ukraine)
Segment 4	Bank BelVEB OJSC (Republic of Belarus)
Segment 5	JSC "VEB-Leasing"
Segment 6	VEB Capital LLC, VEB Engineering LLC, FCPF, JSC "North Caucasus Development Corporation", JSC "The Far East and Baikal Region Development Fund", VEB Asia Limited, Infrastructure Molzhaninovo LLC, Resort Zolotoe Koltso LLC, Russian Export Center JSC, Caspian Flat Glass JSC, R.G.L and other subsidiaries

Segment 1 comprises the core bank of 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 in which the Group holds a controlling ownership interest.

Up to 31 December 2016 Rose Group Limited was included in Segment 2 as a subsidiary of JSC "GLOBEXBANK".

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

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 2016 and 2015, 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 the Russian Government and entities under the control of the Russian Federation. Such income was mainly received from transactions within Segments 1, 2 and 5.

(in billions of Russian rubles, unless otherwise stated)

8. Segment information (continued)

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

2016	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	191.3	48.0	11.0	14.1	43.5	8.9	**316.8**	–	**316.8**
Fee and commission income	6.4	2.5	0.9	2.7	–	0.1	**12.6**	–	**12.6**
Net gains/(losses) from financial instruments at fair value through profit or loss	2.8	0.1	–	–	0.7	0.7	**4.3**	–	**4.3**
Net gains/(losses) arising from investment securities available for sale	23.3	(0.3)	(0.2)	–	–	(0.4)	**22.4**	–	**22.4**
Net gains/(losses) from foreign currencies	(16.0)	0.8	3.6	1.0	(7.3)	(19.7)	**(37.6)**	–	**(37.6)**
Share in net profit/(loss) of associates and jointly controlled entities	(1.3)	0.3	–	–	(2.9)	(0.4)	**(4.3)**	–	**(4.3)**
Other income	395.6	8.5	2.0	0.7	4.9	36.9	**448.6**	–	**448.6**
Total external income	**602.1**	**59.9**	**17.3**	**18.5**	**38.9**	**26.1**	**762.8**	**–**	**762.8**
Intersegment income									
Interest income	25.6	2.7	–	–	0.2	12.5	**41.0**	(41.0)	**–**
Other intersegment income less expenses	(9.1)	(0.1)	0.1	(0.2)	1.0	6.7	**(1.6)**	1.6	**–**
Total intersegment income	**16.5**	**2.6**	**0.1**	**(0.2)**	**1.2**	**19.2**	**39.4**	**(39.4)**	**–**
Total income	**618.6**	**62.5**	**17.4**	**18.3**	**40.1**	**45.3**	**802.2**	**(39.4)**	**762.8**
Interest expense	(161.9)	(35.2)	(3.5)	(3.6)	(20.3)	(3.2)	**(227.7)**	–	**(227.7)**
Fee and commission expense	(1.1)	(1.2)	(0.1)	(0.8)	–	(0.2)	**(3.4)**	–	**(3.4)**
Provision for loan impairment	(424.1)	(20.7)	(17.6)	(3.6)	(28.0)	(16.4)	**(510.4)**	–	**(510.4)**
Payroll and other staff costs	(8.3)	(6.4)	(1.2)	(2.1)	(1.8)	(6.3)	**(26.1)**	–	**(26.1)**
Depreciation of property and equipment	(0.6)	(0.7)	(0.5)	(0.4)	(1.0)	(2.4)	**(5.6)**	–	**(5.6)**
Other provisions and provisions for impairment of other assets	(0.3)	(0.8)	0.2	–	(4.8)	(24.1)	**(29.8)**	–	**(29.8)**
Other expenses	(9.5)	(14.2)	(2.4)	(2.2)	(18.0)	(18.3)	**(64.6)**	–	**(64.6)**
Total external expense	**(605.8)**	**(79.2)**	**(25.1)**	**(12.7)**	**(73.9)**	**(70.9)**	**(867.6)**	**–**	**(867.6)**
Intersegment expenses									
Interest expense	(9.5)	(5.9)	(3.3)	(3.1)	(14.7)	(5.2)	**(41.7)**	41.7	**–**
Other intersegment (expenses)	(73.8)	–	–	(0.1)	(0.4)	–	**(74.3)**	74.3	**–**
Total intersegment expenses	**(83.3)**	**(5.9)**	**(3.3)**	**(3.2)**	**(15.1)**	**(5.2)**	**(116.0)**	**116.0**	**–**
Total expenses	**(689.1)**	**(85.1)**	**(28.4)**	**(15.9)**	**(89.0)**	**(76.1)**	**(983.6)**	**116.0**	**(867.6)**
Segment result	**(70.5)**	**(22.6)**	**(11.0)**	**2.4**	**(48.9)**	**(30.8)**	**(181.4)**	**76.6**	**(104.8)**
Income tax expense							**(7.1)**	–	**(7.1)**
Profit/(loss) for the year							**(188.5)**	**76.6**	**(111.9)**
Other segment information									
Capital expenditures	4.4	0.2	–	0.9	–	3.8	**9.3**		
Investments in associates and jointly controlled entities	34.5	1.8	–	0.1	–	3.3	**39.7**		

(in billions of Russian rubles, unless otherwise stated)

8. Segment information (continued)

In 2015, the Group recognized a RUB 27.4 billion 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.

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	183.7	63.5	16, 8	13.6	44.3	3.4	**325.3**	–	**325.3**
Fee and commission income	4.9	2.6	1.7	2.6	–	0.1	**11.9**	–	**11.9**
Net gains/(losses) from financial instruments at fair value through profit or loss	3.0	0.2	–	–	1.8	2.9	**7.9**	–	**7.9**
Net gains/(losses) arising from investment securities available for sale	(27.8)	(0.7)	–	–	–	0.1	**(28.4)**	–	**(28.4)**
Net gains/(losses) from foreign currencies	(17.7)	(1.8)	(0.5)	8.3	7.7	9.2	**5.2**	–	**5.2**
Share in net profit/(loss) of associates and jointly controlled entities	0.5	(0.5)	–	–	(5.6)	(0.9)	**(6.5)**	–	**(6.5)**
Other income	336.5	2.1	1.2	1.3	5.6	7.9	**354.6**	–	**354.6**
Total external income	**483.1**	**65.4**	**19.2**	**25.8**	**53.8**	**22.7**	**670.0**	**–**	**670.0**
Intersegment income									
Interest income	22.0	3.0	–	–	1.0	15.8	**41.8**	(41.8)	**–**
Other intersegment income less expenses	4.2	0.2	(0.5)	(5.5)	0.7	(2.1)	**(3.0)**	3.0	**–**
Total intersegment income	**26.2**	**3.2**	**(0.5)**	**(5.5)**	**1.7**	**13.7**	**38.8**	**(38.8)**	**–**
Total income	**509.3**	**68.6**	**18.7**	**20.3**	**55.5**	**36.4**	**708.8**	**(38.8)**	**670.0**
Interest expense	(178.6)	(46.4)	(5.8)	(4.9)	(21.6)	(1.0)	**(258.3)**	–	**(258.3)**
Fee and commission expense	(1.0)	(0.9)	(0.2)	(0.7)	–	–	**(2.8)**	–	**(2.8)**
Provision for loan impairment	(154.7)	(32.2)	(60.5)	(5.9)	(38.5)	(1.0)	**(292.8)**	–	**(292.8)**
Payroll and other staff costs	(7.5)	(6.5)	(1.6)	(2.2)	(2.0)	(4.8)	**(24.6)**	–	**(24.6)**
Depreciation of property and equipment	(0.7)	(0.8)	(0.5)	(0.3)	(0.7)	(0.8)	**(3.8)**	–	**(3.8)**
Other provisions and provisions for impairment of other assets	(1.7)	(0.9)	(9.4)	(0.1)	(7.0)	(2.2)	**(21.3)**	–	**(21.3)**
Other expenses	(17.4)	(8.5)	(2.4)	(2.3)	(7.6)	(13.0)	**(51.2)**	–	**(51.2)**
Total external expense	**(361.6)**	**(96.2)**	**(80.4)**	**(16.4)**	**(77.4)**	**(22.8)**	**(654.8)**	**–**	**(654.8)**
Intersegment expenses									
Interest expense	(10.6)	(10.8)	(5.7)	(2.6)	(11.2)	(1.7)	**(42.6)**	42.6	**–**
Other intersegment (expenses)	(121.6)	(0.1)	–	(0.2)	(0.1)	–	**(122.0)**	122.0	**–**
Total intersegment expenses	**(132.2)**	**(10.9)**	**(5.7)**	**(2.8)**	**(11.3)**	**(1.7)**	**(164.6)**	**164.6**	**–**
Total expenses	**(493.8)**	**(107.1)**	**(86.1)**	**(19.2)**	**(88.7)**	**(24.5)**	**(819.4)**	**164.6**	**(654.8)**
Segment results	**15.5**	**(38.5)**	**(67.4)**	**1.1**	**(33.2)**	**11.9**	**(110.6)**	**125.8**	**15.2**
Income tax expense							**(0.3)**	–	**(0.3)**
Profit/(loss) for the year							**(110.9)**	**125.8**	**14.9**
Other segment information									
Capital expenditures	0.5	0.2	0.7	1.2	0.2	0.8	**3.6**	–	**3.6**
Investments in associates and jointly controlled entities	5.1	0.6	–	0.2	–	4.1	**10.0**	–	**10.0**

(in billions of Russian rubles, unless otherwise stated)

8. Segment information (continued)

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

	2016	2015
Segment assets		
Segment 1	2,486.3	3,056.4
Segment 2	414.2	623.1
Segment 3	75.1	127.4
Segment 4	121.7	128.8
Segment 5	439.9	551.4
Segment 6	321.5	354.2
Total before deducting intersegment assets	**3,858.7**	**4,841.3**
Intersegment assets	(395.7)	(583.5)
Adjustments	110.4	124.6
Total assets	**3,573.4**	**4,382.4**

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

	2016	2015
Segment liabilities		
Segment 1	2,315.3	2,901.3
Segment 2	380.2	605.5
Segment 3	66.1	165.4
Segment 4	108.0	114.1
Segment 5	404.7	547.1
Segment 6	165.6	149.9
Total before deducting intersegment liabilities	**3,439.9**	**4,483.3**
Intersegment liabilities	(395.7)	(583.5)
Adjustments	(26.5)	1.8
Total liabilities	**3,017.7**	**3,901.6**

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 billions of Russian rubles, unless otherwise stated)

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 2016 and 2015 and for the years then ended is presented in the table below:

	2016				2015			
	Russia	Ukraine	Other countries	Total	Russia	Ukraine	Other countries	Total
Interest income from external clients	291.7	11.0	14.1	**316.8**	294.8	16.8	13.6	**325.3**
Non-current assets	91.4	6.5	5.2	**103.1**	56.6	9.5	5.8	**71.9**

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:

	2016	2015
Interest-bearing loans and deposits from the Federal Treasury	281.0	181.1
Interest-bearing loans and deposits from the Bank of Russia	193.9	374.3
Settlements related to redemption of Russian Government loans	78.7	63.0
Deposits of non-budgetary funds	–	23.6
Repurchase agreements with the Bank of Russia	–	64.1
Other funds	0.2	0.3
Amounts due to the Russian Government, its institutions and the Bank of Russia	**553.8**	**706.4**

During the first quarter of 2016, as a part of the government support measures the Bank raised long-term and short-term financing on conditions that allowed the Bank to record a gain on initial recognition in the amount of RUB 134.9 billion within "Government grants" in the consolidated statement of profit or loss. During the third quarter, at maturity, the short-term financing was extended on the same conditions, thus allowing the Bank to record an additional gain of RUB 2.5 billion within "Government grants" in the consolidated statement of profit or loss. In the fourth quarter, the financing was extended, which allowed the Bank to record an additional gain of RUB 67.4 billion within "Government grants" in the consolidated statement of profit or loss. As at 31 December 2016, the carrying amount of liabilities related to the funds raised amounts to RUB 95.9 billion and RUB 62.1 billion, respectively.

As at 31 December 2016, interest-bearing loans and deposits from the Bank of Russia also include loans in the amount of RUB 30.7 billion (31 December 2015: RUB 294.3 billion) secured by the pledge of the rights of claims under loans to customers in the amount of RUB 38.7 billion (31 December 2015: RUB 434.9 billion) (Note 17). In 2016, the Group repaid short-term and long-term loans of the Bank of Russia secured by bank guarantees (carrying amount as at 31 December 2015: RUB 77.3 billion). In 2016, the total amount of the redeemed loans from Bank of Russia was RUB 90.1 billion.

As at 31 December 2016, interest-bearing loans and deposits from the Bank of Russia also include loans in the amount of RUB 3.8 billion (31 December 2015: RUB 1.1 billion) secured by the pledge of the rights of claims under amounts due from banks in the amount of RUB 4.5 billion (31 December 2015: RUB 1.6 billion) (Note 14).

(in billions of Russian rubles, unless otherwise stated)

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

As at 31 December 2016, interest-bearing loans and deposits from the Federal Treasury include federal budget funds of RUB 45.7 billion and RUB 55.3 billion maturing in July and September, respectively, placed in accordance with Decree No. 1495 of the Russian Government, *On the Rules for Depositing Federal Budget Funds with State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"*, dated 30 December 2015, at the key rate of the Bank of Russia in order to support liquidity.

As at 31 December 2016 and 31 December 2015, interest-bearing loans and deposits from the Federal Treasury represent ruble-denominated funds of the National Welfare Fund of the Russian Federation ("NWF") placed as deposits with Vnesheconombank in accordance with Federal Law No. 173-FZ in the amount of RUB 57.7 billion (31 December 2015: RUB 72.8 billion) at annual interest rates of 6.25% and 7.25% maturing from November 2017 to December 2020 (31 December 2015: at annual interest rates of 6.25% and 7.25% maturing from November 2017 to December 2020). In 2016, two deposits from the Federal Treasury in the nominal amount of RUB 16.0 billion were early repaid.

As at 31 December 2016, interest-bearing loans and deposits from the Federal Treasury also include ruble-denominated funds of the NWF in the amount of RUB 37.4 billion (31 December 2015: RUB 36.6 billion) placed as deposits with Vnesheconombank in accordance with Federal Law No. 173-FZ at an annual interest rate of 6.25% maturing in May 2020 for providing loans to JSC "The Agency for Housing Mortgage Lending" (JSC "AHML") (Note 17).

As at 31 December 2016, interest-bearing loans and deposits from the Federal Treasury also include ruble-denominated funds of the NWF in the amount of RUB 17.8 billion placed as deposits with Vnesheconombank in accordance with Decree No. 18 of the Russian Government dated 19 January 2008. One of these deposits was placed at the rate below the market level. During the reporting year ended 31 December 2016, a gain of RUB 1.0 billion on initial recognition was recognized within "Government grants" in the consolidated statement of profit or loss.

As at 31 December 2016, interest-bearing loans and deposits from the Federal Treasury include a deposit for acquisition of a ruble-denominated financial asset (Note 19) maturing in June 2020 in the amount of RUB 45.4 billion (31 December 2015: RUB 49.9 billion). In September 2016, upon expiration, the agreement was extended at a below-market rate. The Bank derecognized the initial liability and recognized a new one. There was no movement in cash flows. During the reporting year ended 31 December 2016, a gain of RUB 5.1 billion on initial recognition was recognized within "Government grants" in the consolidated statement of profit or loss.

As at 31 December 2016 and 31 December 2015, interest-bearing loans and deposits from the Federal Treasury include a ruble-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 2016, such deposit amounted to RUB 16.8 billion (31 December 2015: RUB 16.3 billion).

During the reporting year ended 31 December 2015, a change in contractual terms resulted in a gain from government grants of RUB 13.1 billion which was recognized within "Government grants" in the consolidated statement of profit or loss.

In September 2014, an agreement for depositing foreign currency funds of the NWF with Vnesheconombank in the total amount of USD 288 million (equivalent to RUB 11.0 billion as at the agreement date) was signed. As at 31 December 2016, the deposit placed until 26 September 2034 amounted to RUB 4.5 billion (31 December 2015: RUB 5.0 billion). These funds are placed subject to Resolution No. 18 of the Russian Government dated 19 January 2008.

(in billions of Russian rubles, unless otherwise stated)

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

As at 31 December 2016, the Group did not enter into any transactions under repurchase agreements with the Bank of Russia. 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 67.8 billion, subject to repurchase. Pledged securities are classified as trading financial assets with a fair value of RUB 4.4 billion (Note 12), investment financial assets available for sale with a fair value of RUB 58.2 billion, investment financial assets held to maturity with a fair value of RUB 5.2 billion (Note 13).

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 Agreement. As at 31 December 2016 and 31 December 2015, these amounts are classified as due to the Russian Government.

In 2016, the Group repaid ruble-denominated deposits of non-budgetary funds placed with subsidiary banks (carrying amount as at 31 December 2015: RUB 23.6 billion).

Subordinated deposits

In accordance with Resolution No. 2750-r of the Russian Government dated 30 December 2015, the terms of depositing the funds of the NWF with Vnesheconombank, which were previously provided in accordance with Resolution No. 1749-r of the Russian Government dated 6 September 2014 for the total nominal amount of USD 5,966 million, were amended as follows: prolongation of the deposit period until 26 September 2034, reduction of the interest rate to 0.25% p.a. and introduction of a three-year grace period for interest payments. As at 31 December 2016, such deposits amounted to RUB 92.5 billion (31 December 2015: RUB 102.1 billion).

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 11.9 billion carrying interest ranging from 12.8% p.a. to 12.9% p.a. and maturing from January 2025 through December 2034 in the form of Russian State 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 terms of the placement of funds of the National Welfare Fund in 2015

In 2015, due to significant changes in terms of placement of NWF funds 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 6.3 billion, the Bank derecognized liabilities in the total carrying amount of RUB 418.9 billion and recognized a new liability. Gain on a new instrument provided by the state at the rate below market level was recorded as a government grant as provided to compensate expenses recognized in the consolidated statement of profit or loss for 2015 and prior reporting periods. The government grantis recognized in full amount of RUB 312.3 billion within "Government grants" in the consolidated statement of profit or loss. There were no cash flows involved.

(in billions of Russian rubles, unless otherwise stated)

10. Agency operations

As at 31 December 2016 and 31 December 2015, 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:

	2016	2015 (Restated)
Cash on hand	15.6	24.0
Current accounts with the Bank of Russia	20.8	41.0
Correspondent nostro accounts with banks and current accounts with other non-banking organizations:		
- Russian Federation	16.3	79.2
- other countries	63.6	93.4
Interest-bearing loans and deposits with banks maturing within 90 days	187.5	62.7
Reverse repurchase agreements with banks for up to 90 days	46.3	21.0
Other cash equivalents	–	0.8
Cash and cash equivalents	**350.1**	**322.1**

At 31 December 2016, reverse repurchase agreements include loans of RUB 37.1 billion (31 December 2015: RUB 11.5 billion) provided to banks and secured by corporate bonds with a fair value of RUB 40.3 billion (31 December 2015: RUB 13.5 billion). At 31 December 2016, reverse repurchase agreements include loans of RUB 9.2 billion (31 December 2015: RUB 9.5 billion) provided to banks and secured by corporate shares with a fair value of RUB 12.3 billion (31 December 2015: RUB 11.3 billion).

In February 2012, under a financing agreement with the Russian Bank Capitalization Fund (the RBCF), Vnesheconombank transferred USD 250 million (RUB 7.5 billion at the date of transfer) to the International Finance Corporation (IFC). At 31 December 2016, a part of these funds in the amount of RUB 0.2 billion (31 December 2015: RUB 0.5 billion) was temporarily invested in money market instruments maturing in less than 90 days. For the reporting year ended 31 December 2016, a portion of unused funds in the amount of USD 3.2 million (RUB 0.2 billion at the date of transfer) was returned. At 31 December 2015, USD 192.0 million (RUB 12.4 billion) was returned (Note 19).

12. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2016	2015
Trading financial assets	0.5	8.8
Derivative financial assets (Note 15)	4.7	2.7
Financial assets designated as at fair value through profit or loss	14.0	41.1
Financial assets at fair value through profit or loss	**19.2**	**52.6**

(in billions of Russian rubles, unless otherwise stated)

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

Financial assets designated as at fair value through profit or loss include investments in associates in the amount of RUB 2.2 billion (31 December 2015: RUB 17.0 billion). As at 31 December 2015, this category also included investments in jointly controlled entities in the amount of RUB 13.4 billion that meet the criteria to be designated as at fair value through profit or loss since the Group management measures the performance of these investments in terms of changes in their fair value based on quoted prices in an open market, valuation models, using both observable and non-observable market data. The change in the amount of investments in associates and jointly controlled entities that meet the criteria to be designated as at fair value through profit or loss was due to the deconsolidation of Mutual Fund RDIF as at 30 June 2016 (Note 4).

Trading financial assets held by the Group comprise:

	2016	2015
Equity securities	**0.2**	**6.8**
Debt securities		
Eurobonds issued by the Russian Federation	0.2	0.4
Eurobonds of Russian and foreign issuers	0.1	0.5
Russian State bonds (OFZ)	–	0.6
	0.3	**1.5**
Other debt financial assets	–	0.5
	0.3	**2.0**
Trading financial assets	**0.5**	**8.8**

As at 31 December 2016, the Group had no financial assets at fair value through profit or loss pledged as collateral under repurchase agreements. As at 31 December 2015, financial assets at fair value through profit or loss pledged as collateral under repurchase agreements comprised Russian State Bonds (OFZ) in the amount of RUB 4.0 billion and corporate bonds in the amount of RUB 0.4 billion (Note 13).

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 as at 31 December 2016 and 31 December 2015 are presented in the table below:

	Trading financial assets were reclassified to	
	Available-for-sale financial assets	Held-to-maturity financial assets
Carrying amount of reclassified assets as at 31 December 2016	**1.7**	**0.3**
Fair value of reclassified assets as at 31 December 2016	**1.7**	**0.3**
Fair value gain that would have been recognized on the reclassified assets for the year ended 31 December 2016 if the reclassification had not been made	(0.1)	–
Gains/(losses) recognized in the statement of profit or loss for the year ended 31 December 2016, including:		
- interest income	0.2	0.1
- gain on disposal	0.8	–
Carrying amount of reclassified assets as at 31 December 2015	**6.9**	**1.6**
Fair value of reclassified assets as at 31 December 2015	**6.9**	**1.6**
Fair value loss that would have been recognized on the reclassified assets for the year ended 31 December 2015 if the reclassification had not been made	0.8	(0.1)
Gains/(losses) recognized in the statement of profit or loss for the year ended 31 December 2015, including:		
- interest income	1.5	0.1
- gain on disposal	0.8	–

(in billions of Russian rubles, unless otherwise stated)

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

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

13. Financial assets lent and pledged as collateral under repurchase agreements

Financial assets lent and pledged as collateral under repurchase agreements comprise:

	2016	2015
Financial assets at fair value through profit or loss pledged as collateral under repurchase agreements (Note 12)	–	4.4
Investment financial assets lent and pledged as collateral under repurchase agreements (Note 19)	2.2	62.9
Investment financial assets held to maturity pledged as collateral under repurchase agreements (Note 19)	1.1	9.5
Amounts due from banks pledged as collateral under repurchase agreements (Note 14)	–	0.3
Loans to customers pledged as collateral under repurchase agreements (Note 17)	1.4	0.9
Total financial assets lent and pledged as collateral under repurchase agreements	**4.7**	**78.0**

14. Amounts due from banks and treasury

Amounts due from banks and treasury comprise:

	2016	2015 (Restated)
Obligatory reserve with central banks	3.2	3.5
Non-interest-bearing deposits	40.9	42.3
Interbank loans and term interest-bearing deposits with banks	35.6	15.2
Export financing	7.7	2.9
Mortgage bonds	6.4	7.6
Amounts due from treasury	2.1	–
	95.9	**71.5**
Less allowance for impairment	(3.6)	(3.2)
Amounts due from banks and treasury	**92.3**	**68.3**
Amounts due from banks pledged as collateral under repurchase agreements (Note 13)	–	0.3
Amounts due from banks and treasury, including those pledged as collateral under repurchase agreements	**92.3**	**68.6**

As at 31 December 2016, 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 37.8 billion (31 December 2015: RUB 40.6 billion) (Note 40).

As at 31 December 2016, non-interest-bearing deposits with banks with a carrying amount of RUB 1.7 billion are pledged as collateral under loans raised from the national bank of a foreign state (Note 26). As at 31 December 2016, interbank loans and term interest-bearing deposits with banks with a carrying amount of RUB 4.5 billion (31 December 2015: RUB 1.6 billion) are pledged as collateral under loans received from the Bank of Russia (Note 9).

As at 31 December 2016, interbank loans and term interest-bearing deposits with banks include loans of RUB 22.4 billion issued to a former subsidiary bank, which became an associate bank in the second quarter of 2016 (Note 40).

(in billions of Russian rubles, unless otherwise stated)

14. Amounts due from banks and treasury (continued)

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 and treasury were as follows:

	2016	Disposal group 2016	2015
At 1 January	**3.2**	**5.9**	**2.5**
Charge	0.4	0.2	6.6
Reclassification of the provision for the disposal group	–	–	(5.9)
Disposal of a subsidiary (Note 16)	–	(6.1)	–
At 31 December	**3.6**	**–**	**3.2**

Subordinated loans to banks

As at 31 December 2016, subordinated loans issued to banks include loans in the amount of RUB 52.3 billion (31 December 2015: RUB 50.4 billion), 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.

As at 31 December 2016, subordinated loans to Russian banks include a loan of RUB 5.1 billion issued to a former subsidiary bank, which became an associate bank in the second quarter of 2016 (Note 40).

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 statements 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.

	2016			2015		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Foreign exchange contracts						
Forwards and swaps – foreign	5.0	0.2	–	48.2	0.1	–
Forward contracts for equity financial instruments	2.3	2.0	–	1.1	0.3	–
Interest rate swaps						
Foreign contracts	6.0	–	0.2	10.1	–	0.5
Option contracts with foreign currency	5.1	2.5	–	4.9	2.3	–
Cross currency interest rate swaps	0.3	–	0.3	38.2	–	2.3
Total derivative assets/liabilities		**4.7**	**0.5**		**2.7**	**2.8**

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

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

(in billions of Russian rubles, unless otherwise stated)

15. Derivative financial instruments (continued)

As at 31 December 2016, the Group has positions in the following types of derivatives:

Forwards

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

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign 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 to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative financial instruments held or issued for trading purposes

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

16. Non-current assets held for sale and disposal groups

Non-current assets held for sale comprise:

	2016	2015
Non-current assets held for sale:		
Assets of disposal groups held for sale	–	122.8
Assets held for sale	13.0	14.4
Total non-current assets held for sale	**13.0**	**137.2**

As at 31 December 2016, disposal groups' non-current assets and liabilities held for sale decreased following the transfer in April 2016 of 100% shares in JSC SME Bank classified as a disposal group as at 31 December 2015. 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, *On Amendments to Certain Legislative Acts of the Russian Federation Regarding Measures for Further Development of Small and Medium Enterprises in the Russian Federation*, Vnesheconombank paid for an additional issue of shares of JSC RSMB Corporation with the shares of JSC SME Bank that it owns (Notes 4, 21 and 30).

Loss of RUB 0.5 billion on initial recognition of loans issued under the program of extending loans to small and medium enterprises through JSC SME Bank was recorded in the line "Net gains/(losses) on initial recognition of financial instruments, restructuring and early repayment" of the consolidated statement of profit or loss for 2016.

Gain of RUB 1.0 billion on initial recognition of loans granted by the Bank of Russia for the purposes of further issue to banks through JSC SME Bank under the program of extending loans to small and medium enterprises was also recorded in the line "Government grants" of the consolidated statement of profit or loss for 2016.

(in billions of Russian rubles, unless otherwise stated)

16. Non-current assets held for sale and disposal groups (continued)

As at 31 December 2016, assets held for sale comprise assets of a subsidiary leasing company in the amount of RUB 13.0 billion (31 December 2015: RUB 13.3 billion) since management intends to sell them within one year from the date of initial classification.

17. Loans to customers

	2016	2015
Loans to customers	2,690.9	3,343.4
Less allowance for impairment	(786.4)	(763.1)
Loans to customers	**1,904.5**	**2,580.3**
Loans to customers pledged as collateral under repurchase agreements	1.4	0.9
Total loans to customers pledged as collateral under repurchase agreements	**1.4**	**0.9**
Total loans to customers including those pledged as collateral under repurchase agreements	**1,905.9**	**2,581.2**

Loans to customers comprise:

	2016	2015
Project financing	1,519.4	1,652.3
Commercial loans, including loans to individuals	746.9	1,106.9
Financing of operations with securities	200.4	327.1
Export and pre-export financing	94.2	100.9
Reverse repurchase agreements	43.6	46.0
Back-to-back financing	37.2	36.5
Claims under letters of credit	17.7	19.6
Mortgage bonds	5.6	7.1
Promissory notes	3.4	3.6
Other	22.5	43.4
	2,690.9	**3,343.4**
Less allowance for impairment	(786.4)	(763.1)
Loans to customers	**1,904.5**	**2,580.3**
Loans to customers pledged as collateral under repurchase agreements (Note 13)		
Other	1.4	0.9
Total loans to customers pledged as collateral under repurchase agreements	**1.4**	**0.9**
Loans to customers, including those pledged as collateral under repurchase agreements	**1,905.9**	**2,581.2**

For the year ended 31 December 2016, the Bank entered into an agreement for providing project financing at the below-market interest rate. Loss of RUB 2.9 billion was recorded upon initial recognition of the respective commitment in the line "Net gains/(losses) on initial recognition of financial instruments, restructuring and early repayment" of the consolidated statement of profit or loss. As at 31 December 2016, the carrying amount of the loan was RUB 2.9 billion, the carrying amount of the commitment to provide the loan at the below-market interest rate recognized in "Other liabilities" was RUB 2.5 billion.

As at 31 December 2016, mortgage bonds represent debt securities in the amount of RUB 5.6 billion maturing in 2044-2047 (31 December 2015: RUB 7.1 billion 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 38.7 billion related primarily to project financing and commercial lending are provided as collateral for funds raised from the Bank of Russia (31 December 2015: RUB 434.9 billion) (Note 9).

(in billions of Russian rubles, unless otherwise stated)

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:

	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	Disposal group
At 1 January 2016	**418.3**	**280.8**	**8.1**	**40.2**	**0.9**	**3.8**	**2.0**	**6.6**	**2.4**	**763.1**	**2.4**
Charge/(reversal)	271.6	69.1	4.2	130.2	(0.1)	8.4	2.1	0.8	2.4	**488.7**	**0.5**
Write off	(120.1)	(73.3)	–	(21.0)	–	–	–	(0.2)	–	**(214.6)**	
Interest accrued on impaired loans	(22.4)	(8.3)	–	(2.1)	–	–	–	–	–	**(32.8)**	**–**
Reversal of allowance previously written off	–	1.5	–	–	–	–	–	–	–	**1.5**	**–**
Disposal of a subsidiary (Note 16)	–	–	–	–	–	–	–	–	–	**–**	**(2.9)**
Effect of translation to the presentation currency	(4.8)	(19.9)	–	–	–	–	–	(0.1)	–	**(24.8)**	**–**
Effect of business combination (IFRS 3)	(194.7)	–	–	–	–	–	–	–	–	**(194.7)**	**–**
At 31 December 2016	**347.9**	**249.9**	**12.3**	**147.3**	**0.8**	**12.2**	**4.1**	**7.1**	**4.8**	**786.4**	**–**
Individual impairment	278.5	230.3	4.8	147.3	0.8	10.7	–	6.7	4.5	**683.6**	**–**
Collective impairment	69.4	19.6	7.5	–	–	1.5	4.1	0.4	0.3	**102.8**	**–**
	347.9	**249.9**	**12.3**	**147.3**	**0.8**	**12.2**	**4.1**	**7.1**	**4.8**	**786.4**	**–**
Total amount of individually impaired loans before allowance for impairment	**438.4**	**349.5**	**4.1**	**200.4**	**0.8**	**21.9**	**–**	**9.0**	**6.8**	**1,030.9**	**–**

(in billions of Russian rubles, unless otherwise stated)

17. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

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

	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 as collateral under repurchase agreements
At 1 January 2015 (Restated)	**327.1**	**209.9**	**5.5**	**30.3**	**0.8**	**1.3**	**1.8**	**3.3**	**2.2**	**582.2**	**0.2**
Charge/(reversal)	134.3	100.5	2.6	12.1	0.1	2.5	0.2	3.5	0.2	**256.0**	**(0.2)**
Write off	(11.6)	(23.9)	–	–	–	–	–	(0.2)	–	**(35.7)**	
Interest accrued on impaired loans	(28.3)	(3.1)	–	(2.2)	–	–	–	–	–	**(33.6)**	**–**
Reversal of allowance previously written off	–	0.1	–	–	–	–	–	–	–	**0.1**	**–**
Reclassification of the provision for the disposal group	(0.2)	(2.2)	–	–	–	–	–	–	–	**(2.4)**	**–**
Effect of business combination (IFRS 3)	(3.0)	(0.5)	–	–	–	–	–	–	–	**(3.5)**	**–**
At 31 December 2015	**418.3**	**280.8**	**8.1**	**40.2**	**0.9**	**3.8**	**2.0**	**6.6**	**2.4**	**763.1**	**–**
Individual impairment	379.0	263.4	3.4	26.2	0.8	2.0	–	6.3	1.8	**682.9**	**–**
Collective impairment	39.3	17.4	4.7	14.0	0.1	1.8	2.0	0.3	0.6	**80.2**	**–**
	418.3	**280.8**	**8.1**	**40.2**	**0.9**	**3.8**	**2.0**	**6.6**	**2.4**	**763.1**	**–**
Total amount of individually impaired loans before allowance for impairment	**843.0**	**546.3**	**5.1**	**76.8**	**0.8**	**4.4**	**–**	**10.7**	**3.6**	**1,490.7**	**–**

(in billions of Russian rubles, unless otherwise stated)

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 2016, reverse repurchase agreements with a carrying amount of RUB 12.0 billion were signed primarily in respect of marketable corporate bonds with a fair value of RUB 2.1 billion and marketable shares with a fair value of RUB 8.2 billion. As at 31 December 2015, reverse repurchase agreements with a carrying amount of RUB 13.7 billion were signed primarily in respect of marketable corporate bonds with a fair value of RUB 0.1 billion and marketable shares with a fair value of RUB 9.9 billion.

Reverse repurchase agreements also include loans to state-related entities with a carrying amount of RUB 13.2 billion as at 31 December 2016 (31 December 2015: RUB 11.9 billion), and a loan to an entity not related to the Bank with a carrying amount of RUB 18.4 billion as at 31 December 2016 (31 December 2015: RUB 20.4 billion). Previously, the Bank provided RUB 26.3 billion to state-related entities through the acquisition of non-marketable shares in other state-related entities.

Concentration of loans to customers

As at 31 December 2016, the total outstanding amount of loans to three major borrowers/groups of related borrowers was RUB 613.9 billion, equivalent to 22.8% of the Group's gross loan portfolio (31 December 2015: RUB 579.8 billion or 17.3%). As at 31 December 2016, an impairment allowance of RUB 35.8 billion was made against these loans (31 December 2015: RUB 201.0 billion). As 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% of the Group's gross loan portfolio.

As at 31 December 2016 and 31 December 2015, in addition to the Group's three major borrowers mentioned above, loans were issued to ten major borrowers/groups of related borrowers in the amount of RUB 488.7 billion and RUB 722.7 billion, or 18.2% and 21.6% of the Group's gross loan portfolio, respectively. As at 31 December 2016 and 31 December 2015, an impairment allowance was created for these loans in the total amount of RUB 144.3 billion and RUB 158.9 billion, respectively.

(in billions of Russian rubles, unless otherwise stated)

17. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans have been granted to the following types of customers:

	2016	2015
Private enterprises	1,836.1	2,729.7
State-controlled entities (Russian Federation)	650.9	403.8
Individuals	98.6	87.2
Companies under foreign state control	67.0	75.8
Foreign states	38.6	45.7
Individual entrepreneurs	1.0	1.3
Regional authorities	0.1	0.8
	2,692.3	**3,344.3**

Loans are made principally in the following industry sectors:

	2016	%	2015	%
Manufacturing, including heavy machinery and production of military-related goods	781.7	29	922.3	28
Finance companies	742.0	28	829.5	25
Real estate and construction	350.5	13	612.4	18
Agriculture	174.5	6	196.5	6
Individuals	98.6	4	87.2	3
Electric energy	94.8	4	113.0	3
Transport	85.4	3	115.9	3
Mining	75.7	3	83.7	3
Trade	73.4	3	92.0	3
Oil and gas	62.4	2	83.8	3
Metallurgy	55.7	2	65.0	2
Foreign states	38.6	1	45.7	1
Telecommunications	17.8	1	18.7	1
Logistics	7.8	0	8.6	0
Science and education	1.1	0	18.5	0
Other	32.3	1	51.5	1
	2,692.3	**100**	**3,344.3**	**100**

As at 31 December 2016, loans and similar debt included a total of RUB 2,128.2 billion granted to companies and individuals operating in Russia, which is a significant concentration of 79.0% (31 December 2015: RUB 2,401.4 billion, which is a significant concentration of 72.0%).

(in billions of Russian rubles, unless otherwise stated)

18. Net investments in leases

Net investments in leases comprise:

	2016	2015
Gross investments in leases	385.7	453.7
Less unearned finance lease income	(85.8)	(107.1)
	299.9	**346.6**
Less allowance for impairment	(16.3)	(3.5)
Net investments in leases	**283.6**	**343.1**

As at 31 December 2016 and 31 December 2015, certain leased-out assets were pledged as collateral under loans received. As at 31 December 2016 and 31 December 2015, the amount of net investments in leases related to assets pledged as collateral under loan agreements was RUB 39.1 billion and RUB 59.1 billion, respectively.

As at 31 December 2016, the share of the largest Russian lessee was RUB 76.5 billion, or 25.5% 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 35.5 billion or 11.8% of total net investments in leases before allowance for impairment. As at 31 December 2016, the amount of allowance with respect to the assets attributable to the first lessee is RUB 0.4 billion, and the amount of allowance with respect to the assets attributable to the second group of related lessees is RUB 0.1 billion. The mentioned lessee and the group of related lessees operate in the transport sector.

As at 31 December 2015, the share of the largest Russian lessee was RUB 101.4 billion, 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 36.7 billion 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 0.3 billion, and the amount of allowance with respect to the assets attributable to the second lessee is RUB 0.3 billion. 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 2016:

	Not later than 1 year	1 to 5 years	Later than 5 years	Total
Gross investments in leases	98.1	203.6	84.0	**385.7**
Less unearned finance lease income	(6.8)	(47.0)	(32.0)	**(85.8)**
Net investments in leases before allowance	**91.3**	**156.6**	**52.0**	**299.9**

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	91.0	245.5	117.2	**453.7**
Less unearned finance lease income	(6.4)	(58.3)	(42.4)	**(107.1)**
Net investments in leases before allowance	**84.6**	**187.2**	**74.8**	**346.6**

(in billions of Russian rubles, unless otherwise stated)

18. Net investments in leases (continued)

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

	2016	2015
At 1 January	**3.5**	**4.1**
Charge	20.7	30.3
Write-offs	(7.8)	(30.9)
Translation differences	(0.2)	–
At 31 December	**16.2**	**3.5**
Individual impairment	14.2	0.9
Collective impairment	2.0	2.6
	16.2	**3.5**
Total net investments in leases, individually assessed as impaired, before allowance for impairment	**57.9**	**1.0**

19. Investment financial assets

Investment financial assets available for sale

Investment financial assets available for sale comprise:

	2016	2015
Equity securities		
Units	171.8	3.0
Shares and participation interests	62.1	199.6
	233.9	**202.6**
Debt securities		
Corporate bonds	90.7	52.7
Russian State bonds (OFZ)	39.9	35.0
Debt instruments issued by foreign government bodies	26.0	22.5
Municipal and sub-federal bonds	1.9	4.8
	158.5	**115.0**
Eurobonds of Russian and foreign issuers	35.5	32.6
Eurobonds issued by the Russian Federation	6.9	8.8
	200.9	**156.4**
Other financial assets available for sale	**35.5**	**31.9**
Less allowance for impairment (Note 24)	–	(0.1)
Investment financial assets available for sale	**470.3**	**390.8**

An increase in equity securities as at 31 December 2016 as compared to 31 December 2015 was due to the Bank classifying 100% units in Mutual Fund RDIF in the amount of RUB 170.0 billion as investment financial assets available for sale as a result of the deconsolidation of the fund (Note 4). As at the reclassification date, these units amounted to RUB 168.9 billion. Also, the amount of shares and participation interests decreased due to the Group's disposal in the third quarter of 2016 of securities amounting to RUB 111.1 billion as at 31 December 2015.

As at 31 December 2016, the Group pledged securities with a fair value of RUB 0.5 billion (31 December 2015: RUB 1.1 billion) as collateral against interbank loans in the amount of RUB 2.0 billion (31 December 2015: RUB 0.8 billion) (Note 26).

(in billions of Russian rubles, unless otherwise stated)

19. Investment financial assets (continued)

Investment financial assets available for sale (continued)

Investment financial assets lent and pledged as collateral under repurchase agreements comprise:

	2016	2015
Eurobonds issued by the Russian Federation	0.1	1.1
Eurobonds of Russian and foreign issuers	–	1.9
	0.1	**3.0**
Corporate bonds	2.1	55.4
Russian State bonds (OFZ)	–	4.5
	2.1	**59.9**
Total investment financial assets available for sale lent and pledged as collateral under repurchase agreements (Note 13)	**2.2**	**62.9**

As a result of the sale of investment financial assets available for sale for 2016, the Group realized part of the accumulated revaluation previously recorded in equity and transferred it to "Net gains/(losses) from investment financial assets available for sale" in the consolidated statement of profit or loss. The realized revaluation gain amounted to RUB 14.3 billion (for 2015, the realized revaluation loss amounted to RUB 2.3 billion) (Note 34).

As at 31 December 2016, equity securities include the Bank's investments with a fair value of RUB 1.3 billion (31 December 2015: RUB 1.1 billion) in the Russian Bank Capitalization Fund (the RBCF) (Note 11).

The Group recognized an impairment loss of RUB 3.1 billion on available-for-sale financial assets for the reporting year ended 31 December 2016 (for the year ended 31 December 2015: RUB 27.4 billion) in "Net gains/(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 Vnesheconombank received a financial asset with a fair value of RUB 47.7 billion 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 at these dates. The impact of reclassification is as follows:

(in billions of Russian rubles, unless otherwise stated)

19. Investment financial assets (continued)

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 amount of reclassified assets as at 31 December 2016	**12.8**	**12.2**
Fair value of reclassified assets as at 31 December 2016	**13.9**	**12.7**
Fair value gain that would have been recognized on the reclassified assets for the year ended 31 December 2016 if the reclassification had not been made	2.4	1.0
Gains/(losses) recognized in the consolidated statement of profit or loss for the year ended 31 December 2016, including:		
- interest income	2.6	1.9
- provision for impairment of interest-earning assets	0.1	–
- amortization of revaluation costs	(0.7)	(0.5)
Carrying amount of reclassified assets as at 31 December 2015	**24.3**	**29.1**
Fair value of reclassified assets as at 31 December 2015	**23.6**	**29.1**
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	1.2	4.6
Gains/(losses) recognized in the consolidated statement of profit or loss for the year ended 31 December 2015, including:		
- interest income	3.2	4.0
- provision for impairment of interest-earning assets	(0.1)	–
- amortization of revaluation costs	(0.7)	(0.7)

Investment financial assets held to maturity

Investment financial assets held to maturity comprise:

	2016	2015
Corporate bonds	11.4	19.3
Municipal and sub-federal bonds	1.1	0.4
Russian State bonds (OFZ)	0.3	0.3
	12.8	**20.0**
Eurobonds of Russian and foreign issuers	5.2	7.5
Total investment financial assets held to maturity	**18.0**	**27.5**

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

	2016	2015
Eurobonds of Russian and foreign issuers	1.1	2.3
Corporate bonds	–	6.4
Municipal and sub-federal bonds	–	0.8
Total investment financial assets held to maturity pledged as collateral under repurchase agreements	**1.1**	**9.5**

(in billions of Russian rubles, unless otherwise stated)

20. Special purpose accounts

As at 31 December 2016 and 31 December 2015, special purpose accounts primarily representing correspondent accounts with foreign banks were opened by Vnesheconombank as authorized agency of the Russian Government based on intergovernmental agreements on the settlement of debt of foreign states to the Russian Federation in order to record repayments of previously issued government loans (Note 9).

21. Investments in associates and jointly controlled entities

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

Associates and jointly controlled entities	**Ownership 2016**	**Ownership 2015**	**Carrying amount 2016**	**Carrying amount 2015**	**Country of incorporation**	**Type of activity**
JSC "RSMB Corporation"	37.5%	–	27.5	–	Russia	Finance
LLC "VEB-Invest"	–	19.00%	–	–	Russia	Investment
	Share of assets:					
Other associates			11.1	9.5		
Other jointly controlled entities			1.9	1.1		
			40.5	**10.6**		
Provision for impairment of investments in associates (Note 24)			(0.8)	(0.7)		
Total carrying amount of investments in associates and jointly controlled entities, net of provision			**39.7**	**9.9**		

On 30 March 2016, the Group increased its share in its associate LLC "VEB-Invest" from 19% to 100%. The fair value and the carrying amount of the previously recorded 19% share in the capital of LLC "VEB-Invest" amount to RUB 0.

In April 2016, pursuant to Decree No. 287 of the President of the Russian Federation dated 5 June 2015 and Federal Law No. 156-FZ, *On Amendments to Certain Legislative Acts of the Russian Federation Regarding Measures for Further Development of Small and Medium Enterprises in the Russian Federation*, dated 29 June 2015, Vnesheconombank purchased an additional issue of shares in JSC "RSMB Corporation" with a fair value of RUB 30.0 billion (Note 16).

In August 2016, the Bank made an additional contribution to the authorized capital of Asia Cement LLC by means of converting part of the debt under an earlier provided loan into capital on the basis of an offset of mutual homogeneous claims of the Bank and the company. The Bank’s share in the authorized capital of the company is 49%. Pursuant to the current version of the company’s Charter, its participants jointly control Asia Cement LLC.

On 31 December 2016, carrying amount of investment in Asia Cement LLC was RUB 1.0 billion.

(in billions of Russian rubles, unless otherwise stated)

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

The following table illustrates financial information on a significant associate:

JSC "RSMB Corporation"	**2016**
Cash and cash equivalents	57.3
Financial assets at fair value through profit or loss	1.2
Financial assets pledged as collateral under repurchase agreements	5.6
Amounts due from banks	69.1
Loans to customers	15.1
Investment financial assets:	
- available for sale	9.2
- held to maturity	12.3
Income tax assets	1.0
Property and equipment	0.2
Intangible assets	0.2
Other assets	4.6
Total assets	**175.8**
Amounts due to banks	36.6
Amounts due to the Bank of Russia	38.9
Amounts due to customers	5.7
Debt securities issued	2.1
Subordinated deposits	8.0
Provisions	4.1
Other liabilities	1.8
Total liabilities	**97.2**
Net assets	**78.6**

JSC "RSMB Corporation"	**For the year ended 31 December 2016**
Interest income	15.4
Interest expense	(7.0)
Provision for impairment of interest-bearing assets	(6.7)
Non-interest income	0.9
Non-interest expense	(8.9)
Profit/(loss) before income tax	**(6.3)**
Income tax expense	1.0
Profit/(loss) for the year	**(5.3)**
The Group's share in profit/(loss) for the year	(2.0)
Total comprehensive income/(loss) for the year	**(5.3)**
Total Group's share in comprehensive income/(loss)	(2.0)
Dividends received from the associate for the year	**(0.5)**

In 2016, the Group's share in the loss of individually insignificant associates amounted to RUB 2.6 billion (2015: share in loss was RUB 6.2 billion).

As at 31 December 2016, the Group's unrecognized share in the loss of its associates for the year was insignificant (31 December 2015: RUB 7.1 billion). As at 31 December 2016, the Group's total unrecognized share in the accumulated loss of its associates amounted to RUB 22.9 billion (31 December 2015: RUB 22.9 billion).

In 2016, the Group's share in the loss of individually insignificant jointly controlled entities amounted to RUB 0.3 billion (2015: share in loss was RUB 0.3 billion).

(in billions of Russian rubles, unless otherwise stated)

22. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Land	Equipment	Motor vehicles	Property under operating leases	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
Cost								
31 December 2015	**40.6**	**1.9**	**16.2**	**7.1**	**–**	**0.9**	**19.6**	**86.3**
Additions	4.2	–	2.3	–	–	–	2.9	**9.4**
Disposals	(4.2)	–	(0.9)	(0.1)	–	–	(0.4)	**(5.6)**
Transfers from other categories of assets	0.4	–	0.2	0.3	39.0	–	–	**39.9**
Transfers	0.7	–	1.0	–	–	–	(1.7)	**–**
Effect of business combination (Note 7)	2.4	–	2.8	–	–	0.3	–	**5.5**
Translation effect	(3.1)	(0.3)	(1.1)	(1.2)	–	–	(0.3)	**(6.0)**
Reclassification to non-current assets held for sale	–	–	–	(2.1)	–	–	–	**(2.1)**
31 December 2016	**41.0**	**1.6**	**20.5**	**4.0**	**39.0**	**1.2**	**20.1**	**127.4**
Accumulated depreciation and impairment								
31 December 2015	**8.0**	**–**	**7.4**	**1.5**	**–**	**0.5**	**–**	**17.4**
Depreciation charge	1.3	–	3.0	0.5	0.6	0.2	–	**5.6**
Disposals	–	–	(1.0)	(0.2)	–	–	–	**(1.2)**
Impairment	0.4	0.4	2.9	–	2.6	–	–	**6.3**
Reclassification to non-current assets held for sale	–	–	–	(1.1)	–	–	–	**(1.1)**
31 December 2016	**9.7**	**0.4**	**12.3**	**0.7**	**3.2**	**0.7**	**–**	**27.0**
31 December 2015	**32.6**	**1.9**	**8.8**	**5.6**	**–**	**0.4**	**19.6**	**68.9**
31 December 2016	**31.3**	**1.2**	**8.2**	**3.3**	**35.8**	**0.5**	**20.1**	**100.4**

(in billions of Russian rubles, unless otherwise stated)

22. Property and equipment (continued)

	Buildings	Land	Equipment	Motor vehicles	Leasehold improvements	Assets under construction and warehoused property and equipment	Total
Cost							
31 December 2014	**34.9**	**0.2**	**11.7**	**6.9**	**0.9**	**16.3**	**70.9**
Additions	0.3	–	2.9	0.1	–	4.4	**7.7**
Disposals	–	–	(0.6)	(0.2)	–	–	**(0.8)**
Reclassification of property and equipment to investment property	0.6	–	–	–	–	–	**0.6**
Transfers	0.3	–	1.0	–	–	(1.3)	**–**
Effect of business combination (Note 7)	4.2	1.3	1.5	–	–	–	**7.0**
Translation effect	0.6	0.4	0.1	0.3	–	0.2	**1.6**
Reclassification to non-current assets held for sale	(0.3)	–	(0.4)	–	–	–	**(0.7)**
31 December 2015	**40.6**	**1.9**	**16.2**	**7.1**	**0.9**	**19.6**	**86.3**
Accumulated depreciation and impairment							
31 December 2014	**5.1**	**–**	**6.1**	**1.2**	**0.3**	**–**	**12.7**
Depreciation charge	1.0	–	2.1	0.5	0.2	–	**3.8**
Depreciation of property and equipment reclassified to investment property	–	–	–	–	–	–	**–**
Disposals	–	–	(0.5)	(0.2)	–	–	**(0.7)**
Impairment	1.9	–	–	–	–	–	**1.9**
Reclassification to non-current assets held for sale	–	–	(0.3)	–	–	–	**(0.3)**
31 December 2015	**8.0**	**–**	**7.4**	**1.5**	**0.5**	**–**	**17.4**
31 December 2014	**29.8**	**0.2**	**5.6**	**5.7**	**0.6**	**16.3**	**58.2**
31 December 2015	**32.6**	**1.9**	**8.8**	**5.6**	**0.4**	**19.6**	**68.9**

(in billions of Russian rubles, unless otherwise stated)

22. Property and equipment (continued)

In 2016, a subsidiary leasing company transferred a number of finance lease properties to property and equipment and leased them out under operating leases of RUB 39.0 billion (accumulated depreciation amounted to RUB 0.6 billion).

23. Taxation

Income tax comprises:

	2016	2015
Current tax charge	2.7	2.2
Deferred tax expense/(benefit) – origination and reversal of temporary differences in the statement of profit or loss	4.4	(1.9)
Income tax expense	**7.1**	**0.3**

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 2016 and 2015. 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 2016 and 2015. The aggregate income tax rate effective in Ukraine was 18% for 2016 and 2015.

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 2016 and 2015 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 2016 and 2015.

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

	2016	2015
Current income tax asset	0.8	2.0
Deferred income tax asset	5.7	9.3
Income tax assets	**6.5**	**11.3**
Current income tax liability	0.5	0.3
Deferred income tax liability	13.7	10.2
Income tax liabilities	**14.2**	**10.5**

(in billions of Russian rubles, unless otherwise stated)

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:

	2016	2015
Profit/(loss) before income tax	**(104.8)**	**15.2**
Statutory tax rate	20%	20%
Theoretical income tax expense/(benefit) at the statutory rate	**(21.0)**	**3.0**
Tax effect from the following income and expenses:		
Non-taxable income on state securities or taxed at different rates	(0.6)	(0.4)
Income taxed at different rates	1.4	0.4
Non-taxable income and non-deductible expenses	4.4	3.5
Translation differences	(0.4)	1.1
Vnesheconombank's income and expenses not included in the tax base for income tax purposes	(2.6)	(14.9)
Change in income tax resulting from a change in the tax rate and other changes in tax legislation	(0.8)	0.1
Change in deferred tax assets unrecognized in the statement of financial position	24.8	19.3
Other	1.9	(11.8)
Income tax expense	**7.1**	**0.3**

(in billions of Russian rubles, unless otherwise stated)

23. Taxation (continued)

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

		Origination and reversal of temporary differences							Origination and reversal of temporary differences					
	2014	In the statement of profit or loss	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)	In the statement of profit or loss	In other comprehensive income	Effect of business combination (Note 7)	Disposal of subsidiaries	Currency translation effect	2016
Tax effect of deductible temporary differences														
Allowance for impairment	**3.7**	9.3	–	0.1	0.1	**13.2**	–	**13.2**	7.7	–	–	–	(2.0)	**18.9**
Change in fair value of securities	**0.3**	0.5	(1.2)	–	0.1	**(0.3)**	–	**(0.3)**	0.5	0.2	–	–	–	**0.4**
Initial recognition of financial instruments at fair value	**0.5**	1.7	–	–	–	**2.2**	(2.1)	**0.1**	–	–	–	–	–	**0.1**
Tax losses carried forward	**16.9**	12.8	–	–	(0.1)	**29.6**	–	**29.6**	8.8	–	22.9	–	(4.0)	**57.3**
Accrued income and expense	**0.1**	0.1	–	–	–	**0.2**	–	**0.2**	–	–	–	–	–	**0.2**
Net investments in leases	**–**	–	–	–	–	**–**	–	**–**	–	–	–	–	–	**–**
Derivative financial instruments	**0.2**	–	–	–	–	**0.2**	–	**0.2**	(0.1)	–	–	–	–	**0.1**
Property and equipment	**0.7**	(0.1)	(0.1)	–	–	**0.5**	–	**0.5**	0.4	–	0.1	–	–	**1.0**
Other	**6.0**	0.3	–	–	(0.2)	**6.1**	–	**6.1**	1.7	–	–	–	(0.9)	**6.9**
	28.4	**24.6**	**(1.3)**	**0.1**	**(0.1)**	**51.7**	**(2.1)**	**49.6**	**19.0**	**0.2**	**23.0**	**–**	**(6.9)**	**84.9**
Deferred tax assets unrecognized in the statement of financial position	**(14.7)**	(19.3)	0.9	–	–	**(33.1)**	–	**(33.1)**	(24.8)	(0.2)	(23.0)	–	**6.4**	**(74.7)**
	13.7	**5.3**	**(0.4)**	**0.1**	**(0.1)**	**18.6**	**(2.1)**	**16.5**	**(5.8)**	**–**	**–**	**–**	**(0.5)**	**10.2**
Tax effect of taxable temporary differences														
Change in fair value of securities	**(0.7)**	0.1	(1.0)	–	–	**(1.6)**	–	**(1.6)**	0.4	–	–	1.0	–	**(0.2)**
Loans to customers	**(1.2)**	1.1	–	–	–	**(0.1)**	–	**(0.1)**	0.1	–	–	–	–	**–**
Initial recognition of financial instruments at fair value	**(0.7)**	(3.3)	–	–	–	**(4.0)**	3.8	**(0.2)**	0.1	–	–	–	0.1	**–**
Allowance for impairment	**(0.1)**	–	–	–	–	**(0.1)**	–	**(0.1)**	(0.2)	–	–	–	–	**(0.3)**
Accrued income and expense	**(0.6)**	0.1	–	(0.2)	–	**(0.7)**	(0.1)	**(0.8)**	(1.0)	–	–	–	–	**(1.8)**
Net investments in leases	**(5.6)**	0.3	–	–	–	**(5.3)**	–	**(5.3)**	(1.1)	–	–	–	–	**(6.4)**
Derivative financial instruments	**(0.5)**	0.3	–	–	–	**(0.2)**	–	**(0.2)**	(0.3)	–	–	–	–	**(0.5)**
Property and equipment	**(1.5)**	(0.1)	0.2	(0.7)	(0.2)	**(2.3)**	–	**(2.3)**	0.2	–	–	–	–	**(2.1)**
Other	**(4.8)**	(1.9)	–	–	–	**(6.7)**	(0.1)	**(6.8)**	3.2	–	(3.5)	0.1	0.1	**(6.9)**
	(15.7)	**(3.4)**	**(0.8)**	**(0.9)**	**(0.2)**	**(21.0)**	**3.6**	**(17.4)**	**1.4**	**–**	**(3.5)**	**1.1**	**0.2**	**(18.2)**
Deferred tax asset	**5.1**	**4.6**	**(0.3)**	**0.1**	**(0.2)**	**9.3**	**–**	**9.3**	**(3.1)**	**–**	**–**	**–**	**(0.5)**	**5.7**
Deferred tax liability	**(7.1)**	**(2.7)**	**(0.9)**	**(0.9)**	**(0.1)**	**(11.7)**	**1.5**	**(10.2)**	**(1.3)**	**–**	**(3.5)**	**1.1**	**0.2**	**(13.7)**

(in billions of Russian rubles, unless otherwise stated)

24. Other impairment and provisions

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

	Investment financial assets	Investments in associates	Other assets	Assets and liabilities of disposal group	Claims	Insurance activity	Guarantees and commitments	Total
31 December 2014 (Restated)	**0.1**	**–**	**11.2**	**–**	**0.3**	**2.4**	**3.7**	**17.7**
Charge	0.1	0.7	9.4	–	0.4	1.6	9.1	**21.3**
Write-offs	–	–	(1.0)	–	(0.1)	–	(2.7)	**(3.8)**
Reclassification of provision for disposal groups	(0.1)	–	(0.7)	0.9	–	–	(0.1)	**–**
Effect of business combination (IFRS 3)	–	–	–	–	0.2	–	–	**0.2**
31 December 2015	**0.1**	**0.7**	**18.9**	**0.9**	**0.8**	**4.0**	**10.0**	**35.4**
31 December 2015	**0.1**	**0.7**	**18.9**	**0.9**	**0.8**	**4.0**	**10.0**	**35.4**
Charge/(reversal)	(0.1)	0.1	6.6	0.3	0.3	23.3	(0.7)	**29.8**
Write-offs	–	–	(0.2)	–	(0.6)	–	(1.5)	**(2.3)**
Translation differences	–	–	(1.5)	–	–	–	(2.2)	**(3.7)**
Disposal of subsidiaries (Notes 4 and 14)	–	–	(0.2)	(1.2)	–	–	–	**(1.4)**
31 December 2016	**–**	**0.8**	**23.6**	**–**	**0.5**	**27.3**	**5.6**	**57.8**

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

For 2016, a subsidiary accrued a provision for unearned insurance premium of RUB 21.8 billion under an agreement for the insurance of a loan to finance export-oriented production (Note 24).

25. Other assets and liabilities

Other assets comprise:

	2016	2015 (Restated)
Settlements with suppliers and other debtors	46.1	48.2
Investment property	30.0	8.4
Advances issued to leasing equipment suppliers	22.2	44.7
Inventories of non-banking subsidiaries	19.2	23.7
Investment property under construction	11.6	7.2
Repossessed collateral	7.3	6.5
Equipment purchased for leasing purposes	3.8	41.1
Fees and commissions and other claims under loan transactions	3.5	5.1
Intangible assets	2.7	4.4
Settlements on outstanding operations with securities	2.4	0.2
Prepaid expenses	2.3	3.0
Other tax assets	1.2	1.5
Amounts due from the Russian Government	0.4	0.5
Precious metals	0.3	0.3
Spot transactions	0.1	0.1
Prepaid securities	–	1.6
Other	4.3	0.9
	157.4	**197.4**
Less allowance for impairment of other assets (Note 24)	(23.6)	(18.9)
Other assets	**133.8**	**178.5**

(in billions of Russian rubles, unless otherwise stated)

25. Other assets and liabilities (continued)

As at 31 December 2016, amounts due from the Russian Government include claims to the Russian Ministry of Finance of RUB 0.4 billion (31 December 2015: RUB 0.5 billion) related to prior year settlements.

The decrease in other assets of the Group during 2016 was primarily due to the decrease in advances issued to leasing equipment suppliers of RUB 22.5 billion, and the decrease in the value of equipment purchased for leasing purposes of RUB 37.3 billion, following the transfer to lessees of equipment purchased by a subsidiary leasing entity under lease agreements.

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:

	2016	2015
At 1 January	**8.4**	**8.3**
Additions	0.7	0.6
Repossessed collateral	0.1	0.6
Acquisitions through business combinations	22.3	–
Revaluation	0.5	(0.4)
Disposals	(0.1)	(0.2)
Reclassification to property and equipment	–	(0.4)
Reclassification to assets held for sale	(1.4)	–
Transfer from other assets	0.1	0.3
Other	(0.6)	(0.4)
At 31 December	**30.0**	**8.4**
Amounts recorded in the consolidated statement of profit or loss:		
- rental income	2.3	0.2
- operating expenses affecting rental income	(0.4)	–
- operating expenses not affecting rental income	(0.4)	–

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 5.4 billion (31 December 2015: RUB 6.7 billion), less accumulated amortization of RUB 2.7 billion (31 December 2015: RUB 2.3 billion). In 2016, the Group disposed of intangible assets in the amount of RUB 0.6 billion (2015: RUB 0.6 billion), less accumulated amortization of RUB 0.4 billion (2015: RUB 0.6 billion). The respective amortization charges for 2016 are RUB 0.8 billion (2015: RUB 0.9 billion), which are included in other operating expenses.

(in billions of Russian rubles, unless otherwise stated)

25. Other assets and liabilities (continued)

Other liabilities

Other liabilities comprise:

	2016	2015
Deferred income related to government assistance	10.0	11.5
Other settlements with clients	9.1	4.7
Advance proceeds from sale of property	5.6	7.7
Future period income	4.6	7.1
Advances received from lessees	3.7	6.1
Liabilities on loans bearing a below-market interest rate	3.4	–
Other tax liabilities	3.1	–
Settlements with employees	2.9	1.6
Other settlements with banks	2.0	3.0
Settlements on operations with securities	0.1	0.2
Received and unused subsidies	–	1.6
Spot transactions	–	0.1
Other	1.7	4.9
Other liabilities	**46.2**	**48.5**

As at 31 December 2016, other liabilities include deferred income related to government assistance, which represents asset contributions of RUB 7.5 billion (31 December 2015: RUB 8.5 billion) 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 2.5 billion (31 December 2015: RUB 3.0 billion) received by a subsidiary bank in June 2015 as an asset contribution provided by the Russian Ministry of Industry and Trade as compensation of a shortfall in income on loans granted to support the manufacturers of high-tech products.

26. Amounts due to banks

Amounts due to banks comprise:

	2016	2015
Correspondent loro accounts of Russian banks	10.5	113.2
Correspondent loro accounts of other banks	3.1	2.7
Loans and other placements from OECD-based banks	211.3	418.5
Loans and other placements from Russian banks	277.0	257.0
Loans and other placements from other banks	138.3	219.4
Repurchase agreements	4.2	8.6
Collateral on securities lent	0.1	–
Amounts due to banks	**644.5**	**1,019.4**
Held as security against letters of credit	**0.3**	**0.2**

As at 31 December 2016, loans and other placements from OECD-based banks include loans primarily denominated in RUB, USD and EUR with annual interest rates ranging from 8.5% to three-month MosPrime plus 2.4% for RUB-denominated loans (31 December 2015: from 8.5% to three-month MosPrime plus 2.4%), from three-month LIBOR plus 0.2% to 5.7% for USD-denominated loans (31 December 2015: from three-month LIBOR plus 0.2% to 7.6%), from 0.6% to 6.3% for EUR-denominated loans (31 December 2015: from six-month EURIBOR plus 0.3% to 6.6%). As at 31 December 2016, there were no GBP-denominated loans (31 December 2015: GBP-denominated loans raised at 5.7%). As at 31 December 2016, this item does not include deposits held as security against letters of credit (31 December 2015: included such deposits).

(in billions of Russian rubles, unless otherwise stated)

26. Amounts due to banks (continued)

As at 31 December 2016, loans and other placements from Russian banks include loans denominated in RUB, USD and EUR with interest rates ranging from 6.2% to 17.5% for RUB-denominated loans (31 December 2015: from 4.0% to 18.5%), from 0.5% to 8.2% for USD-denominated loans (31 December 2015: from 0.5% to 8.8%), from 0.5% to 8.5% for EUR-denominated loans (31 December 2015: from three-month EURIBOR plus 5.1% to 9.0%). As at 31 December 2016 and 31 December 2015, this item also includes deposits held as security against letters of credit.

As at 31 December 2016, loans and other placements from non-OECD-based banks include loans denominated in RUB, USD, EUR, BYN and UAH with interest rates of 10.3% for RUB-denominated loans (31 December 2015: 10.1%), from six-month LIBOR plus 3.2% to six-month LIBOR plus 4.9% for USD-denominated loans (31 December 2015: from 1.9% to 7.0%), from 0.5% to 1.9% for EUR-denominated loans (31 December 2015: from 3.0% to six-month EURIBOR plus 4.0%). As at 31 December 2016, loans and other placements from non-OECD-based banks also include loans denominated in BYN with interest rates ranging from 4.4% to 18.0% (31 December 2015: 29.1%) and loans denominated in UAH with interest rates of 16.0% (31 December 2015: 22.1%). As at 31 December 2016 and 31 December 2015, this item also includes deposits held as security against letters of credit.

As at 31 December 2016, loans and other placements from other banks include loans from foreign banks in the amount of RUB 2.0 billion collateralized by debt instruments issued by foreign government bodies with a collateral value of RUB 0.5 billion and loans from national banks of foreign states with a collateral value of RUB 1.7 billion. As at 31 December 2015, loans and other placements from other banks include loans from foreign banks in the amount of RUB 0.8 billion collateralized by debt instruments issued by foreign government bodies with a collateral value of RUB 1.1 billion.

As at 31 December 2016, repurchase agreements with banks include loans of RUB 1.9 billion received from Russian banks and collateralized by debt securities available for sale with a fair value of RUB 2.1 billion, loans of RUB 1.0 billion received from Russian banks and collateralized by debt securities held to maturity with a fair value of RUB 1.1 billion. As at 31 December 2016 and 31 December 2015, repurchase agreements with banks under loans received from Russian banks and collateralized by equity securities available for sale were insignificant (Note 13).

As at 31 December 2016, repurchase agreements with banks include loans of RUB 1.3 billion received from Russian banks, collateralized by debt securities and included in loans to customers with a fair value of RUB 1.4 billion (31 December 2015: RUB 0.6 billion and RUB 0.9 billion, respectively), and loans of RUB 0.1 billion received from Russian banks, collateralized by debt securities and included in amounts due from banks with a fair value of RUB 0.1 billion (31 December 2015: RUB 0.2 billion and RUB 0.3 billion, respectively).

In 2016, the Group raised long-term financing from OECD-based banks totaling RUB 0.8 billion (2015: RUB 7.2 billion) and repaid long-term financing of RUB 109.6 billion (2015: RUB 104.8 billion) in accordance with the contractual terms. In 2016, the Group also raised long-term financing from non-OECD-based banks totaling RUB 25.0 billion (2015: RUB 3.0 billion) and repaid long-term financing of RUB 20.7 billion (2015: RUB 23.4 billion) in accordance with the contractual terms.

In addition, in 2016, a leasing company of the Group raised long-term financing from Russian and foreign banks totaling RUB 45.0 billion (2015: RUB 12.0 billion) and repaid long-term financing of RUB 69.7 billion (2015: RUB 63.5 billion) in accordance with the contractual terms.

(in billions of Russian rubles, unless otherwise stated)

27. Amounts due to customers

Amounts due to customers comprise:

	2016	2015
Current accounts	98.3	205.0
Term deposits	433.8	437.2
Repurchase agreements	–	0.1
Amounts due to customers	**532.1**	**642.3**
Held as security against guarantees	**0.3**	**0.6**
Held as security against letters of credit	**1.8**	**3.0**

Reduction of current accounts balances as at 31 December 2016 as compared to 31 December 2015 was due to reduced balances on current accounts of a state-related customer.

As at 31 December 2016 and 31 December 2015, amounts due to the Bank's four largest customers amounted to RUB 121.8 billion and RUB 149.9 billion, respectively, representing 22.9% and 23.3%, 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:

	2016	2015
Finance services	96.5	27.4
Manufacturing, including heavy machinery and production of military-related goods	54.9	77.5
Agriculture	14.1	14.1
Mining	11.8	–
Telecommunications	11.0	38.7
	188.3	**157.7**

Term deposits include deposits of individuals in the amount of RUB 138.8 billion (31 December 2015: RUB 140.2 billion). 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:

	2016	2015
Private companies	223.0	265.8
State and state-controlled entities	145.6	206.2
Employees and other individuals	156.4	161.7
Companies under foreign state control	7.1	8.6
Amounts due to customers	**532.1**	**642.3**

As at 31 December 2016, there are no repurchase agreements with customers. As at 31 December 2015, repurchase agreements with customers include funds of RUB 0.1 billion received from a Russian entity and collateralized by debt securities available for sale with a fair value of RUB 0.1 billion (Note 13).

(in billions of Russian rubles, unless otherwise stated)

28. Debt securities issued

Debt securities issued comprise:

	2016	2015
Eurobonds issued	516.7	702.9
Domestic bonds	471.1	457.6
Promissory notes	36.7	18.4
Saving and deposit certificates	0.1	1.0
Debt securities issued	**1,024.6**	**1,179.9**
Promissory notes held as collateral against guarantees	**1.0**	**0.9**

As at 31 December 2016, debt securities issued include Eurobonds placed at the market rate denominated in USD maturing from February 2017 to November 2025 (31 December 2015: from May 2016 to November 2025), in EUR maturing from February 2018 to February 2023 (31 December 2015: from February 2018 to February 2023). Debt securities issued included no Eurobonds denominated in CHF (31 December 2015: maturing in February 2016).

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

As at 31 December 2016, the Group's debt securities issued include interest-bearing promissory notes denominated in RUB, maturing before December 2049 (31 December 2015: maturing before December 2049), denominated in USD, maturing before August 2019 (31 December 2015: before August 2019) and denominated in EUR, maturing before December 2017 (31 December 2015: before March 2016). As at 31 December 2016, interest rates range from 0.1% to 13.5% on RUB-denominated promissory notes (31 December 2015: from 8.5% to 13.5%), from 0.3% to 1.6% on USD-denominated promissory notes (31 December 2015: from 0.3% to 1.6%) and on a collateralized EUR-denominated promissory note issued by a subsidiary bank at the rate of 0% (31 December 2015: 0%).

As at 31 December 2016, debt securities issued include RUB-denominated saving certificates issued by a subsidiary bank at interest rates from 0.1% to 0.5% maturing from October 2019 to February 2022 and USD-denominated deposit certificates issued by a subsidiary bank at interest rates from 7% to 9.8%, maturing from January 2017 to September 2017, EUR-denominated deposit certificates at interest rates from 6.5% to 8.5%, maturing from April 2016 to February 2017, no UAH-denominated deposit certificates (31 December 2015: saving certificates issued at interest rates from 0.1% to 0.5%, maturing from July 2019 to February 2022; USD-denominated deposit certificates issued at interest rates from 9% to 12.1%, maturing from December 2015 to December 2016; EUR-denominated deposit certificates issued at interest rates from 8.3% to 11.5%, maturing from January to December 2016; UAH-denominated deposit certificates issued at interest rates from 23% to 24%, maturing from February to December 2016).

(in billions of Russian rubles, unless otherwise stated)

29. Finance lease liabilities

Liabilities under finance lease agreements at 31 December 2016 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	9.7	37.3	34.3	**81.3**
Prepaid financial expenses	(0.1)	(1.8)	(3.5)	**(5.4)**
Net liabilities under finance lease agreements	**9.6**	**35.5**	**30.8**	**75.9**

Liabilities under finance lease agreements at 31 December 2015 are analyzed as follows:

	Not later than 1 year	1 to 5 years	Later than 5 years	Total
Minimum lease payments	11.8	45.4	54.4	**111.6**
Prepaid financial expenses	–	(1.5)	(4.2)	**(5.7)**
Net liabilities under finance lease agreements	**11.8**	**43.9**	**50.2**	**105.9**

The decrease in finance lease liabilities, primarily representing the Group's liabilities under finance leases of aviation equipment, from RUB 105.9 billion as at 31 December 2015 to RUB 75.9 billion as at 31 December 2016 was due to the currency revaluation under foreign currency agreements concluded by a subsidiary leasing company and planned repayment of liabilities.

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 March, June and September 2016, Vnesheconombank received subsidies from the federal budget in the form of asset contributions of the Russian Federation of RUB 73.8 billion, RUB 35.7 billion and RUB 40.5 billion, respectively, to compensate for part of costs related to the fulfillment of obligations in 2016 arising from foreign borrowings in the capital markets. The subsidies for these purposes totally amounted to RUB 150.0 billion.

Additional paid-in capital

The Bank's additional paid-in capital is formed, inter alia, from federal budget subsidies in the form of asset contributions of the Russian Federation for the purposes set by Federal Laws of the Russian Federation. Vnesheconombank used all the funds to acquire units in Mutual Fund RDIF.

In June 2016, in order to implement Federal Law, *On the Federal Budget for 2015 and for the 2016 and 2017 Planned Period*, the Bank used RUB 1.6 billion to purchase shares additionally issued by JSC "The Far East and Baikal Region Development Fund". As a result, these subsidy funds received by the Bank in December 2015 as an asset contribution of the Russian Federation for the implementation of priority investment projects in the Baikal region under the state program "Social and Economic Development of the Far East and the Baikal Region" were recorded within additional paid-in capital.

(in billions of Russian rubles, unless otherwise stated)

30. Equity (continued)

Additional paid-in capital (continued)

In October 2016, the subsidy of RUB 8.1 billion received by Vnesheconombank in September 2016 from the federal budget in the form of an asset contribution of the Russian Federation for the purchase of shares in JSC REC in order to increase charter capital of EXIMBANK OF RUSSIA under the subprogram *"Establishing the National System to Support the Development of the Foreign Economic Activity"* of the state program of the Russian Federation *"Development of the Foreign Economic Activity"* was transferred to EXIMBANK OF RUSSIA as intended.

In December 2016, the Bank received a subsidy of RUB 2.1 billion from the federal budget as an asset contribution of the Russian Federation in order to increase share capital of JSC "North Caucasus Development Corporation" for the purposes of creating a medical cluster on the Caucasian Mineral Waters territory and implementing investment projects. Vnesheconombank used all the funds to acquire additionally issued shares in JSC "North Caucasus Development Corporation" (Note 42).

In December 2016, the Bank received a subsidy of RUB 1.3 billion from the federal budget as an asset contribution of the Russian Federation in order to make a contribution to the share capital of JSC "The Far East and Baikal Region Development Fund" for the implementation of priority investment projects in the Far Eastern Federal District.

In December 2016, the Bank received a subsidy of RUB 0.7 billion from the federal budget as an asset contribution of the Russian Federation in order to further contribute to the share capital of JSC REC to ensure establishment of the national export support system.

Retained earnings/(uncovered loss)

This reserve is formed on a cumulative basis from the date of establishment of the Bank, and mainly includes uncovered loss for 2015 and a loss attributable to the Russian Government for the reporting year of 2016.

In 2016, included within this line was a loss of RUB 4.1 billion related to the Bank's free-of-charge transfer to the state treasury of the Russian Federation of assets received as a loan compensation. The federal budget for 2017 provides for subsidies to be granted to Vnesheconombank in 2017 in order to compensate for the loss.

Changes in equity

Pursuant to Decree No. 287 of the President of the Russian Federation dated 5 June 2015 and Federal Law No. 156-FZ, *On Amendments to Certain Legislative Acts of the Russian Federation Regarding Measures for Further Development of Small and Medium Enterprises in the Russian Federation*, dated 29 June 2015, in April 2016 Vnesheconombank paid for an additional issue of shares of JSC " RSMB Corporation" with the shares of JSC SME Bank that it owns. In accordance with the agreement, Vnesheconombank transferred 19,240 shares (100%) of JSC SME Bank in payment for 3 million shares additionally issued by JSC "RSMB Corporation" with a total value of RUB 30 billion (Note 4). The Bank’s interest in the share capital of JSC "RSMB Corporation" is 37.5%. As a result of the transaction, the Group's share capital and uncovered loss increased by RUB 1.0 billion (Note 40).

As on 2 June 2016 Federal Law No. 154-FZ, *On the Russian Direct Investment Fund*, became effective, Vnesheconombank distributed 100% of shares in RDIF Management Company LLC to the Russian Government, deconsolidated Mutual Fund RDIF (Note 4) and reclassified 100% of units in the fund as investment financial assets available for sale, at their fair value at the date of reclassification. As a result of the above transactions, uncovered loss, unrealized revaluation of financial assets available for sale, foreign currency translation reserve and non-controlling interests decreased by RUB 7.4 billion, RUB 6.9 billion, RUB 0.2 billion and RUB 1.4 billion, respectively (Note 40).

(in billions of Russian rubles, unless otherwise stated)

30. Equity (continued)

Nature and purpose of other reserves

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:

	2016	2015
Unrealized gains on investment financial assets available for sale	27.9	25.6
Realized losses/(gains) on investment financial assets available for sale, reclassified to the statement of profit or loss (Note 34)	(14.3)	2.3
Impairment loss on investment financial assets available for sale, reclassified to the statement of profit or loss	3.3	22.6
Change in unrealized gains/(losses) on operations with investment financial assets available for sale	**16.9**	**50.5**

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.

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.

The Russian economy is still affected by sanctions imposed on Russia by a number of countries.

In July 2015, in addition to Vnesheconombank, the US sectoral sanctions were imposed on the Group’s subsidiaries.

The exchange rate of the Russian ruble fluctuated in line with changes in oil prices. Following the drop in the exchange rate in early 2016 (to RUB 83.5913 to the US dollar) and increasing oil prices, the Russian ruble strengthened, with the exchange rate of RUB 60.6569 to the US dollar by the year-end.

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.

In combination, these factors resulted in reduced access to capital, a higher cost of capital, higher inflation and uncertainty about economic growth, which could adversely affect the Group’s financial position, results of operations and business prospects.

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31. Commitments and contingencies (continued)

Operating environment (continued)

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 2016, Vnesheconombank ratings have not been changed.

In February 2017, Moody's changed its outlook on the long-term foreign and local currency credit rating of Vnesheconombank from Negative to Stable. Standard&Poor's also changed its outlook on long-term credit ratings of Vnesheconombank from Negative to Developing in March 2017.

The Group's management takes into consideration the factors above and believes that it takes appropriate measures to support the sustainability of the Group's business in the current circumstances.

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 2016, the Government of the Republic of Belarus continued to apply stabilization measures aimed at the support of the economy in order to overcome the consequences of the world financial crisis. The world financial crisis led to an uncertainty in respect of further economic growth, availability of financing and cost of capital, which could adversely affect the Group's financial position, results of operations and business prospects.

In 2015-2016, 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 2016, the Ukrainian hryvnia depreciated against major currencies by approximately 69%, 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.

In March 2017, Ukraine imposed one-year sanctions on banks with Russian participation, including PSC Prominvestbank, that forbid withdrawal of capital outside Ukraine to its related parties.

Information about the risk the Group is exposed to in Ukraine as at 31 December 2016 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 2016, assets of the Group exposed to the risks of consequences arising from the situation in Ukraine comprise loans issued by the Group's subsidiary with a carrying amount of RUB 24.7 billion net of allowance (allowance for impairment of these loans amounted to RUB 22.4 billion as at 31 December 2016), and other assets in the amount of RUB 4.8 billion (allowance for impairment amounted to RUB 4.8 billion). As at 31 December 2015, loans to customers of the Group's subsidiary amounted to RUB 27.0 billion (allowance for impairment amounted to RUB 20.1 billion), and other assets in the amount of RUB 5.3 billion (allowance for impairment amounted to RUB 4.8 billion).

(in billions of Russian rubles, unless otherwise stated)

31. Commitments and contingencies (continued)

Operating environment (continued)

The Group's management also believes that as at 31 December 2016 the risks of consequences caused by the situation in Ukraine could also affect Vnesheconombank's loans issued to third parties for the acquisition of securities and financing of steel companies of Ukraine with a carrying amount of RUB 67.3 billion before allowance (31 December 2015: RUB 618.2 billion). Allowance for impairment of these loans as at 31 December 2016 amounted to RUB 67.3 billion (31 December 2015: RUB 183.0 billion). Decrease in carrying amount and allowance for impairment caused by transfer of the loans (Note 40).

The Group continues to monitor the situation in Ukraine and take corresponding measures to minimize the effect of these risks. Further potential deterioration of the current situation in Ukraine may have a negative impact on the Group's financial position, which at present is hardly 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.

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.

From 1 January 2015 new rules for taxation of controlled foreign companies as well as conceptions of beneficial owner and tax resident of legal entities took place. The adoption of this law generally leads to increase in the administrative and in several cases tax burden for the Russian entities that have subsidiary structures incorporated outside the Russian Federation and/or carry out transactions with foreign companies.

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.

As at 31 December 2016, 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.

(in billions of Russian rubles, unless otherwise stated)

31. Commitments and contingencies (continued)

Commitments and contingencies

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

	2016	2015
Undrawn loan commitments	416.9	535.4
Guarantees	633.4	428.7
Letters of credit	10.9	19.1
	1,061.2	**983.2**
Operating lease commitments		
Not later than 1 year	3.0	3.1
Later than 1 year but not later than 5 years	4.8	6.2
Later than 5 years	4.8	4.7
	12.6	**14.0**
Co-investment commitments	4.7	5.7
Capital expenditure commitments	47.6	82.8
	1,126.1	**1,085.7**
Less provisions (Note 24)	(5.3)	(10.0)
Commitments and contingencies (before deducting collateral)	**1,120.8**	**1,075.7**
Less cash and promissory notes held as security against guarantees and letters of credit	(3.4)	(4.7)
Commitments and contingencies	**1,117.4**	**1,071.0**

As at 31 December 2016, the Group advised export letters of credit of RUB 88.6 billion (31 December 2015: RUB 117.4 billion). The Group bears no credit risks under export letters of credit.

As at 31 December 2016, credit-related financial commitments include liabilities in favor of one counterparty, a state company, in the amount of RUB 159.4 billion, which accounts for 15% (31 December 2015: RUB 198.6 billion, 20%) of all credit-related financial commitments.

In 2016, as part of its export support activities, the Bank issued a USD-denominated guarantee for a Russian company in the amount of RUB 182.0 billion as at 31 December 2016.

In 2016, the Bank issued significant RUB-, USD- and EUR-denominated guarantees for its customers totaling RUB 114.9 billion.

Insurance

As at 31 December 2016, the Group's premises are insured for RUB 27.3 billion (31 December 2015: RUB 35.8 billion). At present, liability insurance is not widely spread in Russia, the Republic of Belarus and Ukraine.

(in billions of Russian rubles, unless otherwise stated)

32. Interest income and expense

	2016	2015
Interest income		
Loans to customers	224.7	229.8
Amounts due from banks and cash equivalents	26.1	25.0
Investment securities	22.8	26.4
	273.6	**281.2**
Finance leases	37.7	39.5
Other investment financial assets available for sale	3.3	3.3
Financial assets at fair value through profit or loss	0.3	0.9
Government subsidy used	1.9	0.4
	316.8	**325.3**
Interest expense		
Amounts due to banks and the Bank of Russia	(78.2)	(102.0)
Amounts due to customers and the Russian Government	(70.9)	(80.5)
Debt securities issued	(77.3)	(74.8)
	(226.4)	**(257.3)**
Finance lease liabilities	(1.3)	(1.0)
	(227.7)	**(258.3)**

33. Net fee and commission income

Net fee and commission income comprises:

	2016	2015
Cash and settlement operations	4.8	5.0
Guarantees and letters of credit	5.9	4.9
Trust management of pension funds (Note 1)	0.6	0.5
Agency fees	0.5	0.5
Operations with securities	0.2	0.2
Other	0.6	0.8
Fee and commission income	**12.6**	**11.9**
Fee and commission expense	(3.4)	(2.8)
Net fee and commission income	**9.2**	**9.1**

34. Net gains/(losses) from investment financial assets available for sale

Net gains/(losses) from investment financial assets available for sale recognized in the statement of profit or loss comprise:

	2016	2015
Net gains/(losses) on sale of investment financial assets available for sale, previously recognized in other comprehensive income (Note 30)	14.3	(2.3)
Losses on impairment of investment financial assets available for sale (Note 19), less reversal of impairment of debt securities	(3.1)	(27.4)
Other gains from sale and redemption of investment financial assets	11.2	1.3
Total net gains/(losses) on investment financial assets available for sale	**22.4**	**(28.4)**

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35. Insurance premiums, other operating income and expenses

In May 2016, a subsidiary entity provided an insurance coverage of a loan to finance export-oriented production for a term of 15 years in the amount of EUR 3.6 billion with two Russian state-related banks. The insurance premium under the agreement amounts to RUB 24.4 billion (Note 40). Simultaneously, a provision of RUB 21.8 billion for unearned premiums was accrued under the agreement (Note 24).

Other operating income comprises:

	2016	2015 (Restated)
Gain from disposal of loans (Note 40)	184.0	–
Sales revenue	13.8	6.0
Rental income from property and equipment	3.6	1.0
Penalties received	2.2	3.8
Gains from revaluation of investment property	1.4	0.1
Gains from disposal of property and equipment	0.5	0.4
Income from financing activities	0.2	4.0
Gains from disposal of leased assets	0.1	0.4
Effect of business combination	–	5.1
Other	6.7	4.8
Total	**212.5**	**25.6**

Other operating expenses comprise:

	2016	2015
Loss on write-off of impaired assets	11.5	1.0
Cost of sales	10.7	4.6
Loss on impairment of goodwill including arising on acquisition (Note 7)	6.9	4.9
Loss on impairment of property and equipment	6.3	1.9
Insurance	2.8	2.3
Audit and consulting	2.2	1.6
Administrative expenses	1.5	1.8
Marketing and research	1.2	1.0
Legal services	1.1	2.5
Deposits' insurance	1.0	0.8
Advertising expenses	0.8	2.0
Amortization of intangibles	0.8	0.9
Loss on revaluation of investment property	0.9	0.5
Charity	0.2	4.4
Sponsorship	0.1	0.3
Other	5.8	7.0
Total	**53.8**	**37.5**

Loss of RUB 7.1 billion being a part of the loss on write-off of impaired assets is related to recognition of the assets for sale at net realizable value at the reporting date.

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 exposed to operational risk and strategic risk.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Introduction (continued)

The Group-level guidelines for risk management are included in the Vnesheconombank Group Risk Management Policy (the "Policy"). The Policy determines key goals and objectives, principles and procedures for consolidated risk management within the state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (hereinafter, "Vnesheconombank") and its subsidiaries, as well as powers and responsibilities of management bodies, subdivisions and executives engaged in management of risks. The Policy does not apply to Vnesheconombank's subsidiaries which are not exposed to significant financial risks.

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.

Management bodies and business units of Group members

Risks of Group members are managed pursuant to the Policy and based on decisions of the Group's management bodies, subject to limits and restrictions set by Vnesheconombank's management bodies and Risk Management Committee. The supervisory body (Board of Directors, Supervisory Board) of each Group member oversees the overall level of risks and efficiency of the risk management system of the Group member, considers Group member risk reports, approves the system of limits, and, on the Group level, sets risk limits and decides on major transactions.

Executive management bodies (Management Board and its chairperson) of each Group member are responsible for meeting the level of risks assumed, ensure the appropriate risk management system, allocate limits by business lines, investigate breaches of limits, approve major transactions within their established authority, approve internal regulations on risk management of the Group member.

Collegial management bodies (Banking Risk Management Committee, Financial Committee, Assets and Liabilities Committee, Credit Committee, Technology Committee) prepare management decisions within their established authority, over a particular type of activity or type of risk.

The division responsible for risk management within each Group member is responsible for identification and quantification of risks, timely communication of the level of assumed risks to management bodies, development of risk mitigation measures, oversight of the risk levels and compliance with the set limits, regular performance analysis in order to detect new risks, assessment of the significance of previously analyzed risks, processing data from operating units in order to assess the level of risks, design and implementation of risk management procedures, regulations and risk management techniques.

The Risk Director of the Group member is responsible for the risk management system, timely identification and assessment of risks, implementation of risk mitigation measures, communication of the risks assumed by the Group member to the Group Risk Director, control over the risk levels and key risk indicators of the Group member.

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 Service 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 Service reports its findings and recommendations to Group member management.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Vnesheconombank's risk management structure

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

Supervisory Board

Pursuant to the Regulation on the Supervisory Board, powers of the Bank's Supervisory Board in the area of risk management include: approval of the procedures governing the activities of internal control service, 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 amount 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.

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 amount 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 is entitled to make decisions to approve transactions or a number of interrelated transactions associated with acquisition, disposal or potential disposal of assets whose carrying amount accounts for up to 2% of the Bank's equity.

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

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Vnesheconombank's risk management structure (continued)

Group Risk Director

The key functions of the Group Risk Director include development and ensuring the efficiency of the risk management system of Vnesheconombank and the Group as a whole, 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.

Management Committee

The Management Committee is a standing collegial working body of Vnesheconombank. It was established to enhance efficiency of Vnesheconombank's corporate governance system, coordinate activities of independent business units and executives of Vnesheconombank, ensure taking efficient management decisions on strategic and day-to-day development and business planning, design key policies and procedures, perform operating management of Vnesheconombank, as well as to assist Vnesheconombank's management bodies in making decisions within their authority. Within the risk management framework, the Management Committee is mainly engaged in analyzing and making decisions, as well as designing recommendations for management bodies on the risk management system within the Vnesheconombank Group, which includes assessing the quality of the existing system of governance and overseeing compliance of the level of risks with the established risk appetite.

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 Risk Management Standards (hereinafter, the "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; and approves stress-testing scenarios.

Credit Committee

The Credit Committee of Vnesheconombank is a standing collegial working body. It was established to consider proposals submitted by Vnesheconombank's independent business units, make decisions on financing investment, export and other projects (transactions) on a repayable basis and (or) through participation in the capital of other entities, managing Vnesheconombank's loan portfolio and credit risk, determining the level of interest rates and collateral requirements, ensuring more efficient use of Vnesheconombank's resources, and on other matters within its authority pursuant to this Policy, other than on matters related to management of distressed assets which fall within the competence of Vnesheconombank's Distressed Assets Committee.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Vnesheconombank's risk management structure (continued)

Distressed Assets Committee

The Distressed Assets Committee is a standing collegial working body which was established by decision of the Management Board of Vnesheconombank. The Committee is primarily responsible for organizing regular and efficient procedures within Vnesheconombank related to bad debts and distressed assets, increasing the speed and quality of decision making on bad debt settlements and management of distressed assets, preparing recommendations for Vnesheconombank's collegial management bodies, as well as deciding on operations (transactions) aimed to settle bad debts or manage distressed assets.

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.

Internal Control Service

The Internal Control Service 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 Service reports its findings and recommendations to the Bank's management.

Risk Directorate

The Risk Directorate 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 Directorate 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 Directorate is responsible for monitoring compliance with risk policies and principles, and for assessing risks of new products and structured transactions. The Risk Directorate 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 for oversight of risks of subsidiaries, such as the risk due diligence department, bank book risk department, integrated risk management department and department for operational risk analysis and business continuity management.

Treasury Directorate

As part of the operational control over the liquidity level, the Treasury Department oversees 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.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Vnesheconombank's risk management structure (continued)

The Directorate monitors the market value and liquidity of collateral provided by the Bank's counterparties in the course of operations in financial markets. A team of analysts working independently from other operational subdivisions assesses the conditions on money, equity and foreign exchange markets.

Transaction Support Directorate

The Directorate ensures on a daily basis that the Bank meets the established open position limits on financial instruments and operations effected by the Treasury Directorate as well as the limits set on counterparties to transactions.

Economic Planning Department

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

Risk management

Risk measurement and reporting systems

The Bank's risks are measured using the methodologies approved by the Bank's authorized bodies which allow assessing both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate possible loss at a given level of probability and horizon. 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 significant 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.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Risk management (continued)

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.

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 forecast 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, as well as to changes in markets parameters, such as in prices for financial instruments.

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.

For credit risk mitigation purposes, the Bank has to comply with the following limits established in Vnesheconombank's 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.

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.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Credit risk (continued)

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 (see above).

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

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 17. The maximum amount of credit-related contingencies is presented in Note 31.

Where financial instruments are recorded at fair value, the carrying amount 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 billions of Russian rubles, unless otherwise stated)

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 and special purpose accounts are categorized as high grade because the Group believes they do not carry credit risk.

		Not past due					
		Not impaired					
31 December 2016	**Notes**	**High grade**	**Standard grade**	**Sub-standard grade**	**Individually impaired**	**Past due**	**Total**
Cash and cash equivalents except cash on hand	11	**334.5**	**–**	**–**	**–**	**–**	**334.5**
Amounts on special purpose accounts		**79.9**	**–**	**–**	**–**	**–**	**79.9**
Financial assets lent and pledged as collateral under repurchase agreements	13						
Loans to customers pledged under repurchase agreements		1.4	–	–	–	–	**1.4**
Investment securities pledged under repurchase agreements							
- Available for sale		0.1	2.1	–	–	–	**2.2**
- Held to maturity		0.3	0.8	–	–	–	**1.1**
		1.8	**2.9**	**–**	**–**	**–**	**4.7**
Amounts due from banks and treasury	14						
Interbank loans under small and medium-sized business support program		–	16.4	–	–	–	**16.4**
Amounts due from treasury		2.1	–	–	–	–	**2.1**
Export financing		5.4	–	2.3	–	–	**7.7**
Mortgage bonds		6.4	–	–	–	–	**6.4**
Other amounts due from banks		18.6	41.1	–	–	3.6	**63.3**
		32.5	**57.5**	**2.3**	**–**	**3.6**	**95.9**
Loans to customers	17						
Project financing		87.2	310.1	682.8	248.2	191.1	**1,519.4**
Commercial loans, including loans to individuals		71.3	254.4	48.1	104.9	268.2	**746.9**
Financing of operations with securities		–	–	–	200.0	0.4	**200.4**
Export and pre-export financing		43.9	27.8	15.1	–	7.4	**94.2**
Reverse repurchase agreements		18.7	3.0	–	18.4	3.5	**43.6**
Back-to-back financing		37.2	–	–	–	–	**37.2**
Claims under letters of credit		1.3	7.4	–	6.0	3.0	**17.7**
Mortgage bonds		–	4.2	1.4	–	–	**5.6**
Promissory notes		2.6	–	–	–	0.8	**3.4**
Other		10.7	5.0	–	2.5	4.3	**22.5**
		272.9	**611.9**	**747.4**	**580.0**	**478.7**	**2,690.9**
Net investments in leases		**212.8**	**8.3**	**4.3**	**38.5**	**36.0**	**299.9**
Debt investment securities							
Available for sale	18	140.5	57.6	2.4	–	0.4	**200.9**
Held to maturity	19	14.6	3.1	0.3	–	–	**18.0**
		155.1	**60.7**	**2.7**	**–**	**0.4**	**218.9**
Subordinated loans to banks	14	**9.3**	**48.1**	**–**	**–**	**–**	**57.4**
Total		**1,098.8**	**789.4**	**756.7**	**618.5**	**518.7**	**3,782.1**

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Credit risk (continued)

		Not past due					
		Not impaired					
31 December 2015	**Notes**	**High grade**	**Standard grade**	**Sub-standard grade**	**Individually impaired**	**Past due**	**Total**
Cash and cash equivalents except cash on hand	11	**298.1**	**–**	**–**	**–**	**–**	**298.1**
Amounts on special purpose accounts		**63.5**	**–**	**–**	**–**	**–**	**63.5**
Financial assets lent and pledged as collateral under repurchase agreements	13						
Amounts due from banks pledged under repurchase agreements		0.3	–	–	–	–	**0.3**
Loans to customers pledged under repurchase agreements		–	0.9	–	–	–	**0.9**
Investment securities pledged under repurchase agreements							
- Available for sale		58.2	4.7	–	–	–	**62.9**
- Held to maturity		6.7	2.8	–	–	–	**9.5**
		65.2	**8.4**	**–**	**–**	**–**	**73.6**
Amounts due from banks and treasury	14						
Interbank loans under small and medium-sized business support program							
Export financing		2.5	–	–	–	–	**2.5**
Mortgage bonds		7.6	–	–	–	–	**7.6**
Other amounts due from banks		64.1	6.9	–	3.0	–	**74.0**
		74.2	**6.9**	**–**	**3.0**	**–**	**84.1**
Loans to customers	17						
Project financing		107.5	478.8	196.8	410.9	458.3	**1,652.3**
Commercial loans, including loans to individuals		107.5	367.6	82.0	322.7	227.1	**1,106.9**
Financing of operations with securities		250.3	–	–	76.8	–	**327.1**
Export and pre-export financing		53.0	30.5	12.3	–	5.1	**100.9**
Reverse repurchase agreements		39.7	1.9	–	–	4.4	**46.0**
Back-to-back financing		36.5	–	–	–	–	**36.5**
Claims under letters of credit		2.0	7.0	–	1.3	9.3	**19.6**
Mortgage bonds		–	7.1	–	–	–	**7.1**
Promissory notes		2.7	–	–	0.1	0.8	**3.6**
Other		30.7	6.0	3.0	2.0	1.7	**43.4**
		629.9	**898.9**	**294.1**	**813.8**	**706.7**	**3,343.4**
Net investments in leases	18	**315.7**	**8.7**	**5.6**	**–**	**16.6**	**346.6**
Debt investment securities	19						
Available for sale		124.1	32.1	–	0.1	–	**156.3**
Held to maturity		19.5	7.7	0.3	–	–	**27.5**
		143.6	**39.8**	**0.3**	**0.1**	**–**	**183.8**
Subordinated loans to banks	14	**40.2**	**6.3**	**3.9**	**–**	**–**	**50.4**
Financial assets of disposal group		**78.1**	**35.7**	**3.4**	**3.6**	**4.2**	**125.0**
Total		**1,708.5**	**1,004.7**	**307.3**	**820.5**	**727.5**	**4,568.5**

(in billions of Russian rubles, unless otherwise stated)

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:

2016	Less than 7 days	7 to 30 days	30 to 90 days	More than 90 days	*Total*
Loans to customers					
Project financing	–	0.6	–	0.3	**0.9**
Commercial loans	0.2	0.3	1.1	22.0	**23.6**
Export and pre-export financing	3.3	–	–	–	**3.3**
Net investments in leases	1.1	4.6	7.3	3.6	**16.6**
	4.6	**5.5**	**8.4**	**25.9**	**44.4**

2015	Less than 7 days	7 to 30 days	30 to 90 days	More than 90 days	Total
Loans to customers					
Project financing	–	12.0	3.2	11.1	**26.3**
Commercial loans	1.2	0.8	0.8	0.7	**3.5**
	1.2	**12.8**	**4.0**	**10.8**	**29.8**
Net investments in leases	2.5	2.1	2.0	9.0	**15.6**
	3.7	**14.9**	**6.0**	**20.8**	**45.4**

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 90 days, bankruptcy proceedings have been initiated or the borrower is in the process of liquidation, or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or serious 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 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.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Credit risk (continued)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is 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.

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

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 Assets and Liabilities Committee 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 part of the liquidity risk management process, the Group members perform the following actions limiting the liquidity risk:

- Regularly monitor the 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 modeling and supervise liquidity ratios under various scenarios that reflect changes in the macroeconomic and market operating environment;
- Perform stress testing of the bank's exposure to liquidity risk and financial market conditions on a regular basis and as and when significant changes in external and internal factors arise or are expected.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Liquidity risk and funding management (continued)

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 Directorate. Liquidity control results are reported to the Bank's management and used for management decision-making.

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.

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

- non-fulfillment by the Bank's counterparties of transaction, loan and debt obligations (credit risk realization);
- potential additional liquidity outflow following changes in the ruble exchange rate (currency risk realization);
- resources additionally required from subsidiaries;
- 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 Directorate 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 Directorate to the Directorate for Currency and Financial Transactions, Assets and Liabilities Committee and the Bank's management and are used in making decisions on measures required for regulating liquidity and planning the Bank's and the Group's operations.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Liquidity risk and funding management (continued)

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

- concluding repurchase agreements;
- selling the portfolio of highly liquid assets;
- 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.

As at 31 December 2016, 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	277.5	72.6	–	–	–	**350.1**
Financial assets at fair value through profit or loss	0.8	0.1	1.4	4.2	12.7	**19.2**
Financial assets lent and pledged as collateral under repurchase agreements	2.2	1.1	0.1	1.3	–	**4.7**
Special purpose accounts	79.9	–	–	–	–	**79.9**
Amounts due from banks and treasury	7.4	12.2	42.2	30.1	0.4	**92.3**
Loans to customers	84.8	147.9	165.3	1,506.5	–	**1,904.5**
Net investments in leases	8.1	34.7	43.8	197.0	–	**283.6**
Investment financial assets:						
- available for sale	158.4	11.1	6.4	27.4	267.0	**470.3**
- held to maturity	0.3	2.2	1.2	14.3	–	**18.0**
Subordinated loans to banks	–	2.2	3.0	52.2	–	**57.4**
Investments in associates and jointly controlled entities	–	–	–	–	39.7	**39.7**
Other financial assets	5.3	31.9	10.4	12.6	0.9	**61.1**
	624.7	**316.0**	**273.8**	**1,845.6**	**320.7**	**3,380.8**
Financial liabilities						
Amounts due to banks	71.7	77.5	100.7	394.6	–	**644.5**
Financial liabilities at fair value through profit or loss	0.3	0.1	–	0.1	–	**0.5**
Amounts due to the Russian Government and the Bank of Russia	82.3	6.4	110.0	355.1	–	**553.8**
Amounts due to customers	200.6	202.8	59.5	69.2	–	**532.1**
Debt securities issued	35.6	99.1	80.0	809.9	–	**1,024.6**
Finance lease liabilities	0.8	4.2	4.6	66.3	–	**75.9**
Subordinated deposits	–	–	–	92.5	–	**92.5**
Other financial liabilities	16.6	3.6	3.7	5.4	1.3	**30.6**
	407.9	**393.7**	**358.5**	**1,793.1**	**1.3**	**2,954.5**
Net position	**216.8**	**(77.7)**	**(84.7)**	**52.5**	**319.4**	**426.3**
Accumulated gap	***216.8***	***139.1***	***54.4***	***106.9***	***426.3***	

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Liquidity risk and funding management (continued)

As at 31 December 2015, financial assets and liabilities of the Group had the following expected maturities:

	Up to 1 month (Restated)	1 to 6 months (Restated)	6 to 12 months (Restated)	Over 1 year (Restated)	No stated maturity (Restated)	Total (Restated)
Financial assets						
Cash and cash equivalents	299.3	22.8	–	–	–	**322.1**
Financial assets at fair value through profit or loss	8.9	0.1	0.1	3.7	39.8	**52.6**
Financial assets lent and pledged as collateral under repurchase agreements	68.2	4.8	0.3	4.7	–	**78.0**
Special purpose accounts	63.5	–	–	–	–	**63.5**
Amounts due from banks and treasury	6.0	9.0	39.3	14.0	–	**68.3**
Assets of disposal group held for sale	–	–	–	–	122.8	**122.8**
Loans to customers	100.7	214.1	267.9	1,995.9	1.7	**2,580.3**
Net investments in leases	8.8	36.5	37.8	260.0	–	**343.1**
Investment financial assets:						
- available for sale	187.0	93.9	6.6	18.0	85.3	**390.8**
- held to maturity	0.6	6.8	2.9	17.2	–	**27.5**
Subordinated loans to banks	–	2.0	1.9	46.5	–	**50.4**
Investments in associates and jointly controlled entities	–	–	–	–	9.9	**9.9**
Other financial assets	5.4	81.2	24.0	14.2	1.3	**126.1**
	748.4	**471.2**	**380.8**	**2,374.2**	**260.8**	**4,235.4**
Financial liabilities						
Amounts due to banks	221.9	109.5	133.5	554.5	–	**1,019.4**
Financial liabilities at fair value through profit or loss	–	2.1	0.1	0.6	–	**2.8**
Amounts due to the Russian Government and the Bank of Russia	244.3	309.4	5.1	147.6	–	**706.4**
Liabilities of disposal group held for sale	–	–	–	–	69.0	**69.0**
Amounts due to customers	324.7	172.1	94.7	50.8	–	**642.3**
Debt securities issued	8.7	127.6	82.5	961.1	–	**1,179.9**
Finance lease liabilities	1.1	5.0	5.6	94.2	–	**105.9**
Subordinated deposits	–	–	–	102.1	–	**102.1**
Other financial liabilities	18.4	7.0	4.2	0.9	1.7	**32.2**
	819.1	**732.7**	**325.7**	**1,911, 8**	**70.7**	**3,860.0**
Net position	**(70.7)**	**(261.5)**	**55.1**	**462.4**	**190.1**	**375.4**
Accumulated gap	***(70.7)***	***(332.2)***	***(277.1)***	***185.3***	***375.4***	

As 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 31 December 2016, there was no accumulated liquidity deficit with any maturity as a result of extending the maturity of liabilities classified as amounts due to the Russian Government and the Bank of Russia (Note 9) in 2016.

While the majority of available-for-sale securities is shown as "Up to 1 month", disposal of such assets upon demand is dependent upon financial market conditions. Significant security positions may not always be liquidated in a short period of time without adverse price effects. Also, such classification of maturities for liabilities classified as amounts due to customers in accordance with contractual terms does not reflect the historical stability of customers' current accounts. Their liquidation has taken place over longer periods.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Liquidity risk and funding management (continued)

Due to the fact that in 2014 S&P downgraded Vnesheconombank's long-term foreign currency credit rating to BBB- and then in January 2015 to BB+ and in 2015 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 2016, Vnesheconombank's liabilities under such agreements totaled RUB 306.3 billion (31 December 2015: RUB 491.4 billion). As at the date of authorization of these consolidated financial statements, Vnesheconombank did not receive notices demanding an early repayment of previously provided loans. These liabilities are classified in accordance with contractual terms since early withdrawal of funds is not expected and such approach reflects historical stability of accounts. Their redemption historically is taken place over a longer period – at maturity. The management of the Bank is taking all of the appropriate liquidity management measures and expects the Government to provide support if necessary.

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.

As at 31 December 2015, 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 as at 31 December 2016 and 31 December 2015 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 2016	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to banks	382.8	82.2	226.4	1.8	**693.2**
Gross settled derivative financial instruments					
- Contractual amounts payable	4.6	1.5	0.1	–	**6.2**
- Value of underlying assets to be sold	–	1.3	–	1.0	**2.3**
- Contractual amounts receivable	(3.3)	–	(0.6)	(8.8)	**(12.7)**
Amounts due to the Russian Government and the Bank of Russia	84.7	124.2	253.0	430.7	**892.6**
Amounts due to customers	325.7	147.2	62.4	32.7	**568.0**
Debt securities issued	98.7	128.3	786.6	312.0	**1,325.6**
Finance lease liabilities	2.3	7.0	37.3	34.3	**80.9**
Subordinated deposits	–	–	8.4	373.6	**382.0**
Other liabilities	19.8	5.7	4.7	1.9	**32.1**
Total undiscounted financial liabilities	**915.3**	**497.4**	**1,378.3**	**1,179.2**	**3,970.2**

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Liquidity risk and funding management (continued)

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	260.0	203.5	599.2	47.9	**1,110.6**
- Contractual amounts payable	67.3	1.0	1.2	–	**69.5**
- Value of underlying assets to be sold	–	–	1.1	–	**1.1**
- Contractual amounts receivable	(66.6)	0.3	(1.2)	–	**(67.5)**
Amounts due to the Russian Government and the Bank of Russia	431.7	86.9	181.9	65.3	**765.8**
Amounts due to customers	433.6	170.8	48.1	28.2	**680.7**
Debt securities issued	56.4	127.7	552.9	335.8	**1,072.8**
Finance lease liabilities	2.8	8.4	45.5	54.4	**111.1**
Subordinated deposits	–	–	9.0	450.0	**459.0**
Other liabilities	21.2	9.4	0.6	1.7	**32.9**
Total undiscounted financial liabilities	**1,206.4**	**608.0**	**1,438.3**	**983.3**	**4,236.0**

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
2016	961.2	18.8	46.5	34.7	**1,061.2**
2015	870.8	10.5	47.6	54.3	**983.2**

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

As at 31 December 2016, credit-related commitments presented in the 'less than 3 months' category include liabilities in the amount of RUB 357.6 billion (31 December 2015: RUB 209.7 billion), whose maturities are linked to settlements under export contracts.

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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 that are engaged in banking activities monitor the market risk level on a daily basis. Group members that are not banking institutions monitor the market risk level on a regular 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 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 taking 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 losses from the portfolio of financial instruments under the assumptions that the volume of positions will remain constant over the projection horizon and the Bank will not perform transactions that change the volume of positions. Should the Bank be engaged in purchase and sale of financial instruments over the projection horizon, VaR estimates can differ from estimates of actual losses.

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

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

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Market risk (continued)

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

Interest rate risk

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

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

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

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

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

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

Sensitivity analysis is performed on 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.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Market risk (continued)

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 at the reporting date and once during the projection horizon.

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

The sensitivity of the statement of profit or loss is the estimate of the effect of the assumed changes in interest rates on the net interest income before tax for one year calculated for floating rate financial assets and financial liabilities held at 31 December 2016 and at 31 December 2015, 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 and the Group's equity 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.

Rate	Increase in %, 2016	Sensitivity of the statement of profit or loss 2016	Sensitivity of equity 2016
Key rate of the Bank of Russia	0.50%	0.4	–
3-m MosPrime	3.09%	(0.2)	–
3-m LIBOR USD	0.25%	(0.4)	–
3-m LIBOR EUR	0.20%	0.1	–
YTM 5Y US Treasuries	1.02%	–	(0.6)
RGBEY	2.66%	(0.3)	(0.7)
YTM Ukrainian sovereign bonds	18.36%	–	(0.2)
Refinancing rate of NB RB	1.00%	0.1	–
Interest curve for KZT	4.5%	0.4	–

Rate	Decrease in %, 2016	Sensitivity of the statement of profit or loss 2016	Sensitivity of equity 2016
Key rate of the Bank of Russia	-1.00%	(0.8)	–
3-m MosPrime	-3.09%	0.2	–
RGBEY	-2.66%	0.4	0.7
Refinancing rate of NB RB	-3.00%	(0.3)	–
Interest curve for KZT	-4.5%	(0.4)	–

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Market risk (continued)

Rate	Increase in %, 2015	Sensitivity of the statement of profit or loss 2015	Sensitivity of equity 2015
Key rate of the Bank of Russia	1.00%	2.4	–
3-m MosPrime	1.00%	(0.1)	–
YTM 5Y US Treasuries	0.20%	–	(0.2)
RGBEY	1.00%	–	(0.2)
YTM Ukrainian sovereign bonds	15.00%	–	(1.7)
Refinancing rate of NB RB	7.50%	0.6	–
Interest curve for KZT	4.00%	0.5	–

Rate	Decrease in %, 2015	Sensitivity of the statement of profit or loss 2015	Sensitivity of equity 2015
Key rate of the Bank of Russia	-3.00%	(7.3)	–
3-m MosPrime	-3.00%	0.4	–
3-m LIBOR USD	-0.05%	–	0.1
YTM 5Y US Treasuries	-0.10%	–	0.1
RGBEY	-2.00%	0.1	0.4
YTM Ukrainian sovereign bonds	-2.00%	–	0.2
Refinancing rate of NB RB	-7.50%	(0.6)	–
Interest curve for KZT	-2.25%	(0.3)	–

Below are VaR measures for the bond portfolio of the Bank as at 31 December 2016 and 31 December 2015.

	2016	2015
VaR	3.0	3.0

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 regular 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. Vnesheconombank's subsidiary banks set limits on the cumulative open position as well as limits on open positions in each currency and for precious metals based on the requirements of the national regulator.

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

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Market risk (continued)

The table below shows open currency positions of the Bank as at 31 December 2016 and 31 December 2015, 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	2016	2015 (restated)
USD	(449.7)	49.2
EUR	(29.9)	(69.2)
Other currencies	0.2	2.7

Changes in the open USD position resulted from the transfer of USD-denominated loans and the receipt of reimbursement in Russian rubles (Note 40). The Bank controls and regulates this open position pursuant to the decisions made. At the date of signing these consolidated financial statements, the open USD position decreased following the foreign currency purchases in the market in the amount of USD 4,4 billion (equivalent of RUB 245.0 billion).

Below is the Bank's VaR measure for open currency positions as at 31 December 2016 and 31 December 2015:

	2016	2015
VaR	21.7	1.3

The table below shows the sensitivity of open currency positions of the Group (excluding the Bank) as at 31 December 2016 and 31 December 2015. 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, % 2016	Effect on profit before tax 2016	Change in exchange rate, % 2015	Effect on profit before tax 2015
EUR	22.18%	(4.4)	20.21%	(7.8)
	-22.18%	4.4	-20.21%	7.8
USD	21.26%	(5.2)	19.74%	(4.9)
	-21.26%	5.2	-19.74%	4.9
UAH	39.15%	(1.4)	37.94%	19.3
	-39.15%	1.4	-37.94%	(19.3)
KZT	26.73%	(1.3)	25.09%	(1.1)
	-26.73%	1.3	-25.09%	1.1
BYN	24.56%	0.5	23.36%	1.1
	-24.56%	(0.5)	-23.36%	(1.1)
HKD	21.21%	(0.3)	–	(0.0)
	-21.21%	0.3	–	0.0
CNY	21.20%	0.2	19.6%	0.0
	-21.20%	(0.2)	-19.6%	(0.0)
GBP	21.90%	0.0	19.85%	0.0
	-21.90%	(0.0)	-19.85%	(0.0)
CHF	25.04%	0.0	23.33%	0.0
	-25.04%	(0.0)	-23.33%	(0.0)

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Market risk (continued)

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 Directorate. 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 as at 31 December 2016 and 31 December 2015.

	2016	2015
VaR	6.3	18.7

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, % 2016	Change in equity price, % 2016	Effect on profit before tax, 2016	Effect on equity, 2016
MICEX index	19%	19%	0.0	0.4
	-19%	-19%	(0.0)	(0.4)
Russian Depositary Index USD	31%	–	0.0	0.0
	-31%	–	(0.0)	(0.0)

Market index	Change in index, % 2015	Change in equity price, % 2015	Effect on profit before tax, 2015	Effect on equity, 2015
MICEX index	20%	18%	5.0	4.0
	-20%	-18%	(5.0)	(4.0)
Russian Depositary Index USD	30%	21%	0.0	1.1
	-30%	-21%	(0.0)	(1.1)

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.

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 circumstances.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Prepayment risk (continued)

To limit 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 Bank'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 Bank's resources.

Established and operating within the Risk Directorate is a division responsible for organization, coordination and methodological support of the operational risk management process, as well as its continual improvement.

In 2016, Vnesheconombank approved a new framework for operational risk management based on a systematic proactive approach to operational risk management and securing integrated risk management through the following procedures:

- Determination of the acceptable level of operational risk;
- Collection of data on internal operational risk events;
- Collection of data on external operational risk events;
- Expert assessment of risks;
- Monitoring operational risk levels using key risk indicators;
- Monitoring indicators of operational risk appetite.

The Bank has assigned employees at each business unit who are responsible for organizing and coordinating operational risk management procedures, which includes collecting and providing data on operational risk events, as well as interacting with the operational risk management subdivision in the course of performing those procedures. Regular training activities on operational risk management are held for employees and executives of Vnesheconombank at all levels.

(in billions of Russian rubles, unless otherwise stated)

36. Risk management (continued)

Prepayment risk (continued)

In the fourth quarter of 2016, Vnesheconombank approved the Standard on Operational Risk Management within the Group and launched a project for the implementation of the automated operational risk management system (AORMS).

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 data of the Bank's statement of profit or loss.

Strategic risk

Strategic risk is the risk of financial losses as a result of erroneous/deficient decision making when determining the business and growth strategies of the Group (strategic management). Such errors/deficiencies are revealed in failure to reflect and/or insufficient reflection of potential threats to the business of the Group that arise from inappropriate or insufficiently grounded choice of business activities in which the Group may differentiate, lack of or insufficient financial, technology or human resources and organizational measures/management decisions that must facilitate accomplishment of the Group's strategic objectives.

Strategic risks within the Group are managed at two levels: the level of the Group and the level of Group members. The Group's strategic risk is managed by the authorized bodies of Vnesheconombank, with the related decisions made by the authorized bodies of the Group members. Vnesheconombank's authorized bodies make decisions pursuant to the provisions established in the Law, *On the Bank for Development*, and in other regulatory acts.
The authorized bodies of the Group members act upon the recommendations of Vnesheconombank's authorized bodies when making their own decisions as prescribed in the constituent documents of the respective Group members. Strategic risks of the Group members are managed on the basis of decisions made by the authorized bodies of the respective Group member, with account of the recommendations of Vnesheconombank's authorized bodies.

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 billions of Russian rubles, unless otherwise stated)

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 2016:

	Fair value measurement using			
31 December 2016	**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	**0.5**	**–**	**–**	**0.5**
- Equity securities	0.2	–	–	**0.2**
- Eurobonds issued by the Russian Federation	0.2	–	–	**0.2**
- Eurobonds of Russian and foreign issuers	0.1	–	–	**0.1**
Derivative financial instruments	**–**	**3.2**	**1.5**	**4.7**
- Foreign exchange contracts: foreign	–	0.2	–	**0.2**
- Forward contracts: equity financial instruments	–	0.5	1.5	**2.0**
- Option contracts with foreign currency	–	2.5	–	**2.5**
Financial assets designated as at fair value through profit or loss	**–**	**–**	**14.0**	**14.0**
Trading financial assets pledged under repurchase agreements	**–**	**–**	**–**	**–**
Investment financial assets available for sale	**144.7**	**116.7**	**208.9**	**470.3**
- Units	–	–	171.8	**171.8**
- Shares and participation interests	58.5	2.0	1.6	**62.1**
- Corporate bonds	12.7	78.0	–	**90.7**
- Federal Loan Bonds (OFZ)	32.5	7.4	–	**39.9**
- Municipal and sub-federal bonds	1.9		–	**1.9**
- Debt instruments issued by foreign government bodies	0.5	25.5	–	**26.0**
- Eurobonds of Russian and foreign issuers	35.0	0.5	–	**35.5**
- Eurobonds issued by the Russian Federation	3.6	3.3	–	**6.9**
- Other financial assets available for sale	–	–	35.5	**35.5**
Investment financial assets available for sale pledged under repurchase agreements	**2.2**	**–**	**–**	**2.2**
- Corporate bonds	2.1	–	–	**2.1**
- Federal Loan Bonds (OFZ)	–	–	–	**–**
- Eurobonds of Russian and foreign issuers	–	–	–	**–**
- Eurobonds issued by the Russian Federation	0.1	–	–	**0.1**
Investment property (classified as other assets)	**–**	**–**	**30.0**	**30.0**
Assets for which fair values are disclosed				
Cash and cash equivalents	**–**	**350.1**	**–**	**350.1**
Amounts due from banks and treasury, including pledged under repurchase agreements	**–**	**–**	**94.9**	**94.9**
Loans to customers, including pledged under repurchase agreements	**6.3**	**8.8**	**1,916.1**	**1,931.2**
Net investments in leases	**–**	**–**	**265.9**	**265.9**
Investment financial assets held to maturity	**12.5**	**5.1**	**1.1**	**18.7**
Investment financial assets held to maturity pledged under repurchase agreements	**–**	**1.1**	**–**	**1.1**
Subordinated loans to banks	**–**	**–**	**64.6**	**64.6**
	166.2	**485.0**	**2,597.0**	**3,248.2**

(in billions of Russian rubles, unless otherwise stated)

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 2016:

31 December 2016	**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	**–**	**0.5**	**–**	**0.5**
- Interest rate swaps: foreign	–	0.2	–	**0.2**
- Cross-currency interest rate swaps	–	0.3	–	**0.3**
Liabilities for which fair values are disclosed				
Amounts due to banks	**–**	**–**	**644.3**	**644.3**
Amounts due to the Russian Government and the Bank of Russia	**–**	**–**	**558.4**	**558.4**
Amounts due to customers	**–**	**–**	**534.0**	**534.0**
Debt securities issued	**419.2**	**541.6**	**90.5**	**1,051.3**
Finance lease liabilities	**–**	**–**	**63.7**	**63.7**
Subordinated deposits	**–**	**–**	**111.7**	**111.7**
	419.2	**542.1**	**2,002.6**	**2,963.9**

(in billions of Russian rubles, unless otherwise stated)

37. Fair value measurement (continued)

The following table shows an analysis of financial instruments recorded at fair value measurement at the end of reporting period by level of the fair value hierarchy as of 31 December 2015:

31 December 2015	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2) (Restated)	Significant unobservable inputs (Level 3) (Restated)	Total (Restated)
Assets measured at fair value				
Trading financial assets	**8.3**	**0.5**	**–**	**8.8**
- Equity securities	6.8	–	–	**6.8**
- Federal Loan Bonds (OFZ)	0.6	–	–	**0.6**
- Eurobonds issued by the Russian Federation	0.4	–	–	**0.4**
- Eurobonds of Russian and foreign issuers	0.5	–	–	**0.5**
- Other debt financial assets	–	0.5	–	**0.5**
Derivative financial instruments	**–**	**2.7**	**–**	**2.7**
- Foreign exchange contracts: foreign	–	0.1	–	**0.1**
- Forward contracts: equity financial instruments	–	0.3	–	**0.3**
- Option contracts with foreign currency	–	2.3	–	**2.3**
Financial assets designated as at fair value through profit or loss	**–**	**–**	**41.1**	**41.1**
Trading financial assets pledged under repurchase agreements	**4.4**	**–**	**–**	**4.4**
- Federal Loan Bonds (OFZ)	4.0	–	–	**4.0**
- Corporate bonds	0.4	–	–	**0.4**
Investment financial assets available for sale	**281.0**	**68.0**	**41.8**	**390.8**
- Units	–	–	3.0	**3.0**
- Shares and participation interests	190.7	2.0	6.9	**199.6**
- Corporate bonds	33.4	19.2	–	**52.6**
- Federal Loan Bonds (OFZ)	14.2	20.8	–	**35.0**
- Municipal and sub-federal bonds	4.6	0.2	–	**4.8**
- Debt instruments issued by foreign government bodies	2.6	19.9	–	**22.5**
- Eurobonds of Russian and foreign issuers	31.1	1.5	–	**32.6**
- Eurobonds issued by the Russian Federation	4.4	4.4	–	**8.8**
- Other financial assets available for sale	–	–	31.9	**31.9**
Investment financial assets available for sale pledged under repurchase agreements	**10.9**	**52.0**	**–**	**62.9**
- Corporate bonds	5.2	50.2	–	**55.4**
- Federal Loan Bonds (OFZ)	4.5	–	–	**4.5**
- Eurobonds of Russian and foreign issuers	0.1	1.8	–	**1.9**
- Eurobonds issued by the Russian Federation	1.1	–	–	**1.1**
Investment property (classified as other assets)	**–**	**–**	**8.4**	**8.4**
Assets for which fair values are disclosed				
Cash and cash equivalents	**–**	**322.1**	**–**	**322.1**
Amounts due from banks and treasury, including pledged under repurchase agreements	**–**	**–**	**68.6**	**68.6**
Loans to customers, including pledged under repurchase agreements	**0.7**	**34.5**	**2,507.3**	**2,542.5**
Net investments in leases	**–**	**–**	**301.8**	**301.8**
Investment financial assets held to maturity	**18.0**	**9.3**	**0.3**	**27.6**
Investment financial assets held to maturity pledged under repurchase agreements	**4.6**	**5.0**	**–**	**9.6**
Subordinated loans to banks	**–**	**–**	**54.4**	**54.4**
	327.9	**494.1**	**3,024.1**	**3,846.1**

(in billions of Russian rubles, unless otherwise stated)

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			
31 December 2015	**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	**–**	**2.8**	**–**	**2.8**
- Interest rate swaps: foreign	–	0.5	–	**0.5**
- Cross-currency interest rate swaps	–	2.3	–	**2.3**
Liabilities for which fair values are disclosed				
Amounts due to banks	**–**	**–**	**1,012.8**	**1,012.8**
Amounts due to the Russian Government and the Bank of Russia	**–**	**–**	**700.1**	**700.1**
Amounts due to customers	**–**	**–**	**646.3**	**646.3**
Debt securities issued	**440.4**	**606.9**	**102.3**	**1,149.6**
Finance lease liabilities	**–**	**–**	**85.5**	**85.5**
Subordinated deposits	**–**	**–**	**102.1**	**102.1**
	440.4	**609.7**	**2,649.1**	**3,699.2**

(in billions of Russian rubles, unless otherwise stated)

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.

	31 December 2016			31 December 2015		
	Carrying amount	Fair value	Unrecognized gain/(loss)	Carrying amount (Restated)	Fair value (Restated)	Unrecognized gain/(loss) (Restated)
Financial assets						
Cash and cash equivalents	350.1	350.1	–	322.1	322.1	–
Amounts due from banks and treasury	92.3	94.9	2.6	68.3	68.4	0.1
Loans to customers	1,904.5	1,929.8	25.3	2,580.3	2,541.6	(38.7)
Net investments in leases	283.6	265.9	(17.7)	343.1	301.8	(41.3)
Investment financial assets held to maturity	18.0	18.7	0.7	27.5	27.6	0.1
Subordinated loans	57.4	64.6	7.2	50.4	54.4	4.0
Financial assets lent and pledged under repurchase agreements						
- Investment financial assets held to maturity	1.1	1.1	–	9.5	9.6	0.1
- Loans to customers	1.4	1.4	–	0.9	0.9	–
- Amounts due from banks	–	–	–	0.3	0.3	–
Financial liabilities						
Amounts due to banks	644.5	644.3	0.2	1,019.4	1,012.8	6.6
Amounts due to the Russian Government and the Bank of Russia	553.8	558.4	(4.6)	706.4	700.1	6.3
Amounts due to customers	532.1	534.0	(1.9)	642.3	646.3	(4.0)
Debt securities issued	1,024.6	1,051.3	(26.7)	1,179.9	1,149.6	30.3
Finance lease liabilities	75.9	63.7	12.2	105.9	85.5	20.4
Subordinated deposits	92.5	111.7	(19.2)	102.1	102.1	–
Total unrecognized change in fair value			**(21.9)**			**(16.1)**

Valuation methodologies and assumptions

The following describes the methodologies and assumptions used to determine fair values of assets and liabilities recorded at fair value in these financial statements and those that are not recorded at fair value in the statement of financial position but disclosed.

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.

(in billions of Russian rubles, unless otherwise stated)

37. Fair value measurement (continued)

Valuation methodologies and assumptions (continued)

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 current value. 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 that are determined from the current yield on government bonds with similar maturity, and credit spreads.

Assets and liabilities recorded at fair value

Derivative instruments

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 billions of Russian rubles, unless otherwise stated)

37. Fair value measurement (continued)

Assets and liabilities recorded 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 that are recorded at fair value:

	At 1 January 2016	Gains/(losses) recorded in the statement of profit or loss	Gains/(losses) recorded in other comprehen-sive income	Disposed/ Settled	Additions	Transfers from Level 1	Reclassifica-tion	31 December 2016
Assets								
Derivative financial assets	–	–	–	–	1.5	–	–	1.5
Financial assets designated as at fair value through profit or loss	41.1	–	–	–	6.1	–	(33.2)	14.0
Investment financial assets available for sale	41.8	0.4	4.3	(3.2)	0.2	0.6	164.8	208.9
Investment property (within other assets)	8.4	–	–	(0.1)	22.9	–	(1.2)	30.0
Total Level 3 assets	**91.3**	**0.4**	**4.3**	**(3.3)**	**30.7**	**0.6**	**130.4**	**254.4**

Gains on investment financial assets available for sale in the amount of RUB 3.2 billion are recognized in the consolidated statement of profit or loss in "Interest income". Losses on investment financial assets available for sale in the amount of RUB 2.8 billion constitute impairment and are recognized in the consolidated statement of profit or loss in "Net gains/(loss) on investment financial assets available for sale".

Unrealized gains from revaluation of investment assets available for sale in the amount of RUB 4.3 billion are recorded in the consolidated statement of comprehensive income in "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".

Reclassification include units in Mutual Fund RDIF for the amount of RUB 168.9 billion reclassified to investment financial assets available for sale, as well as decrease in financial assets designated as at fair value through profit or loss and investment financial assets available for sale for the amount of RUB 33.2 billion and RUB 3.7 billion respectively due to deconsolidation of the fund (Note 4).

In 2016, there were no transfers of financial assets from Level 3 to Level 1 and Level 2. 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.
The following table shows a reconciliation of the 2015 opening and closing amounts of Level 3 assets which were recorded at fair value:

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

(in billions of Russian rubles, unless otherwise stated)

37. Fair value measurement (continued)

Assets and liabilities recorded at fair value (continued)

	At 1 January 2015	Gains/(losses) recorded in the statement of profit or loss	Gains/(losses) recorded in other comprehensive income	Disposals	Additions	Transfers into Level 2	Other changes	31 December 2015
Assets								
Financial assets designated as at fair value through profit or loss	18.3	(0.7)	–	–	23.6	–	(0.1)	41.1
Investment financial assets available for sale	47.7	(1.0)	(0.5)	(3.4)	0.1	(1.1)	–	41.8
Investment property (within other assets)	8.3	–	–	(0.1)	0.6	–	(0.4)	8.4
Total Level 3 assets	**74.3**	**(1.7)**	**(0.5)**	**(3.5)**	**24.3**	**(1.1)**	**(0.5)**	**91.3**

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	
	2016	**2015**
Financial assets		
Investment financial assets available for sale	18.1	14.1

	Transfers from Level 1 to Level 2	
	2015	**2015**
Financial assets		
Investment financial assets available for sale	16.3	2.2

In 2016 and 2015, the above financial assets were transferred from Level 2 to Level 1 as they became actively traded during the reporting year.

In 2016 and 2015, 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 year were as follows:

	2016			2015		
	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	3.2	(2.8)	0.4	3.0	(4.7)	(1.7)

(in billions of Russian rubles, unless otherwise stated)

37. Fair value measurement (continued)

Assets and liabilities recorded at fair value (continued)

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

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

31 December 2016	Carrying value	Valuation technique	Unobservable inputs	Range (weighted average)	Adjustment
Financial assets at fair value through profit or loss					
Derivative financial asset 1	1.5	Discounted cash flows	Discount rate	14.19%	1%
Group 1 of financial assets	2.9	Other valuation techniques	Not applicable	Not applicable	–
Group 2 of financial assets	9.7	Discounted cash flows	Weighted average cost of capital	15.08%	1%
			Terminal period growth	4.25%	
Group 7 of financial assets	1.4	Discounted cash flows	Weighted average cost of capital	15.40%	0.5%, 3%
Investment financial assets available for sale					
Group 3 of equity securities	1.9	Other valuation techniques	Not applicable	Not applicable	
Group 4 of equity securities	170.0	Discounted cash flows	Weighted average cost of capital	11.4%-17.9%	0.5%
			Terminal period growth	0.1%-4%	
Group 5 of other financial assets available for sale	35.5	Multiplier	Fair value/Net assets	0.57	0.5%
Group 6 of equity securities	1.4	Weighted average multiplier	EV/PAX (PAX-passenger traffic)	0.01	2%
			EV/EBITDA	11.30	
			EV/Sales	3.73	
Investment property (within Other assets)					
Group 1 of Investment property	1.6	Comparative method	Discount	10%-20%	
			Cost of 1 sqm	RUB 9.2 thousand	4.6%-4.9%
Group 2 of Investment property	1.4	Discounted cash flows	Cost of 1 sqm	RUB 304 thousand – RUB 412 thousand	5%
Group 3 of Investment property	2.1	Discounted cash flows	Discount rate	18.0%	1%
Group 4 of Investment property	2.5	Comparative method	Discount	9.0%-16.3%	
			Cost of 1 sqm	RUB 9.176 thousand – RUB 13.10 thousand	5%
Group 5 of Investment property	15.5	Discounted cash flows	Discount rate	16.14%-17.7%	1%
Group 6 of investment Property	6.8	Other valuation techniques	Not applicable		–
Group 7 of investment Property	0.1	Other valuation techniques	Not applicable		–

(in billions of Russian rubles, unless otherwise stated)

37. Fair value measurement (continued)

Assets and liabilities recorded at fair value (continued)

31 December 2015	Carrying amount	Valuation technique	Unobservable inputs	Range (weighted average)	Adjustment
Financial assets designated as at fair value through profit or loss					
Group 1 of financial assets	27.8	Other valuation techniques	Not applicable	Not applicable	–
Group 2 of financial assets	13.3	Discounted cash flows	Weighted average cost of capital	12.8%-16.5%	0.5%
			Terminal period growth	1.0%-3.0%	
Investment financial assets available for sale					
Group 3 of equity securities	4.3	Other valuation techniques	Not applicable	Not applicable	–
Group 5 of other financial assets available for sale	31.9	Multiplier	Fair value/Net assets	0.56	2%
Group 6 of equity securities	2.7	Weighted average multiplier	EV/PAX (PAX-passenger traffic)	0.01	2%
			EV/EBITDA	11.3	
			EV/Sales	3.7	
Group 8 of equity securities	2.9	Discounted cash flows	Weighted average cost of capital	11.7%-14.3%	0.5%
			Terminal period growth	2.0%-4.0%	
Investment property (within Other assets)					
Group 1 of Investment property	2.3	Other valuation techniques	Not applicable	Not applicable	–
Group 2 of Investment property	1.3	Discounted cash flows	Cost of 1 sqm	RUB 342 thousand – RUB 418 thousand	5%
Group 3 of Investment property	1.8	Discounted cash flows	Discount rate	18.0%	1%
Group 4 of Investment property	2.8	Comparative method	Discount	8.0%-12.8%	5%
			Cost of 1 sqm	RUB 8.0 thousand – RUB 22.2 thousand	
Group 7 of Investment property	0.2	Other valuation techniques	Not applicable	Not applicable	–

To determine the impact of reasonably possible alternative assumptions, mentioned above, the Group adjusted key unobservable inputs. The following table shows the impact of reasonably possible alternative assumptions on the fair value of Level 3 instruments:

	31 December 2016	
	Carrying amount	Effect of reasonably possible alternative assumptions
Assets		
Derivative financial assets	1.5	(0.2)
Financial assets designated as at fair value through profit or loss	14.0	(0.1)
Investment financial assets available for sale	206.9	(1.5)
Investment property (classified as other assets)	23.1	(1.5)

	31 December 2015	
	Carrying amount	Effect of reasonably possible alternative assumptions
Assets		
Financial assets designated as at fair value through profit or loss	13.3	(0.1)
Investment financial assets available for sale	37.5	(0.8)
Investment property (classified as other assets)	5.9	(0.6)

(in billions of Russian rubles, unless otherwise stated)

37. Fair value measurement (continued)

Assets and liabilities recorded at fair value (continued)

To determine the impact of possible alternative assumptions relating to the financial assets designated as at fair value through profit of loss, investment financial assets available for sale and derivative financial asset, the Group took a prudent approach and adjusted key unobservable inputs at the lower interval boundary of possible assumptions. If the upper interval boundary of possible assumptions were applied, their positive impacts as at 31 December 2016 would have amounted to RUB 0.1 billion, RUB 1.0 billion and RUB 0.1 billion, respectively (31 December 2015: RUB 0.1 billion and RUB 0.8 billion). As at 31 December 2015, the Group had no derivative financial assets.

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:

		Trading financial assets		Financial assets available for sale			Investment financial assets held to maturity				
31 December 2016	Transferred financial asset	Government debt securities	Other debt securities	Government debt securities	Other debt securities	Equity securities	Government debt securities	Other debt securities	Loans to customers	Amounts due from banks	Total
Carrying value of assets	Repurchase agreements	–	–	0.1	2.1	–	–	1.1	1.4	–	**4.7**
Total		**–**	**–**	**0.1**	**2.1**	**–**	**–**	**1.1**	**1.4**	**–**	**4.7**
Carrying value of associated liabilities	Repurchase agreements with customers	–	–	–	–	–	–	–	–	–	**–**
	Repurchase agreements with credit institutions	–	–	0.1	1.9	–	–	1.0	1.3	–	**4.3**
Total		**–**	**–**	**0.1**	**1.9**	**–**	**–**	**1.0**	**1.3**	**–**	**4.3**

		Trading financial assets		Financial assets available for sale			Investment financial assets held to maturity				
31 December 2015	Transferred financial asset	Government debt securities	Other debt securities	Government debt securities	Other debt securities	Equity securities	Government debt securities	Other debt securities	Loans to customers	Amounts due from banks	Total
Carrying value of assets	Repurchase agreements	4.0	0.4	5.6	57.3	–	0.7	8.8	0.9	0.3	**78.0**
Total		**4.0**	**0.4**	**5.6**	**57.3**	**–**	**0.7**	**8.8**	**0.9**	**0.3**	**78.0**
Carrying value of associated liabilities	Repurchase agreements with the Bank of Russia	4.0	0.4	4.6	50.2	–	–	4.9	–	–	**64.1**
	Repurchase agreements with customers	–	–	–	0.1	–	–	–	–	–	**0.1**
	Repurchase agreements with credit institutions	–	–	1.0	3.1	–	0.7	3.0	0.6	0.2	**8.6**
Total		**4,0**	**0.4**	**5.6**	**53.4**	**–**	**0.7**	**7.9**	**0.6**	**0.2**	**72.8**

(in billions of Russian rubles, unless otherwise stated)

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

Repurchase agreements

The securities sold under repurchase agreements are transferred to a third party while the Group receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Group may, in certain circumstances, require, or be required, to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, country risk and operational risk, and therefore has not 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 In this case, the counterparty retains almost all risks and rewards of ownership. Accordingly, the Group does not recognize such securities and records a separate asset for any possible collateral provided as cash.

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

Assets 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 pledged securities in the amount of RUB 4.7 billion (31 December 2015: RUB 78.0 billion) as collateral under repurchase agreements. – "*Transferred financial assets that are not derecognized in their entirety*".

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.

	31 December 2016		31 December 2015	
	Carrying value of assets	**Carrying value of related liability**	**Carrying value of assets**	**Carrying value of related liability**
Amounts due from banks and treasury	6.2	5.3	1.6	1.1
Loans to customers	38.7	30.7	434.9	294.3
Securities	0.5	0.5	1.1	0.8
	45.4	**36.5**	**437.6**	**296.2**

As at 31 December 2016 and 31 December 2015, the amount of net investments in leases related to assets pledged as collateral under loan agreements was RUB 39.1 billion and RUB 59.1 billion, respectively.

The Group enters into reverse repurchase transactions. The table below provides information on these transactions.

	31 December 2016		31 December 2015	
	Loans issued under repurchase agreements	**Fair value of securities received as collateral**	**Loans issued under repurchase agreements**	**Fair value of securities received as collateral**
Cash and cash equivalents	46.3	52.6	21.0	24.8
Loans to customers	43.6	42.0	46.0	42.3
	89.9	**94.6**	**67.0**	**67.1**

(in billions of Russian rubles, unless otherwise stated)

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

Assets provided as collateral (continued)

In addition, the Group holds RUB 0.3 billion included in amounts due to banks (31 December 2015: RUB 0.2 billion) (Note 26), RUB 2.1 billion included in amounts due to customers (31 December 2015: RUB 3.6 billion) (Note 27) and RUB 1.0 billion of promissory notes issued by the Group (31 December 2015: RUB 0.9 billion) (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.

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:

31 December 2016	Gross amount of recognized financial instruments	Gross amount of recognized financial instruments set off in the statement of financial position	Net amount of financial assets recognized in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments	Related amounts not offset in the statement of financial position Cash collateral received	Net amount
Financial assets						
Cash and cash equivalents (reverse repurchase agreements)	46.3	–	46.3	(46.3)	–	**–**
Loans to customers (reverse repurchase agreements)	36.9	–	36.9	(34.6)	–	**2.3**
Loans to customers	27.7	–	27.7	–	(24.6)	**3.1**
Total	**110.9**	**–**	**110.9**	**(80.9)**	**(24.6)**	**5.4**
Financial liabilities						
Amounts due to banks (repurchase agreements)	4.3	–	4.3	(4.3)	–	**–**
Amounts due to customers	25.8	–	25.8	–	(24.6)	**1.2**
Total	**29.6**	**–**	**29.6**	**(4.3)**	**(24.6)**	**1.2**

(in billions of Russian rubles, unless otherwise stated)

39. Offsetting of financial instruments (continued)

31 December 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 assets recognized 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)	21.0	–	21.0	(21.0)	–
Loans to customers (reverse repurchase agreements)	46.0	–	46.0	(46.0)	–
Other assets (spot transactions)	0.1	–	0.1	–	**0.1**
Total	**67.1**	**–**	**67.1**	**(67.0)**	**0.1**
Financial liabilities					
Amounts due to the Russian Government and the Bank of Russia (repurchase agreements)	64.1	–	64.1	(64.1)	–
Amounts due to banks (repurchase agreements)	8.6	–	8.6	(8.6)	–
Amounts due to customers (repurchase agreements)	0.1	–	0.1	(0.1)	–
Other liabilities (spot transactions)	0.1	–	0.1	–	**0.1**
Total	**72.9**	**–**	**72.9**	**(72.8)**	**0.1**

There are no offset financial instruments in the statement of financial position as at 31 December 2016 and 31 December 2015.

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.

(in billions of Russian rubles, unless otherwise stated)

40. Related party transactions (continued)

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:

	31 December 2016			31 December 2015		
	Associates	Jointly controlled entities	Key management personnel	Associates	Jointly controlled entities	Key management personnel
Financial assets designated as at fair value through profit or loss	**2.2**	**–**	**–**	**17.0**	**13.4**	**–**
Due from other banks and treasury at 1 January	**–**	**–**	**–**	**–**	**–**	**–**
Additions related to changes in the Group	22.7	–	–	–	–	–
Amounts placed during the year	–	–	–	–	–	–
Amounts repaid during the year	(1.7)	–	–	–	–	–
Other changes	1.4	–	–	–	–	–
Due from other banks and treasury at 1 January	**22.4**	**–**	**–**	**–**	**–**	**–**
Loans to customers at 1 January	**236.0**	**14.2**	**0.1**	**198.2**	**10.8**	**0.1**
Loans granted during the year	3.7	0.4	0.1	2.0	1.4	–
Loans repaid during the year	(0.9)	(1.2)	(0.1)	(0.6)	–	–
Changes related to changes in the Group	(198.6)	14.4	–	–	–	–
Other changes after revaluation	(12.4)	(1.8)	–	36.4	2.0	–
Loans to customers at 31 December	**27.8**	**26.0**	**0.1**	**236.0**	**14.2**	**0.1**
Less allowance for impairment	(12.3)	(14.3)	–	(119.8)	(7.3)	–
Loans to customers at 31 December, net	**15.5**	**11.7**	**0.1**	**116.2**	**6.9**	**0.1**

	2016			2015		
	Associates	Jointly controlled entities	Key management personnel	Associates	Jointly controlled entities	Key management personnel
Current accounts	**–**	**–**	**–**	**0.6**	**–**	**0.1**
Customer deposits at 1 January	**9.7**	–	**4.5**	**16.8**	–	**4.0**
Deposits received during the year	7.1	–	2.9	13.6	–	10.3
Repayments related to changes in the Group	–	–	(0.3)	–	–	–
Deposits repaid during the year	(16.6)	–	(4.2)	(20.1)	–	(9.7)
Other changes	(0.2)	–	(2.6)	(0.6)	–	(0.1)
Customer deposits at 31 December	**–**	**–**	**0.3**	**9.7**	**–**	**4.5**
Guarantees issued and undrawn loan commitments	**15.5**	**–**	**–**	**–**	**–**	**–**

(in billions of Russian rubles, unless otherwise stated)

40. Related party transactions (continued)

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

	For the year ended 31 December					
	2016			2015		
	Associates	Jointly controlled entities	Key management personnel	Associates	Jointly controlled entities	Key management personnel
Interest income on amounts due from banks and treasury	2.4	–	–	–	–	–
Interest income on subordinated loans to banks	0.7	–	–	–	–	–
Interest income on loans	4.2	1.7	–	7.8	1.1	–
Interest expense on amounts due to customers	(0.9)	–	(0.1)	(1.3)	–	(0.4)
Provision for impairment of interest-earning assets	(78.4)	(0.5)	–	(11.1)	(5.0)	–

Compensation to key management personnel comprises the following:

	2016	2015
Salaries and other short-term benefits	2.3	2.1
Mandatory contributions to the pension fund	0.2	0.2
Social security contributions	0.1	0.1
Total compensation to key management personnel	**2.6**	**2.4**

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

The information about transactions with the Russian Government, its authorized institutions and the Bank of Russia is provided in Note 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).

At 31 December 2016, transactions with state-related entities include cash non-interest-bearing deposits (obligatory reserves) maintained by the Group banks with the Bank of Russia in the amount of RUB 2.9 billion (31 December 2015: RUB 3.2 billion) (Note 14).

At 31 December 2016, transactions with state-related entities include cash non-interest-bearing deposits at correspondent account with the Bank of Russia in the amount of RUB 37,8 billion (31 December 2015: RUB 40.6 billion) (Note 14).

The Bank recognized within the equity financial result from distribution of capital to the Russian Government due to disposal of subsidiaries SME Bank JSC and RDIF Management Company LLC, as well as deconsolidation of units in Mutual Fund RDIF owned by the Bank (Note 30).

Included in line "Retained earnings" was a loss of RUB 4.1 billion related to the Vnesheconombank's free-of-charge transfer to the state treasury of the Russian Federation of assets received as a loan compensation (Note 30).

(in billions of Russian rubles, unless otherwise stated)

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 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, except for those disclosed in Note 14. Transactions with state-related banks account for the major portion of all of the Group's operations on granting loans to banks and the minor portion of financing raised from banks and guarantees issued.

Balances of significant transactions with state-related banks at 31 December 2016 and 31 December 2015 are stated in the table below:

		Amounts due from banks and treasury	
Bank	**Type of transaction**	**31 December 2016**	**31 December 2015**
Bank 1	Interest-bearing loans and deposits with banks maturing within 90 days	90.9	23.5
Bank 2	Interest-bearing loans and deposits with banks maturing within 90 days	9.0	–
Bank 3	Term interest-bearing deposits with banks	5.3	6.4
Bank 4	Interest-bearing loans and deposits with banks maturing within 90 days	–	7.0
Bank 5	Interest-bearing loans and deposits with banks maturing within 90 days	–	6.8
		105.2	**43.7**

		Amounts due to banks	
Bank	**Type of transaction**	**31 December 2016**	**31 December 2015**
Bank 1	Loans and other placements from Russian banks	134.3	152.8
Bank 5	Loans and other placements from Russian banks	58.9	5.4
Bank 6	Loans and other placements from Russian banks	43.2	60.3
Bank 7	Loans and other placements from Russian banks	6.6	1.5
Bank 8	Loans and other placements from Russian banks	5.0	0.7
		248.0	**220.7**

(in billions of Russian rubles, unless otherwise stated)

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, except for those disclosed in Note 17. Transactions with state-related customers account for the major portion of all of the Group's operations with customers. Balances of the most significant transactions with state-related institutions and entities at 31 December 2016 and at 31 December 2015 are stated in the tables below:

Borrower	Industry	Loans to customers	Undrawn loan commitments	Loans to customers	Undrawn loan commitments
		31 December 2016		31 December 2015	
Customer 1	Financing	378.1	–	–	–
Customer 2	Manufacturing, including heavy machinery and production of military-related goods	102.9	–	120.0	11.6
Customer 3	Manufacturing, including heavy machinery and production of military-related goods	76.4	15.2	86.6	23.7
Customer 4	Financing	40.8	–	40.7	–
Customer 5	Manufacturing, including heavy machinery and production of military-related goods	36.7	12.2	28.2	20.9
Customer 6	Transport	32.7	–	40.4	–
Customer 7	Manufacturing, including heavy machinery and production of military-related goods	30.4	–	27.7	–
Customer 8	Electric energy	27.2	–	27.9	–
Customer 9	Transport	24.9	–	21.5	3.6
Customer 10	Manufacturing, including heavy machinery and production of military-related goods	24.3	–	30.4	–
Customer 11	Manufacturing, including heavy machinery and production of military-related goods	16.7	–	22.7	–
Customer 12	Manufacturing, including heavy machinery and production of military-related goods	12.7	–	13.6	–
Customer 13	Financing	9.1	–	9.1	–
Customer 14	Electric energy	6.7	–	8.0	–
Customer 15	Manufacturing, including heavy machinery and production of military-related goods	6.7	7.7	6.3	8.0
Customer 16	Trade	5.7	–	6.5	3.0
Customer 17	Manufacturing, including heavy machinery and production of military-related goods	5.7	–	4.2	1.7
Customer 18	Telecommunications	5.5	–	5.5	–
Customer 19	Telecommunications	5.5	7.0	5.0	4.4
Customer 20	Electric energy	5.3	6.8	5.2	6.8
Customer 21	Real estate and construction	–	–	48.8	–
Customer 22	Manufacturing, including heavy machinery and production of military-related goods	–	–	18.1	–
Customer 23	Science and education	–	–	13.2	–
Customer 24	Transport	–	–	9.5	–
Customer 25	Transport	–	–	9.4	–
Customer 26	Other	4.8	–	8.0	–
Customer 27	Financing	2.6	–	5.9	1.1
Customer 28	Manufacturing, including heavy machinery and production of military-related goods	–	–	5.1	–
		861.4	**48.9**	**627.5**	**84.8**

(in billions of Russian rubles, unless otherwise stated)

40. Related party transactions (continued)

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

Customer	Industry	Net investments in leases 31 December 2016	Net investments in leases 31 December 2015
Customer 25	Transport	76.5	101.4
Customer 29	Transport	35.4	32.7
Customer 30	Transport	5.3	6.8
Customer 31	Transport	5.3	6.7
		122.5	**147.6**

Customer	Industry	Amounts due to customers 31 December 2016	Amounts due to customers 31 December 2015
Customer 32	Financing	65.9	–
Customer 33	Manufacturing, including heavy machinery and production of military-related goods	13.5	76.4
Customer 18	Telecommunications	11.1	38.7
Customer 5	Manufacturing, including heavy machinery and production of military-related goods	10.2	–
Customer 7	Manufacturing, including heavy machinery and production of military-related goods	5.8	1.1
Customer 25	Transport	1.5	7.0
Customer 34	Financing	1.2	7.5
Customer 35	Transport	–	9.5
Customer 36	Infrastructure development	–	5.9
Customer 37	Financing	–	5.5
Customer 38	Telecommunications	–	5.0
Customer 39	Oil and gas	–	5.0
		109.2	**161.6**

Customer	Industry	Guarantees issued 31 December 2016	Guarantees issued 31 December 2015
Customer 33	Manufacturing, including heavy machinery and production of military-related goods	159.4	198.6
Customer 40	Electric energy	8.3	4.4
		167.7	**203.0**

As at 31 December 2016 and 31 December 2015, the Group's investments in debt securities issued by the Russian Government comprised:

	31 December 2016	31 December 2015
Financial assets at fair value through profit or loss	0.2	1.0
Financial assets at fair value through profit or loss pledged under repurchase agreements	–	4.0
Investment financial assets:		
- available for sale	48.7	48.6
- held to maturity	1.4	0.7
Investment financial assets lent and pledged under repurchase agreements		
- available for sale	0.1	5.6
- held to maturity	–	0.8

(in billions of Russian rubles, unless otherwise stated)

40. Related party transactions (continued)

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

As at 31 December 2016 and 31 December 2015, 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 2016 and 31 December 2015, the Group's investments into securities issued by state-related issuers, as well as derivative transactions with such counterparties comprised:

	31 December 2016		31 December 2015 (Restated)	
	Equity securities	Debt securities	Equity securities	Debt securities
Financial assets at fair value through profit or loss	10.8	–	18.2	0.3
Financial assets pledged as collateral under repurchase agreements				
- at fair value through profit or loss	–	–	–	0.4
- available for sale	–	2.7	–	57.7
- held to maturity	–	–	–	1.4
- loans to customers	–	1.4	–	–
Investment financial assets available for sale	218.3	103.1	153.9	49.6
Investment financial assets held to maturity	–	10.7	–	11.3

As at 31 December 2016, investment financial assets available for sale also include a financial asset with a fair value of RUB 35.5 billion (31 December 2015: RUB 31.9 billion) issued by a state-related bank.

During the reporting period ended 31 December 2016, in the line "Net gains/(loss) on investment financial assets available for sale" of the consolidated statement of profit or loss, the Bank recognized gain from disposal of equity securities to a state-related entity in amount of RUB 19.5 billion. The realized part of the revaluation previously recorded in equity and reclassified to the statement of profit or loss comprised RUB 9.6 billion.

During the reporting period ended 31 December 2016, in line “Insurance premiums” of the consolidated statement of profit or loss, the Bank recognized premium of RUB 24.4 billion received under insurance contracts with two Russian state-related banks (Note 35).

During the reporting period ended 31 December 2016, in line “Other operating income” of the consolidated statement of profit or loss, the Bank recognized gains of RUB 182.9 billion from disposal of loans of a state-related entity against the Russian Government guarantee (Note 31).

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

	2016	2015
Interest expense		
Amounts due to the Bank of Russia	(34.6)	(45.8)
Amounts due to the Russian Government	(30.2)	(38.5)
Government grants	211.9	330.3

(in billions of Russian rubles, unless otherwise stated)

40. Related party transactions (continued)

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

Government grants recorded in the consolidated statement of profit or loss for 2016 include a gain from government grants in the amount of RUB 210.9 billion related to the funds recorded within operations with the Russian Government, its authorized institutions and the Bank of Russia in the consolidated statement of financial position (2015: RUB 325.4 billion) (Note 9).

Gain of RUB 1.0 billion on initial recognition of loans granted by the Bank of Russia for the purposes of further issue to banks through JSC SME Bank under the program of extending loans to small and medium enterprises was also recorded in the line "Government grants" of the consolidated statement of profit or loss for 2016 (Note 16).

During the reporting year ended 31 December 2016, the Bank recognized a loss of RUB 4.1 billion within "Uncovered loss" in equity related to the Vnesheconombank's free-of-charge transfer of assets received as a loan compensation to the state treasury of the Russian Federation (Note 30).

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.

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

In 2016 and 2015, 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:

	2016	**2015**
Core capital	762.4	598.5
Additional capital	361.9	434.8
Less deductions from capital	(597.5)	(573.3)
Total equity	**526.8**	**460.0**
Risk-weighted assets	**4,527.8**	**3,925.4**
Capital adequacy ratio	11.6%	11.7%

In order to maintain or adjust the capital structure and in accordance with Federal Law No. 82-FZ, the charter capital of the Bank may be increased pursuant to a resolution of the Russian Government on the account of additional 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 billions of Russian rubles, unless otherwise stated)

42. Subsequent events

In February 2017, the Group's leasing company made secondary placement of Series 001P-01 bonds with a nominal value of RUB 2.8 billion, maturing in July 2025. This issue provides for an offer in July 2018.

In January 2017, the Bank issued Series PBO-001R-05 exchange-traded bonds with a nominal value of RUB 10.0 billion, maturing in December 2021. This issue is not subject to an offer.

In February 2017, the Bank fulfilled its obligations to redeem its own Eurobonds with a nominal value of USD 750 million (equivalent to RUB 44.1 billion at the date of purchase).

In March 2017, the Bank issued Series PBO-001R-06 exchange-traded bonds with a nominal value of RUB 15.0 billion, maturing in July 2018. This issue is not subject to an offer.

In March 2017, the Bank purchased 2,070,000 ordinary registered shares additionally issued by JSC "North Caucasus Development Corporation" for the total amount of RUB 2.1 billion at the expense of the federal budget subsidy received by Vnesheconombank in December 2016 in the form of an asset contribution from the Russian Federation for Vnesheconombank to increase the share capital of JSC "North Caucasus Development Corporation" for the purposes of creating a medical cluster on the Caucasian Mineral Waters territory and implementing investment projects (Note 30). The Bank's interest in the share capital of JSC "North Caucasus Development Corporation" remained unchanged at 100%.

In March 2017, Vnesheconombank received a subsidy from the federal budget in the form of an asset contribution of the Russian Federation of RUB 76.7 billion as compensation for costs related to the fulfillment of obligations arising from foreign borrowings in the capital markets. The federal budget for 2017 and for 2018 and 2019 planned periods provide for subsidies to be granted to Vnesheconombank in 2017 for the total amount of RUB 150.0 billion to compensate for part of costs related to the fulfillment of obligations arising from foreign borrowings in the capital markets and losses arising from free of charge transfer of assets to the state treasury of the Russian Federation.

In April 2017, pursuant to the decision of the Vnesheconombank's Supervisory Board concerning optimization of the foreign network of Vnesheconombank's representative offices, the Bank's representative offices in Johannesburg (RSA) and New Delhi (India) ceased their operations.

In April 2017, the Bank made a secondary placement of previously purchased BO-03 Series exchange-traded bonds with a total nominal value of RUB 0.5 billion, maturing in July 2018, and BO-05 Series exchange-traded bonds with a total nominal value of RUB 1.7 billion, maturing in August 2020.

In January-April 2017, the Group fulfilled its obligations to purchase its own bonds with a total nominal value of RUB 35.7 billion.

In January-April 2017, the Bank issued USD-denominated and EUR-denominated guarantees and counter guarantees in favor of customers totaling RUB 6.8 billion (equivalent as of the date of these consolidated financial statements). In addition, in January-April 2017, USD and RUB-denominated guarantees previously issued by the Bank for clients for the total amount of RUB 13.1 billion expired (equivalent at the reporting date).