Consolidated financial statements of

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

for the year ended 31 December 2013

with independent auditor's report

Contents

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Совершенствуя бизнес, улучшаем мир

Independent auditor's report

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

We have audited the accompanying consolidated financial statements of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2013, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year 2013 in accordance with International Financial Reporting Standards.

O.V. Youshenkov
Partner
Ernst & Young Vneshaudit

17 April 2014

Details of the audited entity

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

Details of the auditor

Name: Ernst & Young Vneshaudit
Record made in the State Register of Legal Entities on 16 September 2002, State Registration Number 1027739199333.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit is a member of Non Profit partnership “Russian Audit Chamber” (“NP APR”). Ernst & Young Vneshaudit is registered in the register of auditors and audit organizations of NP APR, number 3027, 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 of 31 December 2013
(in millions of Russian rubles)

	Notes	2013	2012
Assets			
Cash and cash equivalents	10	275,994	239,997
Precious metals		297	744
Financial assets at fair value through profit or loss	11	98,835	72,119
Financial assets at fair value through profit or loss lent and pledged under repurchase agreements	11	15,697	16,668
Amounts due from credit institutions	12	433,815	446,476
Loans to customers	14	1,847,039	1,497,239
Loans to customers pledged under repurchase agreements	14	–	148
Investment financial assets:	15		
- available-for-sale		442,334	493,813
- held-to-maturity		764	16,582
Investment financial assets pledged under repurchase agreements	15		
- available-for-sale		15,376	11,751
- held-to-maturity		33	–
Amounts due from the Russian Government	16	241	118
Investments in associates and jointly controlled entities	17	10,473	9,510
Property and equipment	18	53,902	41,813
Income tax assets	19	5,209	3,566
Other assets	21	113,949	68,556
Total assets		**3,313,958**	**2,919,100**
Liabilities			
Amounts due to credit institutions	22	686,521	569,942
Financial liabilities at fair value through profit or loss	13	946	2,494
Amounts due to the Russian Government and the Bank of Russia	8	980,980	981,868
Amounts due to customers	23	403,292	335,827
Debt securities issued	24	603,319	388,939
Income tax liabilities	19	4,795	1,702
Provisions	20	1,457	997
Other liabilities	21	55,789	105,448
Total liabilities		**2,737,099**	**2,387,217**
Equity	25		
Charter capital		388,069	382,571
Additional paid-in capital		138,170	62,600
Retained earnings		54,744	46,330
Unrealized revaluation of investment financial assets available for sale		(10,491)	41,102
Foreign currency translation reserve		958	(1,426)
Equity attributable to the Russian Government		**571,450**	**531,177**
Non-controlling interests		**5,409**	**706**
Total equity		**576,859**	**531,883**
Total equity and liabilities		**3,313,958**	**2,919,100**

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

Vladimir A. Dmitriev — Chairman of the Bank

Vladimir D. Shaprinsky — Chief Accountant

15 April 2014

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of income
For the year ended 31 December 2013
(in millions of Russian rubles)

	Notes	2013	2012
Interest income			
Loans to customers		150,615	119,759
Amounts due from credit institutions and cash equivalents		41,425	39,852
Investment securities		18,855	19,972
		210,895	**179,583**
Finance leases		26,718	20,427
Financial assets at fair value through profit or loss		2,881	2,315
Other investment financial assets available for sale		3,250	1,829
		243,744	**204,154**
Interest expense			
Amounts due to credit institutions and the Bank of Russia		(50,420)	(37,050)
Amounts due to customers and the Russian Government		(63,490)	(63,624)
Debt securities issued		(30,861)	(22,984)
		(144,771)	**(123,658)**
Net interest income		**98,973**	**80,496**
Provision for impairment of interest-earning assets	12, 14	(123,317)	(47,872)
Net interest income/expense after provision for impairment of interest-earning assets		**(24,344)**	**32,624**
Net fee and commission income	27	**7,627**	**5,902**
Gains less losses arising from financial instruments at fair value through profit or loss		1,330	(6,116)
Gains less losses from investment financial assets available for sale	28	68,402	2,248
Gains less losses from foreign currencies:			
- dealing		6,075	12,388
- translation differences		(14,012)	2,237
Gains less losses on initial recognition of financial instruments and restructuring		8,473	5,209
Share in net income/(loss) of associates and jointly controlled entities	17	(648)	607
Gain on bargain purchase	6	818	–
Dividends		7,912	10,383
Other operating income		11,510	5,400
Non-interest income		**89,860**	**32,356**
Payroll and other staff costs		(23,176)	(19,411)
Occupancy and equipment		(5,786)	(5,321)
Depreciation of property and equipment	18	(2,463)	(1,763)
Taxes other than income tax		(4,065)	(3,720)
Other impairment and provisions	20	(3,803)	(965)
Other operating expenses	29	(21,647)	(19,278)
Non-interest expense		**(60,940)**	**(50,458)**
Profit before income tax and hyperinflation effect		**12,203**	**20,424**
Loss on net monetary position resulting from hyperinflation		(921)	(398)
Profit before income tax		**11,282**	**20,026**
Income tax expense	19	(2,774)	(2,538)
Profit for the reporting year		**8,508**	**17,488**
Attributable to:			
- the Russian Government		8,571	17,509
- non-controlling interests		(63)	(21)
		8,508	**17,488**

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2013

(in millions of Russian rubles)

	Notes	2013	2012
Profit for the reporting year		**8,508**	**17,488**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Change in unrealized losses on investment financial assets available for sale	25	(51,597)	(16,715)
Translation differences		2,382	(1,647)
Income tax relating to components of other comprehensive income	19	(0)	41
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(49,215)**	**(18,321)**
Other comprehensive loss for the reporting year, net of tax		**(49,215)**	**(18,321)**
Total comprehensive loss for the reporting year		**(40,707)**	**(833)**
Attributable to:			
- the Russian Government		(40,658)	(656)
- non-controlling interests		(49)	(177)
		(40,707)	**(833)**

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2013
(in millions of Russian rubles)

	Attributable to the Russian Government							
	Charter capital	**Additional paid-in capital**	**Retained earnings/ (accumulated deficit)**	**Unrealized gains/(losses) on investment financial assets available for sale**	**Foreign currency translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
31 December 2011	**382,571**	**62,600**	**28,845**	**57,782**	**58**	**531,856**	**819**	**532,675**
Profit/(loss) for the reporting year	–	–	17,509	–	–	**17,509**	(21)	**17,488**
Other comprehensive loss	–	–	–	(16,679)	(1,486)	**(18,165)**	(156)	**(18,321)**
Total comprehensive income/(loss) for the year	**–**	**–**	**17,509**	**(16,679)**	**(1,486)**	**(656)**	**(177)**	**(833)**
Change in interest in existing subsidiaries (Note 6)	–	–	(24)	(1)	2	**(23)**	64	**41**
31 December 2012	**382,571**	**62,600**	**46,330**	**41,102**	**(1,426)**	**531,177**	**706**	**531,883**
Profit/(loss) for the reporting year	–	–	8,571	–	–	**8,571**	(63)	**8,508**
Other comprehensive income/(loss)	–	–	–	(51,593)	2,364	**(49,229)**	14	**(49,215)**
Total comprehensive income/(loss) for the year	**–**	**–**	**8,571**	**(51,593)**	**2,364**	**(40,658)**	**(49)**	**(40,707)**
Contributions of the Russian Government (Note 25)	5,498	75,570	–	–	–	**81,068**	–	**81,068**
Acquisition of a subsidiary (Note 6)	–	–	–	–	–	**–**	6,819	**6,819**
Change in interest in existing subsidiaries (Note 6)	–	–	(157)	–	20	**(137)**	(2,067)	**(2,204)**
31 December 2013	**388,069**	**138,170**	**54,744**	**(10,491)**	**958**	**571,450**	**5,409**	**576,859**

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2013
(in millions of Russian rubles)

	Notes	2013	2012
Cash flows from operating activities			
Profit for the reporting year		8,508	17,488
Adjustments:			
Change in interest accruals		(19,883)	(24,606)
Impairment and other provisions	12, 14, 20	127,120	48,837
Changes in unrealized revaluation of trading securities and derivative financial instruments		(2,458)	13,044
Gains less losses from investment financial assets available for sale, net of impairment loss		(72,961)	(4,217)
Impairment of investment financial assets available for sale	15	4,559	1,969
Changes in translation differences		14,012	(2,237)
Gains less losses on initial recognition of financial instruments and restructuring		(8,473)	(5,209)
Share in net income/(loss) of associates and jointly controlled entities	17	648	(607)
Gain on bargain purchase	6	(818)	–
(Profit)/loss on net monetary position resulting from hyperinflation		921	398
Depreciation and amortization		3,117	2,419
Deferred income tax	19	(80)	(135)
Other changes		(4,089)	(2,435)
Cash flows from operating activities before changes in operating assets and liabilities		**50,123**	**44,709**
Net (increase)/decrease in operating assets			
Precious metals		440	(477)
Financial assets at fair value through profit or loss		(24,518)	(12,289)
Amounts due from credit institutions		16,898	(40,351)
Loans to customers		(396,798)	(315,197)
Amounts due from the Russian Government		(111)	0
Other assets		(32,436)	(19,725)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions, net of long-term interbank financing		(19,571)	63,116
Amounts due to the Russian Government and the Bank of Russia, net of long-term special purpose financing		(22,296)	108,799
Amounts due to customers		62,206	(16,490)
Debt securities issued, net of bonds and Eurobonds		738	5,192
Other liabilities		21,939	7,788
Net cash flows used in operating activities		**(343,386)**	**(174,925)**

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2013 (continued)
(in millions of Russian rubles)

	Notes	2013	2012
Cash flows from investing activities			
Purchase of investment financial assets		(161,454)	(350,672)
Proceeds from sale and redemption of investment financial assets		243,107	290,090
Redemption of investment financial assets held to maturity		15,000	–
Investments in associates and jointly controlled entities	6,17	(2,454)	(2,548)
Acquisition of subsidiaries, net of cash acquired	6	(2,389)	–
Purchase of property and equipment		(5,861)	(7,918)
Proceeds from sale of property and equipment		332	258
Subordinated loans repaid by Russian credit institutions		–	50,000
Net cash flows used in/from investing activities		**86,281**	**(20,790)**
Cash flows from financing activities			
Long-term interbank financing raised	22	165,878	91,155
Long-term interbank financing repaid	22	(70,174)	(40,243)
Long-term special purpose financing raised from the Russian Ministry of Finance		–	50,000
Long-term financing repaid to the Russian Ministry of Finance		–	(50,000)
Placement of bonds and Eurobonds	24	204,007	138,201
Redemption of bonds	24	(16,571)	–
Purchase of bonds issued by the Group		(17,525)	(26,561)
Proceeds from sale of previously purchased bonds		19,073	16,643
Change in interest in existing subsidiaries	6	372	41
Contribution to additional paid-in capital from the Russian Government, receipt of subsidies and government assistance		–	80,000
Net cash flows from financing activities		**285,060**	**259,236**
Effect of changes in foreign exchange rates against the ruble on cash and cash equivalents		8,042	(1,552)
Net increase in cash and cash equivalents		**35,997**	**61,969**
Cash and cash equivalents, beginning	10	**239,997**	**178,028**
Cash and cash equivalents, ending	10	**275,994**	**239,997**
Supplemental information:			
Income tax paid		(3,033)	(3,096)
Interest paid		(121,138)	(115,338)
Interest received		200,128	168,979
Dividends received		7,882	10,469

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

(in millions of Russian rubles)

1. Principal activities

The Group of state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" comprises state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" ("Vnesheconombank" or the "Bank"), subsidiary Russian banks and CIS-based banks, as well as subsidiary Russian and foreign companies (collectively, the "Group"). List of major subsidiaries is presented in Note 3, associates and jointly controlled entities – in Note 17.

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

In accordance with Federal Law No. 395-1, "On Banks and Banking Activity", dated 2 December 1990, 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 subject to certain specifics.

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

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

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

(in millions of Russian rubles)

1. Principal activities (continued)

As detailed in Note 25, the Bank's charter capital has been formed by means of asset contributions from the Russian Federation made under decisions of the Russian Government, including contribution of state-owned shares of OJSC "Russian Bank for Development" (in 2011 renamed to – OJSC "Russian Bank for Small and Medium Enterprises Support" ("SME Bank"), CJSC "State Specialized Russian Export-Import Bank" (EXIMBANK OF RUSSIA), Federal Center for Project Finance (FCPF), and long-distance electrical communication operator Open Joint-Stock Company Rostelecom (OJSC "Rostelecom") to the charter capital.

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

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

In 2013, Vnesheconombank received a consideration in the amount of RUB 534 million (2012: RUB 534 million), net of VAT, for the agency services provided pursuant to Federal Law No. 216-FZ "On the Federal Budget for 2013 and the 2014 and 2015 Planned Period" dated 3 December 2012. This consideration was recorded within fee and commission income of the Group under agency agreements (Note 27).

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

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

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

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

(in millions of Russian rubles)

1. Principal activities (continued)

During 2013, the Bank, as a state management company, mainly invested pension savings in state securities denominated in Russian rubles, corporate bonds of highly credible Russian issuers and mortgage securities. As at 31 December 2013 and 31 December 2012, total funds of the State Pension Fund of the Russian Federation placed in management to the state management company amounted to RUB 1,867,039 million and RUB 1,644,116 million, respectively.

In accordance with Resolution of the Russian Government No. 503 dated 14 June 2013, Vnesheconombank performs functions of state trust management company for pension savings and 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 12 and 14, the Bank extended unsecured subordinated loans to Russian banks, and starting from the end of December 2010, the Bank acts as a lender for operations to enhance affordability of mortgage loans through extending loans to OJSC "The Agency for Housing Mortgage Lending" (OJSC "AHML").

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

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

At 31 December 2013 and 31 December 2012, the Group had 18,527 and 16,945 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.

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

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

(in millions of Russian rubles)

2. Basis of preparation (continued)

General (continued)

Functional currency

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

Clearing currencies are the settlement currencies for bilateral trade between the Russian Federation and designated countries. Clearing currencies are regularly traded on special auctions held by the Bank under the supervision of the Russian Ministry of Finance. Clearing currencies-denominated assets and liabilities have been translated into RUB at the official rates of the Bank of Russia at 31 December 2013 and 31 December 2012.

Segregation of operations

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

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

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

(in millions of Russian rubles)

3. Major subsidiaries

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

Subsidiaries	Ownership 31 December 2013	Ownership 31 December 2012	Country of incorporation	Type of activity
EXIMBANK OF RUSSIA	100%	100%	Russia	Banking
Bank BelVEB OJSC	97.52%	97.52%	Republic of Belarus	Banking
OJSC "VEB-Leasing"	98.96%	98.96%	Russia	Leasing
"SME Bank"	100%	100%	Russia	Banking
Sviaz-Bank	99.47%	99.47%	Russia	Banking
PSC Prominvestbank	98.6%	97.85%	Ukraine	Banking
CJSC "Kraslesinvest"	100%	100%	Russia	Production and processing of materials
CJSC "GLOBEXBANK"	99.99%	99.99%	Russia	Banking
R.G.I. International Limited	73.4%	–	Guernsey	Real estate development business
LLC "VEB-Capital"	100%	100%	Russia	Finance intermediary
"VEB Engineering" LLC	67.55%	67.55%	Russia	Investment project implementation services
FCPF	100%	100%	Russia	Finance intermediary
OJSC "Development Corporation of North Caucasus"	100%	100%	Russia	Advisory services, investment project support
RDIF Management Company LLC	100%	100%	Russia	Management company
EXIAR	100%	100%	Russia	Insurance
OJSC "The Far East and Baikal Region Development Fund"	100%	100%	Russia	Support to investment projects
VEB Asia Limited	100%	−	People’s Republic of China	Finance intermediary
	Share of assets:			
Mutual Fund RDIF	100%	100%	Russia	Mutual fund

As at 31 December 2013 and 31 December 2012, the Group owns 100% of the voting shares of OJSC "VEB-Leasing".

As at 31 December 2013 and 31 December 2012, the Bank owns 100% of votes at the meeting of participants of "VEB Engineering" LLC.

At 31 December 2013 and at 31 December 2012, the Group owns 100% shares of AMURMETAL HOLDING LIMITED, a company holding shares of the entity, which is the owner of a group of metallurgical enterprises. The manufacturing parent company of AMURMETAL HOLDING LIMITED is under control of an bankruptcy manager, thus financial statements of AMURMETAL HOLDING LIMITED had not been included in the consolidated financial statements of the Group at 31 December 2013. Financial statements of the company was not been included in the consolidated financial statements of the Group at 31 December 2012 either, as the Group had lost control over the company as a result of entering into an option agreement for the sale of the above interest.

At 31 December 2013 and at 31 December 2012, the Group owns 100% shares of Machinery & Industrial Group N.V., a company holding shares of a group of machinery enterprises. The Group did not obtain control over the company due to simultaneously concluded option agreement for the sale of the above interest. Due to absence of control, financial statements of the Machinery & Industrial Group N.V. have not been included in the consolidated financial statements of the Group at 31 December 2013 and 31 December 2012.

(in millions of Russian rubles)

3. Major subsidiaries (continued)

In January 2013, the Bank transferred funds in the amount of RUB 62,000 million received in the form of an asset contribution (Note 25) to purchase 60,218 units additionally issued by Mutual Fund RDIF. The Bank's share in the fund's assets remained unchanged at 100%.

In February 2013, the Bank purchased 2,000,000 ordinary registered shares additionally issued by FCPF in the total amount of RUB 2,000 million. The Bank's share in the charter capital of its subsidiary remained unchanged at 100%.

In March 2013, the Bank transferred funds in the amount of RUB 15,000 million received in the form of an asset contribution (Note 25) as payment for 15,000,000 shares additionally issued by OJSC "The Far East and Baikal Region Development Fund". The Bank's share in the charter capital of its subsidiary remained unchanged at 100%.

In April 2013, VEB Asia Limited was registered in Hong Kong (People's Republic of China). In October 2013, the Bank transferred a total of USD 30 million (RUB 968 million as at the date of transfer) in payment for 234,000,000 shares in VEB Asia Limited. The Bank holds a 100% interest in the share capital of VEB Asia Limited.

In May and July 2013, the Bank transferred a total of USD 365 million (RUB 11,432 million) in payment for 291,744,499 additionally issued shares of PSC Prominvestbank. In October 2013, 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. As a result of additional issue of shares of PSC Prominvestbank, Vnesheconombank’s interest in the share capital of PSC Prominvestbank comprised 98.6%.

In July 2013, the Bank purchased 4,000,000 ordinary registered shares additionally issued by OJSC "North Caucasus Development Corporation" in the total amount of RUB 4,000 million. The Bank's share in the charter capital of its subsidiary remained unchanged at 100%.

In August 2013, the Bank transferred funds in the amount of RUB 2 million as payment for a share in the charter capital of LLC "VEB-Capital". The Bank's share in the charter capital of its subsidiary remained unchanged at 100%.

In October 2013, the Bank purchased 542 ordinary registered shares additionally issued by OJSC "SME Bank" in the total amount of RUB 542 million. The Bank's share in the charter capital of its subsidiary remained unchanged at 100%.

Subsidiaries with material non-controlling interests

The following table contains information on subsidiary with material non-controlling interests as at 31 December 2013.

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

(in millions of Russian rubles)

3. Major subsidiaries (continued)

The following summarized financial information in respect of RGI. This information is based on amounts before elimination of intra-group transactions.

R.G.I. International Limited	2013
Cash and cash equivalents	896
Amounts due from credit institutions	107
Investments in associates and jointly controlled entities	439
Property and equipment	6,673
Income tax assets	311
Other assets	21,376
Total assets	**29,802**
Amounts due to credit institutions	6,108
Income tax liabilities	2,210
Other liabilities	8,986
Total liabilities	**17,304**
Total equity	**12,498**

R.G.I. International Limited	For the year ended 31 December 2013
Interest income	6
Non-interest income	247
Non-interest expense	(736)
Income tax expense	(64)
Loss for the reporting year	**(547)**
Other comprehensive income/(loss)	–
Total comprehensive loss for the year	**(547)**
Net cash flows used in operating activities	(210)
Net cash flows from investing activities	558
Net cash flows used in financing activities	(87)
Net increase in cash and cash equivalents	**261**

As at 31 December 2012, the Group has no material non-controlling interests.

4. Summary of significant accounting policies

Changes in accounting policies

The Group has decided that starting from 1 January 2013 it will no longer use common quantitative criteria for determining whether financial investments available for sale are impaired, and will use professional judgment to assess any significant or prolonged decline in the fair value of investments below their cost.

The Group has adopted the following amended IFRS during the year.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Group provides these disclosures in Note 31.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognized in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Group's financial position.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Group has subsidiaries with material non-controlling interests. IFRS 12 disclosures are provided in Notes 3, 6, 17.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IAS 1 Clarification of the Requirement for Comparative Information (amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendment affects presentation only and has no impact on the Group’s financial position or performance.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Banks’ financial position or performance. The new disclosures are presented in Note 33.

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights (stakes in equity), or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. If necessary, accounting policies of 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 loss 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 combination

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

(in millions of Russian rubles)

the proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest are measured at acquisition date fair value. Acquisition costs incurred are expensed.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Business combination (continued)

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

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as 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 sum of consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

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

Acquisition of subsidiaries from parties under common control

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

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

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

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Investments in associates and jointly controlled entities

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

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

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

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 31.

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 for 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 economic 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.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

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

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. 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 financial assets 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 other categories. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses from changes in fair value being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired. In such case accrued gains or losses previously reported in other comprehensive income are reclassified to the consolidated statement of income as gains less losses from investment financial assets available for sale. However, interest calculated using the effective interest method is recognized in profit or loss.

Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment unless there are other appropriate and applicable methods which reasonably estimate their fair value.

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 meeting 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 the 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 the loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

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

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Measurement of financial instruments at initial recognition

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

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

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

Offsetting of financial assets

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

Cash and cash equivalents

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

Precious metals

Gold and other precious metals are recorded at Bank of Russia bid prices, bid prices of National Bank of Belarus ('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. 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 the Bank of Russia, credit institutions or customers. Securities purchased under agreements to resell ('reverse repo') are recorded as cash and cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

(in millions of Russian rubles)

4. Summary of significant 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 income. The obligation to return them is recorded at fair value as a financial trade liability.

Derivative financial instruments

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

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

Promissory notes

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

Borrowings

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

4. Summary of significant 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 statement of financial position. This benefit is accounted for in accordance with IAS 20.

Leases

Finance leases – Group as lessee

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

Finance leases – Group as lessor

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

Operating leases – Group as lessee

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

4. Summary of significant 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 credit institutions and loans to customers

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in 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 income.

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

(in millions of Russian rubles)

4. Summary of significant 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 assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in 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 income.

Available-for-sale financial investments

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

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

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

Renegotiated loans

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

(in millions of Russian rubles)

4. Summary of significant 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 new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan in not impaired after restructuring, the Group derecognizes the initial asset and a new asset is recorded with recognition of the difference in the carrying value of the assets in the consolidated statement of income.

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in 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 income 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 that the Group operates. Income tax expense of the Group comprises current and deferred income tax. Current income tax is calculated by applying income tax rate effective at the reporting date to the taxable base.

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

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

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

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

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

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Property and equipment

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

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

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

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

The land has an indefinite useful life and is not depreciated.

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

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

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

Goodwill

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

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

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

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

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Goodwill (continued)

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

Intangible assets other than goodwill

Intangible assets other than goodwill include computer software and licenses.

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

Assets classified as held for sale

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

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

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

Investment property

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

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

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Investment property (continued)

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 recorded in the income statement within income arising from non-banking activities. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented within income or expense arising from non-banking activities.

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 premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Investment property under construction

Investment property under construction represents rights on assets which are being constructed under construction investment agreements. Such assets are not registered as 'real estate assets' with the registration chamber and are under construction. Investment property under construction is stated at cost which represents the amount of cash or other consideration paid, as the fair value of investment property under construction cannot be reliably measured. The Group expects that 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 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 assets repossessed by the Group following legal proceedings for recovery of past due amounts payable under loans and held for sale in the near term in the ordinary course of business to cover losses arising from lending activities.

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

Provisions

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

Retirement and other benefit obligations

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

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

(in millions of Russian rubles)

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

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Charter capital

Charter capital

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

Dividends

Vnesheconombank neither accrues nor pays dividends.

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

Fiduciary assets

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

Segment reporting

The Group's segment reporting is based on five operating segments disclosed in Note 7.

Contingencies

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

Income and expense recognition

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

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.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

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

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

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

Dividend income

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the Bank of Russia exchange rate on the date of the transaction are included in 'Gains less losses from foreign currencies'. The official exchange rates of the Bank of Russia at 31 December 2013 and 31 December 2012 were RUB 32.7292 and RUB 30.3727 to 1 USD, respectively.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

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 income are translated at the weighted average exchange rates for the year.

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

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

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

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will not have an impact on classification and measurements of the Group’s financial liabilities. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. It is not expected that this amendment would be relevant to the Group.

(in millions of Russian rubles)

4. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have a material impact on its consolidated financial statements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

5. Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments and estimates related to the reported amounts. These judgments and estimates are based on information available as of the date of the 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 value 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 31.

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

(in millions of Russian rubles)

5. Significant accounting judgments and estimates (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. At 31 December 2013, the carrying value of goodwill amounted to RUB 1,381 million (at 31 December 2012: RUB 1,381 million). More details are provided in Note 21.

6. Business combination

Acquisitions in 2013

R.G.I. International Limited

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

RGI is a development company, which specializes in residential and retail real estate projects in Moscow and adjacent areas. The Group acquired controlling interest in RGI in order to participate in investment projects on construction and sale of real estate.

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

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

(in millions of Russian rubles)

6. Business combination (continued)

Acquisitions in 2013 (continued)

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

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

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

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

Cash outflow on acquisition of the subsidiary:

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

Acquisitions in 2012

Closed-end Mutual Equity Fund "Bazis – Dolgosrochnye Investitsii"

On 19 December 2012, the subsidiary bank CJSC "GLOBEXBANK" acquired control over 100% of units of Closed-end Mutual Equity Fund "Bazis – Dolgosrochnye Investitsii" (hereinafter, "Mutual Fund "Bazis – Dolgosrochnye Investitsii"). Mutual Fund "Bazis – Dolgosrochnye Investitsii" was established on 24 December 2009. The principal activity of the fund acquired involves making long-term investments in securities, interests in the charter capital of Russian limited liability companies and other assets.

The Group acquired the fund to take part in real estate construction and sale projects of Russian companies, the controlling interests in which are recorded on the balance sheet of Mutual Fund "Bazis – Dolgosrochnye Investitsii".

(in millions of Russian rubles)

6. Business combination (continued)

Acquisitions in 2012 (continued)

The Group had owned 100% of units of Mutual Fund "Bazis – Dolgosrochnye Investitsii" even before the date it acquired control, but it did not include it in the consolidated financial statements as this ownership did not previously provide control over the fund due to entering into an irrevocable option agreement with a third party on sale of 100% of units. On 19 December 2012, the option was terminated and the parties made no payments.

The fair values of the identifiable assets and liabilities acquired, as determined by an independent appraiser, and goodwill arising as at the date of acquisition were:

	Fair value recognized on acquisition of control
Cash and cash equivalents	0
Loans to customers	526
Deferred income tax assets (Note 19)	8
Other assets	1,315
	1,849
Amounts due to customers	7
Other liabilities	125
	132
Total identifiable net assets	**1,717**
Goodwill arising on acquisition	102
Consideration transferred upon acquisition of control	**1,819**

As a result of impairment testing, goodwill of RUB 102 million was expensed and recorded in other operating expenses in the consolidated statement of income.

The fair value of loans to customers amounts to RUB 526 million. The contracted amount of loans to customers before allowance for impairment as at the date of acquisition was RUB 525 million. As at the date of acquisition, there were no such contractual cash flows from loans to customers that were not expected to be received.

Had the acquisition been made at the beginning of 2012, the Group's profit before income tax, interest income and non-interest expense would not have changed significantly.

As at the date of acquisition, the Group recognized in its financial statements the current accounts of Mutual Fund "Bazis – Dolgosrochnye Investitsii" and companies, the controlling interests in which are held by the fund, which were opened with the Group, amounting to RUB 181 million. Therefore, as at the date of acquisition, the fund and the companies recognized the amounts due from the Group as cash on bank accounts. The fair value of such assets of Mutual Fund "Bazis – Dolgosrochnye Investitsii" is equal to their carrying value. These transactions are represented by the relations between the Group entities, which were established before and eliminated in the process of accounting for the business combination. Amounts on current accounts with the Group were excluded from the identifiable assets of the fund, and consideration transferred upon acquisition was reduced by the fair value of the above assets.

(in millions of Russian rubles)

6. Business combination (continued)

Changes in ownership interest in subsidiaries in 2013

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

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

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

Changes in ownership interest in subsidiaries in 2012

Changes in ownership interest

In the first quarter 2012, PSC Prominvestbank disposed 1,352,316 of its treasury shares. The reallocation of interests between the Bank and the remaining shareholders resulted in a RUB 29 million increase in the value of non-controlling interests, a RUB 2 million increase in the foreign currency translation reserve, a RUB 1 million decrease in unrealized gains on investment financial assets available for sale and a simultaneous RUB 21 million increase in the Group's retained earnings.

In May 2012, the state registration of an additional issue of shares of Bank BelVEB OJSC was completed. As a result, the Bank's share increased to 97.52%. The amount of additionally issued shares acquired by the Bank totaled RUB 1,516 million. The contribution of non-controlling shareholders amounted to RUB 38 million. As a result of the additional issue, the carrying value of the net assets of Bank BelVEB OJSC increased by RUB 1,554 million. The reallocation of interests between the Bank and the remaining non-controlling shareholders resulted in a RUB 37 million increase in the value of non-controlling interests and a simultaneous RUB 1 million increase in the Group's retained earnings.

Disposal of non-controlling interests

In the fourth quarter 2012, "VEB Engineering" LLC bought back its interests from non-controlling members at the nominal value. The reallocation of interests resulted in a RUB 2 million decrease in the value of non-controlling interests and a simultaneous RUB 46 million decrease in retained earnings.

(in millions of Russian rubles)

7. Segment information

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

Segment 1 Vnesheconombank, "SME Bank", EXIMBANK OF RUSSIA.

Segment 2 Sviaz-Bank, CJSC "GLOBEXBANK", R.G.I. International Limited.

Segment 3 PSC Prominvestbank (Ukraine).

Segment 4 Bank BelVEB OJSC (Republic of Belarus).

Segment 5 OJSC "VEB-Leasing", LLC "VEB Capital", LLC "VEB Engineering", OJSC "Federal Center for Project Finance", OJSC "North Caucasus Development Corporation", RDIF Management company LLC, EXIAR, Mutual Fund RDIF, OJSC the Far East and the Baikal region Development Fund, VEB Asia Limited and other subsidiaries.

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

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 2013 and 2012, the Group received no income from transactions with one external client or counterparty, which amounted to 10% or more percent of the Group's total income, except for income from transactions with entities under control of the Russian Federation. Such income was mainly received from transactions within Segments 1 and 2.

(in millions of Russian rubles)

7. Segment information (continued)

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

2013	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Total before adjustments and eliminations	Adjustments and eliminations	Total
Income								
External customers								
Interest income	147,847	43,401	15,817	7,564	29,115	**243,744**	–	**243,744**
Fee and commission income	4,898	2,195	1,281	1,612	183	**10,169**	–	**10,169**
Gains less losses arising from financial instruments at fair value through profit or loss	2,702	(248)	–	–	(1,124)	**1,330**	–	**1,330**
Gains less losses from investment securities available for sale	68,190	81	2	92	37	**68,402**	–	**68,402**
Gains less losses from foreign currencies	(8,312)	(354)	248	220	261	**(7,937)**	–	**(7,937)**
Share in net income/(loss) of associates and jointly controlled entities	284	4	–	11	(947)	**(648)**	–	**(648)**
Other income	18,181	1,370	269	560	7,515	**27,895**	–	**27,895**
Total external income	**233,790**	**46,449**	**17,617**	**10,059**	**35,040**	**342,955**	**–**	**342,955**
Intersegment income								
Interest income	14,220	1,649	–	10	10,320	**26,199**	(26,199)	**–**
Other intersegment income less expenses	(298)	728	881	124	449	**1,884**	(1,884)	**–**
Total intersegment income	**13,922**	**2,377**	**881**	**134**	**10,769**	**28,083**	**(28,083)**	**–**
Total income	**247,712**	**48,826**	**18,498**	**10,193**	**45,809**	**371,038**	**(28,083)**	**342,955**
Interest expense	(103,611)	(21,312)	(6,894)	(2,608)	(10,346)	**(144,771)**	–	**(144,771)**
Fee and commission expense	(1,396)	(608)	(136)	(355)	(47)	**(2,542)**	–	**(2,542)**
Provision for loan impairment	(111,027)	(5,012)	(3,328)	(524)	(3,426)	**(123,317)**	–	**(123,317)**
Payroll and other staff costs	(7,977)	(6,239)	(2,473)	(1,503)	(4,984)	**(23,176)**	–	**(23,176)**
Depreciation of property and equipment	(513)	(783)	(416)	(158)	(593)	**(2,463)**	–	**(2,463)**
(Provision for) / reversal of other impairment and provisions	193	(48)	85	(8)	(4,025)	**(3,803)**	–	**(3,803)**
Other expenses	(12,307)	(6,268)	(2,378)	(1,562)	(8,983)	**(31,498)**	–	**(31,498)**
Total external expense	**(236,638)**	**(40,270)**	**(15,540)**	**(6,718)**	**(32,404)**	**(331,570)**	**–**	**(331,570)**
Intersegment expenses								
Interest expense	(7,534)	(8,003)	(3,081)	(1,307)	(6,377)	**(26,302)**	26,302	**–**
Other intersegment (expenses)	(24,365)	(14)	(105)	(176)	(118)	**(24,778)**	24,778	**–**
Total intersegment expenses	**(31,899)**	**(8,017)**	**(3,186)**	**(1,483)**	**(6,495)**	**(51,080)**	**51,080**	**–**
Total expenses	**(268,537)**	**(48,287)**	**(18,726)**	**(8,201)**	**(38,899)**	**(382,650)**	**51,080**	**(331,570)**
Segment results	**(20,825)**	**539**	**(228)**	**1,992**	**6,910**	**(11,612)**	**22,997**	**11,385**
Gain on bargain purchase	–	–	–	–	–	–	818	**818**
Loss on net monetary position resulting from hyperinflation	–	–	–	(921)	–	(921)	–	**(921)**
Income tax expense								**(2,774)**
Profit for the year								**8,508**
Other segment information								
Capital expenditure	1,327	7,401	1,297	635	4,684	15,344	–	**15,344**
Investments in associates	4,486	526	0	118	5,343	10,473	–	**10,473**

(in millions of Russian rubles)

7. Segment information (continued)

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

2012	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Total before adjustments and eliminations	Adjustments and eliminations	Total
Income								
External clients								
Interest income	122,785	37,028	16,285	6,003	22,053	204,154	–	**204,154**
Fee and commission income	3,005	2,209	993	1,092	276	7,575	–	**7,575**
Gains less losses arising from financial instruments at fair value through profit or loss	(4,512)	(522)	–	–	(1,082)	(6,116)	–	**(6,116)**
Gains less losses from investment securities available for sale	2,223	(123)	145	1	2	2,248	–	**2,248**
Gains less losses from foreign currencies	13,921	477	(74)	283	18	14,625	–	**14,625**
Share in net income of associates and jointly controlled entities	306	–	–	23	278	607	–	**607**
Other income	16,729	1,063	611	1,465	1,124	20,992	–	**20,992**
Total external income	**154,457**	**40,132**	**17,960**	**8,867**	**22,669**	**244,085**	**–**	**244,085**
Intersegment income								
Interest income	12,325	1,519	–	5	6,920	20,769	(20,769)	–
Other intersegment income less expenses	218	261	336	145	202	1,162	(1,162)	–
Total intersegment income	**12,543**	**1,780**	**336**	**150**	**7,122**	**21,931**	**(21,931)**	**–**
Total income	**167,000**	**41,912**	**18,296**	**9,017**	**29,791**	**266,016**	**(21,931)**	**244,085**
Interest expense	(87,771)	(17,461)	(6,672)	(2,029)	(9,725)	(123,658)	–	**(123,658)**
Fee and commission expense	(646)	(606)	(172)	(248)	(1)	(1,673)	–	**(1,673)**
Provision for loan impairment	(36,591)	(3,270)	(6,858)	(160)	(993)	(47,872)	–	**(47,872)**
Personnel expenses	(6,750)	(5,848)	(2,679)	(1,259)	(2,875)	(19,411)	–	**(19,411)**
Depreciation of property and equipment	(403)	(609)	(404)	(125)	(222)	(1,763)	–	**(1,763)**
Other impairment and provisions	(278)	(17)	(476)	(2)	(192)	(965)	–	**(965)**
Other expenses	(12,433)	(6,022)	(2,071)	(1,856)	(5,937)	(28,319)	–	**(28,319)**
Total external expense	**(144,872)**	**(33,833)**	**(19,332)**	**(5,679)**	**(19,945)**	**(223,661)**	**–**	**(223,661)**
Intersegment expenses								
Interest expense	(6,235)	(6,582)	(3,226)	(1,209)	(3,445)	(20,697)	20,697	–
Other intersegment (expenses)	(1,311)	(18)	(38)	(120)	(119)	(1,606)	1,606	–
Total intersegment expenses	**(7,546)**	**(6,600)**	**(3,264)**	**(1,329)**	**(3,564)**	**(22,303)**	**22,303**	**–**
Total expenses	**(152,418)**	**(40,433)**	**(22,596)**	**(7,008)**	**(23,509)**	**(245,964)**	**22,303**	**(223,661)**
Segment results	**14,582**	**1,479**	**(4,300)**	**2,009**	**6,282**	**20,052**	**372**	**20,424**
Loss on net monetary position resulting from hyperinflation	–	–	–	(398)	–	(398)	–	**(398)**
Income tax expense								**(2,538)**
Profit for the year								**17,488**
Other segment information								
Capital expenditure	602	3,536	956	616	6,559	12,269	–	**12,269**
Investments in associates	4,216	–	0	96	5,198	9,510	–	**9,510**

In 2012, the Group recognized a RUB 1,969 million loss from continuing impairment of available-for-sale financial assets of Segment 1 in gains less losses from investment financial assets available for sale.

(in millions of Russian rubles)

7. Segment information (continued)

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

	31 December 2013	31 December 2012
Segment assets		
Segment 1	2,319,714	2,196,982
Segment 2	618,245	489,436
Segment 3	156,777	143,838
Segment 4	67,740	57,015
Segment 5	559,863	371,013
Total before deducting intersegment assets	**3,722,339**	**3,258,284**
Intersegment assets	(444,235)	(340,070)
Adjustments	35,854	886
Total assets	**3,313,958**	**2,919,100**

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

	31 December 2013	31 December 2012
Segment liabilities		
Segment 1	2,076,227	1,857,434
Segment 2	568,237	444,029
Segment 3	137,580	137,278
Segment 4	57,920	48,793
Segment 5	339,988	238,630
Total before deducting intersegment liabilities	**3,179,952**	**2,726,164**
Intersegment liabilities	(444,235)	(340,070)
Adjustments	1,382	1,123
Total liabilities	**2,737,099**	**2,387,217**

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

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

Geographical information

Allocation of the Group's interest income from transactions with external clients in Russia, Ukraine and other countries, and non-current assets based on the location of these clients as at 31 December 2013 and 2012 and for the years then ended is presented in the table below:

	2013				2012			
	Russia	Ukraine	Other countries	Total	Russia	Ukraine	Other countries	Total
Interest income from external clients	220,363	15,817	7,564	**243,744**	181,866	16,285	6,003	**204,154**
Non-current assets	43,155	11,705	3,030	**57,890**	32,731	10,448	2,329	**45,508**

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

(in millions of Russian rubles)

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

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

	2013	2012
Interest-bearing loans and deposits from the Russian Ministry of Finance	661,504	641,196
Interest-bearing loans and deposits from the Bank of Russia	284,452	303,075
Repurchase agreements with the Bank of Russia	24,928	24,691
Settlements related to redemption of Russian Government loans	9,837	12,717
Other funds	259	189
Amounts due to the Russian Government, its authorized intuitions and the Bank of Russia	**980,980**	**981,868**

At 31 December 2013 and 31 December 2012, interest-bearing loans and deposits from the Russian Ministry of Finance mainly include funds of the National Welfare Fund of the Russian Federation ("NWF") denominated in Rubles and deposited with Vnesheconombank pursuant to Federal Law No. 173-FZ in the amount of RUB 333,862 million (31 December 2012: RUB 330,674 million). These deposits were raised at annual rates of 6.25% and 7.25% (31 December 2012: 6.25% and 7.25%) and have maturity dates from December 2014 through December 2020.

In June 2012, as a result of early repayment of a portion of subordinated loan by a Russian credit institution (Note 12), Vnesheconombank partially repaid its liabilities in accordance with Federal Law No. 173-FZ. Simultaneously, the Russian Ministry of Finance placed at Vnesheconombank a new deposit intended to finance acquisition of a financial asset; the deposit matures in June 2016 (Note 15). Terms and conditions of debt obligations vary insignificantly and for reporting purposes the exchange of liabilities is considered as a significant change in terms and conditions of the existing liability. As at 31 December 2013, the deposit amounted to RUB 48,914 million (31 December 2012: RUB 48,453 million).

In addition, as at 31 December 2013 and 31 December 2012, interest-bearing loans and deposits from the Russian Ministry of Finance include funds of NWF denominated in Rubles and intended to finance credit institutions and legal entities supporting small and medium enterprises. "SME Bank", a subsidiary bank, is responsible for implementing such financial support. At 31 December 2013, the amount of financing was RUB 28,669 million (31 December 2012: RUB 28,301 million). The funds are denominated in Russian rubles, bear interest at 6.25% p.a. (31 December 2012: 6.25%) and mature in December 2017.

At 31 December 2013, interest-bearing loans and deposits from the Russian Ministry of Finance include also RUB denominated deposits of NWF in the amount of RUB 35,292 million (31 December 2012: RUB 34,703 million) placed with Vnesheconombank pursuant to Federal Law No. 173-FZ at the interest rate 6.25% p.a. maturing in May 2020 for further lending to OJSC "AHML" (Note 14).

In addition to the above the interest-bearing deposits from the Russian Ministry of Finance include USD denominated funds of NWF intended to finance investment projects. At 31 December 2013, the amount of financing was RUB 213,024 million maturing in December 2014 (31 December 2012: RUB 191,327 million).

At 31 December 2013, the Russian Ministry of Finance placed temporarily available funds on RUB denominated short-term deposits with the Group's subsidiary banks, amounting to RUB 1,285 million and maturing in February 2014 (31 December 2012: RUB 7,247 million maturing in January 2013).

(in millions of Russian rubles)

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

At 31 December 2013 and at 31 December 2012, the interest-bearing loans and deposits from the Bank of Russia include special RUB denominated deposits for purposes of implementing the program of financial support to Sviaz-Bank (31 December 2013: RUB 121,565 million, 31 December 2012: RUB 123,548 million) and CJSC "GLOBEXBANK" (31 December 2013: RUB 83,847 million and 31 December 2012: RUB 85,433 million) to ensure activities on development of business of the above entities. Deposits raised for the outlined purposes were extended by 1 year in 2013 at interest rates below the market level. According to IFRS requirements, the Group derecognized initial liabilities and recognized new liabilities. Gains on initial recognition of financial instruments in the amount of RUB 11,353 million were recognized in the consolidated statement of income for the reporting year ended 31 December 2013 (for the year ended 31 December 2012: RUB 6,662 million).

In addition, at 31 December 2013, interest-bearing loans and deposits of the Bank of Russia include short-term RUB denominated deposits raised by the Group in the amount of RUB 79,040 million maturing from June to December 2014 (31 December 2012: RUB 94,094 million maturing from January to December 2013).

At 31 December 2013, under the repurchase agreements with the Bank of Russia, the Group sold debt securities with a fair value of RUB 27,989 million, subject to repurchase (31 December 2012: RUB 27,659 million). Pledged securities are treated as trading financial assets with a fair value of RUB 15,697 million, (31 December 2012: RUB 16,165 million) (Note 11), investment financial assets available for sale with a fair value of RUB 12,259 million (31 December 2012: RUB 11,341 million) (Note 15), and investment financial assets held to maturity with a fair value of RUB 33 million (31 December 2012: none) (Note 15).

At 31 December 2013, there were no pledged securities treated as loans to customers (31 December 2012: securities with a fair value of RUB 153 million) (Note 14).

At 31 December 2013, repurchase agreements with the Bank of Russia also include funds received from the Bank of Russia and collateralized by securities with a fair value of RUB 2,961 million received under reverse repurchase agreements (31 December 2012: RUB 2,747 million).

Settlements related to redemption of Russian Government loans represent funds received from borrowers as repayment of loans granted by the Russian Government. These funds and the processing of payments are managed and conducted by the Bank in accordance with the Agency Agreements. At 31 December 2013 and at 31 December 2012, these amounts are classified as due to the Russian Government.

9. Agency operations

At 31 December 2013 and 31 December 2012, 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 external debt or government external assets and, therefore, the corresponding amounts were not included in the Group's consolidated statement of financial position.

(in millions of Russian rubles)

10. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	2012
Cash on hand	16,407	13,596
Current accounts with the Bank of Russia	35,766	102,168
Correspondent nostro accounts with credit institutions and current accounts with other non-banking organizations:		
- Russian Federation	8,437	12,186
- other countries	103,482	46,234
Interest-bearing loans and deposits maturing within 90 days:		
- due from the Bank of Russia	10,430	300
- due from credit institutions	95,548	59,959
Non-interest deposits with OECD credit institutions up to 90 days	–	1
Non-interest deposits with Russian credit institutions up to 90 days	–	39
Reverse repurchase agreements with credit institutions for up to 90 days	5,924	5,514
Cash and cash equivalents	**275,994**	**239,997**

At 31 December 2013, reverse repurchase agreements include loans of RUB 3,642 million (31 December 2012: RUB 5,514 million) issued to credit institutions and secured by corporate bonds with the fair value of RUB 4,122 million (31 December 2012: RUB 6,315 million), and loans in the amount of RUB 2,282 million issued to credit institutions and secured by corporate shares with the fair value of RUB 2,880 million. At 31 December 2012, there were no reverse repurchase agreements with credit institutions secured by corporate shares.

At 31 December 2013, current accounts with the Bank of Russia included property contributions made by the Russian Ministry of Finance in the amount of RUB 3,000 million (31 December 2012: RUB 80,000 million) (Note 21). The funds can be used strictly in compliance with the allocation purposes.

In February 2012, under the financing agreement with the Russian Bank Capitalization Fund (the RBCF), Vnesheconombank transferred USD 250 million (RUB 7,445 million at the date of transfer) to the International Finance Corporation (IFC). At 31 December 2013, part of the amount RUB 6,739 million (31 December 2012: RUB 6,486 million) was temporarily invested in money market instruments maturing in less than 90 days. The RBCF will invest in the capital of Russian universal second-echelon banks actively operating in the regions and funding small and medium-sized Russian businesses in the real sector (Note 15).

11. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2013	2012
Trading financial assets	51,409	28,414
Derivative financial assets (Note 13)	26,513	16,517
Financial assets designated as at fair value through profit or loss	20,913	27,188
Financial assets at fair value through profit or loss	**98,835**	**72,119**

(in millions of Russian rubles)

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

Trading financial assets held by the Group comprise:

	2013	2012
Debt securities:		
Corporate bonds	14,654	13,354
Federal Loan Bonds (OFZ)	660	86
	15,314	**13,440**
Eurobonds issued by the Russian Federation	3,041	1,442
Eurobonds of Russian and foreign issuers	892	1,027
	19,247	**15,909**
Equity securities	31,850	12,134
Other financial assets	312	371
Trading financial assets	**51,409**	**28,414**

At 31 December 2013, financial assets pledged under repurchase agreements, include corporate bonds with the fair value of RUB 15,697 million. At 31 December 2012, financial assets lent and pledged under repurchase agreements, include corporate bonds with the fair value of RUB 16,165 million and shares with the fair value of RUB 503 million.

Financial assets designated as at fair value through profit or loss

At 31 December 2013 and 31 December 2012, financial assets designated at fair value through profit or loss included primarily shares of Russian and foreign companies, as well as units in the closed-end mutual real estate fund held by a subsidiary bank.

The Bank entered into an option agreement which is economically related to its purchase of a Russian company's shares in the second quarter of 2010; changes in the fair value of that agreement are recorded in the consolidated income statement as gains less losses arising from financial instruments at fair value through profit or loss. To avoid 'accounting mismatch', these securities were classified as designated at fair value through profit or loss, thus excluding inconsistency in recognition of the respective gains and losses. At 31 December 2013, the fair value of shares is RUB 5,291 million (31 December 2012: RUB 13,143 million) and loss from its change for the period (as recorded in the consolidated statement of income) is RUB 7,852 million (for the year, ended 31 December 2012: RUB 5,171 million).

Other securities included in this category meet the criteria to be classified as at fair value through profit or loss since the Group management measures the performance of these investments in terms of changes in their fair value based on quoted prices in an open market, valuation models, using both observable and non-observable market data.

12. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2013	2012
Obligatory reserve with central banks	6,900	4,088
Non-interest-bearing deposits	7,001	9,684
Subordinated loans	308,936	305,569
Interbank loans and term interest-bearing deposits with credit institutions	105,754	125,652
Mortgage bonds	6,306	2,212
	434,897	**447,205**
Less allowance for impairment	(1,082)	(729)

(in millions of Russian rubles)

Amounts due from credit institutions	**433,815**	**446,476**

12. Amounts due from credit institutions (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, the National Bank of the Republic of Belarus and the National Bank of Ukraine. The amount of these reserves depends on the level of funds attracted by the credit institutions. The banks' ability to withdraw such deposits is significantly restricted by the statutory legislation. Pursuant to law, Vnesheconombank creates no obligatory reserve to be maintained with the Bank of Russia.

At 31 December 2013, non-interest-bearing deposits include non-interest-bearing deposits in clearing currencies in the gross amount of RUB 6,701 million (31 December 2012: RUB 9,409 million). The use of these deposits is subject to certain restrictions as stipulated by agreements between governments of the respective countries. The funds can be used for purchase of goods and services by Russian importers who purchase clearing currencies at tenders organized by the Group under the supervision of the Russian Ministry of Finance.

At 31 December 2013 and 31 December 2012, subordinated loans issued to Russian credit institutions comprise loans in the amount of RUB 308,936 million and RUB 305,569 million, respectively, issued to 16 Russian credit institutions in accordance with Federal Law No. 173-FZ carrying interest from 6.5% to 7.5% p.a. (31 December 2012: from 6.5% and 7.5%) and maturing from December 2014 to December 2020.

At 31 December 2013, interbank loans and term interest-bearing deposits with credit institutions include an amount of RUB 88,530 million (31 December 2012: RUB 75,187 million) intended for providing through a subsidiary bank – OJSC SME Bank – financing to credit institutions that support small and medium-sized enterprises. A loss from initial recognition of part of these financial instruments in the amount of RUB 119 million was recognized in the statement of income for the year ended 31 December 2013 (year ended 31 December 2012: RUB 119 million).

At 31 December 2013, mortgage bonds represent debt securities of a Russian bank in the amount of RUB 6,306 million (31 December 2012: RUB 2,212 million) at the rate below the market level and maturing in 2043-2046, which were purchased by Vnesheconombank under the 2010-2013 Investment Program to support affordable housing construction and mortgage projects. For the reporting year ended 31 December 2013, loss on initial recognition of the financial instruments in the amount of RUB 1,561 million (year ended 31 December 2012: RUB 592 million) was recognized in the separate statement of income.

The movements in the allowance for impairment of amounts due from credit institutions were as follows:

	2013	2012
At 1 January	**729**	**397**
Charge	353	334
Write-offs	–	(2)
At 31 December	**1,082**	**729**

(in millions of Russian rubles)

13. Derivative financial instruments

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

	2013			2012		
	Notional	Fair value		Notional	Fair value	
	principal	Asset	Liability	principal	Asset	Liability
Foreign exchange contracts						
Forwards and swaps – foreign	18,904	348	20	71,372	303	1,102
Forwards and swaps – domestic	21,206	182	195	19,884	741	448
Forward contracts for securities						
Debt securities	2,285	59	–	1,868	215	–
Equity securities and units	957	159	18	1,297	354	–
Interest rate swaps						
Foreign contracts	5,839	–	487	5,431	–	698
Domestic contracts	7,773	–	72	7,973	–	177
Option contracts	50,021	24,379	–	30,640	14,137	–
Cross-currency interest rate swap	25,199	1,386	154	18,397	764	68
Precious metals contracts	–	–	–	528	3	1
Total derivative assets/liabilities		**26,513**	**946**		**16,517**	**2,494**

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 11).

At 31 December 2013, 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 traded in the over-the-counter market.

Swaps

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

Options

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

At 31 December 2013 and 31 December 2012, the Bank's options included an asset related to a put option with a fair value of RUB 23,951 million and RUB 13,544 million, respectively, for shares of a Russian company recognized in the Bank's securities designated as at fair value through profit or loss to avoid accounting inconsistencies.

(in millions of Russian rubles)

13. Derivative financial instruments (continued)

Derivative financial instruments held or issued for trading purposes

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

14. Loans to customers

Loans to customers comprise:

	2013	**2012**
Project financing	918,160	663,819
Commercial loans, including loans to individuals	814,079	705,430
Net investment in leases	236,052	165,152
Financing of operations with securities	65,438	52,083
Back-to-back finance	35,330	34,811
Export and pre-export finance	28,320	20,400
Claims under letters of credit	15,960	13,616
Reverse repurchase agreements	8,876	13,909
Promissory notes	5,918	10,115
Mortgage bonds	2,603	1,712
Other	7,792	9,625
	2,138,528	**1,690,672**
Less allowance for impairment	(291,489)	(193,433)
Loans to customers	**1,847,039**	**1,497,239**
Loans to customers pledged under repurchase agreements		
Other	–	151
Less allowance for impairment	–	(3)
Total loans to customers pledged under repurchase agreements	**–**	**148**
Loans to customers including those pledged under repurchase agreements	**1,847,039**	**1,497,387**

At 31 December 2013 and 31 December 2012, back-to-back finance represented an unsecured loan issued to OJSC "AHML", using funds deposited by the Russian Ministry of Finance with Vnesheconombank, in accordance with Federal Law No. 173-FZ (Note 8). This loan was placed at the rate below the market level.

At 31 December 2013, mortgage bonds represent debt securities of OJSC "AHML" in the amount of RUB 2,603 million maturing in 2044-2046 (31 December 2012: RUB 1,712 million maturing in 2044-2045), with an interest rate below the market level, purchased by Vnesheconombank under Vnesheconombank's 2010-2013 Investment Program to support affordable housing construction and mortgage projects. For the reporting year ended 31 December 2013, loss on initial recognition of the financial instruments in the amount of RUB 445 million (year ended 31 December 2012: RUB 499 million) was recognized in the statement of income.

(in millions of Russian rubles)

14. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

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

(in millions of Russian rubles)

14. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Project finance 2012	**Commercial loans 2012**	**Export and pre-export finance 2012**	**Net investment in leases 2012**	**Financing of operations with securities 2012**	**Promissory notes 2012**	**Reverse repurchase agreements 2012**	**Back-to-back finance 2012**	**Claims under letters of credit 2012**	**Mortgage bonds 2012**	**Other 2012**	**Total 2012**
At 1 January 2012	**76,512**	**75,014**	**2,160**	**380**	**2,865**	**737**	**6**	**1,407**	**2,815**	**31**	**1,382**	**163,309**
Charge/(reversal)	25,908	20,481	350	520	(517)	(188)	5	198	260	48	473	47,538
Write-offs	(2,996)	(7,404)	–	–	–	–	(7)	–	–	–	–	(10,407)
Interest accrued on impaired loans	(6,859)	(1,872)	–	–	–	–	–	–	–	–	–	(8,731)
Reversal of allowance previously written off	–	1,726	–	–	–	–	–	–	–	–	–	1,726
Hyperinflation effect	–	1	–	–	–	–	–	–	–	–	–	1
At 31 December 2012	**92,565**	**87,946**	**2,510**	**900**	**2,348**	**549**	**4**	**1,605**	**3,075**	**79**	**1,855**	**193,436**
Individual impairment	69,866	73,387	1,925	419	–	91	–	–	2,602	–	1,641	149,931
Collective impairment	22,699	14,559	585	481	2,348	458	4	1,605	473	79	214	43,505
	92,565	**87,946**	**2,510**	**900**	**2,348**	**549**	**4**	**1,605**	**3,075**	**79**	**1,855**	**193,436**
Total amount of individually impaired loans before allowance for impairment	**157,339**	**138,405**	**2,046**	**4,037**	**–**	**91**	**–**	**–**	**2,602**	**–**	**1,642**	**306,162**

(in millions of Russian rubles)

14. 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 finance – 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 finance and commercial lending – charges over real estate properties, inventory, and trade receivables, securities and other claims to third parties;
- for retail lending – mortgages over residential properties and other subject matter of lending.

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

At 31 December 2013, reverse repurchase agreements were in respect of marketable and non-marketable shares with a fair value of RUB 6,709 million, marketable bonds with a fair value of RUB 1,889 million. At 31 December 2012, a reverse repurchase agreement was signed in respect of marketable shares with a fair value of RUB 8,073 million, marketable corporate bonds with a fair value of RUB 6,600 million, and promissory notes of Russian credit institutions with a fair value of RUB 1,408 million.

Concentration of loans to customers

At 31 December 2013, the total outstanding amount of loans to three major borrowers/groups of related borrowers was RUB 329,177 million, equivalent to 15.4% of the Group's gross loan portfolio (31 December 2012: RUB 264,880 million, or 15.7%). At 31 December 2013, an impairment allowance of RUB 81,429 million was made against these loans (31 December 2012: RUB 41,032 million). At 31 December 2013, these loans included loans issued to an associate of the Group involved in the real estate business, which accounted for 6.9% of the gross loan portfolio (31 December 2012: 8.4%).

At 31 December 2013 and 2012, in addition to the three major borrowers mentioned above, loans were issued to ten major borrowers / groups of related borrowers in the amount of RUB 433,888 million and RUB 286,002 million or 20.3% and 16.9% of the gross loan portfolio, respectively. At 31 December 2013 and at 31 December 2012, an allowance was created for these loans in the total amount of RUB 34,209 million and RUB 15,404 million, respectively

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

	2013	**2012**
Private enterprises	1,677,689	1,384,176
State-controlled entities (Russian Federation)	346,475	227,414
Individuals	54,054	34,096
Companies under foreign state control	43,181	39,128
Foreign states	12,221	–
Individual entrepreneurs	4,512	3,725
Regional authorities	396	2,284
	2,138,528	**1,690,823**

(in millions of Russian rubles)

14. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans are made principally in the following industry sectors:

	2013	%	2012	%
Real estate and construction	486,000	23	354,926	21
Manufacturing, including heavy machinery and military-related goods production	445,223	21	333,248	20
Finance companies	347,439	16	281,123	17
Transport	260,156	12	201,486	12
Agriculture	130,668	6	118,911	7
Energy	112,340	5	106,386	6
Trade	97,472	5	86,374	5
Individuals	54,054	3	34,096	2
Oil and gas	43,850	2	51,761	3
Metallurgy	43,266	2	38,482	2
Mining	31,444	1	23,468	1
Research and education	24,460	1	9,411	1
Telecommunications	12,720	1	16,658	1
Foreign states	12,221	1	–	0
Logistics	6,101	0	5,384	0
Mass media	673	0	1,204	0
Regional authorities	396	0	2,284	0
Other	30,045	1	25,621	2
	2,138,528	**100**	**1,690,823**	**100**

At 31 December 2013, loans and similar debt included a total of RUB 1,752,196 million granted to companies operating in Russia, which is a significant concentration (82%). At 31 December 2012, loans and similar debt included a total of RUB 1,411,261 million granted to companies operating in Russia, which is a significant concentration (83%).

Finance lease receivables

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

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

The analysis of finance lease receivables as of 31 December 2012 was as follows:

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total
Finance lease receivables	42,107	133,763	74,397	**250,267**
Unearned future finance income on finance leases	(3,272)	(40,400)	(41,443)	**(85,115)**
Net investment in leases	**38,835**	**93,363**	**32,954**	**165,152**

(in millions of Russian rubles)

15. Investment financial assets

Investment financial assets available for sale

Investment financial assets available for sale comprise:

	2013	2012
Debt securities		
Corporate bonds	153,559	151,420
Promissory notes	19,030	30,965
Debt instruments issued by foreign government bodies	17,882	14,026
Federal loan bonds (OFZ)	2,677	4,000
Municipal and sub-federal bonds	89	234
	193,237	**200,645**
Eurobonds of Russian and foreign issuers	23,401	15,025
Eurobonds issued by the Russian Federation	6,730	1,967
	223,368	**217,637**
Equity securities	**177,511**	**229,042**
Other available-for-sale financial assets	**41,455**	**47,134**
Available-for-sale investment financial assets	**442,334**	**493,813**

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

	2013	2012
Securities pledged under repurchase agreements		
Corporate bonds	12,259	10,932
Eurobonds of Russian and foreign issuers	3,117	–
Debt instruments issued by foreign government bodies	–	410
Municipal and sub-federal bonds	–	409
Investment financial assets available for sale pledged under repurchase agreements	**15,376**	**11,751**

At 31 December 2013, equity securities included Vnesheconombank's investment in the RBCF with a fair value of RUB 1,489 million (31 December 2012: RUB 1,078 million) (Note 10).

The Group recognized a continuing impairment loss of RUB 4,559 million on available-for-sale financial assets for the year ended 31 December 2013 (for the year ended 31 December 2012: RUB 1,969 million) in gains less losses from investment financial assets available for sale in the consolidated statement of income (Note 28).

In June 2012, as a result of early repayment of subordinated loans by a Russian credit institution (Note 12) Vnesheconombank received a financial asset with a fair value of RUB 47,715 million and classified it as available for sale. This financial asset represents rights for credit institution's shares and the Bank's liability to sell the shares of a mentioned credit institution pursuant to a written American call option exercisable in a period of eight years. Pursuant to the option agreement, Vnesheconombank receives semiannually a fixed premium, which is recognized in the consolidated statement of income in interest income from other investment financial assets available for sale.

(in millions of Russian rubles)

15. Investment financial assets (continued)

Investment financial assets held to maturity

Investment financial assets held to maturity comprise:

	2013	2012
Corporate bonds	593	724
Municipal and sub-federal bonds	245	761
Eurobonds of Russian and foreign issuers	–	15,170
	838	**16,655**
Less allowance for impairment (Note 20)	(74)	(73)
Investment financial assets held to maturity	**764**	**16,582**

At 31 December 2013, investment financial assets held to maturity that are pledged under repurchase agreements include corporate bonds with a fair value of RUB 33 million (31 December 2012: none).

16. Amounts due from the Russian Government

At 31 December 2013, amounts due from the Russian Government primarily include claims to the Russian Ministry of Finance of RUB 241 million (31 December 2012: RUB 118 million) related to prior periods settlements.

17. 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:

	Ownership				
Associates	**At 31 December 2013**	**At 31 December 2012**	**Carrying value**	**Country of incorporation**	**Industry**
LLC "Managing Company "Bioprocess Capital Partners"	25.10%	25.10%	42	Russia	Finance intermediary
OJSC "Corporation of Development of Krasnoyarsk Territory"	25.00%	25.00%	31	Russia	Finance intermediary
LLC "PROMINVEST"	25.00%	25.00%	–	Russia	Finance intermediary
OJSC "Ilyushin Finance Co."	21.39%	21.39%	4,160	Russia	Leasing
LLC "VEB-Invest"	19.00%	19.00%	–	Russia	Investment
CJSC "Leader"	27.62%	27.62%	2,358	Russia	Management company
	Share of assets:				
CMIF "Bioprocess Capital Ventures"	50.00%	50.00%	1,959	Russia	Investment

(in millions of Russian rubles)

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

The following table illustrates summarized financial information on significant associates:

OJSC "Ilyushin Finance Co."	**31 December 2013**	**31 December 2012**
Cash and cash equivalents	339	1,013
Amounts due from credit institutions	1,108	70
Loans to customers (including net investments in lease)	23,613	23,025
Investment securities available for sale	108	103
Property and equipment	1,038	419
Other assets	18,522	16,367
Total assets	**44,728**	**40,997**
Amounts due to credit institutions	(15,298)	(15,758)
Amounts due to customers	(19)	–
Deferred income tax liabilities	(19)	–
Other liabilities	(8,283)	(6,424)
Total liabilities	**(23,619)**	**(22,182)**
Net assets	**21,109**	**18,815**
The Group’s share in net assets	4,515	4,024
Goodwill included in the carrying value of investment	(355)	(6)
Carrying value of investment in associate	**4,160**	**4,018**

OJSC "Ilyushin Finance Co."	**For the year ended 31 December 2013**	**For the year ended 31 December 2012**
Interest income	122	126
Interest expense	(1,267)	(1,611)
Non-interest income	13,693	9,523
Non-interest expense	(11,736)	(7,399)
Profit for the year	**812**	**639**
Other comprehensive income	174	137
Total comprehensive income for the year	**812**	**639**
The Group’s share in comprehensive income	174	137
Dividends received from associate for the year	**32**	**82**

In 2013, the Group's share in loss of individually insignificant associates amounted to RUB 822 million (2012: share in net income was RUB 470 million).

At 31 December 2013, the Group's unrecognized share in loss of its associates for the year amounted to RUB 1,399 million (31 December 2012: RUB 670 million). At 31 December 2013, the Group's total unrecognized share in loss of its associates amounted to RUB 6,923 million (31 December 2012: RUB 5,524 million).

Jointly controlled entities

In July 2013, the share in the charter capital of Resad LLC, a Russian company implementing an investment project in the electric power sector, was transferred to the Bank in the amount of 85% of company's share capital. According to the current version of the company's charter, the participants of the company jointly control its activity.

(in millions of Russian rubles)

(in millions of Russian rubles)

18. Property and equipment

The movements in property and equipment were as follows:

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

(in millions of Russian rubles)

18. Property and equipment (continued)

	Buildings	Land	Equipment	Motor vehicles	Leasehold improve-ments	Assets under construction and warehoused property and equipment	Total
Cost							
At 31 December 2011	**17,745**	**234**	**6,002**	**2,337**	**535**	**14,515**	**41,368**
Additions	3,162	133	1,116	760	110	6,988	**12,269**
Disposals	(465)	(168)	(503)	(48)	(239)	(376)	**(1,799)**
Reclassification of property and equipment to investment property and assets held for sale	(521)	(4)	–	–	–	–	**(525)**
Transfers	6,288	–	27	51	15	(6,381)	**–**
Translation effect	(459)	(4)	334	(38)	2	(845)	**(1,010)**
At 31 December 2012	**25,750**	**191**	**6,976**	**3,062**	**423**	**13,901**	**50,303**
Accumulated depreciation and impairment							
At 31 December 2011	**3,300**	**–**	**3,006**	**624**	**152**	**–**	**7,082**
Depreciation charge	377	–	1,006	296	84	**–**	**1,763**
Depreciation of property and equipment reclassified to investment property	(29)	–	–	–	–	–	**(29)**
Disposals	(43)	–	(138)	(70)	(75)	–	**(326)**
At 31 December 2012	**3,605**	**–**	**3,874**	**850**	**161**	**–**	**8,490**
Net book value							
At 31 December 2011	**14,445**	**234**	**2,996**	**1,713**	**383**	**14,515**	**34,286**
At 31 December 2012	**22,145**	**191**	**3,102**	**2,212**	**262**	**13,901**	**41,813**

19. Taxation

Income tax comprises:

	2013	2012
Current tax charge	2,854	2,673
Deferred tax benefit – origination and reversal of temporary differences in the statement of income	(80)	(135)
Income tax expense	**2,774**	**2,538**

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 2013 and 2012. The tax rate for interest income on state securities was 15% for federal taxes.

The aggregate income tax rate effective in the Republic of Belarus was 18% for 2013 and 18% for 2012. The aggregate income tax rate effective in Ukraine was 19% for 2013 and 21% for 2012.

(in millions of Russian rubles)

19. Taxation (continued)

In accordance with federal legislation, effective from reorganization date income and expenses received and paid by Vnesheconombank are not accounted when determining taxable base for income tax purposes. Therefore, income and expenses of the Bank for 2013 and 2012 are not included into taxable base for income tax purposes, which had significant impact on the Group's effective income tax rate for 2013 and 2012.

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

	2013	2012
Current income tax asset	1,269	1,006
Deferred income tax asset	3,940	2,560
Income tax assets	**5,209**	**3,566**
Current income tax liability	339	263
Deferred income tax liability	4,456	1,439
Income tax liabilities	**4,795**	**1,702**

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:

	2013	2012
Income before tax	**11,282**	**20,026**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory tax rate	**2,256**	**4,005**
Tax effect from the following income and expenses:		
Non-taxable income on state securities or taxed at different rates	(126)	(217)
Income taxed at different rate	(20)	(111)
Non-taxable income and non-deductible expenses	1,167	648
Currency translation differences	336	(5)
Vnesheconombank's income and expenses not included in tax base for income tax purposes	(438)	(2,703)
Change in income tax resulting from change in tax rate and other changes in the legislation	366	460
Change in unrecognized deferred tax assets	(735)	632
Other	(32)	(171)
Income tax expense	**2,774**	**2,538**

(in millions of Russian rubles)

19. Taxation (continued)

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

	2011	Origination and reversal of temporary differences: In the statement of income	Origination and reversal of temporary differences: In other comprehen-sive income	Effect of business combination	Currency translation effect	2012	Origination and reversal of temporary differences: In the statement of income	Origination and reversal of temporary differences: In other comprehen-sive income	Effect of business combination (Note 6)	Currency translation effect	2013
Tax effect of deductible temporary differences:											
Allowance for impairment	976	561	–	–	(3)	1,534	152	–	–	4	1,690
Change in fair value of securities	288	(186)	2	–	–	104	(94)	4	–	(4)	10
Initial recognition of financial instruments at fair value	962	(214)	–	–	–	748	(254)	–	–	–	494
Tax losses carried forward	4,073	(43)			3,117	7,147	1,721	–	315	118	9,301
Accrued income and expense	31	10	–	–	–	41	6	–	–	–	47
Derivative financial instruments	93	(10)	–	–	3	86	(43)	–	–	–	43
Property and equipment	21	81	–	–	4	106	33	–	67	13	219
Other	3,024	452	(154)	8	(90)	3,240	(707)	(39)	148	95	2,737
	9,468	**651**	**(152)**	**8**	**3,031**	**13,006**	**814**	**(35)**	**530**	**226**	**14,541**
Unrecognized deferred tax assets	(4,484)	(626)	147	–	(3,034)	(7,997)	735	39	–	(101)	(7,324)
	4,984	**25**	**(5)**	**8**	**(3)**	**5,009**	**1,549**	**4**	**530**	**125**	**7,217**
Tax effect of taxable temporary differences:											
Change in fair value of securities	(845)	(35)	46	–	5	(829)	30	2	–	(2)	(799)
Loans to customers	(721)	505	–	–	–	(216)	(1,357)	–	–	–	(1,573)
Initial recognition of financial instruments at fair value	(998)	39	–	–	–	(959)	159	–	–	–	(800)
Allowance for impairment	(293)	200	–	–	(4)	(97)	(73)	–	–	(8)	(178)
Accrued income and expense	(109)	2	–	–	(9)	(116)	(47)	–	–	23	(140)
Derivative financial instruments	(96)	(25)	–	–	–	(121)	93	–	–	(3)	(31)
Property and equipment	(421)	(279)	–	–	–	(700)	(133)	(6)	–	(10)	(849)
Other	(482)	(297)	–	–	(71)	(850)	(141)	–	(2,367)	(5)	(3,363)
	(3,965)	**110**	**46**	**–**	**(79)**	**(3,888)**	**(1,469)**	**(4)**	**(2,367)**	**(5)**	**(7,733)**
Deferred tax asset	**2,737**	**10**	**(5)**	**8**	**(190)**	**2,560**	**989**	**4**	**321**	**66**	**3,940**
Deferred tax liability	**(1,718)**	**125**	**46**	**–**	**108**	**(1,439)**	**(909)**	**(4)**	**(2,158)**	**54**	**(4,456)**

(in millions of Russian rubles)

20. Other impairment and provisions

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

	Investment securities	Other assets	Claims	Insurance activity	Guarantees and commitments	Total
At 31 December 2011	**75**	**1,355**	**59**	–	**147**	**1,636**
Charge/(reversal)	(2)	147	159	8	653	**965**
Write-offs	–	(237)	(29)	–	–	**(266)**
Reversal of allowance previously written off	–	7	–	–	–	**7**
Hyperinflation effect	–	(3)	–	–	–	**(3)**
At 31 December 2012	**73**	**1,269**	**189**	**8**	**800**	**2,339**
Charge/(reversal)	1	3,226	12	894	(330)	**3,803**
Write-offs	–	(186)	(116)	–	–	**(302)**
At 31 December 2013	**74**	**4,309**	**85**	**902**	**470**	**5,840**

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

21. Other assets and liabilities

Other assets comprise:

	2013	2012
Advances issued to leasing equipment suppliers	33,576	24,429
Inventories of non-banking subsidiaries	21,814	813
Settlements with suppliers and other debtors	18,620	8,342
Investment property	7,551	6,626
Investment property under construction	5,433	4,486
Other tax assets	4,572	898
Equipment purchased for leasing purposes	4,536	5,460
Intangible assets	3,988	3,695
Repossessed collateral	3,182	1,150
Assets held for sale	2,502	1,739
Deferred expenses	2,498	4,628
Accrued commissions	1,644	788
Settlements on outstanding operations with securities	1,066	1,546
Prepaid securities	905	1,610
Spot transactions	72	70
Other	6,299	3,545
	118,258	**69,825**
Less allowance for impairment of other assets (Note 20)	(4,309)	(1,269)
Other assets	**113,949**	**68,556**

The growth in other assets of the Group during 2013 was primarily due to acquisition of assets through business combination in the amount of RUB 18,677 million (Note 6) and issue of advances by a leasing subsidiary to leasing equipment suppliers for the amount of RUB 9,147 million.

(in millions of Russian rubles)

21. Other assets and liabilities (continued)

Investment property

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

	2013	2012
Balance, beginning of the year	**6,626**	**4,464**
Additions	231	1,135
Transfer from property and equipment	104	383
Transfer from assets held for sale	248	–
Transfer from investment property under construction	556	–
Acquisition through business combination (Note 6)	937	901
Effect of revaluation	(639)	9
Disposals	(130)	(330)
Transfers to inventories	(466)	–
Other	84	64
Balance, end of the year	**7,551**	**6,626**
Amounts recorded in consolidated statement of income:		
- rental income	114	76
- gain) from the sale of investment property	10	116

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

Intangible assets

Included in other assets are intangible assets in the gross amount of RUB 5,862 million (31 December 2012: RUB 5,339 million), less accumulated amortization of RUB 1,874 million (31 December 2012: RUB 1,644 million). In 2013, the Group disposed of intangible assets in the gross amount of RUB 297 million (2012: RUB 310 million), less accumulated amortization of RUB 296 million (2012: RUB 181 million). The respective amortization charges for the year ended 31 December 2013 are RUB 654 million (for the year ended 31 December 2012: RUB 656 million), which are included in other operating expenses.

At 31 December 2013, intangible assets included goodwill in the amount of RUB 1,381 million related to acquisition of Bank BelVEB OJSC and OJSC "VEB-Leasing". At 31 December 2012, intangible assets included goodwill in the amount of RUB 1,381 million related to acquisition of Bank BelVEB OJSC and OJSC "VEB-Leasing".

Other liabilities comprise:

	2013	2012
Finance lease liabilities	24,435	4,067
Proceeds from sale of property	8,359	–
Future period income	5,290	9,322
Advances received from lessees	3,771	1,866
Settlements with employees	3,028	2,068
Deferred income related to government assistance	3,000	3,000
Settlements with clients on export revenues	2,845	2,198
Other settlements with credit institutions	1,437	1,111
Settlements on operations with securities	71	401
Spot transactions	66	39
Obligations to issue loans at a below-market interest rate	–	515
Received and unused subsidies	–	77,000
Other	3,487	3,861
Other liabilities	**55,789**	**105,448**

(in millions of Russian rubles)

21. Other assets and liabilities (continued)

Intangible assets (continued)

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

	Not later than 1 year	From 1 to 5 years	Later than 5 years	Total
Minimum lease payments	2,415	9,558	13,671	**25,644**
Future finance costs	(12)	(269)	(928)	**(1,209)**
Net liabilities under finance lease agreements	**2,403**	**9,289**	**12,743**	**24,435**

Liabilities under finance lease agreements at 31 December 2012 are analyzed as follows:

	Not later than 1 year	From 1 to 5 years	Later than 5 years	Total
Minimum lease payments	508	1,897	1,937	**4,342**
Future finance costs	(4)	(77)	(194)	**(275)**
Net liabilities under finance lease agreements	**504**	**1,820**	**1,743**	**4,067**

At 31 December 2012, received and unused subsidies within other liabilities included subsidies provided by the Russian Ministry of Finance pursuant to Federal Law No. 247-FZ "On Amending the Federal Law "On the Federal Budget for 2012 and for the 2013 and 2014 Planned Period" dated 3 December 2012 in the total amount of RUB 77,000 million. As these subsidies were used as intended, during 2013, the Bank recognized an increase in additional paid-in capital in the amount of RUB 77,000 million (Note 25).

At 31 December 2013 and 31 December 2012, other liabilities also include deferred income related to government assistance, in the amount of RUB 3,000 million, which represents an asset contribution provided by the Russian Ministry of Industry and Trade to Vnesheconombank as a compensation of part of the costs related to supporting manufacturers of high-tech products. This asset contribution was provided to the Bank under Regulation of the Russian Government No. 1302 dated 13 December 2012. At 31 December 2013, no loans to support manufacturers of high-tech products were provided using government assistance funds.

22. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2013	2012
Correspondent loro accounts of Russian credit institutions	56,017	48,010
Correspondent loro accounts of other credit institutions	2,069	12,641
Loans and other placements from OECD-based credit institutions	354,592	266,446
Loans and other placements from Russian credit institutions	138,648	191,178
Loans and other placements from other credit institutions	129,469	51,224
Repurchase agreements	5,726	376
Cash collateral on securities lent	–	67
Amounts due to credit institutions	**686,521**	**569,942**
Held as security against letters of credit	**113**	**128**

(in millions of Russian rubles)

22. Amounts due to credit institutions (continued)

At 31 December 2013, loans and other placements from OECD-based credit institutions include loans primarily denominated in RUB, USD, EUR and GBP with interest rates ranging from three-month MOSPRIME plus 1.1% to 9.9% for RUB loans (31 December 2012: from three-month MOSPRIME plus 1.1% to 10.0%), from three-month LIBOR plus 0.2% to 8.7% for USD loans (31 December 2012: from three-month LIBOR plus 0.2% to 8.7%), from six-month EURIBOR plus 0.3% to 7.8% for EUR loans (31 December 2012: from 0.6% to 6.5%) and from six-month LIBOR plus 1.5% to 7.9% for GBP loans (31 December 2012: from six-month LIBOR plus 1.5% to 7.9%). At 31 December 2013, there are no loans and other placements from OECD-based credit institutions denominated in CHF (31 December 2012: annual interest rate was 6.0%).

At 31 December 2013, loans and other placements from Russian credit institutions include loans denominated in RUB, USD and EUR with interest rates ranging from 0.3% to 13.8% for RUB loans (31 December 2012: from 4.0% to 10.7%), from 0.1% to 8.5% for USD loans (31 December 2012: from 0.2% to 8.9%), from 0.5% to 8.9% for EUR loans (31 December 2012: from 0.1% to 9.0%). At 31 December 2013 and 31 December 2012, this item also includes deposits held as security against letters of credit and minimum balances on correspondent loro accounts.

At 31 December 2013, loans and other placements from non-OECD-based credit institutions include loans denominated in RUB, USD, EUR and UAH with interest rates ranging from 6.5% to 6.8% for RUB loans (31 December 2012: from 6% to 9.2%), from 0.1% to 6.4% for USD loans (31 December 2012: from 0.2% to 6.5%), from 3.1% to 7.0% for EUR loans (31 December 2012: from 1.9% to 7.2%). At 31 December 2013, loans and other placements from non-OECD-based credit institutions also include loans denominated in UAH with interest rates ranging from 2% to 18.5% (31 December 2012: 7.5% to 16%). At 31 December 2013 and 31 December 2012, this item also includes deposits held as security against letters of credit.

At 31 December 2013, repurchase agreements with credit institutions include loans of RUB 1,391 million (31 December 2012: RUB 376 million) received from foreign credit institutions and collateralized by debt securities available for sale with the fair value of RUB 1,525 million (31 December 2012: RUB 410 million), and loans received of RUB 3,029 million collateralized by debt securities available for sale with a fair value of RUB 3,117 million (Note 15). The Group did not reclassify securities with a fair value of RUB 3,117 million in its consolidated statement of financial position, as the terms of the repurchase agreements do not allow foreign counterparty credit institutions to sell or pledge collateral received under those repurchase agreements.

At 31 December 2013, repurchase agreements with credit institutions also include loans of RUB 1,306 million received from Russian credit institutions and collateralized by debt securities available for sale with the fair value of RUB 1,592 million (at 31 December 2012, there were no such loans) (Note 15).

At 31 December 2013, there were no amounts due to credit institutions in the form of cash collateral on securities lent. At 31 December 2012, amounts due to credit institutions included cash collateral on securities lent in the amount of RUB 67 million received from a Russian credit institution. The funds lent were represented by equity securities as at fair value through profit or loss with the fair value of RUB 68 million (Note 11).

In 2013, the Group raised long-term financing on market terms from OECD-based credit institutions totaling RUB 88,247 million (2012: RUB 52,259 million) and repaid long-term financing of RUB 34,250 million (2012: RUB 27,178 million) in accordance with contractual terms. Besides, in 2013 the Group raised long-term financing on market terms from other credit institutions totaling RUB 23,248 million (2012: RUB 18,078 million) and repaid long-term financing of RUB 6,113 million

(in millions of Russian rubles)

(2012: RUB 392 million) in accordance with contractual terms.

(in millions of Russian rubles)

22. Amounts due to credit institutions (continued)

In addition, in 2013 a leasing company of the Group raised long-term financing from Russian and foreign credit institutions totaling RUB 54,383 million (2012: RUB 20,771 million) and repaid long-term financing of RUB 29,811 million (2012: RUB 12,669 million) in accordance with contractual terms.

23. Amounts due to customers

Amounts due to customers comprise:

	2013	2012
Current accounts	144,463	121,227
Term deposits	258,813	213,117
Other amounts due to customers	16	422
Repurchase agreements	–	623
Cash collateral on securities lent	–	438
Amounts due to customers	**403,292**	**335,827**
Held as security against guarantees	**104**	**117**
Held as security against letters of credit	**4,537**	**8,352**

At 31 December 2013 and at 31 December 2012, amounts due to the Bank's four largest customers amounted to RUB 107,787 million and RUB 76,942 million, respectively, representing 26.7% and 22.9% of the aggregate amounts due to customers.

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

	2013	2012
Telecommunications	76,961	37,384
Finance	36,119	11,052
Real estate and construction	9,658	2,092
Manufacturing, heavy machinery and military-related goods production	13,233	25,534
Mining	6,749	9,226
	142,720	**85,288**

Included in term deposits are deposits of individuals in the amount of RUB 100,773 million (31 December 2012: RUB 81,744 million). In accordance with the Russian Civil Code, the Bank and its Russian subsidiaries are obliged to repay such term deposits upon demand of a depositor. In accordance with the Banking Code of the Republic of Belarus, the Belarusian subsidiary is obliged to repay term deposits of individuals in five days upon demand of a depositor. In accordance with the banking legislation of Ukraine, the Ukrainian subsidiary is obliged to repay term deposits of individuals in five days upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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

	2013	2012
State and state-controlled entities	138,005	103,155
Private companies	145,326	131,637
Employees and other individuals	114,812	96,631
Companies under foreign state control	5,149	4,404
Amounts due to customers	**403,292**	**335,827**

(in millions of Russian rubles)

23. Amounts due to customers (continued)

At 31 December 2013, there are no repurchase agreements with customers. At 31 December 2012, repurchase agreements with customers include loans of RUB 623 million received from Russian companies and collateralized by debt securities acquired under a reverse repurchase agreement with the fair value of RUB 1,131 million.

At 31 December 2013, there were no amounts due to customers in the form of cash collateral on securities lent. At 31 December 2012, amounts due to customers include cash collateral on securities lent in the amount of RUB 438 million received from a Russian company. The funds lent are represented by equity securities as at fair value through profit or loss with the fair value of RUB 435 million (Note 11).

24. Debt securities issued

Debt securities issued comprise the following:

	2013	2012
Eurobonds	330,024	182,902
Domestic bonds	248,541	181,639
Promissory notes	24,743	18,781
Saving certificates	11	223
European commercial paper	–	5,394
Debt securities issued	**603,319**	**388,939**
Promissory notes held as security against guarantees	**795**	**834**

During 2013 the Group issued the following debt securities:

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

(in millions of Russian rubles)

24. Debt securities issued (continued)

During 2013, the Group repaid the following debt securities:

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

Also during the reporting period, a subsidiary bank repurchased under offers its own bonds for a total amount of RUB 3,458 million. At 31 December 2012, these bonds with a nominal value of RUB 1,237 million were part of the securities portfolios of the Group entities.

During 2013, a subsidiary bank fully repaid four issues of European commercial papers in accordance with the terms of their issue.

During 2012, the Group issued the following debt securities:

Type of debt securities issued	Issued month	Maturity	Issue currency	Nominal value of securities issued: Currency, million	Nominal value of securities issued: At the placement date, RUB, million	Nominal value of securities in the portfolios of the Group entities, RUB, million
Bonds	January	December 2016	BYR	14,070	55	
Eurobonds	February	February 2017	USD	750	22,419	
Bonds	February	February 2015	USD	500	14,890	
Bonds	February	January 2017	RUB	10,000	10,000	
Bonds	March	February 2032	RUB	15,000	15,000	
Bonds	March	March 2022	RUB	5,000	5,000	
Bonds	April	April 2022	RUB	5,000	5,000	939
Bonds	April	April 2022	RUB	5,000	5,000	5,000
European commercial papers	May	May 2013	USD	50	1,569	
European commercial papers	May	May 2013	USD	40	1,255	
Bonds	June	August 2017	BYR	100,000	394	
Eurobonds	July	July 2022	USD	1,000	32,207	
Bonds	July	June 2017	USD	100	3,247	3,247
Bonds	July	June 2017	USD	100	3,247	3,247
Bonds	July	June 2017	USD	100	3,247	3,247
Bonds	July	June 2017	USD	100	3,247	3,247
Bonds	August	August 2022	RUB	5,000	5,000	
Bonds	September	September 2017	BYR	100,000	369	
European commercial papers	September	September 2013	USD	50	1,574	268
European commercial papers	September	September 2013	USD	50	1,579	
Bonds	October	September 2032	RUB	10,000	10,000	
Bonds	October	September 2032	RUB	10,000	10,000	
Bonds	October	October 2017	USD	100	3,090	3,090
Bonds	October	October 2017	USD	100	3,090	3,090
Bonds	November	November 2015	RUB	5,000	5,000	3,650

(in millions of Russian rubles)

Bonds	December	December 2015	RUB	5,000	5,000	1,237

24. Debt securities issued (continued)

During 2012, the Group repurchased under offers its own bonds for a total of amount RUB 11,053 million. Debt securities issued by the Group were not repaid in 2012.

At 31 December 2013, debt securities issued include Eurobonds placed at market interest rates denominated in USD maturing from May 2016 to November 2025 (31 December 2012: from May 2016 to November 2025), denominated in CHF maturing in February 2016 (31 December 2012: February 2016) and denominated in EUR maturing from February 2018 to February 2023 (31 December 2012: no Eurobonds denominated in EUR).

At 31 December 2013, included in debt securities issued are bonds placed at the market rate denominated in RUB maturing from April 2014 to September 2032 (31 December 2012: from February 2013 to September 2032), denominated in USD maturing in February 2015 (31 December 2012: from February 2015 to October 2017), denominated in UAH maturing from January 2014 to March 2014 (31 December 2012: from March 2013 to March 2014), as well as bonds denominated in BYR maturing in September 2016 (31 December 2012: from September 2016 to September 2017).

At 31 December 2013, debt securities issued by the Group include interest-bearing promissory notes denominated in RUB, USD and EUR maturing before December 2049 (31 December 2012: maturing before December 2049). At 31 December 2013, interest rates are from 3% to 9.1% for RUB-denominated promissory notes (31 December 2012: from 0.1% to 9.5%), from 0.2% to 8.5% for USD-denominated promissory notes (31 December 2012: from 0.2% to 8.5%) and 0.4% for EUR-denominated promissory notes (31 December 2012: from 0.4% to 1.6%).

At 31 December 2013, debt securities issued include RUB-denominated saving certificates issued by a subsidiary bank at interest rates from 0.1% to 0.5% maturing from March 2016 to February 2022 (31 December 2012: interest rates for saving certificates which mature in March 2022 are from 0.1% to 9%).

25. Equity

Charter capital

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

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

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

In accordance with Resolution of the Russian Government No. 1665-r dated 19 November 2008, pursuant to Federal Law No. 98-FZ dated 24 July 2007, "On the Federal Budget for 2008 and for the 2009 and 2010 Planned Period", the Russian Federation contributed RUB 75,000 million to the charter capital of Vnesheconombank in November 2008.

(in millions of Russian rubles)

25. Equity (continued)

Charter capital (continued)

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

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

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

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

Additional paid-in capital

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

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

- as an asset contribution in the amount of RUB 62,000 million for the purpose of establishing the Russian direct investment fund Mutual Fund RDIF;
- as an asset contribution in the amount of RUB 15,000 million for implementing top-priority industrial, transport and energy infrastructure development projects in the Far East and the Baikal region.

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

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

(in millions of Russian rubles)

25. Equity (continued)

Nature and purpose of other reserves

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

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

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

	2013	2012
Unrealized gains/(losses) on investment financial assets available for sale	21,290	(12,695)
Realized gains on investment financial assets available for sale, reclassified to the statement of income (Note 28)	(72,887)	(4,020)
Change in unrealized gains/(losses) on operations with investment financial assets available for sale	**(51,597)**	**(16,715)**

Foreign currency translation reserve

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

26. Commitments and contingencies

Operating environment

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

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

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

Ukrainian economy, while deemed to be of market status, continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, low levels of liquidity in capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside the country. The global financial crisis has resulted in a decline in the gross domestic product, higher unemployment, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Ukraine. The future stability of the Ukrainian economy will largely depend upon the Ukrainian Government's policies and actions with regard to supervisory, fiscal, legal and economic reforms. Therefore, operating activities in Ukraine are exposed to risks which do not exist in more mature markets.

(in millions of Russian rubles)

26. Commitments and contingencies (continued)

Operating environment (continued)

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Notwithstanding certain stabilization measures adopted by the Ukrainian Government in order to support government finances and the banking sector and provide liquidity to Ukrainian banks and companies, uncertainty exists regarding access to capital and the cost of capital for the Group and its counterparties, which may affect the financial position of the Group, results of its operations and business development prospects.

In 2013, the Russian, Belarusian and Ukrainian governments continued to take measures to support the economy to overcome the consequences of the global financial crisis. The global financial crisis has resulted in uncertainty regarding 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.

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

Legal issues

The Group is involved in a number of legal actions related to the Group's ordinary activities. Management believes that the ultimate liability 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 20.

Taxation

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

(in millions of Russian rubles)

26. Commitments and contingencies (continued)

Taxation (continued)

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

As at 31 December 2013, the Group's management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Commitments and contingencies

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

	2013	2012
Credit related commitments		
Undrawn loan commitments	500,391	648,431
Guarantees	278,195	146,402
Letters of credit	20,920	71,919
	799,506	**866,752**
Operating lease commitments		
Not later than 1 year	1,564	1,225
Later than 1 but not later than 5 years	2,960	2,787
Later than 5 years	5,895	2,090
	10,419	**6,102**
Liabilities under shared financing agreements	2,933	2,721
Capital expenditure commitments	19,737	12,591
	832,595	**888,166**
Less provisions (Note 20)	(470)	(800)
Commitments and contingencies (before deducting collateral)	**832,125**	**887,366**
Less deposits and securities issued, held as security against guarantees and letters of credit	(5,549)	(9,431)
Commitments and contingencies	**826,576**	**877,935**

At 31 December 2013, the Group advised export letters of credit for a total amount of RUB 88,862 million (31 December 2012: RUB 83,474 million). At 31 December 2013, the Group has no reimbursement authorization (31 December 2012: RUB 1,884 million). The Group bears no credit risks under export letters of credit and reimbursement authorization.

At 31 December 2013, credit related commitments include liabilities in favor of one counterparty, a state company, in the amount of RUB 86,670 million, which accounts for 11% (31 December 2012: RUB 40,344 million, 5%) of all credit related commitments.

At 31 December 2013, credit related commitments also include the Bank's guarantee for liabilities of a major Russian bank (related party) in the amount of RUB 60,000 million valid until December 2014.

Insurance

At 31 December 2013, the Group's premises are insured for RUB 25,400million (31 December 2012: RUB 15,576 million). Liability insurance is generally not available in Russia, the Republic of Belarus and Ukraine at present.

(in millions of Russian rubles)

27. Net fee and commission income

Net fee and commission income comprises:

	2013	2012
Cash and settlement operations	4,180	3,513
Guarantees and letters of credit	3,860	2,334
Agency fees	556	556
Trust management of pension funds	433	383
Operations with securities	113	117
Other operations	1,027	672
Fee and commission income	**10,169**	**7,575**
Fee and commission expense	(2,542)	(1,673)
Net fee and commission income	**7,627**	**5,902**

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

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

	2013	2012
Gains less losses on sale of investment financial assets available for sale, previously recognized in other comprehensive income (Note 25)	72,887	4,020
Losses on impairment of investment financial assets available for sale	(4,559)	(1,969)
Other gains from sale and redemption of investment financial assets	74	197
Total gains less losses from investment financial assets available for sale	**68,402**	**2,248**

29. Other operating income and expenses

Other operating income comprise:

	2013	2012
Revenue from sale of products	5,435	2,352
Penalties received	2,183	44
Income from financing activities	1,737	2,030
Gains from disposal of leased assets	439	78
Rental income from property and equipment	434	179
Gain from disposal of investment property	216	–
Other	1,066	717
Total	**11,510**	**5,400**

(in millions of Russian rubles)

29. Other operating income and expenses (continued)

Other operating expenses comprise:

	2013	2012
Cost of sales	2,448	2,126
Charity	2,065	1,290
Legal services	1,780	2,164
Advertising expenses	1,703	1,626
Insurance	1,220	626
Audit and consulting	1,176	1,177
Marketing and research	1,104	681
Administrative expenses	1,097	765
Loss on disposal of financial assets (loans and accounts receivable)	854	97
Amortization of intangibles	654	656
Loss on write-off of impaired assets	574	419
Deposits' insurance	556	398
Sponsorship	348	1,122
Loss on acquisition of impaired assets	–	1,750
Loss on write-off of goodwill	–	564
Other	6,068	3,817
Other operating expenses	**21,647**	**19,278**

30. Risk management

Introduction

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

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

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

(in millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

Risk management structure in place at Group members

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

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

In 2013, the risk management coordination within the Group of Vnesheconombank was further developed. The Chairman of Vnesheconombank approved the Risk Management Policy of Vnesheconombank’s Group that established primary objectives, goals, principles and procedures for consolidated risk management within Vnesheconombank and its subsidiaries.

Vnesheconombank's risk management structure

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

Supervisory Board

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

(in millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

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

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

Management Board

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

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

Chairman of Vnesheconombank

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

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

Credit Committee

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

Assets and Liabilities Committee

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

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

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

(in millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

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

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

Internal Control Function

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

Risk Management Department

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

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

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

Directorate for Currency and Financial Transactions

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

The Directorate monitors the market value and liquidity of collateral provided by the Bank's counterparties.

Independently from other operating divisions, the Analytical Unit within the Directorate analyzes the current situation on money, equity and currency markets.

(in millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

Economic Planning Department

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

Risk management

Risk measurement and reporting systems

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

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

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

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

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

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

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

(in millions of Russian rubles)

30. Risk management (continued)

Introduction (continued)

Risk mitigation

As part of its risk management, the Bank may use derivatives and other instruments to manage exposures arising from changes in interest rates, currency rates, equity prices, credit risk factors, and exposures arising from changes in positions under forecast transactions.

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

Excessive risk concentration

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

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

Credit risk

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

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

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

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

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

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

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

(in millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

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

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

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

Credit-related commitments risks

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

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 14.

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

(in millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

The table below shows the credit quality by class of assets 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 and does not include allowance for impairment.

		Not past due					
		Not impaired					
	Notes	High grade 2013	Standard grade 2013	Sub-standard grade 2013	Individually impaired 2013	Past due 2013	Total 2013
Amounts due from credit institutions	12						
Subordinated loans		297,446	11,490	–	–	–	**308,936**
Interbank loans under small and medium-sized business support program		75,542	12,113	0	0	873	**88,528**
Mortgage bonds		6,306	–	–	–	–	**6,306**
Other amounts due from credit institutions		26,703	4,344	–	–	80	**31,127**
		405,997	**27,947**	**0**	**0**	**953**	**434,897**
Loans to customers (including those pledged under repurchase agreements)	14						
Project finance		154,413	333,323	194,466	131,516	104,442	**918,160**
Commercial loans		196,204	362,946	68,522	75,951	110,456	**814,079**
Net investments in leases		170,800	16,590	4,831	1,223	42,608	**236,052**
Financing of operations with securities		59,472	5,966	–	0	–	**65,438**
Back-to-back finance		35,330	–	–	–	–	**35,330**
Export and pre-export finance		18,864	3,685	2,876	–	2,895	**28,320**
Claims under letters of credit		6,198	3,102	3,608	584	2,468	**15,960**
Reverse repurchase agreements		5,215	3,661	–	–	–	**8,876**
Promissory notes		4,534	647	–	7	730	**5,918**
Mortgage bonds		–	2,603	–	–	–	**2,603**
Other		703	3,004	80	3,763	242	**7,792**
		651,733	**735,527**	**274,383**	**213,044**	**263,841**	**2,138,528**
Debt investment securities	15						
Available for sale (including those pledged under repurchase agreements)		153,647	84,592	505	–	–	**238,744**
Held to maturity		797	–	–	–	74	**871**
		154,444	**84,592**	**505**	**–**	**74**	**239,615**
Total		**1,212,174**	**848,066**	**274,888**	**213,044**	**264,868**	**2,813,040**

(in millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

	Notes	Not past due – Not impaired – High grade 2012	Not past due – Not impaired – Standard grade 2012	Not past due – Not impaired – Sub-standard grade 2012	Not past due – Individually impaired 2012	Past due 2012	Total 2012
Amounts due from credit institutions	12						
Subordinated loans		294,683	10,886	–	–	–	**305,569**
Interbank loans under small and medium-sized business support program		66,856	7,767	–	266	298	**75,187**
Mortgage bonds		2,212	–	–	–	–	**2,212**
Other amounts due from credit institutions		59,055	4,838	344	–	–	**64,237**
		422,806	**23,491**	**344**	**266**	**298**	**447,205**
Loans to customers (including those pledged under repurchase agreements)	14						
Commercial loans		125,692	335,976	97,064	72,738	73,960	**705,430**
Project finance		121,582	212,418	153,083	112,954	63,782	**663,819**
Net investments in leases		148,750	8,435	1,988	27	5,952	**165,152**
Financing of operations with securities		45,736	6,347	–	–	–	**52,083**
Back-to-back finance		34,811	–	–	–	–	**34,811**
Export and pre-export finance		5,902	11,451	1,001	135	1,911	**20,400**
Claims under letters of credit		228	8,129	2,657	–	2,602	**13,616**
Reverse repurchase agreements		8,628	5,281	–	–	–	**13,909**
Promissory notes		615	98	9,311	–	91	**10,115**
Mortgage bonds		–	1,712	–	–	–	**1,712**
Other, including instruments pledged under repurchase agreements		1,692	6,417	25	–	1,642	**9,776**
		493,636	**596,264**	**265,129**	**185,854**	**149,940**	**1,690,823**
Debt investment securities	15						
Available for sale (including those pledged under repurchase agreements)		192,534	36,439	415	–	–	**229,388**
Held to maturity		16,582	–	–	–	73	**16,655**
		209,116	**36,439**	**415**	**–**	**73**	**246,043**
Total		**1,125,558**	**656,194**	**265,888**	**186,120**	**150,311**	**2,384,071**

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

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

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

	Less than 7 days 2012	7 to 30 days 2012	More than 30 days 2012	Total 2012
Loans to customers				
Project finance	16,029	1,684	1,684	**19,397**
Commercial loans	621	604	7,068	**8,293**
Net investments in leases	635	756	551	**1,942**
	17,285	**3,044**	**9,303**	**29,632**

(in millions of Russian rubles)

30. Risk management (continued)

Credit risk (continued)

Included in past due but not impaired loans to customers are outstanding amounts of RUB 16,029 million arising on overdue interest payment. In January 2013, the overdue interest was settled in full.

See Note 14 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management

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

The Group manages its liquidity risk at the following levels:

- Each bank within the Group manages its liquidity on a standalone basis so that it can meet its obligations in full and comply with requirements of the national regulator; for this purpose relevant policies and procedures have been developed that detail the liquidity risk assessment and control process;
- Liquidity-related issues are considered on the Group's level at the meetings of the Working group on coordination of subsidiary banks' and financial companies' liquidity and risk management and the Working group on coordination of public borrowings of subsidiary banks and companies of Vnesheconombank.

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

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

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

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

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

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

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

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

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

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

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

- selling the portfolio of highly liquid assets (concluding repurchase agreements);
- limiting the volume of transactions with counterparties having a high credit risk level;
- suspending issuance of loans, guarantees and credit lines;
- taking measures to close positions in low liquid securities and to assign loan portfolio-related receivables;
- strengthening cooperation with Bank's customers for the purpose of short-term planning the Bank's liquidity situation and setting the funds withdrawal schedule;
- maintaining transparency of the Bank's operations.

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

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

	Up to 1 month 2013	1 to 6 months 2013	6 to 12 months 2013	Over 1 year 2013	No stated maturity 2013	Total 2013
Financial assets:						
Cash and cash equivalents	251,791	24,203	–	–	–	**275,994**
Precious metals	130	–	–	–	167	**297**
Financial assets at fair value through profit or loss	54,427	285	22	32,277	11,824	**98,835**
Financial assets at fair value through profit or loss lent and pledged under repurchase agreements	15,697	–	–	–	–	**15,697**
Amounts due from credit institutions	12,313	20,326	19,430	381,746	–	**433,815**
Loans to customers	45,441	204,692	333,262	1,263,644	–	**1,847,039**
Investment financial assets:						
- available-for-sale	223,368	–	–	41,912	177,054	**442,334**
- held-to-maturity	1	296	128	339	–	**764**
Investment securities lent and pledged under repurchase agreements						
- available-for-sale	13,851	1,525	–	–	–	**15,376**
- held to maturity	–	1	1	31	–	**33**
Due from the Russian Government	–	–	–	–	241	**241**
Investments in associates	–	–	–	–	10,473	**10,473**
Income tax assets	–	1,269	–	–	3,940	**5,209**
Other financial assets	4,598	23,346	16,707	19,153	316	**64,120**
	621,617	**275,943**	**369,550**	**1,739,102**	**204,015**	**3,210,227**
Financial liabilities:						
Amounts due to credit institutions	173,699	140,271	55,340	317,211	–	**686,521**
Financial liabilities at fair value through profit or loss	38	385	107	416	–	**946**
Due to the Russian Government and the Bank of Russia	42,618	51,436	470,682	416,244	–	**980,980**
Amounts due to customers	211,308	80,596	45,598	65,790	–	**403,292**
Debt securities issued	9,308	33,202	34,651	526,158	–	**603,319**
Income tax liabilities	–	339	–	–	4,456	**4,795**
Other financial liabilities	7,164	6,038	4,918	22,751	777	**41,648**
	444,135	**312,267**	**611,296**	**1,348,570**	**5,233**	**2,721,501**
Net position	**177,482**	**(36,324)**	**(241,746)**	**390,532**	**198,782**	**488,726**
Accumulated gap	***177,482***	***141,158***	***(100,588)***	***289,944***	**488,726**	

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

At 31 December 2012, financial assets and liabilities of the Group had the following maturities:

	Up to 1 month 2012	1 to 6 months 2012	6 to 12 months 2012	Over 1 year 2012	No stated maturity 2012	Total 2012
Financial assets:						
Cash and cash equivalents	218,885	21,112	–	–	–	**239,997**
Precious metals	570	–	–	–	174	**744**
Financial assets at fair value through profit or loss	30,943	400	368	29,875	10,533	**72,119**
Financial assets at fair value through profit or loss lent and pledged under repurchase agreements	16,184	484	–	–	–	**16,668**
Amounts due from credit institutions	11,388	45,334	30,623	359,072	59	**446,476**
Loans to customers	52,133	167,505	216,239	1,061,362	–	**1,497,239**
Loans to customers pledged under repurchase agreements	–	–	148	–	–	**148**
Investment financial assets:						
- available-for-sale	217,636	–	–	47,562	228,615	**493,813**
- held-to-maturity	15,173	82	592	735	–	**16,582**
Investment financial assets lent and pledged under repurchase agreements	11,340	411	–	–	–	**11,751**
Due from the Russian Government	–	–	–	–	118	**118**
Investments in associates	–	–	–	–	9,510	**9,510**
Income tax assets	–	1,006	–	–	2,560	**3,566**
Other financial assets	4,051	14,622	9,220	14,026	4,619	**46,538**
	578,303	**250,956**	**257,190**	**1,512,632**	**256,188**	**2,855,269**
Financial liabilities:						
Amounts due to credit institutions	172,497	71,347	41,424	284,674	–	**569,942**
Financial liabilities at fair value through profit or loss	241	1,174	455	624	–	**2,494**
Due to the Russian Government and the Bank of Russia	55,030	124,369	198,078	604,391	–	**981,868**
Amounts due to customers	163,598	85,835	51,599	34,795	–	**335,827**
Debt securities issued	7,454	31,364	22,126	327,995	–	**388,939**
Income tax liabilities	–	263	–	–	1,439	**1,702**
Other financial liabilities	4,929	3,309	2,160	5,158	838	**16,394**
	403,749	**317,661**	**315,842**	**1,257,637**	**2,277**	**2,297,166**
Net position	**174,554**	**(66,705)**	**(58,652)**	**254,995**	**253,911**	**558,103**
Accumulated gap	***174,554***	***107,849***	***49,197***	***304,192***	***558,103***	

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

While the majority of available-for-sale securities is shown as 'up to 1 month', 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.

Alternatively, the Group's management believes that the substantial part of the investments in equity investment securities available for sale recognized in 'no stated maturity' can guarantee significant volumes of liquidity within a short period of time (up to 1 month) upon disposal of these securities on the market or conducting transactions on repurchase agreements.

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

There is no accumulated negative liquidity gap for any of the maturities at 31 December 2012. The negative liquidity gap in '6 to 12 months, 2013' of RUB 100,588 million is caused mainly by difference in maturities of interest-bearing deposits of the Bank of Russia, which include special purpose deposits attracted for the program for financial support to Sviaz-Bank and CJSC "GLOBEXBANK" in total amount of RUB 205,412 million, and USD-denominated deposits of the Russian Ministry of Finance attracted to finance investment projects (Note 8). In mid-2013, the maturity of the deposits of the Bank of Russia (with nominal maturity of 1 year) was extended by 1 year (as in 2009-2012); in December 2012, the maturity of the USD denominated deposits of the Russian Ministry of Finance was extended by 2 years (2011: 1.5 years). Given the special purpose-related character of the deposits of the Bank of Russia, the Group's management expects that the maturity of these deposits will be extended in 2014 as well.

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2013 and 31 December 2012 based on contractual undiscounted repayment obligations. Exception is made for derivatives (assets and liabilities), which are shown by amounts payable and receivable as well as the cost of the realizable non-monetary assets and by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to credit institutions	199,984	174,044	302,182	63,537	**739,747**
Derivative financial instruments settled through delivery of underlying asset					
- Contractual amounts payable	33,568	2,523	21,316	9	**57,416**
- Fair value of sold underlying assets	20,349	2,285	6,248	–	**28,882**
- Contractual amounts receivable	(54,870)	(4,717)	(50,576)	(10)	**(110,173)**
Due to the Russian Government and the Bank of Russia	45,490	543,030	193,954	429,519	**1,211,993**
Amounts due to customers	269,565	76,512	70,153	168	**416,398**
Debt securities issued	27,798	54,235	387,051	382,319	**851,403**
Other liabilities	9,330	7,749	9,885	15,127	**42,091**
Total undiscounted financial liabilities	**551,214**	**855,661**	**940,213**	**890,669**	**3,237,757**

At 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to credit institutions	198,169	93,770	279,342	51,848	**623,129**
Derivative financial instruments settled through delivery of underlying asset					
- Contractual amounts payable	71,313	11,186	20,558	60	**103,117**
- Fair value of sold underlying assets	1,869	–	14,006	–	**15,875**
- Contractual amounts receivable	(72,545)	(10,944)	(47,821)	(36)	**(131,346)**
Due to the Russian Government and the Bank of Russia	117,989	273,745	404,199	455,374	**1,251,307**
Amounts due to customers	205,022	106,124	33,428	989	**345,563**
Debt securities issued	24,929	39,437	214,239	312,563	**591,168**
Other liabilities	4,478	3,799	3,570	2,580	**14,427**

(in millions of Russian rubles)

Total undiscounted financial liabilities	**551,224**	**517,117**	**921,521**	**823,378**	**2,813,240**

(in millions of Russian rubles)

30. Risk management (continued)

Liquidity risk and funding management (continued)

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

Included in amounts due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand of a depositor. According to the legislation of the Republic of Belarus and Ukraine, the Group is obliged to repay the amount of these deposits at the first call of the depositor within five days (Note 23).

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

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2013	747,803	14,914	22,926	13,863	**799,506**
2012	853,560	9,184	4,008	–	**866,752**

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

At 31 December 2013, credit-related commitments presented in the 'less than 3 months' category include liabilities in the amount of RUB 93,566 million (31 December 2012: RUB 48,303 million) whose maturities are linked to settlements under export contracts.

Market risk

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

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

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

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

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

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

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

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

The Bank performs stress testing procedures on 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.

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

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

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

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

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

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

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

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

The sensitivity of the statement of income is the estimate of the effect of the assumed changes in interest rates on the net interest income before tax for one year calculated for floating rate financial assets and financial liabilities held at 31 December 2013 and at 31 December 2012, as well as the amount of revaluation of fixed rate trading financial assets and derivative financial instruments. The sensitivity of equity to changes in interest rates is calculated as the amount of revaluation of fixed rate available-for-sale financial assets in case of assumed change in interest rates. The effect of revaluation of financial assets was calculated based on the assumption that there are parallel shifts in the yield curve.

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

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

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

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

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

Rate	Increase in %, 2012	Sensitivity of the statement of income 2012	Sensitivity of equity 2012
3-m LIBOR USD	0.50%	(758)	–
3-m LIBOR EUR	0.50%	95	–
3-m MosPrime	1.50%	53	–
3-m Ukrainian Interbank	7.00%	(1)	–
3-m LIBOR JPY	0.25%	1	–
YTM 5Y USTreasuries	0.80%	298	(176)
RGBEY	3.00%	(1,114)	(3,570)
YTM Ukrainian sovereign bonds	7.50%	–	(199)
Refinancing rate of the Bank of Russia	0.25%	566	–
Refinancing rate of NB RB	10.00%	504	–
Refinancing rate of NBU	0.25%	1	–

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

Rate	Decrease in %, 2012	Sensitivity of the statement of income 2012	Sensitivity of equity 2012
3-m LIBOR USD	-0.05%	76	–
3-m LIBOR EUR	-0.05%	(9)	–
3-m MosPrime	-1.50%	(53)	–
3-m Ukrainian Interbank	-13.00%	1	–
3-m LIBOR JPY	-0.05%	–	–
YTM 5Y USTreasuries	-0.20%	(74)	44
RGBEY	-1.00%	371	1,190
YTM Ukrainian sovereign bonds	-10.00%	–	265
Refinancing rate of the Bank of Russia	-0.50%	(1,132)	–
Refinancing rate of NB RB	-10.00%	(504)	–
Refinancing rate of NBU	-0.25%	(1)	–

Below are VaR measures for the bond portfolio of the Bank at 31 December 2013 and at 31 December 2012:

	2013	2012
VaR	2,543	1,592

Currency risk

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

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

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

The table below shows open currency positions of the Bank at 31 December 2013 and 31 December 2012, 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	2013	2012
UAH	39,778	26,678
BYR	4,396	4,529
HKD	1,205	202
USD	877	12,865
CZK	221	188
Other currencies	156	124
JPY	117	(1,570)
CAD	69	85
GBP	(301)	28
CHF	(766)	(651)
EUR	(2,962)	(95)

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

Below is the Bank's VaR measure for open currency positions at 31 December 2013 and 31 December 2012:

	2013	2012
VaR	1,116	1,111

Currency revaluation of the Bank's nominal investments in non-negotiable shares of subsidiaries may not reflect changes in the real economic value of these companies.

In order to assess this factor, the risk related to the adjusted aggregate open currency position was calculated with elimination of positions in UAH and BYR which were based mainly on investments in subsidiary banks.

The Bank's VaR measure for open currency positions at 31 December 2013, except for investments in subsidiaries, was RUB 40 million. The Bank's VaR measure for open currency positions at 31 December 2012, except for investments in subsidiaries, was RUB 210 million.

The table below shows the sensitivity of open currency positions of the Group (excluding the Bank) at 31 December 2013 and at 31 December 2012. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Ruble on the statement of income (due to the fair value of currency sensitive financial assets and liabilities). All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of income or equity, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2013	Effect on profit before tax 2013	Change in currency rate in % 2012	Effect on profit before tax 2012
USD	10.06%	(813)	12.57%	596
	-10.06%	813	-12.57%	(596)
UAH	10.33%	444	20.95%	1,321
	-10.33%	(444)	-20.95%	(1,321)
CZK	10.21%	157	–	–
	-10.21%	(157)		
EUR	8.08%	(13)	10.57%	(294)
	-8.08%	13	-10.57%	294
CHF	12.13%	(3)	14.81%	(14)
	-12.13%	3	-14.81%	14
GBP	9.40%	(2)	12.31%	(1)
	-9.40%	2	-12.31%	1
BYR	27.17%	1	29.75%	160
	-27.17%	(1)	-29.75%	(160)

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

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

Equity price risk

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

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

Below are VaR measures for the equity portfolio of the Bank at 31 December 2013 and at 31 December 2012:

	2013	**2012**
VaR	16,480	26,942

Together with options that hedge in full certain positions in shares and are included within the Bank's portfolio at the reporting dates, VaR measures for the equity portfolio of the Bank at 31 December 2013 and at 31 December 2012 are as follows:

	2013	**2012**
VaR	15,575	25,723

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

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

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

Market index	**Change in index in %, 2013**	**Changes in equity price in %, 2013**	**Effect on profit before tax 2013**	**Effect on equity 2013**
MICEX index	22%	15%	1,267	2,765
	-22%	-15%	(1,267)	(2,765)

Market index	**Change in index in %, 2012**	**Changes in equity price in %, 2012**	**Effect on profit before tax 2012**	**Effect on equity 2012**
MICEX index	31%	28%	1,915	2,529
	-31%	-28%	(1,915)	(2,529)
Russian Depositary Index USD	41%	21%	326	
	-41%	-21%	(326)	–

Analysis of sensitivity of the value of unquoted equity financial instruments to changes in possible alternative assumptions is presented in Note 31.

(in millions of Russian rubles)

30. Risk management (continued)

Market risk (continued)

Prepayment risk

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

Operational risk

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

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

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

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

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

31. Fair value measurement

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

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

(in millions of Russian rubles)

31. 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 the fair value hierarchy at 31 December 2013:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets at fair value				
Trading financial assets	**49,024**	**2,385**	**–**	**51,409**
Corporate bonds	12,273	2,381	–	**14,654**
Federal Loan Bonds (OFZ)	660	–	–	**660**
Eurobonds issued by the Russian Federation	3,041	–	–	**3,041**
Eurobonds of Russian and foreign issuers	892	–	–	**892**
Equity securities	31,846	4	–	**31,850**
Other debt financial assets	312	–	–	**312**
Derivative financial instruments	**–**	**26,513**	**–**	**26,513**
Foreign exchange contracts: foreign	–	348	–	**348**
Foreign exchange contracts: domestic	–	182	–	**182**
Forward contracts: debt securities	–	59	–	**59**
Forward contracts: equity securities	–	159	–	**159**
Cross-currency interest rate swap	–	1,386	–	**1,386**
Option contracts	–	24,379	–	**24,379**
Financial assets designated as at fair value through profit or loss	**9,392**	**–**	**11,521**	**20,913**
Trading financial assets pledged under repurchase agreements	**14,783**	**914**	**–**	**15,697**
Investment financial assets available for sale	**291,698**	**99,446**	**51,190**	**442,334**
Corporate bonds	91,387	62,172	–	**153,559**
Promissory notes	–	19,028	2	**19,030**
Debt instruments issued by foreign government bodies	11,022	6,860	–	**17,882**
Federal Loan Bonds (OFZ)	2,677	–	–	**2,677**
Municipal and sub-federal bonds, bonds of the Bank of Russia	89	–	–	**89**
Eurobonds of Russian and foreign issuers	15,926	7,475	–	**23,401**
Eurobonds issued by the Russian Federation	4,452	2,278	–	**6,730**
Equity securities	166,145	1,633	9,733	**177,511**
Other available-for-sale financial assets	–	–	41,455	**41,455**
Investment financial assets available for sale pledged under repurchase agreements	**15,376**	**–**	**–**	**15,376**
Corporate bonds	12,259	–	–	**12,259**
Eurobonds of Russian and foreign issuers	3,117	–	–	**3,117**
Investment property	**–**	**–**	**12,984**	**12,984**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	275,994	**275,994**
Amounts due from credit institutions	1,003	–	433,319	**434,322**
Investment securities held to maturity	765	–	–	**765**
Investment securities held to maturity pledged under repurchase agreements	34	–	–	**34**
Loans to customers	696	10,615	1,826,003	**1,837,314**
	382,771	**139,873**	**2,611,011**	**3,133,655**

(in millions of Russian rubles)

31. Fair value measurement (continued)

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2012:

At 31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Trading financial assets (including those lent and pledged under repurchase agreements)	44,963	119	–	**45,082**
Derivative financial assets:	–	15,636	881	**16,517**
Financial assets designated as at fair value through profit or loss	18,417	–	8,771	**27,188**
Investment financial assets available for sale (including those lent and pledged under repurchase agreements)	356,318	83,374	65,872	**505,564**
	419,698	**99,129**	**75,524**	**594,351**
Financial liabilities				
Derivative financial liabilities	–	2,494	**–**	**2,494**
	–	**2,494**	**–**	**2,494**

(in millions of Russian rubles)

31. Fair value measurement (continued)

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

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

	Carrying value 2013	Fair value 2013	Unrecognized gain/(loss) 2013	Carrying value 2012	Fair value 2012	Unrecognized gain/(loss) 2012
Financial assets						
Cash and cash equivalents	275,994	275,994	–	239,997	239,997	–
Amounts due from credit institutions	433,815	434,322	507	446,476	446,707	231
Loans to customers	1,847,039	1,837,314	(9,725)	1,497,387	1,486,717	(10,670)
Investment securities held to maturity	764	765	1	16,582	16,553	(29)
Investment securities held to maturity pledged under repurchase agreements	33	34	1	–	–	–
Financial liabilities						
Amounts due to credit institutions	686,521	687,628	(1,107)	569,942	566,804	3,138
Due to the Russian Government and the Bank of Russia	980,980	981,568	(588)	981,868	981,950	(82)
Amounts due to customers	403,292	400,238	3,054	335,827	333,985	1,842
Debt securities issued	603,319	615,874	(12,555)	388,939	414,842	(25,903)
Total unrecognized change in unrealized fair value			**(20,412)**			**(31,473)**

Valuation methodologies and assumptions

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

Assets for which fair value approximates carrying value

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

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBR and credit institutions 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.

(in millions of Russian rubles)

31. Fair value measurement (continued)

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

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

Financial instruments recorded at fair value

Derivatives

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

Trading securities and available-for-sale investment securities

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

(in millions of Russian rubles)

31. Fair value measurement (continued)

Financial instruments 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 which are recorded at fair value:

	At 1 January 2013	Gains/(losses) recorded in the statement of income	Gains/ (losses) recorded in other comprehen-sive income	Disposals	Purchases	Other changes	At 31 December 2013
Assets							
Derivative financial instruments	881	(288)	–	(1,782)	1,782	(593)	–
Financial assets designated as at fair value through profit or loss	8,771	307	–	(1,942)	4,385	–	**11,521**
Investment financial assets available for sale	65,872	(25)	(3,819)	(99)	5,747	(16,486)	**51,190**
Total level 3 financial assets	**75,524**	**(6)**	**(3,819)**	**(3,823)**	**11,914**	**(17,079)**	**62,711**
Liabilities							
Derivative financial instruments	–	–	–	–	–	–	–
Total level 3 financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**

	At 1 January 2012	Gains/(losses) recorded in the statement of income	Gains/(losses) recorded in other comprehen-sive income	Disposals	Purchases	At 31 December 2012
Assets						
Derivative financial instruments	8,581	783	–	(9,076)	593	881
Financial assets designated as at fair value through profit or loss	4,766	1,503	–	(2,707)	5,209	8,771
Investment financial assets available for sale	12,835	305	1,620	(794)	51,906	65,872
Total level 3 financial assets	**26,182**	**2,591**	**1,620**	**(12,577)**	**57,708**	**75,524**
Financial liabilities						
Derivative financial instruments	137	16	–	(153)	–	–
Total level 3 financial liabilities	**137**	**16**	**–**	**(153)**	**–**	**–**

(in millions of Russian rubles)

31. Fair value measurement (continued)

Financial instruments recorded at fair value (continued)

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

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

Transfers between Level 1 and Level 2

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

	Transfers from Level 2 to Level 1	
	2013	**2012**
Financial assets		
Investment financial assets available for sale	1,878	3,718

	Transfers from Level 1 to Level 2	
	2013	**2012**
Financial assets		
Trading financial assets	1,442	6
Investment financial assets available for sale	18,708	39,418

In 2013 and 2012, the above financial assets were transferred from Level 2 to Level 1 as they became actively traded during the reporting year.

In 2013 and 2012, 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.

In 2013, financial assets were transferred to Level 3 as in the reporting period in order to determine the fair value of financial assets the Group started applying techniques, which use inputs that are not based on observable market data.

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

	2013			2012		
	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 income	20	(26)	(6)	2,876	(301)	2,575

(in millions of Russian rubles)

31. Fair value of financial instruments (continued)

Financial instruments recorded at fair value (continued)

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

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

- for the first financial instrument in Group of financial assets 2, designated as at fair value through profit or loss, the Group adjusted the value of the underlying asset comprising units of the closed-end mutual fund by decreasing its main pricing adjustments by 3%;
- for the second financial instrument in Group of financial assets 2, designated as at fair value through profit or loss, the Group adjusted the value of equity, which is an element of calculation of the weighted average cost of capital used for discounting expected cash flows of the issuer, by 2%;
- for the third financial instrument in Group of financial assets 2, the Group adjusted the weighted average cost of capital and the terminal growth rate used for discounting expected cash flows, by 0.5%;
- for the financial assets in Group 5 designated as other financial assets available for sale, the Group adjusted the value of the multiplier *Fair value/Net assets* used for determining the fair value of investments, by 5%;

(in millions of Russian rubles)

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31. Fair value of financial instruments (continued)

Fair value measurement using (continued)

- for the first financial instrument in Group of financial assets 6, classified into investment financial assets available for sale, the Group adjusted the weighted average cost of capital used for discounting expected cash flows, by 2%;
- for the second financial instrument in Group of financial assets 6, the Group adjusted the weighted average cost of capital and the terminal growth rate used for discounting expected cash flows, by 0.5%;
- for the financial asset in Group 7, included in investment financial assets available for sale, the Group adjusted the value of equity, which is an element of calculation of the weighted average cost of capital used for discounting expected cash flows of the issuer, by 2%.

To determine the impacts of possible alternative assumptions relating to investment financial assets available for sale, the Group took a prudent approach and adjusted key unobservable inputs at the lower interval boundary of possible assumptions. If the upper interval boundary of possible assumptions were applied, their positive impacts as at 31 December 2013 would have amounted to RUB 6,689 million.

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

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

	At 31 December 2012	
	Carrying value	**Effect of reasonably possible alternative assumptions**
Financial assets		
Derivative financial instruments	881	44
Financial assets designated as at fair value through profit or loss	8,771	(46)
Investment financial assets available for sale	65,872	(2,474)

(in millions of Russian rubles)

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

Transferred financial assets that are not derecognized in their entirety

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

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

	Transferred financial asset	Trading financial assets Other debt securities 2012	Financial assets available for sale Equity securities 2012	Financial assets available for sale Other debt securities 2012	Loans to customers Other loans 2012	Total 2012
Carrying amount of assets	Repurchase agreements	16,165	–	11,751	148	**28,064**
	Other	–	503	–	–	**503**
Total		**16,165**	**503**	**11,751**	**148**	**28,567**
Carrying amount of associated liabilities	Repurchase agreements with the Bank of Russia	13,529	–	8,825	77	**22,431**
	Repurchase agreements with credit institutions	–	–	376	–	**376**
	Other	–	505	–	–	**505**
Total		**13,529**	**505**	**9,201**	**77**	**23,312**

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.

(in millions of Russian rubles)

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

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

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

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

Assets pledged as collateral

The Group pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. The Group pledged securities as collateral in repurchase agreements for RUB 34,223 million (31 December 2012: RUB 28,064 million) – *"Transferred financial assets that are not derecognized in their entirety"*.

The Group did not reclassify securities with a fair value of RUB 3,117 million in its consolidated statement of financial position, as the terms of the repurchase agreements do not allow foreign counterparty credit institutions to sell or pledge collateral received under those repurchase agreements.

Assets held as collateral

The Group holds certain assets as collateral which it is permitted to sell or repledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements. The Group received securities as collateral in reverse repurchase agreements with credit institutions up to 90 days with a fair value of RUB 7,002 million (31 December 2012: RUB 6,315 million). Besides, the Group received securities as collateral in reverse repurchase agreements with customers with a fair value of RUB 8,598 million (31 December 2012: RUB 16,081 million).

As at 31 December 2013, of these, securities with a fair value of RUB 2,961 million (31 December 2012: RUB 2,747 million) have been sold under repurchase agreements with the Bank of Russia. As at 31 December 2013, the Group did not enter into repurchase agreements with customers (31 December 2012: RUB 1,131 million).

In addition, the Group holds RUB 113 million under Amounts due from credit institutions (31 December 2012: RUB 128 million) (Note 22), RUB 4,641 million under Amounts due to customers (31 December 2012: RUB 8,469 million) (Note 23) and RUB 795 million of promissory notes issued by the Group (31 December 2012: RUB 834 million) (Note 24) 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 issued guarantees.

(in millions of Russian rubles)

33. Offsetting of financial instruments

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

2013	Gross amount of recognized financial assets and liabilities	Gross amount of recognized financial liabilities and assets set off in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not set off in the statement of financial position Financial instruments	Net amount
Financial assets					
Derivative financial assets	26,513	–	26,513	(81)	**26,432**
Loans to customers	2,139,113	(585)	2,138,528		**2,138,528**
Total	**2,165,626**	**(585)**	**2,165,041**	**(81)**	**2,164,960**
Financial liabilities					
Derivative financial liabilities	946	–	946	(81)	**865**
Amounts due to credit institutions	687,106	(585)	686,521	–	**686,521**
Total	**688,052**	**(585)**	**687,467**	**(81)**	**687,386**

2012	Gross amount of recognized financial assets and liabilities	Gross amount of recognized financial liabilities and assets set off in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Related amounts not set off in the statement of financial position, Financial instruments	Net amount
Financial assets					
Derivative financial assets	16,517	–	16,517	(115)	**16,402**
Loans to customers	1,691,514	(842)	1,690,672	–	**1,690,672**
Total	**1,708,031**	**(842)**	**1,707,189**	**(115)**	**1,707,074**
Financial liabilities					
Derivative financial liabilities	2,494		2,494	(115)	**2,379**
Amounts due to credit institutions	570,784	(842)	569,942	–	**569,942**
Total	**573,278**	**(842)**	**572,436**	**(115)**	**572,321**

34. Related party transactions

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

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

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

(in millions of Russian rubles)

34. 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 2013			31 December 2012	
	Associates	**Jointly controlled entities**	**Key management personnel**	**Associates**	**Key management personnel**
Loans to customers at 1 January	152,189	–	96	149,380	119
Loans granted during the year	2,086	5,998	96	4,761	83
Loans repaid during the year	(6,599)	(130)	(100)	(1,749)	(96)
Proceeds related to changes in the Group	–	4,614	–	–	–
Other changes	6,911	362	(3)	(203)	(8)
Hyperinflation effect	0	–	0	–	(2)
Loans to customers at 31 December	**154,587**	**10,844**	**89**	**152,189**	**96**
Less allowance for impairment	(74,906)	(2,235)	–	(35,591)	0
Loans to customers at 31 December, net	**79,681**	**8,609**	**89**	**116,598**	**96**

	31 December 2013			31 December 2012	
	Associates	**Jointly controlled entities**	**Key management personnel**	**Associates**	**Key management personnel**
Current accounts	1,035	–	41	504	108
Customer deposits at 1 January	1,486	–	2,104	1,992	1,233
Deposits received during the year	15,408	1	2,934	483	3,680
Deposits repaid during the year	(3,640)	–	(2,518)	(930)	(1,783)
Other changes	9	0	24	(59)	(1,020)
Hyperinflation effect	–	–	(3)	–	(6)
Customer deposits at 31 December	**13,263**	**1**	**2,541**	**1,486**	**2,104**
Guarantees issued and undrawn loan commitments	**2,740**	**1,709**	**13**	**5,216**	**8**

	For the year ended 31 December				
	2013			2012	
	Associates	**Jointly controlled entities**	**Key management personnel**	**Associates**	**Key management personnel**
Interest income on loans	6,858	504	10	7,790	10
Interest expense on amounts due to customers	(862)	0	(219)	(53)	(102)
Impairment of loans	(42,686)	(4)	0	(3,600)	0

(in millions of Russian rubles)

34. Related party transactions (continued)

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

Compensation to key management personnel comprises the following:

	2013	2012
Salaries and other short-term benefits	2,462	2,246
Social security contributions	52	48
Mandatory contributions to the pension fund	169	149
Total compensation to key management personnel	**2,683**	**2,443**

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

The information about transactions with the Russian Government, its authorized institutions and the Bank of Russia is provided in Note 8.

The Bank is servicing, in an agency capacity, the foreign debt of the former USSR and the Russian Federation until the date determined by the Russian Government (Note 9).

In addition, at 31 December 2013 transactions with state-related entities include the Group's deposits with the Bank of Russia that mature within 90 days totaling RUB 10,430 million (31 December 2012: RUB 300 million) (Note 10) and cash non-interest-bearing deposits (obligatory reserves) maintained by the Group's subsidiary banks with the Bank of Russia in the amount of RUB 4,845 million (31 December 2012: RUB 3,589 million) (Note 12).

In the normal course of its business the Bank and Group's subsidiaries grant loans to state-related credit institutions, as well as raise financing and issue guarantees in regard to these institutions (the list of transactions with the credit institutions is not complete). These transactions are carried out primarily under market conditions. Transactions with state-related credit institutions account for the major portion of all Group's operations on granting loans to credit institutions and the minor portion of financing raised from credit institutions and guarantees issued. Balances of significant transactions with state-related credit institutions at 31 December 2013 and 31 December 2012 are stated in the table below:

		Amounts due from credit institutions	
Credit institution	**Types of transactions**	**At 31 December 2013**	**At 31 December 2012**
Credit institution 1	Subordinated loans	185,637	183,839
Credit institution 2	Subordinated loans	38,924	38,872
Credit institution 3	Subordinated loans	23,205	22,980
Credit institution 1	Interest-bearing loans and deposits with credit institutions maturing within 90 days	17,072	15,004
Credit institution 4	Term interest-bearing deposits with credit institutions	12,735	8,944
Credit institution 5	Subordinated loans	10,326	10,228
Credit institution 6	Term interest-bearing deposits with credit institutions	–	21,327
Credit institution 7	Interest-bearing loans and deposits with credit institutions maturing within 90 days	–	7,944
Credit institution 2	Term interest-bearing deposits with credit institutions	–	5,369
Credit institution 8	Interest-bearing loans and deposits with credit institutions maturing within 90 days	–	4,202
Credit institution 3	Term interest-bearing deposits with credit institutions	–	3,929
		287,899	**322,638**

(in millions of Russian rubles)

34. Related party transactions (continued)

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

		Amounts due to credit institutions	
Credit institution	**Types of transactions**	**At 31 December 2013**	**At 31 December 2012**
Credit institution 7	Loans and other placements from Russian credit institutions	63,262	67,774
Credit institution 1	Loans and other placements from Russian credit institutions	19,890	2,000
Credit institution 8	Loans and other placements from other credit institutions	5,958	2,793
Credit institution 2	Loans and other placements from Russian credit institutions	5,008	20,012
Credit institution 9	Loans and other placements from OECD-based credit institutions	0	3,070
Credit institution 10	Loans and other placements from Russian credit institutions	0	30,042
		94,118	**125,691**

At 31 December 2012, the Group's significant commitments to extend loans to credit institutions 2 and 8 amounted to RUB 4,584 million and RUB 8,629 million, respectively. These credit lines were opened under Vnesheconombank's Investment Program to support affordable housing construction and mortgage projects in 2010-2013. At 31 December 2013, the drawdown period under the credit lines expired and the respective liabilities were written off.

At 31 December 2013, the Bank provided a guarantee of RUB 60,000 million to a credit institution 1 under an agreement to secure loans provided by the Bank of Russia for the period through December 2014.

(in millions of Russian rubles)

34. Related party transactions (continued)

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

In the normal course of business the Bank and 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 the customers is not complete). These transactions are carried out primarily under market conditions. Transactions with state-related customers account for the major portion of all Group's operations with customers. Balances of significant transactions with state-related institutions and entities at 31 December 2013 and at 31 December 2012 are stated in the tables below:

Borrower	Industry	Loans to customers At 31 December 2013	Undrawn loan commitments At 31 December 2013	Loans to customers At 31 December 2012	Undrawn loan commitments At 31 December 2012
Customer 1	Real estate and construction	54,305	5,431	14,889	52,018
Customer 2	Finance	37,933	–	36,523	–
Customer 3	Manufacturing, heavy machinery and military-related goods production	33,980	19,534	11,209	38,544
Customer 4	Transport	28,855	–	10,626	–
Customer 5	Manufacturing, heavy machinery and military-related goods production	28,260	7,568	14,237	18,109
Customer 6	Manufacturing, heavy machinery and military-related goods production	27,162	22,481	14,494	31,573
Customer 7	Energy	26,135	–	20,387	8,171
Customer 8	Transport	18,499	–	5,748	–
Customer 9	Oil and gas	17,078	–	14,777	–
Customer 10	Transport	15,768	–	16,856	–
Customer 11	Energy	15,005	–	15,115	4,822
Customer 12	Research and education	7,200	–	–	–
Customer 13	Finance	6,993	2,044	6,508	3,490
Customer 14	Transport	6,856	3,098	4,261	5,705
Customer 15	Energy	5,653	5,559	1,301	9,119
Customer 16	Manufacturing, heavy machinery and military-related goods production	5,382	–	5,460	–
Customer 17	Manufacturing, heavy machinery and military-related goods production	5,360	–	6,196	2,312
Customer 18	Energy	5,341	–	6,780	–
Customer 19	Energy	4,850	7,030	4,161	7,739
Customer 20	Energy	3,936	–	6,000	–
Customer 21	Manufacturing, heavy machinery and military-related goods production	2,117	23,112	–	–
Customer 22	Manufacturing, heavy machinery and military-related goods production	2,014	7,052	–	–
Customer 23	Manufacturing, heavy machinery and military-related goods production	0	24,494	–	25,000
Customer 24	Telecommunications	0	8,229	7,436	1,652
Customer 25	Energy	0	–	5,463	0
		358,682	**135,632**	**228,427**	**208,254**

(in millions of Russian rubles)

34. Related party transactions (continued)

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

Customer	**Industry**	**Amounts due to customers At 31 December 2013**	**Amounts due to customers At 31 December 2012**
Customer 26	Telecommunications	76,961	37,383
Customer 27	Real estate and construction	9,658	2,092
Customer 28	Manufacturing, heavy machinery and military-related goods production	9,059	21,116
Customer 29	Finance	8,601	4,154
Customer 2	Finance	1,644	9,216
Customer 30	Infrastructure development	0	5,070
		105,923	**79,031**

Customer	**Industry**	**Guarantees issued At 31 December 2013**	**Guarantees issued At 31 December 2012**
Customer 28	Manufacturing, heavy machinery and military-related goods production	86,614	40,321
		86,614	**40,321**

As at 31 December 2013 and at 31 December 2012, the Group's investments in debt securities issued by the Russian Government comprised:

	At 31 December 2013	**At 31 December 2012**
Financial assets at fair value through profit or loss	3,701	1,528
Investment financial assets:		
- available-for-sale	9,497	6,201
- held-to-maturity	245	761
Investment financial assets available for sale and pledged under repurchase agreements	–	409

As at 31 December 2013 and 31 December 2012, there were no transactions involving derivative financial instruments with the Russian Government.

(in millions of Russian rubles)

34. Related party transactions (continued)

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

In the normal course of business the Group invests in securities issued by state-related issuers and enters into derivative contracts with such counterparties. As at 31 December 2013 and 31 December 2012, the Group's investments into securities issued by state-related issuers, as well as derivative transactions with such counterparties comprised:

	At 31 December 2013			At 31 December 2012		
	Equity securities	**Debt securities**	**Derivative financial instruments**	**Equity securities**	**Debt securities**	**Derivative financial instruments**
Financial assets at fair value through profit or loss	37,900	6,088	24,451	25,742	9,574	13,621
Financial assets at fair value through profit or loss lent and pledged under repurchase agreements	–	6,744	–	503	4,529	–
Investment financial assets						
- available-for-sale	142,757	128,394	–	147,115	137,198	–
- held-to-maturity	–	–	–	–	650	–
Investment financial assets available for sale lent and pledged under repurchase agreements	–	3,608	–	–	966	–
Financial liabilities at fair value through profit or loss	–	–	139	–	–	9

At 31 December 2013, investment financial assets available for sale also include a financial asset issued by a state-related credit institution with fair value of RUB 41,455 million.

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

	2013	**2012**
Interest expense:		
Amounts due to the Bank of Russia	(24,034)	(19,396)
Amounts due to the Russian Government	(42,615)	(44,459)

35. Capital adequacy

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

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

In 2013 and 2012, the Bank complied with capital adequacy ratio requirements.

(in millions of Russian rubles)

35. Capital adequacy (continued)

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

	2013	2012
Main capital	515,200	504,290
Additional capital	139,618	62,618
Less: deductions from capital	(320,458)	(252,940)
Total capital	**334,360**	**313,968**
Risk-weighted assets	**3,216,964**	**2,889,129**
Capital adequacy ratio	10.4%	10.9%

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

36. Subsequent events

In January 2014, the Bank transferred RUB 48 million as payment for a 32.45% share in the charter capital of "VEB Engineering" LLC, subsidiary; as a result, the Bank's share in "VEB Engineering" LLC amounted to 100% (Note 3).

In January 2014, the Bank received a loan from a foreign bank in the amount of USD 100 million (RUB 3,364 million at the date of issue). The loan bears a floating interest rate and matures in 5 years. The funds will be used to finance the agricultural sector.

In January 2014, a leasing company of the Group placed bonds with a nominal value of RUB 5,000 million, maturing in January 2024. This bond issue provides for a five-year offer. The entire issue was purchased by a Group entity upon initial offering.

In January and March 2014, a subsidiary bank repaid, in accordance with the terms of the issue, bonds Series A and Series C with a nominal value of UAH 500 million (equivalent of RUB 2,079 million at the exchange rate at the repayment date) and UAH 65 million (equivalent of RUB 229 million at the exchange rate at the repayment date), respectively.

In February 2014, the Bank's subsidiary leasing company placed four issues of bonds, series USD-11 and USD-14 for a total of USD 400 million maturing in February 2024 (the equivalent of RUB 13,905 million at the date of placement). This bond issue provides for a five-year offer. These bonds were fully repurchased by the Bank.

In February 2014, a leasing subsidiary fulfilled an obligation to purchase its own non-convertible bonds Series USD07-USD10 under offers, for the amount of USD 400 million.

In February 2014, the Bank received a loan from a foreign bank in the amount of USD 156 million (RUB 5,428 million at the date of issue). The loan bears a floating interest rate and matures in 5 years. The funds will be used to finance the real sector.

(in millions of Russian rubles)

36. Subsequent events (continued)

In February 2014, the Bank received a loan from a foreign bank in the amount of USD 700 million (RUB 24,332 million at the date of issue). The loan bears a floating interest rate and matures in 5 years. The funds will be used to ongoing metallurgic projects of the Bank.

In March 2014, a subsidiary bank fulfilled an obligation to purchase its own bonds under offers for the amount of RUB 4,355 million.

In March 2014, Vnesheconombank paid an initial registration fee of USD 50,000 (RUB 2 million as at the date of payment) to the charter capital of the International Fund for Support of Small and Medium-sized Entrepreneurship. The newly established fund will provide funds to banks to finance SME projects. Moreover, the fund will provide investment loans and mezzanine financing to rapid growth companies.

In April 2014, the Bank signed Additional Agreement No. 5 to the Agreement on performing the functions of an agent of the Russian Government entered into between Vnesheconombank and the Russian Ministry of Finance on 25 December 2009, which determines the procedures for performing the agency functions in 2014.

In April 2014, the Bank purchased 170,000 ordinary registered shares issued additionally by CJSC ROSEXIMBANK for the total amount of RUB 1,700 million. The Bank's share in the charter capital of its subsidiary remained unchanged at 100%.

After 31 December 2013, political and economic uncertainty in Ukraine increased significantly. The Ukrainian hryvnia weakened against the Russian ruble by 48.7% from 31 December 2013 through the date of these consolidated financial statements, and the National Bank of Ukraine imposed certain restrictions on the purchase of foreign currencies in the interbank market. International rating agencies lowered Ukraine's sovereign debt rating. The combination of the above factors resulted in the shrinking of liquidity and tightening of conditions in the lending markets.

Information about the risk the Group is exposed to in Ukraine at 31 December 2013 is provided also in Note 7 "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.

International rating agencies revised down their outlook on Russia's sovereign credit rating in local and foreign currency from stable to negative due to political volatility in Ukraine, and heightened the geopolitical risk in view of the prospect of U.S. and EU economic sanctions, which may also lead to decline in potential investment, capital outflow and other adverse economic consequences.

The current situation in Ukraine and its potential development may have a negative impact on the Group's financial position, which at present is hardly determinable.