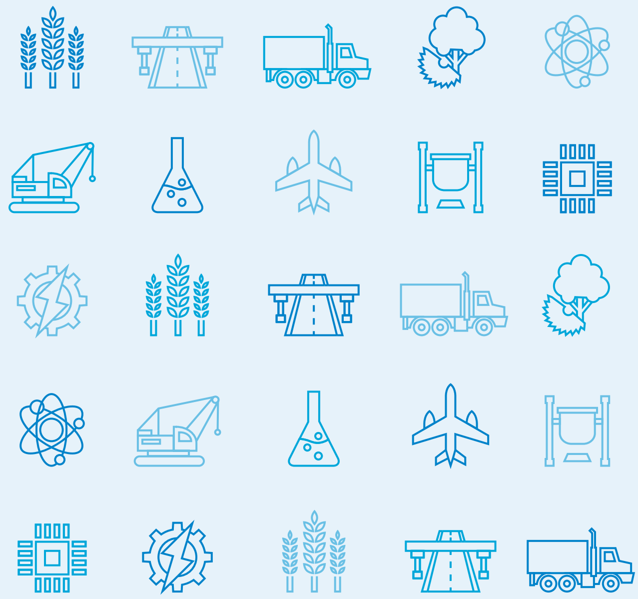
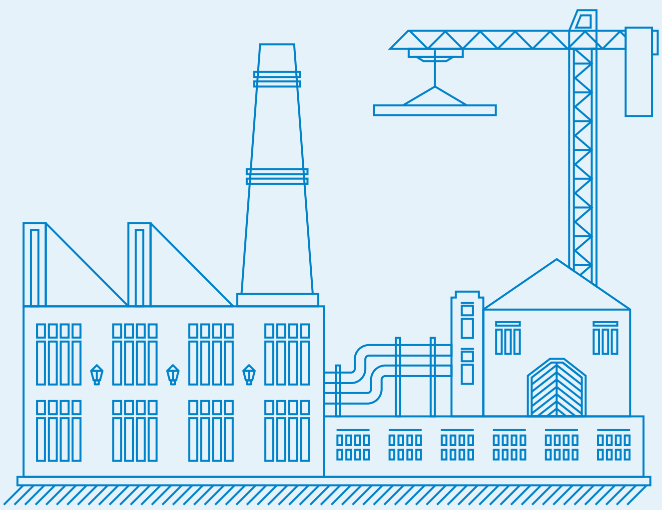
VEB BANK FOR DEVELOPMENT



Annual Report



2014

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CHAIRMAN'S STATEMENT

Dear Colleagues and Partners!

For Vnesheconombank, the year 2014 marking its 90th Anniversary was a special year. It is a matter of great pride for VEB's team that throughout all these years, the Bank has been the key driver behind the projects crucial for Russia's economy and the international profile. In fact, the Bank has been invariably acting as a financial development institution working for and evolving together with the country.

We shared the national joy at the success of the Sochi Winter Olympics and applauded the impressive victories of Russian athletes. Admittedly, we feel our personal contribution to the achievements of our Olympians: as they say in Russia, at home even walls help, and a considerable part of the Olympic sports facilities have been erected with a direct commitment of Vnesheconombank.

For us, the VEB's Anniversary and the resounding triumph of the Sochi Olympics were not only an occasion to celebrate but still another stimulus to carefully analyse our activities, as well as search for new priorities and development lines.

Vnesheconombank has been always noted for the aspiration to find most efficient ways to accomplish its mission. The past year challenges faced by the Russian economy and its key players including the Bank for Development proper, gave the Bank an extra reason to fully exploit its analytical potential. The economic turbulence caused by a number of internal and external factors, in particular, the slump in oil prices, was aggravated by the sanctions imposed against Russia but in no way substantiated by the international law.

Vnesheconombank together with a number of major national financial institutions has been cut off from the traditionally large and liquid debt capital market for an indefinite term of time. In the increasingly tough external environment, VEB has risen to the challenges seeking to support pivotal investment operations, promote strategic innovative solutions for import substitution, and credit breakthrough projects and systemically important companies, primarily, in the regions with a stringent economic situation. Practice showed that in adverse external conditions, the role of VEB as a development bank only increased.

Enterprises and facilities put into operation in 2014 in various industries may well be viewed as a tangible result of Vnesheconombank's committed efforts. To illustrate, here are just a few examples.

In the Krasnoyarsk Territory, the Boguchany Hydroelectric Power Plant was put into operation. The plant will satisfy almost one third of the regional demand for electric power and become a key pillar in the integrated development programme of the Nizhnee Priangarie.

Also in the context of the programme, the Boguchany Region of the Krasnoyarsk Territory saw the completion of Stage I of a timber processing complex. The largest investment project on forest exploitation in Russia, the complex will produce export-quality sawn wood products.

Russia's first producer of NEOPORM foam glass insulation materials was commissioned in Vladimir.

In the Ryazan Region, Stage I of an innovative pharmaceutical enterprise became operational to allow for a partial substitution of expensive imported analogues.

The first module commercial data processing centre (DPC) built in compliance with the international standards was inaugurated in St.-Petersburg. The centre has become the first step to creating a federal network of innovative DPCs in major business hubs of the Russian Federation.

In 2014, Vnesheconombank commenced financing of 11 investment projects, with the total commitment exceeding RUB 26.2 bn. These are infrastructure projects on the construction of new and development of existing production facilities in chemical, petrochemical, timber processing and electronic industries, as well as the agro-industrial complex.

Furthermore, the Bank for Development's loan portfolio was consistently increasing mostly due to projects delivered in priority areas of the economic modernisation and innovation-based projects. To finance the latter, Vnesheconombank is allocating more than a quarter of its total credit resources. To name a few, these include the construction of a plant to produce synthetic sapphire for optoelectronics in Naberezhnye Chelny and an industrial enterprise to produce import-substituting methylchlorsilane in Kazan.

Importantly, we are holding a fundamentally optimistic view of the future despite all the difficulties encountered in the past year, and have devised our development plan for a 5-year horizon.

In 2014, VEB's Supervisory Board approved the Bank's Development Strategy to 2020 based on the modernisation scenario of building up a loan portfolio. Under this scenario, the Bank will be able to satisfy the real economy's appetite for long-term financial resources even amid closing global capital markets, exodus of capital from Russia and a liquidity squeeze in the banking sector.

We expect the Bank's loan portfolio to increase by one fourth at a minimum from more than RUB 1.99 tn in 2014 to at least RUB 2.5 tn by 2020 approximating to RUB 3 tn.

The Bank's investment project portfolio is subdivided into the projects of the bank for development and special projects of national significance. Thus, the loan portfolio of the bank for development will amount to no less than RUB 1.4 tn or maybe even RUB 1.7 tn by 2020, whereas the special project portfolio is expected to exceed RUB 1.1 and likely to hit the target of RUB 1.3 tn.

As a result, VEB's loan portfolio by the end of 2020 will account for up to 5-6% of the overall bank loans in Russia and up to 11-14% of the long-term bank loans.

Admittedly, we have set challenging and ambitious targets that could only be reached provided that the state funding is procured on a regular basis.

In this context, of particular importance for VEB was a set of measures approved by the Government in 2014. These included strengthening the Bank's resource base, increasing its capital, adding liquidity and implementing the state guarantee programme.

The measures enable the Bank to further rely upon the systemic and solid government support, which would ensure the Bank's dynamic development, compliance with the financial soundness indicators, unconditional performance of the obligations to customers and creditors, and efficient participation in the Government's priority measures aimed at sustainable development of the economy and social stability through lending to the real sector.

In 2014, the VEB Group stepped up its efforts to provide Russian exporters and foreign importers of Russian high-tech products with financial and guarantee support. Vnesheconombank's portfolio of the loans to support exports (both export loans and pre-export finance) demonstrated a 2.4-rise in the reporting year and reached RUB 53.4 bn. The portfolio of the guarantees to support exports increased more than twofold to amount to RUB 206.5 bn (in equivalent) as at 01.01.2015.

In compliance with its new Development Strategy, VEB intends to increase the loan portfolio of exports support up to RUB 500 bn and export guarantees — up to RUB 250 bn by the end of 2020.

Vnesheconombank has an impressive geographic reach of export projects: CIS countries, Southeast Asia, Latin America, North and Central Africa, Central and Eastern Europe. The range of industries is equally wide: from a flagship project to support the exports of the Russian Sukhoi Superjet 100 regional airliner to a variety of major projects in transport and power engineering, both nuclear and traditional, where Russian companies have a considerable growth potential based on the long-established traditions and ability to compete in the global markets.

In the year under report, the VEB Group initiated work aimed at the institutional and functional enhancement of the Group-wide system of export support to give it an integrated dimension.

Acting on the instructions of the Russian President Vladimir Putin, Vnesheconombank together with its subsidiaries Export Insurance Agency of Russia and Roseximbank, as well as the respective agencies embarked on creation of a single centre for credit and guarantee support to exports. The Centre will offer national exporters a whole range of financial and non-financial support instruments.

It gives me a great satisfaction to say that we have completed the assignment given by the Head of State: this year has witnessed the inauguration of the Russian Export Centre, a unique institution and a one-stop-shop aid to exporters. A knowledgeable adviser on export business, the Centre seeks to simplify the export procedures and assist exporters to network with the respective ministries, departments and government agencies.

The year 2014 saw the continuation of a programme of financial support to small and medium enterprises (SMEs). The Programme is being delivered with VEB's commitment and operated by Vnesheconombank's subsidiary, SME Bank (Russian Bank for Support to Small and Medium Enterprises OJSC).

In the reporting period, SMEs received RUB 96.85 bn worth of funds, with the total amount of reasonably priced resources with the required maturities extended throughout the lifetime of the Programme to almost 50 thousand SMEs exceeding RUB 497 bn. Importantly, the average-weighted interest rate on the loans granted by the SME Bank's partner banks to SMEs has undergone no significant changes on the previous year despite a general trend towards higher rates on bank loans in this sector.

Seeking to promote SMEs, we also gave a sharper focus to SME exporters providing them with a line of services through our subsidiary EXIAR. In particular, a customized product Insurance of Exporter's Working Capital Loan launched by EXIAR last year in the context of a state programme to support export-oriented SMEs provides Russian banks engaged in export-oriented SME financing with commercial and political risk insurance.

In conformity with its regional priorities, Vnesheconombank increased efforts to stimulate a well-balanced social and economic development of the Russian regions. With this aim in view, the Bank helped create new centres of economic growth and implement joint programmes of integrated territorial development in cooperation with the governments of the Russian constituent entities. The programmes provide for the support to investment projects of strategic importance, industrial parks and single-industry towns, as well as for non-financial measures.

VEB's activities in the Russian regions are traditionally based on cooperation agreements. Last year, the list of such agreements was amended to include the documents entered into with the governments of the Moscow and Yaroslavl Regions, as well as the Republic of Khakassia. All in all, as at the end of 2014, the Bank had 58 cooperation agreements signed with constituent entities of the Russian Federation.

The Bank views the promotion of the Russian Far East and the Baikal Region as still another business priority. Addressing the systemic problems faced by the Far Eastern Federal District (FEFD), i.e. primarily the removal of infrastructural constraints to economic growth of this mega region and unlocking its export potential, Vnesheconombank works in close cooperation with the Russian Ministry for Development of Russia's Far East and other special purpose agencies designed to boost the development of Russia's Far East.

In identifying and selecting projects eligible for financing, Vnesheconombank is greatly assisted by its subsidiaries RDIF Management Company and The Far East and Baikal Region Development Fund.

As for the loans already granted as at the year-end 2014 to deliver investment projects in FEFD, those approximated to RUB 66.3 bn.

The year under report witnessed an almost one-fourth increase — from RUB 18.9 bn to RUB 23.2 bn — in the portfolio of loans extended by the Bank to deliver projects in the North Caucasian Federal District. Designed specifically to bolster economic growth in the North Caucasian regions, Vnesheconombank's subsidiary North Caucasus Development Corporation extended as at 01.01.2015 over RUB 6 bn to 6 investment projects worth a total of some RUB 30.8 bn.

In 2014, Vnesheconombank created and launched a specialized state institution to support single-industry municipalities, the Single-Industry Towns Development

Fund. The Fund sees its mission in providing financial support to projects delivered in single-industry towns and aimed at enhancing their appeal for investors who can help decrease such municipalities' dependence on physically and morally obsolete backbone enterprises and create new jobs. Furthermore, the Fund performs the function of a project office aiding regional and municipal authorities in the preparation of documents, raising funds for investment projects in single-industry towns, as well as forming and training teams of competent project managers.

Also in 2014, VEB commenced financing of 3 projects in single-industry towns for the total amount of RUB 41.7 bn, with the Bank's commitment standing at RUB 22.5 bn. Today, Vnesheconombank is engaged in 19 projects in single-industry towns and its portfolio of the respective loans has increased by more than 80% over the year to reach RUB 176.2 bn.

For all the external challenges posed by the so-called sectoral sanctions against Russia, Vnesheconombank and the VEB Group have been actively operating on a global scale and expanding their international partnerships. The developments in the geopolitical environment in 2014 have brought the Bank's east-oriented stream of work into a much stronger focus.

Evidently, Vnesheconombank's chairmanship of the Interbank Consortium of the Shanghai Cooperation Organization (IBC SCO) in 2014-2015 helped boost the interaction with its Asian partners. Since all the IBC members confront a common problem, i.e. not always properly formulated investment proposals, VEB has come up with an idea welcomed by many of the partners, namely, the need to establish an international centre for project finance under the auspices of SCO. We believe that the Centre will facilitate the procurement of investment projects delivered in the SCO countries, in particular, with the use of co-financing mechanisms. At its meeting in Dushanbe (Tajikistan) in September 2014, the IBC Council approved an action plan designed to promote financial cooperation and regional development and defining the key areas and forms of the IBC SCO cooperation on joint investment projects.

Remarkably, the year 2014 opened up new vistas for cooperation in the context of the BRICS Interbank Cooperation Mechanism (ICM). At the VI BRICS Summit in Fortaleza, the ICM member banks signed an agreement in the presence of the Heads of State. The Agreement is designed to support innovations through the BRICS development institutions and encourage investment in infrastructure industries, as well as power efficient and high-tech production.

In July 2014, Rome hosted the second meeting of the heads of the G20 financial institutions with a development or public mandate, unofficially known as D20 established on the initiative of Vnesheconombank, as well as a conference on the role the G20 development banks play in sustainable growth of national and regional economies.

Obviously, dedicated efforts, consistent and efficient work demonstrated by Vnesheconombank in the year tough for both the Russian economy and many of its players are indicative of its enormous potential for resilience, strong immunity to adverse external impacts and a remarkable ability to accomplish its mission of the key national financial institution for development.

For the above reasons, I am confident that VEB has well deserved its ranking in the Top 10 Safest Banks in the Central and Eastern Europe, according to the Global Finance. Let me stress once again that VEB remained one of the safest banking institutions despite all the external attempts to shatter our business stability.

The unique character of VEB's activities has been proved by the GTF 2014 Awards Aircraft Finance Innovator of the Year and Aircraft Deal of the Year – Latin America. It was for the first time ever that a Russian bank participated in a consortium of international banks to finance a large delivery of aircraft, namely, Sukhoi Superjet 100 to a third party, the Mexican Interjet Company.

Apparently, there will be more tests of stamina for Vnesheconombank in the foreseeable future. However, I have no doubts that the Bank is well equipped to respond to any challenges. We have laid a robust and solid foundation for a hard but efficient work. Being the centre of an extensive development network, Vnesheconombank will step up its efforts to promote corporate interaction within the VEB Group and maximize the synergy effect to encourage the rebound in the national economy.

Finally, let me thank our partners and customers, as well as a large team of Vnesheconombank and the VEB Group for their positive business attitude, confidence, loyalty, unfailing support and high professionalism. I am firmly convinced that despite all the predicaments we will do whatever it takes to ensure Russia's economic prosperity.

Vladimir Dmitriev
Chairman of Vnesheconombank

VNESHECONOMBANK'S SUPERVISORY BOARD AS AT 01.01.2015

Chairman of the Supervisory Board

Dmitry Medvedev	Chairman of the Government of the Russian Federation

Members of the Supervisory Board

Igor Shuvalov	First Deputy Chairman of the Russian Federation Government
Arkady Dvorkovich	First Deputy Chairman of the Russian Federation Government
Dmitry Kozak	First Deputy Chairman of the Russian Federation Government
Aleksandr Khloponin	First Deputy Chairman of the Russian Federation Government
Andrei Belousov	Assistant to President of the Russian Federation
Anton Siluanov	Minister of Finance of the Russian Federation
Alexey Uliukaev	Minister of Economic Development of the Russian Federation
Vladimir Dmitriev	Chairman of Vnesheconombank

VNESHECONOMBANK'S MANAGEMENT BOARD AS AT 01.01.2015

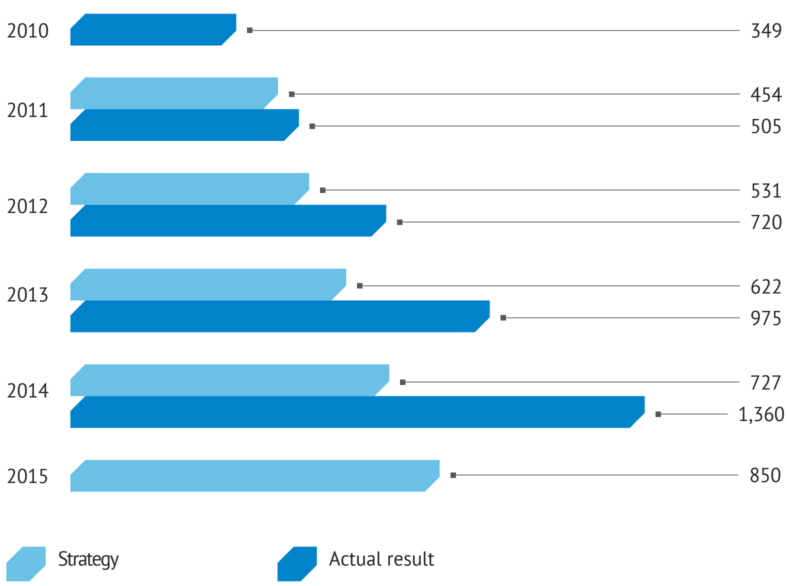
Vladimir Dmitriev	Chairman of Vnesheconombank
Mikhail Poluboyarinov	First Deputy Chairman of Vnesheconombank
Andrey Sapelin	First Deputy Chairman of Vnesheconombank
Pyotr Fradkov	First Deputy Chairman of Vnesheconombank
Sergei Vasilyev	Deputy Chairman of Vnesheconombank
Yulia Karpova	Deputy Chairman of Vnesheconombank
Andrey Klepach	Deputy Chairman of Vnesheconombank (Chief Economist)
Sergey Lykov	Deputy Chairman of Vnesheconombank
Vladimir Shaprinskiy	Chief Accountant of Vnesheconombank

01 Vnesheconombank's 2011-2015 Development Strategy: Progress in 2014

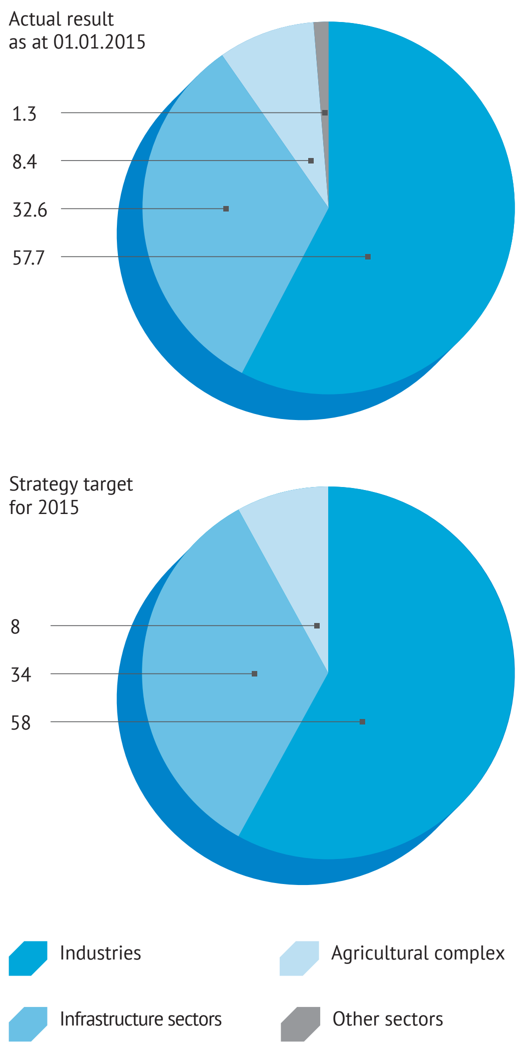
RUB **1,360** bn

Development Bank's loan portfolio as at 01.01.2015

Development Bank's Loan Portfolio, RUB bn

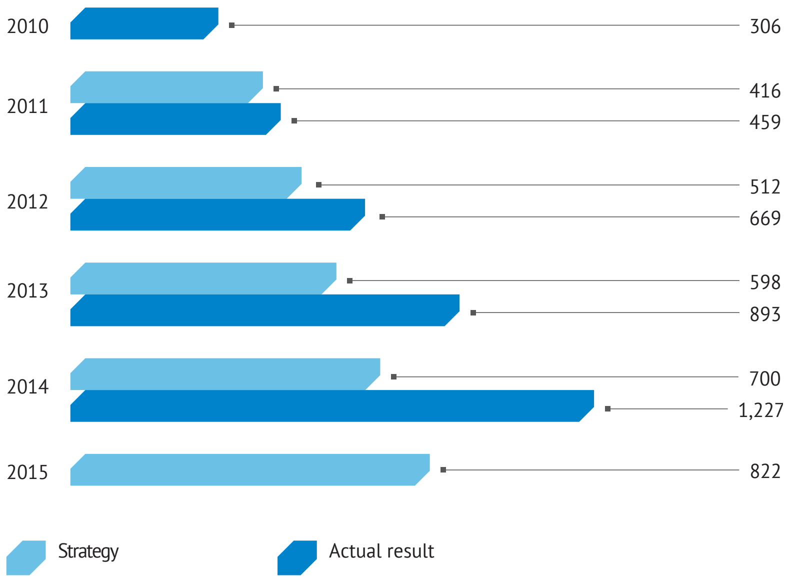


Development Bank's Loan Portfolio: Sectoral Structure, %



In general, the sectoral structure of the Development Bank's loan portfolio corresponds to that envisaged by the Strategy for the year-end 2015.

Loans extended for investment projects, RUB bn



RUB **1,227** bn

Loans extended for investment projects, as at 01.01.2015.

Including

RUB **193** bn

Loans extended to finance projects in priority areas of economic modernisation specified in the Strategy as at 01.01.2015.

Promotion of innovations is viewed by Vnesheconombank as one of the key strategic priorities.

The share of innovative projects in the Development Bank's loan portfolio as at 01.01.2015 accounted for 25.4%, with the minimum Strategy target for the year-end 2015 running at a minimum of 20%.

Furthermore, Vnesheconombank stepped up its efforts to support national exporters and foreign importers of Russian high-tech products.

The Bank's loan portfolio earmarked for export support:

RUB **51.9** bn

A more than twofold increase on the Strategy's target for the year-end 2014 (RUB 24 bn).

The Bank's guarantee portfolio earmarked for export support:

RUB **206.5** bn

An almost eightfold increase on the Strategy's target for the year-end 2014 (RUB 26.4 bn).

The above-mentioned guarantee support to exports includes the contingent liabilities assumed by Vnesheconombank under the USD 10 bn guarantee issued to secure the obligations of EXIAR under the agreements designed to provide insurance support to exports.

Among Vnesheconombank's other priority objectives, the Strategy formulates the task of aid to SMEs (via SME Bank) engaged in innovative projects, and projects aimed at production modernisation and increased energy efficiency. As at 01.01.2015, the amount of loans extended to SMEs engaged in the above-mentioned activities reached RUB 62.6 bn (as at 01.01.2014 – RUB 57.6 bn).

Despite a negative impact of the constraints imposed on Vnesheconombank in 2014 by a number of foreign states, and overall unfavorable situation on financial markets, Vnesheconombank succeeded in raising substantial amounts of medium- and long-term resources both in domestic and international capital markets. The funds attracted by Vnesheconombank in 2014 by bond placement on the internal market (except for those placed as part of refinancing) amounted to RUB 10 bn and USD 0.5 bn, whereas the resources raised in 2014 on capital markets in the form of loans from banks (excluding the Bank of Russia) were equivalent to USD 4.0 bn.

Vnesheconombank's 2011-2015 Strategy Action Plan: Progress in 2014

The 2011-2015 Strategy Action Plan as updated in 2013 (hereinafter, the Plan) provides for projects and measures to be implemented in various areas of the Bank's operations and aimed at accomplishing the objectives declared in the Strategy.

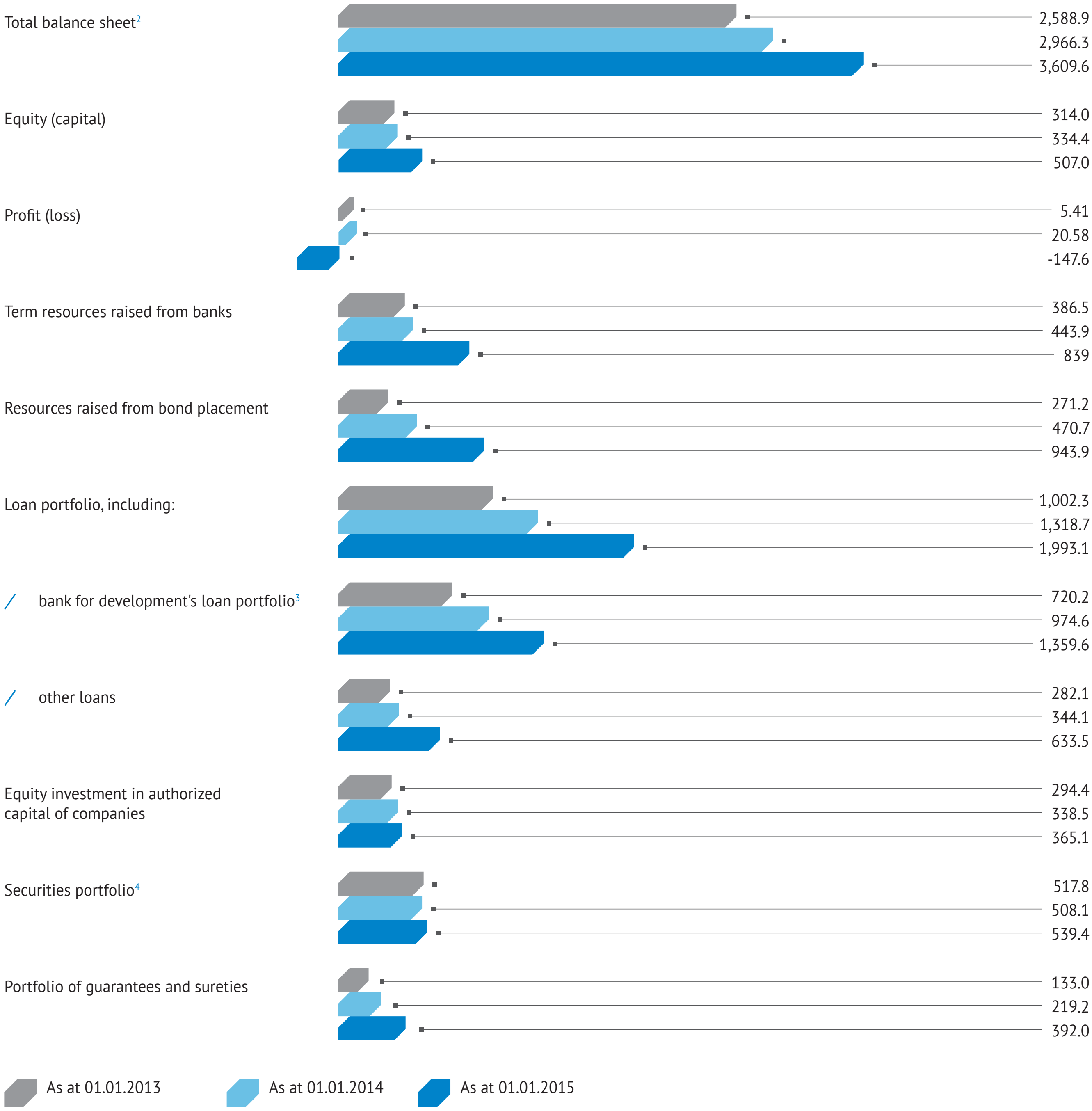
The projects and measures are designed to contribute to the Strategy's objectives, as well as help reinforce and stimulate Vnesheconombank's activities, in particular, those related to investment project finance, support for investment projects and Russian exports, promotion of SMEs, PPPs, integrated territorial development and single industry towns, and Vnesheconombank's functions of the Agent for the Russian Government.

The Plan provides for 85 projects and measures to be delivered by the year-end 2015, with 3 of them – on a yearly basis. As at 01.01.2015, 74 items of the Plan were delivered including 4 projects (measures) of the next reporting period.

In connection with Vnesheconombank's 2015-2020 Development Strategy approved in October 2014 by Vnesheconombank's Supervisory Board, projects and measures of the Plan that are still relevant to the Bank's goals and objectives have been included into the draft Strategy Action Plan on the new strategic period horizon as separate items of the Plan or within consolidated measures.

More details about Vnesheconombank's activities by priority lines in compliance with the Strategy are to be found in the respective sections of the Report.

Development Dynamics: Major Financial Highlights[1], RUB bn



1 In the given report, all the values of financial indicators are calculated based on the accounting data (formats 0409101 and 0409102).
2 With consideration for income/expense balance, as well as positive and negative revaluation of securities available for sale (total balance sheet by sub-ledger accounts).
3 Portfolio of loans extended by VEB to non-credit institutions, public authorities and municipalities (including the respective bodies of foreign states) exclusive of the loans extended using the funds of he CBR and NWF.
4 Debt and equity securities (excluding equity investment), and units in investment funds.

Vnesheconombank's ratings as at 01.01.2015

	Fitch Ratings	Standard&Poor's	Moody's
Long-term ratings			
In national currency	BBB (assigned on 25.06.2010)	BBB (assigned on 29.04.2014)	Baa2 (assigned on 20.10.2014)
in foreign currency	BBB (assigned on 04.02.2009)	BBB- (assigned on 29.04.2014)	Baa2 (assigned on 20.10.2014)
Short-term ratings			
In national currency		A-2 (assigned on 16.12.2005)	P-2 (assigned on 23.03.2009)
in foreign currency	F-3 (assigned on 04.02.2009)	A-3 (assigned on 29.04.2014)	P-2 (assigned on 23.03.2009)

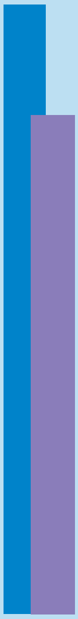
Major Outcomes

Acting as a bank for development, in 2014 Vnesheconombank continued its involvement in financing major investment projects

Assisting the Development of the National Economy

In 2014, Vnesheconombank's governing bodies approved financing of

24 investment, export support and other projects and transactions



Total project value

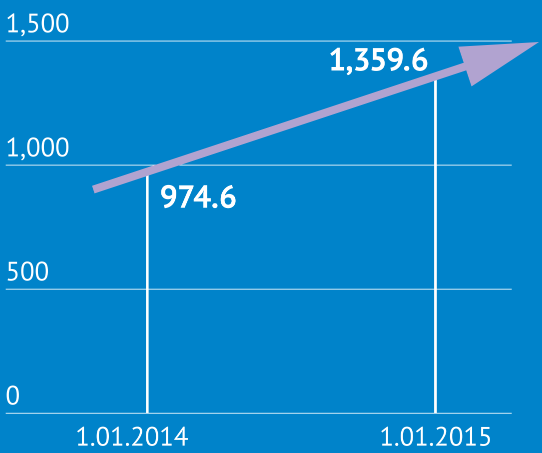
over RUB **265.6** bn

Vnesheconombank's commitment

over RUB **216.3** bn

Vnesheconombank's loan portfolio

RUB bn



39.5%

growth of Vnesheconombank's loan portfolio in 2014

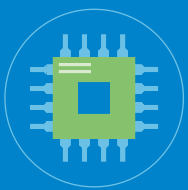
Financing Investment Projects

At the end of 2014, the total amount of loans for

34

innovation-oriented investment projects reached

RUB 346 bn



As at 01.01.2015, out of the overall amount of investment loan portfolio,

RUB 193 bn

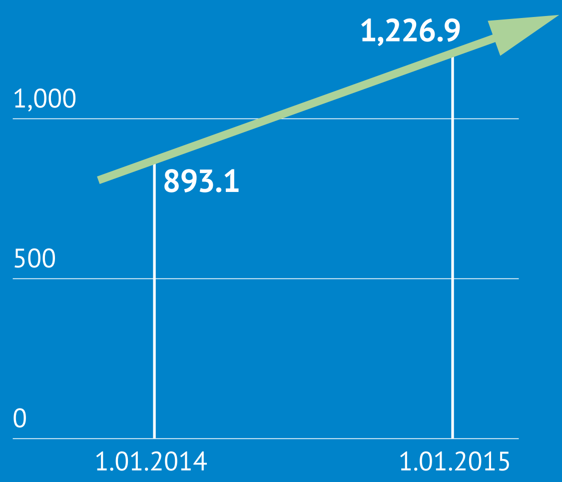
accounted for the loans granted within the framework of financing

34 investment projects

in priority areas of the Russian economy modernisation

Vnesheconombank's investment loan portfolio (the loans earmarked for investment projects)

RUB bn

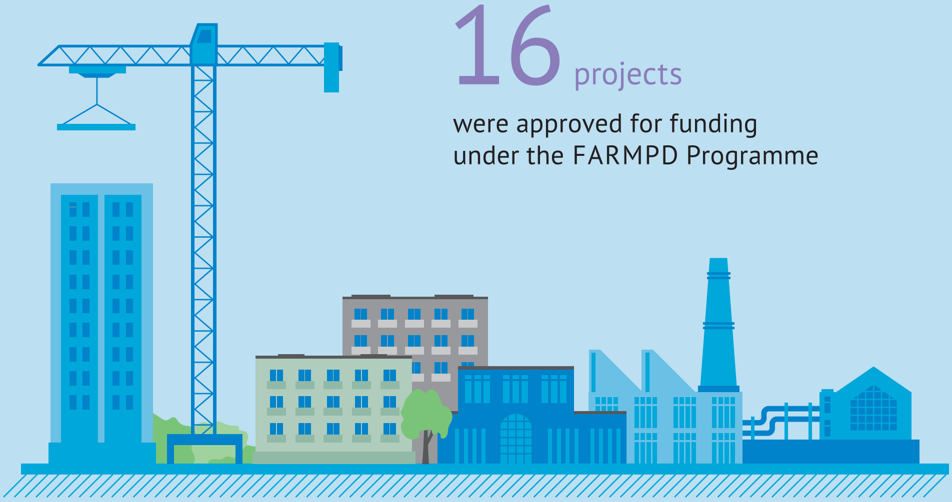


At year-end 2014, Vnesheconombank participated as a creditor in

159 investment projects

(01.01.2014 – 153 projects)

Development of Public-Private Partnership



16 projects

were approved for funding under the FARMPD Programme

By the end of the year under report, a portfolio of

21 projects was drawn up,

with the approved financial assistance approximating to

RUB 3.37 bn

Support for Small- and Medium-Sized Enterprises

Over the period of implementing the programme of financial support for SMEs (the Programme), the funds provided under the Programme exceeded

RUB 497 bn

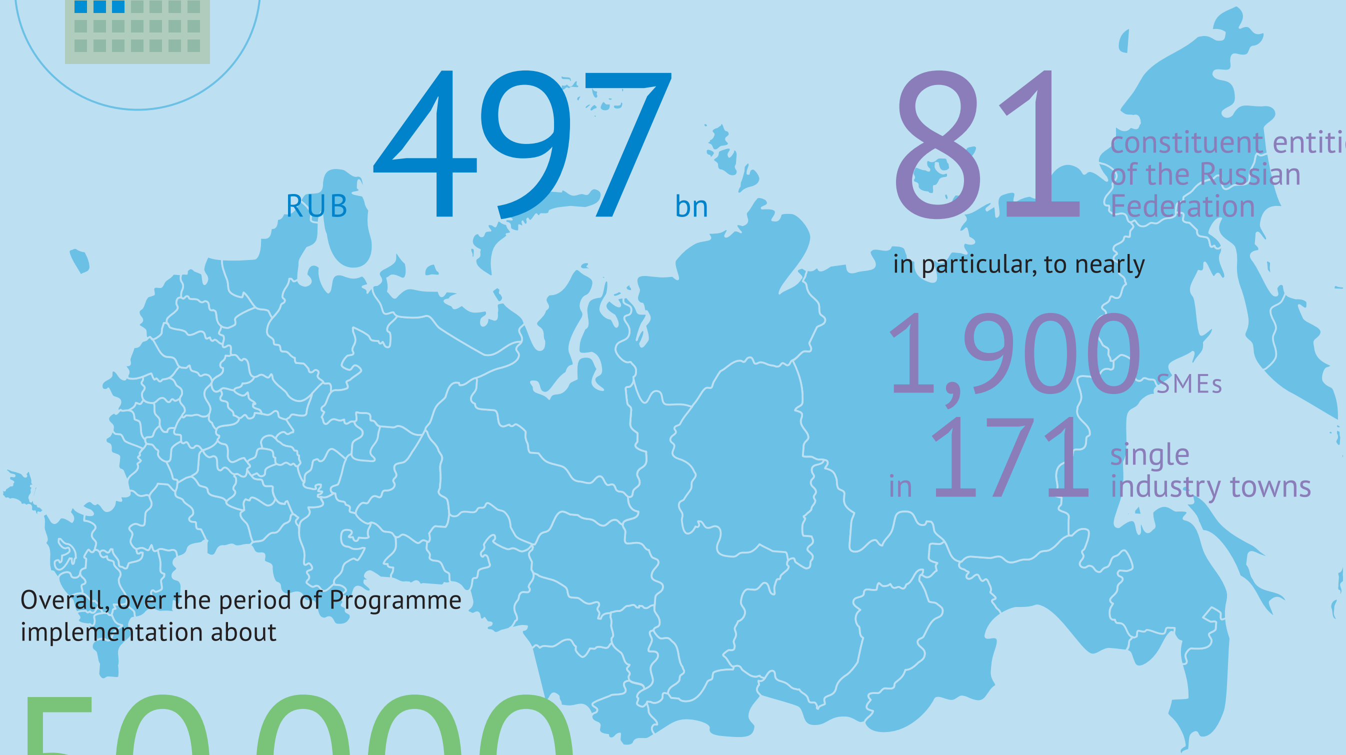
As at the end of 2014, support under the Program was provided to SMEs representing more than

81 constituent entities of the Russian Federation

in particular, to nearly

1,900 SMEs

in 171 single industry towns



Overall, over the period of Programme implementation about

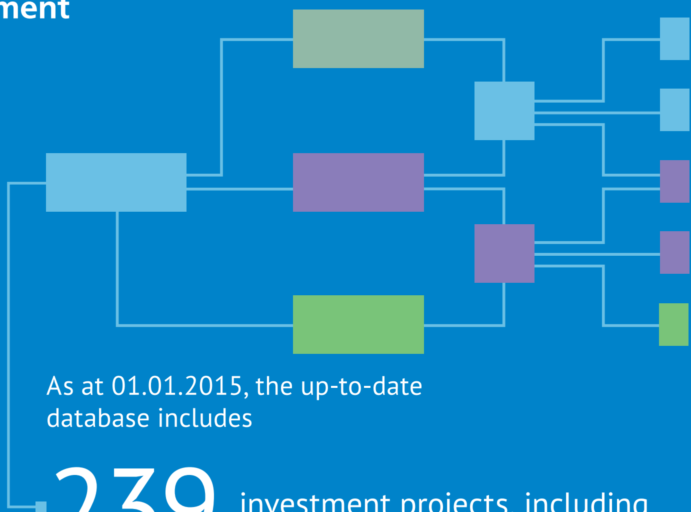
50,000 SMEs were supported

Sustainable Integrated Territorial Development

In the reporting year, Vnesheconombank continued to build up a pool of potential investment projects to be implemented in the territory of Russian constituent entities in the mid-term perspective.

By the year-end, Vnesheconombank signed cooperation agreements with

58 constituent entities of the Russian Federation



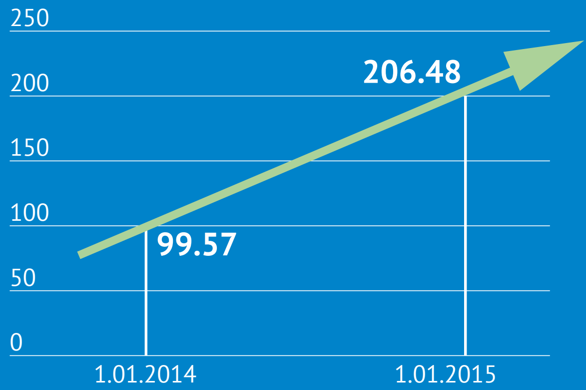
As at 01.01.2015, the up-to-date database includes

239 investment projects, including projects in single-industry towns

Export Support

The portfolio of guarantees to support exports

RUB bn (in equivalent)



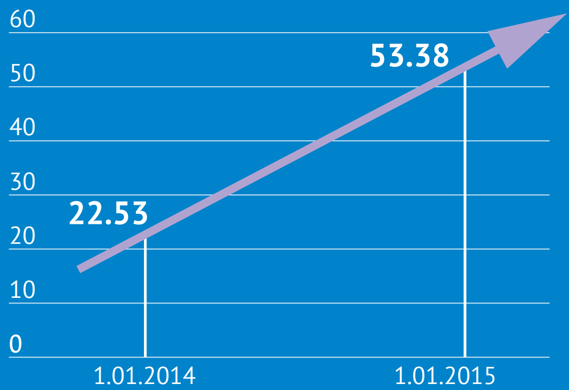
The portfolio of guarantees to support export increased more than

2-fold over

the reporting year

The amount of bank lending in support of export activity

RUB bn



The export loan portfolio increased by

2.4-fold over

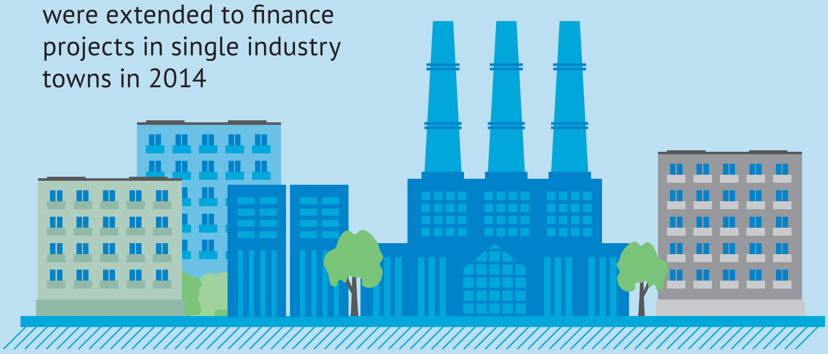
the reporting year

Support for Single Industry Towns

In total,

RUB 50.4 bn

were extended to finance projects in single industry towns in 2014



In the reporting year, Vnesheconombank allocated funding for the projects with a total value of

RUB 41.7 bn

with Vnesheconombank's commitment standing at

RUB 22.5 bn

Facilities in various economic sectors were constructed and put into operation in 2014:

- Construction of an insulation manufacturing plant in Vladimir, the first plant in Russia to manufacture thermal insulation products based on Neoporm foam glass
- A first production line was put into operation as part of the pharmacy project in Ryazan Region for construction of an innovative complex to develop, implement and manufacture medicines based on nano and bio technologies
- Launching the Boguchany Hydroelectric Power Plant in Krasnoyarsk Territory
- Opening of a modular data centre in Saint Petersburg

In 2014, the Bank continued to finance projects launched in the previous years, such as:

AVTOVAZ Development Program until 2020

Total project value

RUB **103,698** mn

Vnesheconombank's commitment

RUB **43,124.6** mn

For the period of Vnesheconombank's participation (2013–2014) the benefits exceeded the costs by

RUB **21,194.5** mn

with more than

676 new jobs created

FORD — SOLLERS Joint Venture Project

Total project value

RUB **107,892.3** mn

Vnesheconombank's commitment

RUB **39,000** mn

During the period of Vnesheconombank's participation (2011–2014) the benefits exceeded the costs by

RUB **4,957.9** mn

with more than

2,159 new jobs created

Su-35 Multifunctional Fighter Aircraft Project

Total project value

USD **469.6** mn

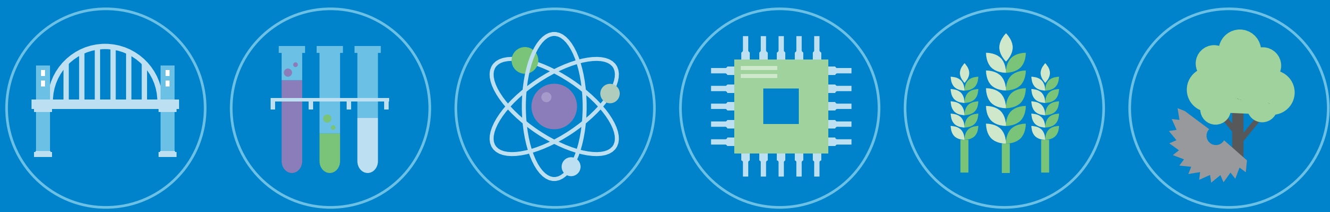
Vnesheconombank's commitment

USD **283.8** mn

In 2014, the Bank started financing 11 investment projects

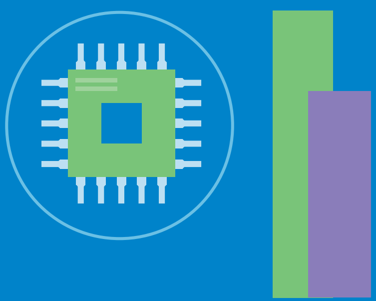
As at year-end, the funds allocated for the projects exceeded

RUB **26.2** bn



Vnesheconombank started financing the following projects:

Construction of facilities for synthetic sapphire production for optoelectronics in Naberezhnye Chelny



Total project value

RUB **6.4** bn

Vnesheconombank's commitment

RUB **4.6** bn

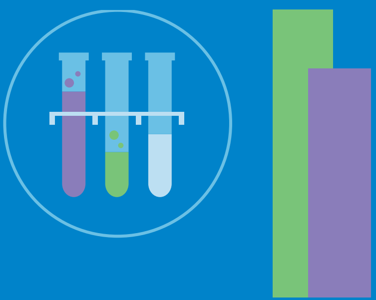
The project is to increase tax receipts to the budgets of all levels by

RUB **2.4** bn

and create more than

305 new jobs

Construction of methylchlorosilane production facilities in Kazan



Total project value

RUB **9.8** bn

Vnesheconombank's commitment

RUB **7.8** bn

Increase of tax receipts to the budgets of different levels by

RUB **6.6** bn

creation of

722 new jobs

Establishing a combined transport and logistics hub in Kaluga Region

Total project value

RUB **4.7** bn

Vnesheconombank's commitment

RUB **3.7** bn

A planned capacity of container freight services

of **300,000**

twenty-foot equivalent units

02 Assisting the Development of the National Economy

In 2014, the Russian economy was influenced by a confluence of negative factors such as structural constraints of the past years, deteriorating trade and investment links with major foreign partners and sharp volatility in commodity and foreign exchange markets.

In order to put Russia's foreign policy under pressure, the US, the EU and a number of other countries used economic sanctions aimed at restraining involvement of Russian businesses in international trade and economic relations.

First restrictive measures against Russia targeted at military-technical cooperation and research and development work in respective spheres and were reinforced by summer 2014 sectoral sanctions affecting the finance and fuel and energy sectors.

In such a challenging landscape, the role of Vnesheconombank as a bank for development has been more vital than ever. In the reporting year, the Bank continued to fully meet its commitments to fund large-scale investment projects with a focus on removing infrastructure constraints for national economy and to ensure development and modernisation of manufacturing enterprises in a variety of sectors. It also maintained its financial support for defence industry enterprises, export-oriented companies as well as for small and medium-sized businesses.

In 2014, Vnesheconombank's governing bodies approved financing for 24 investment, export support and other projects and transactions with a total value of RUB 265.6 bn, with Vnesheconombank's commitment standing at over RUB 216.3 bn. RUB 9.6 bn were provided in the reporting year to fund these projects.

Particular efforts have been put into financing import-substitution projects and large strategic businesses, especially in the most disadvantaged regions.

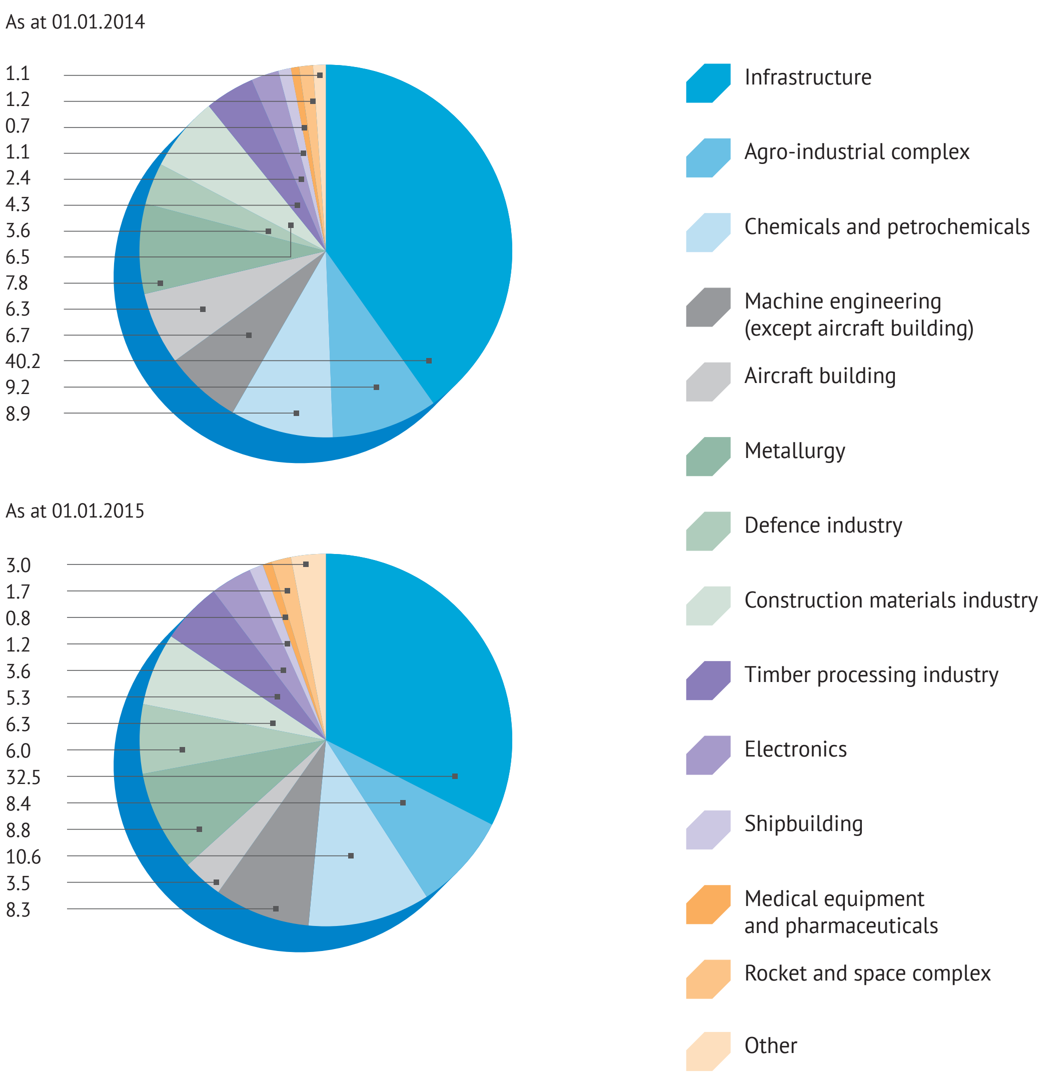
Vnesheconombank's loan portfolio increased over the year by 39.5%, from RUB 974.6 bn to RUB 1,359.6 bn (the previous year's increase – 35.3%).

The overall amount of bank lending in support of export activity more than doubled for 2014, reaching RUB 53.4 bn.

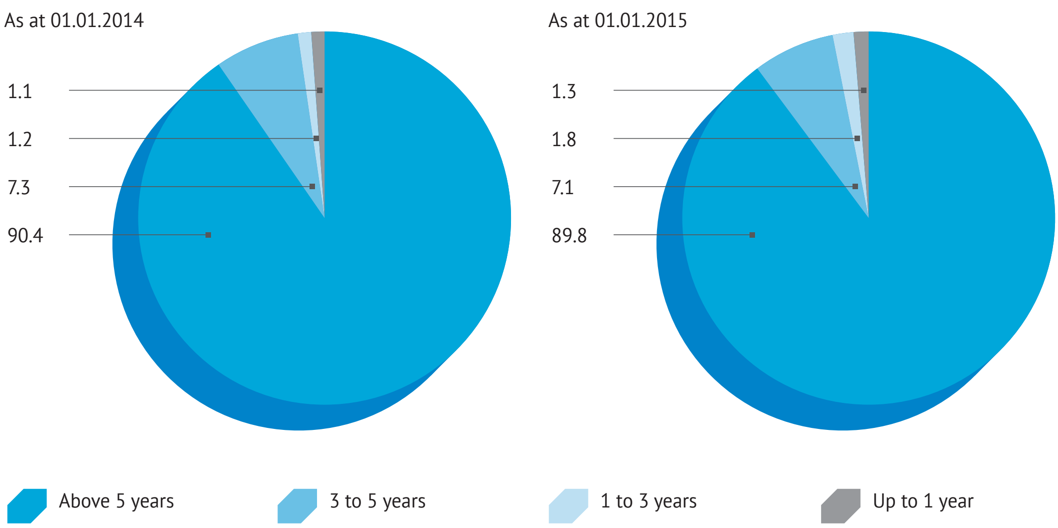
As at the reporting date, loans to companies engaged in implementation (execution) of state defence orders amounted to RUB 31.3 bn, almost twice the amount as at the start of 2014.

Notably, within the period under review, by far the biggest increase in lending came from the defence industry (130%), electronics (106%) and rocket and space complex (about 100%).

Bank's loan portfolio: Sectoral Structure, %



Loans to customers (by maturity), %



2.1. FINANCING INVESTMENT PROJECTS

The number of investment projects financed by Vnesheconombank increased from 158 (as at the start of the year) to 163 (as at the end of the year) during 2014.

Vnesheconombank's commitments in respect of implementation of 6 investment projects in the reporting year were delivered in full. All funds advanced by the Bank in the form of loans and equity investments for their implementation were returned.

The practical result of these projects delivered with Vnesheconombank's financial assistance is that a number of facilities in various economic sectors were constructed and put into operation in 2014. One of such projects is construction of an insulation manufacturing plant in Vladimir, the first plant in Russia to manufacture thermal insulation products based on Neoporm foam glass. The plant manufactures thermal isolation for industrial equipment, pipelines, foundations, walls and roofs using the latest equipment under a patented Russian technology. The project will help to address issues of energy saving and energy efficiency in civil and industrial engineering as well as environmental issues of inorganic waste utilisation.

A first production line was put into operation as part of the pharmacy project in Ryazan Region for construction of an innovative complex to develop, implement and manufacture medicines based on nano and bio technologies (initiator: Megard Group LLC together with the Rostec Corporation, borrower: FORT LLC).

The constructed facilities will ensure a full-cycle production of innovative biotech medicines (Ultrix vaccine, etc.) from development of drug substances to end products. Some of the products are expected to substitute high cost imported medicines.

An entirely new manufacturing technology will be used to produce most of the medicines. Many medicaments will be ground-breaking both in terms of composition and pharmacology.

Launching the Boguchany Hydroelectric Power Plant has become a significant event. With its capacity to meet almost a third of total demand for power in Krasnoyarsk Region, it is to give a powerful impetus to the economy of the region and Siberia as a whole and is to enhance reliability of its integrated power system. The Boguchany Hydroelectric Power Plant is in the top five biggest hydropower plants in Russia. The new plant is expected to pave the way for other large-scale projects aimed at developing the Nizhnee Priangarie territories: construction of the Boguchany aluminium plant, roads, bridges, gold-mining and wood-processing facilities. Importantly, local people account for nearly a third of the hydroelectric plant personnel.

Opening of a modular data centre in Saint Petersburg has become the first step towards creating a federal network of innovative data processing centres in major business cities across Russia. The centre is in line with TIER III requirements of TIA-942 international standard. The first northern module has been put into operation. The Saint Petersburg Data Centre project is also aimed at creating a favourable environment for small and medium-sized businesses by making the access to high technology IT solutions more affordable.

In 2014 the Bank continued financing the projects commenced in previous years, such as:

AVTOVAZ Development Program until 2020 (the “Program”).

Below are six projects financed as part of the Program:

- manufacturing B0 platform cars;
- manufacturing B/C platform cars;
- manufacturing a Kalina platform family: LADA Granta (2190/2191), LADA Kalina (2192/2194), contract assembly of Datsun cars;
- development of extrusion facilities.

Funding for the following projects commenced in 2014:

- manufacturing BM-hatch and B-cross cars;
- localisation of H4 engine.

The projects financed by Vnesheconombank as part of the Program are concentrating their efforts on bringing new life to the Russian car industry and developing it as well as manufacturing more comfortable and safe cars in Russia. It should be noted that OJSC AVTOVAZ is the leader in low cost car sales. AVTOVAZ projects are focused on updating its LADA model range and constructing new assembly facilities.

Successful implementation of this Program will allow AVTOVAZ to keep the domestic car industry viable and to reach a new level by producing cars competitive to major car manufacturers, at least in the Russian market.

Initiator/borrower: OJSC AVTOVAZ.

Financing structure of the projects: total value of the projects: RUB 103,698 mn, Vnesheconombank’s commitment: RUB 43,124.6 mn.

Social and economic effects: for the period of Vnesheconombank's participation (2013–2014) the benefits exceeded the costs by RUB 21,194.5 mn, with more than 676 new jobs created.

Su-35 Multifunctional Fighter Aircraft Project

The project provides for building a multi-functional fighter aircraft Su-35 (MFI-Su35) using latest aerodynamic solutions, construction materials, engines and electronics.

Initiator/borrower: OJSC AHK Sukhoi.

Financing structure of the project: total project value: USD 469.6 mn, Vnesheconombank's commitment: USD 283.8 mn.

At the moment, the following works have been progressed: the working design documentation has been drafted, airframe static tests completed, the flight test program is close to an end. Over 1,100 test flights have been performed to assess aircraft performance, strength, stiffness and controllability of the power unit and avionics suite of the aircraft. Ground and flight tests proved correct operation of the information and control system and the communication, navigation and radar equipment. Such tests allowed confirming the performance of the on-board equipment set and the power unit of the MFA-Su35 aircraft.

"FORD-SOLLERS" Joint Venture Project

The project encompassed the establishment of Russia's second global alliance of passenger car manufacturers to offer state-of-the-art in-demand products supported by intellectual property and backed with cutting-edge technologies and competencies.

As a result of modernisation, the existing (owned by SOLLERS in Naberezhnye Chelny and Yelabuga and by FORD in Vsevolozhsk) and newly created manufacturing facilities are expected to produce up to 350,000 cars a year with a target of at least 60% local content and to make up to 180,000 motors a year. In addition, a new research and development centre was created to support and develop the products of the joint venture and localisation of car components.

Initiators: OJSC SOLLERS, Ford Motor Company, borrowers: Ford Sollers Holding LLC, Ford Sollers Yelabuga LLC, CJSC Ford Motor Company.

Financing structure of the project:
total project value: RUB 107,892.3 mn,
Vnesheconombank's commitment:
RUB 39,000 mn.

As part of the project, a fully integrated manufacturing facility for the production of Ford EcoSport cars was launched in 2014.

Social and economic effects: during the period of Vnesheconombank's participation (2011–2014) the benefits exceeded the costs by RUB 4,957.9 mn, with more than 2,159 new jobs created.

In 2014, Vnesheconombank started financing 11 investment projects with a total value of RUB 26.2 bn including infrastructure projects, projects for construction of new manufacturing facilities in various industry sectors (chemical, petrochemical, wood-processing, electronic) as well as construction and development of agricultural facilities.

The projects include:

Construction of facilities for synthetic sapphire production for optoelectronics in Naberezhnye Chelny

Total project value:
RUB 6.4 bn

Vnesheconombank's commitment:
RUB 4.6 bn

Construction of fully integrated leading-edge facilities from the production process to the finished product to manufacture the synthetic sapphire and produce various specialised components for optoelectronics, microelectronics, optics, watch-making and other industries.

The project will also help reduce dependence on external suppliers through construction of a plant (using the project initiator's resources) to produce raw material for growing synthetic sapphire.

Over 90% of the products (ingots and sapphire wafers) are planned for export. Potential customers are expected to be from nearly 40 countries, the largest ones being from South-East Asian countries (China, Taiwan, South Korea, and Japan).

Another objective of the project is to develop the single-industry municipality (Naberezhnye Chelny) of the Kama Innovation Cluster. The project is to increase tax receipts to the budgets of all levels by RUB 2.4 bn and create more than 305 jobs.

Construction of methylchlorosilane production facilities in Kazan

Total project value:
RUB 9.8 bn

Vnesheconombank's commitment:
RUB 7.8 bn

Setting up the manufacture of base chemicals (methylchlorosilanes) used, among other things, for the production of electronics and electrical goods, medical products, construction materials, rubber and plastic products, printing inks, glues, rubbers, household detergents.

The project is to address the needs of Russian and foreign businesses in base chemicals that can be used for production of rare or import-substituting materials for specialised equipment.

Social and economic effects: increase of tax receipts to the budgets of different levels by RUB 6.6 bn, creation of 722 new jobs.

Establishing a combined transport and logistics hub in Kaluga Region

Total project value:
RUB 4.7 bn

Vnesheconombank's commitment:
RUB 3.7 bn

Creating a combined transport and logistics hub in Kaluga Region in a freight village format on the territory of Vorsino and Rosva industrial parks based on the concept developed by the Association of German Freight Villages.

The modern logistics centre offers not only container freight services (a planned capacity of 300,000 twenty-foot equivalent units), but also warehousing, customs clearance, shipping and insurance services.

The project seeks to improve traffic flows within the Moscow transport node, to create a modern transit hub between West and East and to raise the investment attractiveness of Kaluga Region.

Vnesheconombank provides financial support for investment projects primarily through long-term lending. Alongside that, the Bank makes investments in equity of project stakeholders and provides guarantees for their obligations related to fund raising from other sources.

As at 01.01.2015, Vnesheconombank's investment loan portfolio (the loans earmarked for investment projects) amounted to RUB 1,226.9 bn (01.01.2014 – RUB 893.1 bn). At year-end 2014, Vnesheconombank participated as a creditor in 159 investment projects (01.01.2014 – 153 projects).

At the end of the reporting period, equity investments in projects totalled RUB 36.3 bn (01.01.2014 – RUB 32.8 bn).

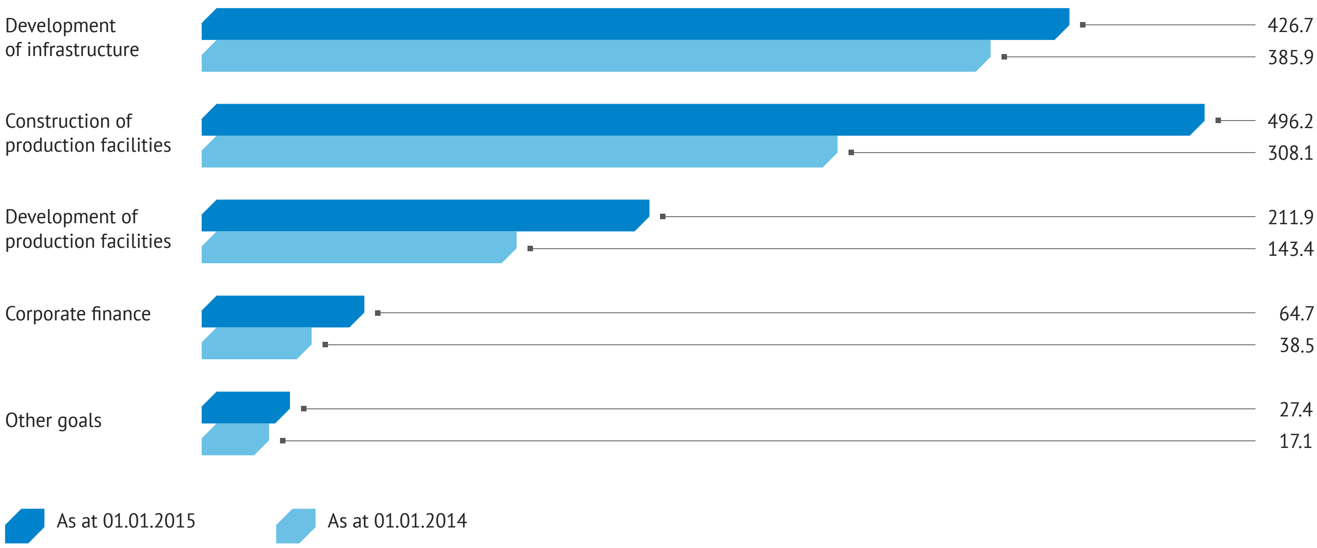
In 2014, as part of financial support for investment projects, Vnesheconombank issued 12 guarantees for the total amount equivalent to RUB 1.8 bn. As at 01.01.2015, the overall guarantee portfolio for the above purposes reached RUB 5.6 bn as compared to RUB 3.6 bn at the start of 2014.

A particular focus is placed on projects with a significant innovation-oriented component as well as projects in priority areas of the Russian economy modernisation.

As at 01.01.2015, out of the overall amount of investment loan portfolio, RUB 193 bn accounted for the loans granted within the framework of financing 34 investment projects in priority areas of the Russian economy modernisation. These include projects intended for enhancing energy efficiency and saving, developing medical equipment and pharmaceuticals, space-based technologies and telecommunications.

At the end of 2014, the total amount of loans for 34 innovation-oriented investment projects reached RUB 346 bn.

Investment loan portfolio (by projects categorised by delivery goals), RUB bn



Competition for the Development Award given for a significant contribution to social and economic development of Russia

In 2014, the national competition for Development Award instituted by Vnesheconombank for outstanding achievements in the implementation of nationally important investment programs and projects was held for the second time.

A total of 231 entries were submitted which evidences both the interest and engagement of the Russian business in development of the Russian economy.

The submissions were assessed against a number of criteria with a particular focus on innovation, export promotion or import substitution potential, social and economic effects or environmental impact of the project.

The winners of the Development Award are listed below:

- Best Infrastructure Project category — Novosibirsk Region Medical Technopark Project presented by Innovative Medical Technology Centre (Technopark);
- Best Industrial Project category — the project on the construction of the Far Eastern Deep Timber Processing Integrated Facility in Amursk, Khabarovskiy Krai, presented by Dallesprom;
- Best Project on Integrated Territorial Development category — the Kaliningrad Region Car Manufacturing Facilities Construction and Development Project for 1996–2020 presented by AVTOTOR Holding;
- Best SME Project category — the Project for Development and Bringing to the Market of the Innovative Product — test strips to determine the myocardial infarction on the basis of binding protein fatty acid — presented by OFK-Cardio.

The 2014 competition featured several new categories: Best Innovation and High Technology Project, Best Environment and Green Technology Project, Best Export Project

Winners in the new categories will be awarded within the 2015 competition which started on 1 October 2014.

2.2. DEVELOPMENT OF PUBLIC-PRIVATE PARTNERSHIP

The stated objectives of removing constraints for economic growth and improving the quality of life can hardly be achieved without development of transport, utilities and social infrastructure.

One of the mechanisms available for infrastructure projects to access funding from non-government sources is a public-private partnership (PPP) that could best serve the interests of both the state and business.

Development and promotion of PPP initiatives are one of the top priorities for Vnesheconombank.

Vnesheconombank provides financial assistance for PPP projects, implements its own program of financial assistance to regional and municipal project development and provides consultancy to state and local government authorities and legal entities on procuring and financing such projects.

Pursuant to Directive of the Russian Federation Government No. 134 dated 1 March 2008, "On Setting Rules for Arranging and Using Budgetary Allocations from the Russian Federation Investment Fund", Vnesheconombank monitors investor allocations in projects that obtained state support out of the Investment Fund resources. In 2014, Vnesheconombank conducted the required monitoring of investor obligations under 15 investment projects. The Bank's quarterly reports were submitted to the Ministry of Regional Development of the Russian Federation (since Q3 2014 — to the Ministry for Economic Development of the Russian Federation).

Investment consulting in procurement of PPP investment projects to respond to the state needs of constituent entities of the Russian Federation

According to Order of the Government of the Russian Federation No. 1372-r dated 17 August 2010, Vnesheconombank is a sole provider of investment consulting services in procurement of PPP investment projects for the state needs of the Russian Federation constituent entities.

In the reporting period, under public contracts concluded in 2013 the Bank rendered investment consulting services for Perm Territory (reconstruction of a highway) and the Republic of Bashkortostan (construction of a highway and a new on-ramp to the federal highway), Omsk Region (airport construction and operation), Orenburg Region (construction of a theatrical centre for children and youth) and Rostov Region (construction of watersports recreational complexes).

Vnesheconombank also advised on the reconstruction and integrated development of a Don M-4 highway section from Moscow through Voronezh, Rostov-on-Don, Krasnodar to Novorossiysk (1091–1319 km section) under the agreement with Highway Development Institute (having a contract with state company Russian Highways).

Program of Financial Assistance to Regional and Municipal Project Development

To assist with procurement and implementation of projects on reconstruction, modernisation or construction of public infrastructure facilities as well as on arrangement of public services using private infrastructure Vnesheconombank developed the Program of Financial Assistance to Regional and Municipal Project Development (FARMPD). It primarily focuses on financial and non-financial support for the respective investment projects.

FARMPD Program operator is OJSC Federal Centre for Project Finance (FCPF) — Vnesheconombank's subsidiary company.

Financial aid to regional and municipal projects includes targeted loans and equity investments in project companies established by project initiators, as well as financing at the pre-procurement stage of consulting and project companies against assignment of claims to public or municipal customers.

Non-financial aid encompasses investment consulting services in procuring development projects, including preparation of legal documentation, feasibility study, tender documentation for selecting private investors and organisation of project financing.

For the purposes of the FARMPD Program, Vnesheconombank provided financial backing to FCPF by increasing its authorised capital by RUB 4.9 bn.

In the reporting year, FCPF received 65 applications regarding procurement and delivery of projects in various cities and regions of the Russian Federation. 16 projects were approved for funding thereunder.

By the end of the year under report, a portfolio of 21 projects has been established, with the approved financial assistance approximating to RUB 3.37 bn.

The FARMPD Program allocated RUB 441 mn to support the following projects:

- survey works and feasibility study design for construction of a transport bridge (for cars and trains) over the Kerch Strait connecting Krasnodar with the Crimea Federal District;
- construction of a multi-functional sport cluster in Rostov-on-Don (a sport cluster of international level including a swimming sports training centre, an ice arena and transformable team sports grounds);
- setting-up a regional distance rehabilitation system using telemedical software and hardware technologies to assist patients with musculoskeletal and nervous system disorders (arranging rehabilitation without need to go to hospital, ensuring continuous remote monitoring of the patient's state, establishing a data base to encourage further research using the results of the rehabilitation process analysis).

Developing PPP Legal and Regulatory Framework in Russia

Taking into account its vast experience in PPP projects, Vnesheconombank is often invited to contribute to the PPP regulatory framework.

In 2014, the Bank participated in development of the following legislation:

- draft Federal Law on the Fundamental Principles of Public-Private Partnership;
- draft Federal Law on Amendments to the Federal Law on Special Economic Zones of the Russian Federation and Certain Legislative Acts of the Russian Federation;
- draft Federal Law on Amendments to Part I and Part II of the Tax Code of the Russian Federation in Connection with Amendments Introduced to the Federal Law on Special Economic Zones of the Russian Federation.

2.3. SUSTAINABLE INTEGRATED TERRITORIAL DEVELOPMENT

One of the top priorities of the Bank's regional policy is to stimulate sustainable social and economic development of the regions through new economic growth centres.

To this end, the Bank develops programs of medium-term financial and non-financial aid to regions. Such programs, being the joint effort of VEB Group and public authorities of the Russian constituent entities towards the integrated territorial development, are worked out in collaboration with Russian constituent entities and are aimed at selection of investment projects (including projects that can be implemented on a PPP basis); development of industrial parks and clusters, small- and medium-sized businesses, support for single-industry towns and non-financial measures.

This integrated planning approach facilitates diversification and growth of the regional economy, creation of new jobs through territorial planning and labour allocation, levelling of differentials in living standards.

The planned joint initiatives of VEB Group and regional executive authorities as at 1 January 2015 are being implemented together with the Board of the Administration of Kemerovo Region, the Administration of Primorsk Territory, the Governments of Astrakhan, Rostov and Samara Regions.

During the reporting period, Vnesheconombank entered into cooperation agreements with Moscow and Yaroslavl Regions as well as with the Republic of Khakassia. By the year-end, Vnesheconombank signed cooperation agreements with 58 constituent entities of the Russian Federation.

In the reporting year, Vnesheconombank continued to build up a pool of potential investment projects to be implemented in the territory of Russian constituent entities in the mid-term perspective. As at 01.01.2015, the up-to-date database includes 239 investment projects, including projects in single-industry towns.

Activities in North-Caucasian Federal District

Vnesheconombank has been steadily increasing financial support for projects aimed at economic development of North-Caucasian Federal District (NCFD).

The portfolio of loans granted by Vnesheconombank for project financing in NCFD has grown from RUB 18.9 bn (as at 01.01.2014) to RUB 23.2 bn (as at 01.01.2015).

A pivotal role in stimulating economic development of North-Caucasian regions is played by Vnesheconombank's subsidiary – OJSC North Caucasus Development Corporation (NCDC or the Corporation).

Its activities include equity investments in project operators and consultancy assistance to project initiators.

As at 01.01.2015, the Corporation has acted in 6 NCFD investment projects with a total value of around RUB 30.8 bn. Total funds granted by it exceeded RUB 6 bn. Among the projects supported by NCDC are the Project for Development of Intensive Crop Cultivation in Stavropol Region (IrriCo) and the Project for Development of Intensive Crop Cultivation and Soy Processing in Stavropol Region with a total funding of USD 50 mn. The projects provide for crop cultivation on an area of 80, 000 ha, of which 50,000 ha are to be equipped with modern centre-pivot irrigation systems.

The Corporation's commitments in respect of the National Aerosol Cluster Project (Nevinnomyssk, Stavropol Territory) were completed in 2014. The funds granted by it (RUB 196 mn) for the project financing were returned in full.

Vnesheconombank's Representative Office in Pyatigorsk actively assists Vnesheconombank and its subsidiaries in selecting projects to be implemented in NCFD. In 2014, it consulted initiators of 15 projects for a total amount of over RUB 10.7 bn.

Activities in Far Eastern Federal District and Baikal Region

An ongoing priority for Vnesheconombank has been to enhance the attractiveness of the Far East and Baikal Region.

At the beginning of the reporting period, Vnesheconombank was co-financing 10 investment projects in Far Eastern Federal District (FEFD). As at 01.01.2014, the funds extended to the projects totalled RUB 51.2 bn, of which RUB 50.3 bn account for the loan portfolio established as part of financing of these projects.

In 2014, Vnesheconombank commenced financing construction of the Wood Processing Complex in Solnechny District, Khabarovsk Territory, with a total value of USD 146.2 mn, with the Bank's commitment standing at USD 40 mn and EUR 65.7 mn. As at 01.01.2015, the overall investments in the project reached around RUB 5 bn (in the ruble equivalent).

By end 2014, total loans granted to FEFD projects amounted to RUB 66.3 bn, with equity investments of up to RUB 25.8 bn (for a total of 10 projects).

Vnesheconombank's Representative Offices in Khabarovsk and Krasnoyarsk as well as its subsidiaries RDIF Management Company (the management company of RDIF Closed Private Equity Fund) and OJSC Far East and Baikal Region Development Fund (the Fund) actively participate in identifying regional projects aiming to involve Vnesheconombank and its subsidiaries in project finance.

In 2014, RDIF and the Fund began to work on structuring a large-scale investment project for the construction of Nizhneleninskoe-Tongjiang railway border crossing across the Amur River to be implemented under the intergovernmental agreement between the Russian Federation and China. The bridge crossing is an extension of the Birobidzhan – Leninsk line stemming from the Trans-Siberian line. The bridge length on the Russian side is 309 meters, with an access road length being 5 km.

2.4. SUPPORT FOR SINGLE INDUSTRY TOWNS

Facilitating development and diversification of the economy of single-industry municipalities remained an ongoing objective of Vnesheconombank in 2014.

The economy and social life in such towns are the ones to take a painful hit from the negative macroeconomic environment. To reduce the tension and create new centres of growth, Vnesheconombank seeks to ensure financial rehabilitation, stable operation and modernisation of backbone enterprises, implementation of projects aimed at development and diversification of the economy in single-industry municipalities (the projects in single-industry towns).

In the reporting year, Vnesheconombank allocated funding for 3 such projects with a total value of RUB 41.7 bn, with Vnesheconombank's commitment standing at RUB 22.5 bn.

In total, RUB 50.4 bn were extended to finance projects in single industry towns in 2014.

Total loans by Vnesheconombank to projects in single industry towns increased over the year almost by 80% to reach RUB 176.2 bn as at 01.01.2015 (19 projects) as compared to RUB 97.8 bn as at 01.01.2014 (16 projects).

Four more projects with a total value of RUB 33.3 bn were approved for financing in the reporting year, with Vnesheconombank's commitment standing at RUB 20.8 bn. Still another 8 projects totalling RUB 46.3 bn are at different stages of consideration by

Vnesheconombank. Vnesheconombank's intended commitment approximates to RUB 32.2 bn.

In October 2014, the Bank established a non-commercial organisation Single-industry Town Development Fund (SITD) aimed at creating opportunities for new jobs and investment in most disadvantaged single-industry towns.

The main objectives of SITD are:

- to provide co-financing of costs incurred by Russian constituent entities and municipalities to construct engineering infrastructure facilities required for launching new investment projects in single-industry towns;
- to prepare the necessary documents and arrange financing for the projects in single-industry towns;
- to establish teams to manage single-industry town development projects and provide the relevant training.

In the reporting year, Vnesheconombank approved a list of 2015–2017 projects to be implemented in most disadvantaged single-industry towns.

Developing Legal and Regulatory Framework for Development of Single-industry Towns in Russia

Vnesheconombank was actively involved in the legal and regulatory framework for development and increasing the investment attractiveness of single-industry towns. Particularly, the Bank's work in 2014 encompassed:

- proposals with regard to the draft Federal Law on Territories of Rapid Social and Economic Development in Russian Federation (TRD) providing for special legal regime for business operations in TRDs to be applied to organisations implementing investment projects in most disadvantaged single-industry towns (Federal Law No. 473-FZ dated 29 December 2014).
- proposals with regard to the draft Set of Measures for Increasing Investment Attractiveness of Single-Industry Municipalities in Russian Federation (Set of Measures approved by the Chairman of the Government of the Russian Federation D.A. Medvedev No. 5307p-P16 dated 19 August 2014);
- proposals with regard to the draft Order of Government of the Russian Federation on Criteria for Classifying Municipalities as Single-industry Towns and on Categories of Single-industry Towns based on risks of deterioration of their social and economic conditions (the criteria and the categories are approved by Order of the Government of the Russian Federation No. 709 dated 29 July 2014);
- proposals with regard to the draft Order of Government of the Russian Federation on Approval of the List of Single-Industry Towns (the list of 313 single-industry towns is approved by Order of the Government of the Russian Federation No. 1398-r dated 29 July 2014).

2.5. INTERACTION WITH THE AGENCY FOR STRATEGIC INITIATIVES

The Bank has been actively cooperating with autonomous non-profit organisation Agency for Strategic Initiatives to Promote New Projects (the Agency) established by the Government of the Russian Federation to address such challenges as improvement of business climate, promotion of projects and initiatives of fast-growing medium-sized businesses, projects in the social sphere, development of professional competencies.

Vnesheconombank provides the Agency with consultancy support including analysis of project documents, feasibility analysis, preparation of business plans and investment memorandums.

Furthermore, Vnesheconombank conducted an express analysis of information in respect of 50 investment projects and 7 social and professional projects submitted to the Agency’s Expert and/or Supervisory Board for consideration.

As part of investment consulting, the Bank advised on some of the Agency's projects, namely on the Dry Mortars, Glass and Graded Sand Facilities Project (including quartz sands enrichment production) and Human Blood Plasma Based Innovative Medicaments Project (production of medicaments based on deep processing of human blood plasma used to treat depressed cases, immunodeficiency, after bloodloss, in the event of sepsis and haemophilia).

One of the projects previously analysed by the Bank's investment consulting experts and supported by the Agency is construction of a high technology basalt fiber reinforced polymers plant in Yakutsk which has been submitted to Vnesheconombank for consideration of the possibility of providing funding to it. One of the innovations of the project is a new basalt fiber reinforced polymers production technology, the first of its kind in Russia. Having both the advantages of pultrusion and extrusion processes, it allows to deliver a combination of high performance and excellent physical and mechanical properties of the material.

In the year under report, Vnesheconombank provided the Agency with RUB 150 mn worth of the non-for-profit support to promote the Agency’s activities.

2.6. INTERACTION WITH THE SKOLKOVO FOUNDATION

Vnesheconombank is one of the co-founders of the Foundation for Development of New Technologies Development and Commercialisation Centre (Skolkovo Foundation) and the autonomous non-commercial educational institution for higher professional education Skolkovo Institute of Science and Technology.

The objective of these organisations is to create conditions for boosting innovative projects and to facilitate the practical use of their results to ensure development of the Russian economy.

Furthermore, Vnesheconombank established a non-commercial organisation The Fund to Operate the Financial Aid Program for Innovation Projects of Skolkovo Foundation (VEB-Innovations Fund). The Fund's primary objective is to support projects delivered by the Skolkovo Foundation's residents.

As at 01.01.2015, VEB Innovations Fund (the Fund) provided financial assistance to 18 projects for a total amount of around RUB 489 mn. The loans granted as part of financing for three projects (in 2013) were fully returned to the Fund in the reporting year. The Fund provided financial backing for a new method to diagnose coagulation system disorders allowing to reduce complications in the event of thrombosis, ischaemic stroke or other pathological conditions at an early stage. The project encompasses development of a hemodialysis assay imitating the blood coagulation process.

Another project in the Fund's portfolio seeks to create a technology for producing high temperature multilayer thin-film functional coating for strain transducers. The transducers are resistant to long exposure to high temperatures and radiation and are designed for use in industries with high technical requirements: in car, aerospace, oil and gas, nuclear and power plant industries.

VEB-Innovations Fund continued its non-financial support in personnel training on venture capital investment based on the facilities of the Higher School of Economics Banking Institute and the Lomonosov Moscow State University Business School.

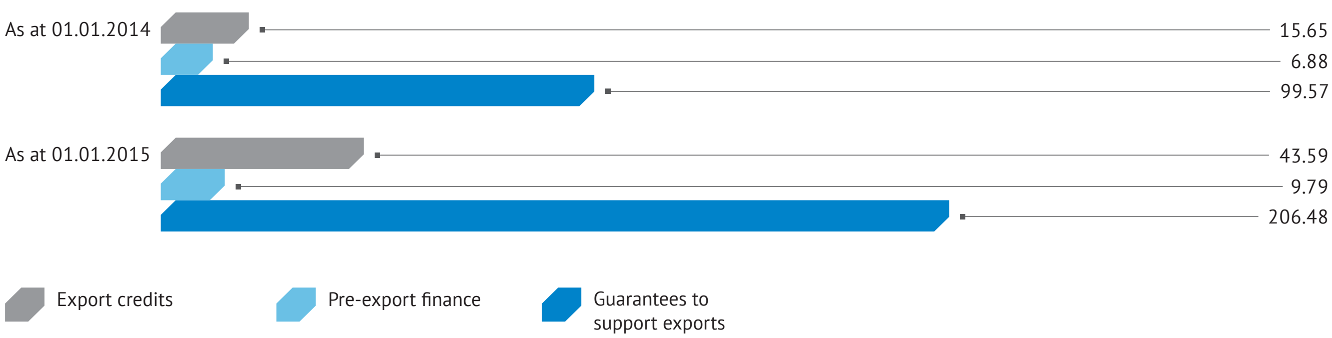
2.7. EXPORT SUPPORT

Despite the negative external factors, Vnesheconombank is steadily increasing the volumes of financial support for Russian industrial exports, primarily for hi-tech goods. The Bank's export support priorities include aircraft building and rocket and space complex, nuclear and traditional power, heavy engineering, transport machine building and power engineering, defence industry.

The export loan portfolio increased by 2.4-fold over the year.

The portfolio of guarantees issued to support Russian exports more than doubled.

Development dynamics: export support activities, RUB bn



An increase in the level of export finance has been facilitated by the use of subsidies by the Bank (in cooperation with the Russian Ministry of Economic Development, the Ministry of Industry and Trade and the Ministry of Finance) to cover part of costs relating to export credits to foreign buyers of Russian high-tech products. This instrument of governmental support is used in accordance with the international commitments of the Russian Federation and WTO requirements.

In compliance with Directive by the Russian Federation Government, Vnesheconombank was designated as a coordinator of activities related to integrated support for exports of Russian goods, works and services that envisage, among other things, the one stop shop approach in processing of applications.

The Bank believes these objectives can be addressed through various measures of financial assistance available to Russian export manufacturers at all stages — from designing and manufacturing export goods and services to after-sales services, improved mechanisms of support and better availability for Russian exporters and foreign companies buying Russian goods.

As part of implementation of a one stop shop principle, a specialised software product — the Russian Export Financial Support System — was developed and implemented. The system allows Russian exporting companies and foreign buyers of Russian goods, works and services to fill applications, make primary submissions for funding and monitor their status using a special web-portal (https://export.veb.ru). The system works as a single service open for use by Vnesheconombank, EXIAR, ROSEXIMBANK and VEB-Leasing.

Establishing an Export and Foreign Economic Strategy Committee under the Bank's Supervisory Board in March 2014 has become an important step towards better coordination of activities of Vnesheconombank and its subsidiaries.

The committee's main objective is to elaborate guidelines relating to the Bank's foreign economic activities and governmental financial support for export of Russian goods, works and services.

In order to expand the range of instruments aimed at stimulating the export activity, Vnesheconombank drafted and sent for approval to the related agencies a set of amendments to the federal laws providing for the Bank's right to issue guarantees for repayment of reimbursed VAT and customs guarantees. Such guarantees allow Russian organisations to reduce the time needed for VAT recovery in export projects and are used as security for their obligations to pay customs duties.

The Bank also developed Export Financing Program, a new product to provide a financial support for Russian industrial exports taking into account the specific needs of its partner financial institutions. Under the Program, foreign financial institutions are to get access to special purpose revolver credit facilities. Funds drawn on such credit facilities could only be used for lending to foreign companies buying Russian goods. This will allow to significantly reduce the time needed to process applications for funding to separate export projects, primarily by Russian companies regularly making export supplies under framework export contracts with foreign counterparties.

Granting Export Support Loans

The amount of bank lending in support of export activity increased over the year from RUB 22.53 bn (as at 01.01.2014) to RUB 53.38 bn (as at the end of 2014).

Export loans granted by Vnesheconombank in 2014 include:

- a loan to finance deliveries of 9 Sukhoi Superjet 100 aircraft manufactured by CJSC Sukhoi Civil Aircraft to ABC Aerolineas, S.A. de C.V., a Mexican airline company. A syndicate of banks including Vnesheconombank received an international Global Transport Finance award in the categories of "Aircraft Debt Deal of the Year for Latin America" and "Aircraft Finance Innovator of the Year";
- the first tranche of a USD 140 mn facility by Vnesheconombank to Ecuadorian company CELEC E.P. for development and implementation of the Termogas Machala thermal power plant project with participation of INTER RAO–Export LLC;
- loans to finance Russian railway vehicles export supplies to the Republic of Kazakhstan with participation of Vnesheconombank leasing subsidiary VEB-Leasing. Vnesheconombank provided a RUB 3.79 bn loan facility for the project. The political risks are insured by export insurance agency EXIAR;
- a loan to finance advance payments on the nuclear power plant construction in Belarus under a USD 500 mn facility agreement.

Total loans for support of export trade in 2014 amounted to RUB 22.66 bn (in ruble equivalent, as determined by the Bank of Russia as at 01.01.2015) of which 84% (in volume terms) account for export loans. The remaining part (totalling RUB 3.69 bn) falls within pre-export financing facilities.

Guarantees as a mechanism to support exports

At the beginning of 2014, the gross portfolio of guarantees extended by Vnesheconombank to support exports reached RUB 99.57 bn.

The Bank provided 67 guarantees for a total equivalent of RUB 27.78 bn (calculated at the exchange rate of the Bank of Russia as at 31.12.2014).

In 2014, the Bank had contingent liabilities of RUB 69.58 bn (as calculated at the exchange rate of the Bank of Russia as at 31.12.2014) relating to a USD 10 bn limited liability guarantee provided to secure EXIAR's obligations under insurance, reinsurance or co-insurance agreements. Total sums drawn down against the guarantee as at end 2014 increased to an equivalent of RUB 70.42 bn (as at the beginning of 2014 — RUB 8.54 bn).

The Bank expanded the geographical extent of its export guarantee operations by issuing guarantees to counterparties from Kazakhstan, Morocco and Nepal.

The portfolio of guarantees to support exports more than doubled in the reporting year, from RUB 99.57 bn (in equivalent) as at 01.01.2014 to RUB 206.48 bn (in equivalent) as at 01.01.2015.

Assistance in Establishment of the Credit and Insurance Export Support Centre

Pursuant to resolutions of the Government of the Russian Federation and subject to the Facilitation of Access to Foreign Markets and Support for Exports Plan (the road map) (as amended by Order of the Government of the Russian Federation No. 259-r dated 25 February 2014), a number of events were held to establish a Credit and Insurance Export Support Centre on the basis of EXIAR and with participation of ROSEXIMBANK (the Centre). Vnesheconombank's governing bodies approved the concept of the centre. By the year-end, the Centre Development Strategy for the period 2015 to 2017 and until 2020 has been elaborated.

The centre is expected to bring substantial synergy effects by combining finance and insurance instruments used by Vnesheconombank and its subsidiaries to support export.

2.8. SUPPORT FOR SMALL- AND MEDIUM-SIZED ENTERPRISES

According to Federal Law No. 82-FZ dated 17 May 2007, "On Bank for Development", and Vnesheconombank's Memorandum on Financial Policies approved by Order of the Government of the Russian Federation No. 1007-r dated 27 July 2007, one of the primary objectives of the Bank is to participate in projects aimed at small- and medium-sized businesses (SMEs).

These objectives are addressed through the SME Financial Support Program (the Program) run by Vnesheconombank's subsidiary OJSC Russian Bank for Small and Medium Enterprises Support (SME Bank). The Program is operated by SME Bank using a partner network of regional banks engaging in local SME finance, and infrastructure companies (leasing and factoring companies, micro-financing institutions, regional funds and private equity funds).

Vnesheconombank provides financial support to the Program through long-term loans, investment in equity securities of the subsidiary and guarantees to secure its obligations.

Overall, Vnesheconombank channelled RUB 14.6 bn to increase SME Bank's authorized capital (as at 01.01.2015). RUB 2.06 bn was allocated to purchase additional shares in the subsidiary.

Long-term loans extended by Vnesheconombank to SME Bank totalled RUB 42.6 bn as at the reporting date (as at 01.01.2014 – RUB 41.8 bn). These include RUB 3.6 bn (equivalent to USD 64.8 mn) owed under the 5-year facility provided to the subsidiary in 2013 from funds raised by Vnesheconombank from KfW (as at 01.01.2014 – RUB 2.8 bn equivalent to USD 87 mn). A USD 110 mn facility was provided to Vnesheconombank by the German development bank to finance a pilot SME finance initiative for Russia's Baltic Sea regions (St.-Petersburg, Leningrad Region, Kaliningrad), as well as Pskov and Novgorod Regions.

At the initiative of Vnesheconombank, the Government of the Russian Federation made a decision to extend the due date for repayment of funds of the Sovereign Wealth Fund deposited with Vnesheconombank till the end of 2027 (for 10 years), which would make it possible to prolong the RUB 30 bn loan provided by Vnesheconombank to SME Bank for the respective period.

The portfolio of guarantees issued by Vnesheconombank to secure SME Bank's obligations has shown a more than a 13-fold increase in the reporting period to exceed RUB 1.7 bn as at the reporting date.

SME Financial Support Program

The Program's primary objective is to improve the availability of long-term loans for the SME manufacturing sector. The priority is to encourage businesses engaged in modernisation, innovation, sustainability projects as well as socially beneficial projects and projects in single-industry municipalities. A broad network of regional partners ensures an equal access to financial resources for SMEs almost anywhere across Russia.

As at the end of 2014, support under the Program was provided to SMEs representing more than 81 constituent entities of the Russian Federation, in particular, to nearly 1,900 SMEs in 171 single industry towns (a total of over RUB 497 bn has been allocated to nearly 50,000 SMEs for the entire period of the Program).

Worth noting is that medium-sized loans (RUB 20 to 50 mn) account for 25% while massive loans (over RUB 50 mn) represent 31% of the SME financing portfolio.

Program Performance as at 01.01.2015

Funds provided to SMEs, including:	RUB 96.85 bn
/ outstanding debt owned by SMEs to SME Bank's partners in the Program	RUB 96.72 bn
/ funds channelled by SME Bank to build the SME support infrastructure	RUB 0.13 bn
Loans for over 3 years, a share in total loans to SMEs	77.21%
Average weighted interest rate for loans extended to SMEs by partner banks	12.73%
Loans to SMEs from the non-trading sector	80.85%

It should be noted that, despite an overall upward trend in interest rates on loans to SMEs, the average weighted rate applicable to SME loans provided by SME Bank's partners has not substantially changed as compared to the previous year (according to the Bank of Russia, the average weighted rate on SME loans reached 15.8% p.a. on average across Russia in 2014, being 16.09% on loans for less than one year, 15.31% on loans for 1 to 3 years and 14.22% on loans for over 3 years).

A similar difference can be seen in the industry structure and maturity of financial resources provided. 81% of overall financial support under the Program is provided to SMEs from the non-trading sector, though loans to SMEs from the trading sector prevail in the market generally (over 50%). Loans extended to SMEs for over 3 years account for over 77% of the total financial support to SMEs under the Program (with 11.5% of all loans provided to SMEs across Russia in 2014 being long-term loans).

The SME Bank's Strategy 2015–2020 was approved in 2014. In line with the above strategy, the priority segments now include those which foster diversification of the Russian economy and address social and economic issues. A focus will be placed on lending to SMEs operating in government's priority regions — FEFD, NCFD, KFO — as well as in single-industry towns from the red and yellow risk zones (the most disadvantaged towns), providing financial support to SME industrial park residents and SMEs engaged in production of goods or provision of services for large organisations and government-owned companies.

Guarantees as a mechanism to support medium enterprises

Since 2013, a guarantee mechanism to support medium enterprises has been in place. The mechanism is designed to enhance the capability of medium enterprises to raise finance from credit institutions to deliver investment projects.

The functions of the guarantee mechanism operator are delegated to SME Bank.

SME Bank selects borrowers and investment projects, issues bank guarantees to secure the borrowers obligations to lenders.

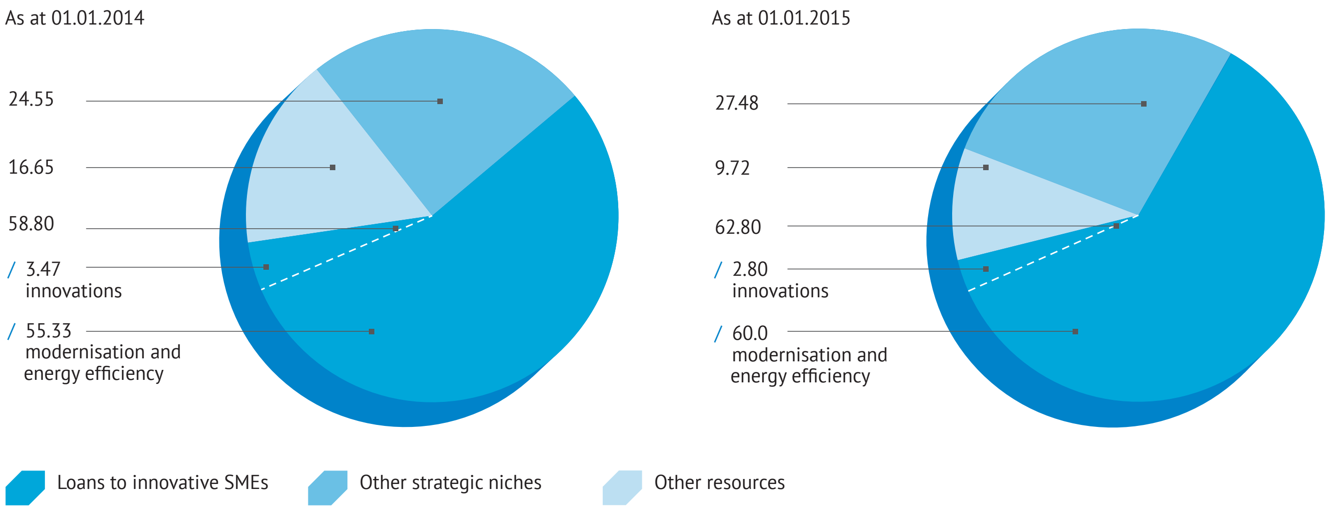
SME Bank's guarantees in respect of obligations of medium-sized businesses to banks as at 01.01.2015 exceeded RUB 2.1 bn (as at 01.01.2014 — RUB 1.1 bn). Loans granted to medium enterprises against such guarantees reached RUB 4.7 bn (as at 01.01.2014 — RUB 2.2 bn). Since the inception of this guarantee mechanism, SME Bank has issued 24 bank guarantees for nearly RUB 2.4 bn (as at 01.01.2014 — 9 guarantees).

The Selection Criteria for the medium enterprises and their investment projects approved by Order of the Russian Ministry of Finance No. 143 dated 25 March 2013 were amended in the reporting year. The cost of projects has been lowered from RUB 100 mn to RUB 30 mn and founders' loans can now be accounted for when calculating a share of a medium enterprise in the project (no less than 20% of the overall project cost). Lower requirements to guarantee seekers will allow to broaden the range of medium enterprises that can make use of such support.

Along with SME Bank, development objectives are being accomplished by other subsidiaries of Vnesheconombank including Sviaz-Bank, GLOBEX Bank and VEB-Leasing.

As at 01.01.2015, the loans extended by Sviaz-Bank and GLOBEX Bank to SMEs totalled RUB 32.2 bn (as at 01.01.2014 — RUB 31.5 bn), the total value of lease contracts concluded by VEB-Leasing reached RUB 60.1 bn being 17% higher than previous year.

Portfolio of loans extended to SMEs by partners: strategic niche structure, %



2.9. VNESHECONOMBANK'S PROGRAM OF INVESTMENT IN PROJECTS ON AFFORDABLE HOUSING CONSTRUCTION, AND MORTGAGE SERVICES

In 2010, the Supervisory Board of Vnesheconombank approved the Vnesheconombank's Program of Investment in Projects on Affordable Housing Construction, and Mortgage Services for 2010–2013 (the Program). It provides for investment up to RUB 150 bn are to be invested in mortgage-backed bonds (mortgage bonds), up to RUB 60 bn in state guaranteed obligations of the Agency for Housing Mortgage Lending (AHML) and up to RUB 40 bn for lending to AHML.

The Program is to stimulate mortgage lending and increase its affordability for the wider population.

As at the start of the year, investments in mortgage-backed bonds (in par value) stood at RUB 42.3 bn (of which RUB 28.2 bn are debt securities purchased with pension savings and RUB 14.1 bn are Vnesheconombank's own funds), with investments in state guaranteed obligations of AHML being at RUB 29.4 bn.

Pursuant to the Program, mortgage-backed bonds were acquired using both pension savings managed by Vnesheconombank as the State Trust Management Company and Vnesheconombank's own funds. AHML state guaranteed bonds were paid only from pension savings.

RUB 40 bn funding was provided to AHML in full in 2011 using money of the National Welfare Fund (Federal Law No. 173-FZ dated 13 October 2008).

By the decision of the Vnesheconombank's Supervisory Board on the extension of the date for pay-back by Vnesheconombank of mortgage-backed bonds, RUB 32.9 bn was allocated in the reporting year to finance mortgage-backed bonds (in par value) using pension savings and RUB 16.5 bn using Vnesheconombank's own funds.

32 issues for a total value of RUB 91.7 bn (in par value) were purchased for the entire period of the Program, of which RUB 61.1 bn account for pension savings and RUB 30.6 bn for Vnesheconombank's own funds). Buy-back of mortgage-backed bonds was completed.

As at 01.01.2015, debt securities purchased by Vnesheconombank under the Program totalled RUB 121.1 bn (in par value).

Furthermore, to boost the construction of affordable housing, Vnesheconombank extended RUB 5.3 bn at a 3% annual rate to two credit institutions participating in the Program. These funds were provided for refinancing the loans granted by relevant banks to developers at the rate not exceeding 10% p.a. As at end 2014, all liabilities owed to Vnesheconombank have been repaid in full.

The Program helped to make mortgage services accessible for a wider range of people and had a positive effect for low-income housing construction in Russia.

2.10. INVESTMENT-RELATED EDUCATIONAL PROJECTS

Highly qualified people in the finance sector is a prerequisite for developing capital markets, creating a better investment climate and improving the investment management quality.

Vnesheconombank has been making consistent efforts to build a specialist talent pool, including by running the Educational Project for Specialist Participants in Investment Projects Supported by Development Institutions. A considerable emphasis is placed on development of public-private partnerships (PPPs) allowing to implement large and economically beneficial infrastructure projects and socially focused initiatives.

Training for Specialist Participants in Investment Projects Supported by Development Institutions

Vnesheconombank arranged 14 events of various formats attended by more than 620 participants and 100 experts including the Bank's employees and partners. One of such events was a conference entitled "VEB Group Educational Programs" dedicated to the results of five-year efforts to bring to life educational initiatives of the Bank and its subsidiaries and to key areas for further work on a medium term horizon.

9 seminars were arranged to discuss issues relating to Vnesheconombank and VEB Group participation in regional projects,

including seminars on projects in government's priority regions:

- Vnesheconombank: infrastructure projects in North-Caucasian Federal District;
- Vnesheconombank: investments in projects aimed at development of North-Caucasian Federal District;
- VEB Group: support to investment projects in the Republic of Karelia;
- VEB Group: development of single-industry towns and support to SMEs in Sverdlovsk Region.

A significant focus is placed on the work with young people, in particular, on the training of highly qualified specialists in investment management.

To illustrate, such measures in 2014 included:

- a training seminar "Financial Development Institutions in Russia's Innovative System" as part of the themed session "Economy of the Future" at the Seliger-2014 All-Russian Youth Educational Forum;
- a six-day investment management course under the auspices of the 4th International Youth Industrial Forum "Engineers of the Future 2014";
- Vnesheconombank's contest for the best innovative project among young entrepreneurs. The award was given to the innovative technology developed by CJSC AXIONIT for the extraction of precious and rare metals. The awards ceremony took place during the III Moscow International Forum on Innovative Development "Open Innovations 2014";
- meetings and master classes of the Youth Club of Vnesheconombank as part of practical sections "Integrated Territorial Development" and "Corporate Social Responsibility";
- a contest of student and post-graduate papers in which final-year students, master's students and post graduates of the Rostov State Economic University researched into the economic and investment potential of the Southern Federal District;
- a meeting of first-year students of the Master's Program Master of Finance of the Russian Economic School with Vnesheconombank's representatives.

PPP-Related Educational Activities

The Financial University under the Government of the Russian Federation has a PPP Chair established with Vnesheconombank's assistance to provide training on procurement and implementation of PPP projects and to develop a continuing education system for personnel from the government and municipal administration.

2014 saw the first graduates completing the two-year program "PPP Project Management" (15 graduates). In the year under report, 10 students were admitted for the Master's program 2014–2016.

There is also a postgraduate course in Economics and National Economy Management.

In 2014, 3 postgraduate students chose to conduct research on various aspects of PPP.

Moreover, a refresher course for the Russian PPP market participants entitled “Regional PPP Project Management” was held twice in the reporting year. The courses were attended by nearly 80 people from 28 Russian constituent entities

PPP project issues were included in the agenda of a number of field working seminars organised as part of the educational project "Training for Specialist Participants in Investment Projects Supported by Development Institutions". As compared to 2013, the number of attendants increased almost four-fold to reach over 460 people.

2.11. BORROWING IN CAPITAL MARKETS

In the reporting period, provision of resources required for Vnesheconombank's operations was considerably hindered by the geopolitical environment and pressure put on Russia by a number of states. In July 2014, the USA and EU considerably restricted access to financial markets for Russian state-owned companies including Vnesheconombank and its subsidiaries.

Major Russian state-owned banks and companies were barred from raising debt on the USA and EU securities markets for longer than 30 days.

However, the EU still allowed Russian banks to borrow in the interbank lending market and obtain tied financing against the guarantees of export credit agencies (ECAs).

Ruble liquidity situation on the internal capital market throughout the year also remained rather tough against the backdrop of capital outflow and inability to refinance the foreign debt.

Due to rising inflation expectations and substantial depreciation of ruble in 2014, the Bank of Russia raised the key interest rate from 5.5% to 17% p.a. resulting in a considerable increase in the cost of resources on the internal debt market.

However, not only did Vnesheconombank discharge all the liabilities to creditors and investors but also mobilised resources on capital markets to boost its activities.

Borrowing in Securities Markets

In 2014, Vnesheconombank borrowed funds on the internal market by placing USD 500 mn worth of currency-denominated bonds and RUB 10 bn worth of 2 issues of ruble-denominated bonds.

Furthermore, Vnesheconombank refinanced its liabilities for the amounts of USD 500 mn (completion of offer) and RUB 212.6 bn.

In 2014, all Vnesheconombank's bond issues were put on the top quotation list of the Moscow Exchange (Level 1 securities admitted to trading on MICEX SE). It provided private pension funds with a new impetus to invest in Vnesheconombank's bonds.

Issue	Month of placement	Maturity	Coupon rate, % p.a.	Currency of issue	Amount of issue, currency units mn
Series 01v	February	1 year	1.75	US dollar	500
Series BO-16v	May	3 years with a 1-year blackout period	2.65	US dollar	500
Series 35	June	7 years	2.00	Russian ruble	212,636
Series BO-11	September	15 years	9.75	Russian ruble	1,000
Series BO-02	November	3 years with a 1-year blackout period	12.00	Russian ruble	9,000

Resources raised from banks

As a result of the sanctions imposed by the USA and EU, the majority of Vnesheconombank's partner banks adopted a wait-and-see attitude towards future cooperation.

Nonetheless, in the reporting year Vnesheconombank entered into 2 individual loan agreements, 4 amendments to earlier signed loan agreements and 3 framework agreements (agreements of cooperation and understanding) to attract long-term resources for the total amount equivalent to some USD 4.8 bn.

In particular, the framework agreements and amendments to earlier signed agreements of cooperation and understanding include:

- a EUR 250 mn Framework Loan Agreement with Mediobanca (Italy) against insurance coverage by national ECAs as signed during the meeting of Heads of G20 financial institutions with a development or public mandate (“The D20”) in Rome in July 2014;
- an amendment to renew the USD 200 mn Framework Loan Agreement with the Export-Import Bank of Korea (Korea) on financing the projects delivered together with Korean companies;
- the USD 2 bn Framework Commercial Loan Agreement with the Export-Import Bank of China (China) on long-term financing the projects delivered together with Chinese companies;
- quadripartite Memorandum of Understanding between Vnesheconombank, China Development Bank Corporation (Beijing), VEB Asia Limited (Hong

Kong) and AHML on a vehicle to finance the Affordable Housing for Russian Families Programme (hereinafter, the Programme), including bilateral and syndicated interbank loans, loans from China Development Bank Corporation to AHML, repurchase of AHML and/or Vnesheconombank's bonds by China Development Bank Corporation, AHML and/or Vnesheconombank's raising finance on the debt market of Mainland China.

The total amount of long- and medium-term resources raised from banks in 2014 was equivalent to USD 4.0 bn[5]. In particular, the Bank received in full the funds under the 2014 agreements with the Export-Import Bank of China (Beijing) and VTB Bank (in aggregate, USD 2.3 bn), as well as the resources equivalent to some USD 1.7 bn under the agreements earlier signed with foreign banks including Bank of America Merrill Lynch International Limited (London), China Development Bank Corporation (Beijing), HSBC Bank Plc (London), Japan Bank for International Cooperation (Tokyo), BTMU Europe Limited (London), Deutsche Bank AG (Frankfurt-am-Main), and HSBC France (Paris).

In 2014, Vnesheconombank discharged its obligations to repay the loans to foreign banks in the total amount equivalent to some USD 3.5 bn. In particular, the Bank repaid approximately USD 2.5 bn worth of a 3-year syndicated loan, with 19 foreign banks as the syndicate members.

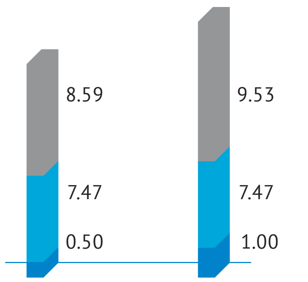
Below is the structure of the resource base formed using the funds borrowed in capital markets, by currency unit, borrowing instrument and maturity.

5 Hereinafter, information on the amounts raised from banks on capital markets (for a minimum term of 1 year) is given without regard to the funds extended by the Bank of Russia against the guarantees of Russian credit institutions.

Funds borrowed in capital markets (by borrowing instrument), currency units bn

in US dollars

As at 01.01.2014 As at 01.01.2015

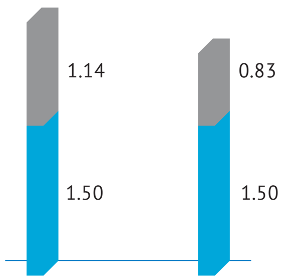


Total amount in equivalent of RUB bn 541.9

Total amount in equivalent of RUB bn 1,012.3

in Euros

As at 01.01.2014 As at 01.01.2015

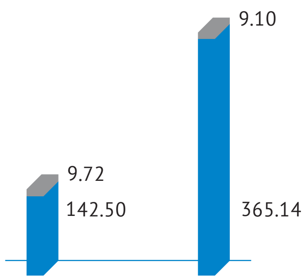


Total amount in equivalent of RUB bn 118.7

Total amount in equivalent of RUB bn 158.9

in Russian rubles

As at 01.01.2014 As at 01.01.2015



Total amount in RUB bn 152.2

Total amount in RUB bn 374.2

Funds borrowed from banks

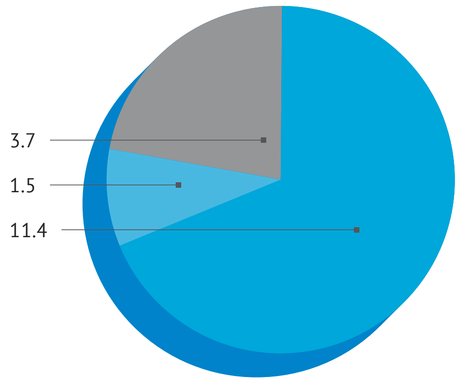
Eurobonds

Domestic bonds

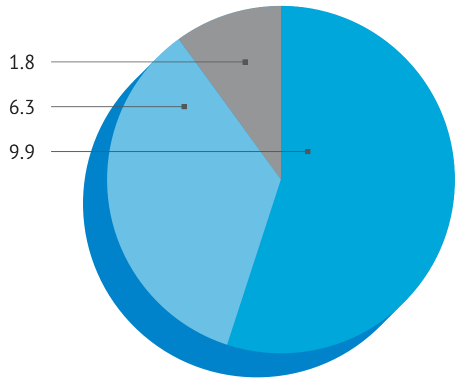
Funds borrowed in capital markets (by maturity), currency units bn

in US dollars

As at 01.01.2014

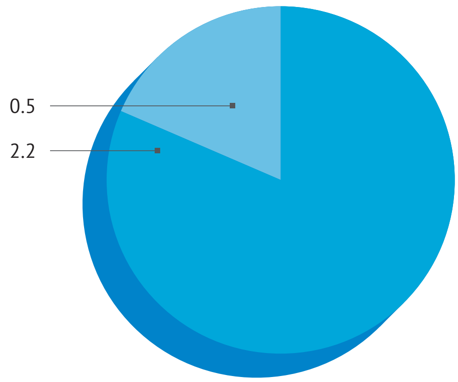


As at 01.01.2015

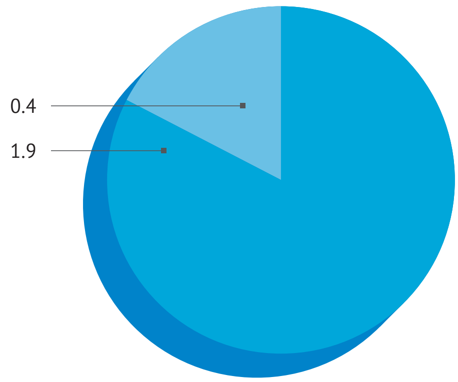


in Euros

As at 01.01.2014

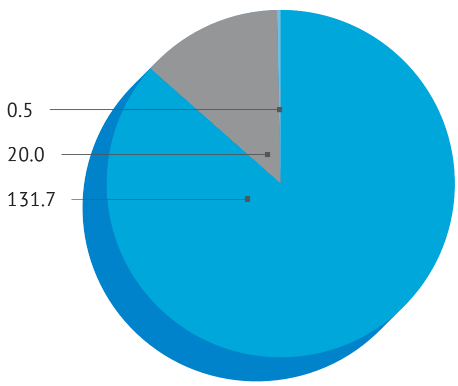


As at 01.01.2015

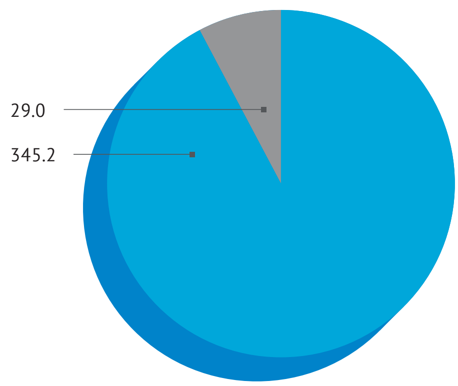


in Russian rubles

As at 01.01.2014



As at 01.01.2015



Over 5 years

3 to 5 years

1 to 3 years

Alternative Funding Sources

In 2014, Vnesheconombank contemplated raising finance in capital markets new for Vnesheconombank. Markets of the Asia Pacific and Middle East were considered most promising.

The primary objective of VEB Asia Ltd, Vnesheconombank's subsidiary in Hong-Kong, is to encourage Asian investors to invest in major projects delivered in the Russian Federation. Still another goal of VEB Asia Ltd is to promote Russian industrial exports in the markets of East and Southeast Asia.

03 FX and Interbank Money Market Operations, Managing the Bank's Securities Portfolio

Vnesheconombank operates in the FX, interbank money and securities markets. By reference to the immediate market environment, the Bank engages in FX operations and transactions with securities and derivative financial instruments, as well as places and raises short-term interbank loans.

FX and Interbank Money Market

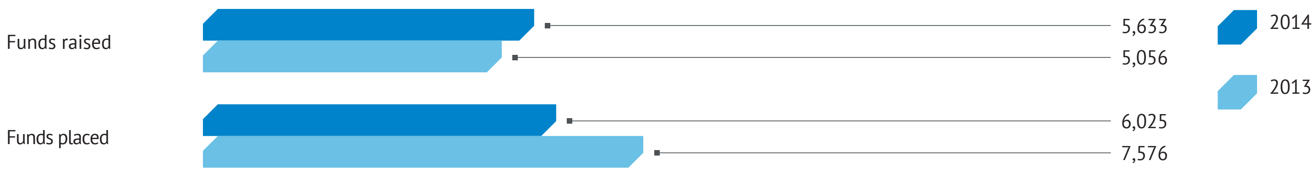
Slowdown in economic growth, sanctions imposed against Russia and declining oil prices resulted in the ruble depreciation, with the USD/RUB exchange rate going up from 32.73 at 01.01.2014 to 56.26 at 31.12.2014. Russian ruble exchange rate was also influenced by the Bank of Russia's transition to a free-floating regime in its internal currency market regulation.

As part of its liquidity management procedures and in order to attract ruble funds to finance investment projects, the Bank was actively engaged in FX and, in particular, swap transactions. The total amount of the Bank's FX transactions increased 2.4-fold to reach RUB 15,064.3 bn as opposed to RUB 6,346.1 bn in 2013. Swap turnover increased 3.3-fold from RUB 3,884.8 to RUB 12,732.8. Currency/ruble transactions grew from RUB 5,052.8 bn to RUB 14,942.5 bn.

Total turnover of funds borrowed in the interbank market exceeded the previous year figure by 11%. Most of the borrowings were made in Russian rubles with the turnover reaching RUB 5,099.8 bn and demonstrating a 4-fold increase on 2013.

Total turnover of the funds placed in the interbank market showed a 20% decrease on 2013.

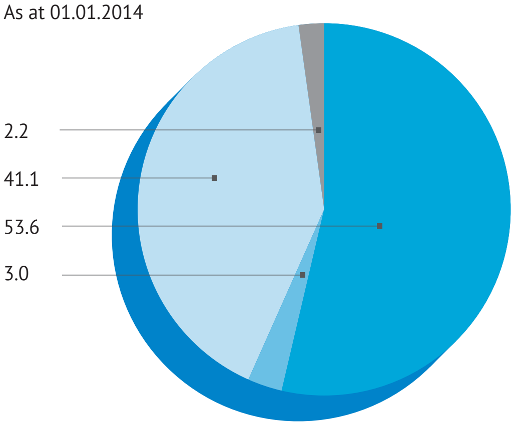
Turnover of money market operations (short-term interbank loans), RUB bn (in equivalent to an average yearly exchange rate)



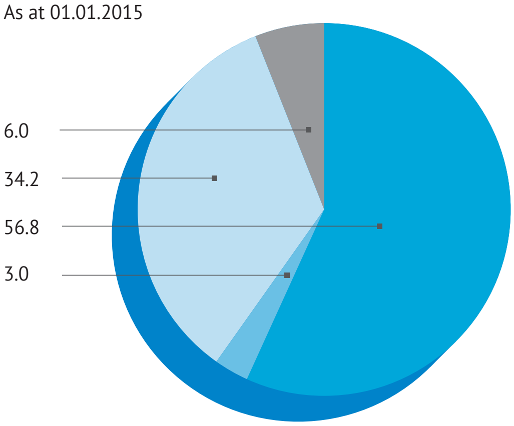
Managing Securities Portfolio

Structure of securities portfolio, %

As at 01.01.2014



As at 01.01.2015



- Corporate debt securities of the RF residents (bonds, Eurobonds and promissory notes)
- Other debt securities (bonds of foreign issuers and credit notes linked to the corporate and sovereign risks)
- Shares and depository receipts
- Russian Federation debt securities

In 2014, Vnesheconombank engaged in securities-related operations amid negative trends in the Russian stock market, with MICEX Index and RTS Index falling by 7.1% and 45.2%, respectively.

In the year under review, the Bank's transactions in securities primarily aimed at ensuring its sufficient liquidity. The bulk of operations — 82% of the total amount of transactions in securities — are accounted for by repo transactions.

The structure of the securities portfolio underwent no considerable changes. Investment in RUB-denominated shares posted a slight decrease caused by the sale of equity interest in a Russian company.

In 2014, Vnesheconombank used the funds released upon the redemption of Eurobonds of Russian issuers to acquire eurobonds issued by major companies, including those controlled by the state and involving minimum credit risk. Furthermore, Vnesheconombank invested in government debt instruments of the Russian Federation — USD-nominated Eurobonds.

Overall, Vnesheconombank's securities portfolio, with due consideration for revaluation and the accrued interest (coupon yield), increased by 7% to reach RUB 410.2 bn as at the end of the reporting period.

04 Depository Activities

In 2014, Vnesheconombank's Depository marked the 15th anniversary since it was established within the Bank's structure. Over this period, Vneseconombank has gained extensive experience in conducting depository activities related to the instruments of the Russian and global securities markets.

Depository services provided by Vnesheconombank are noted for their universal character, a broad range of products offered to clients in relation to depository operations with securities, prompt and accurate processing of settlement instructions due to highly automated operational processes, a customer tailored and flexible approach to the clients' needs that is ensured through the system of account managers.

Client Servicing

Over the reported period, 53 new clients' depository accounts were opened with Vnesheconombank. As at 01.01.2015, the number of clients' depository accounts opened with Vnesheconombank was running at 576.

Over 2014, Vnesheconombank effected 31,518 settlement operations over depository accounts on the clients' instructions, demonstrating an 11% increase on the previous year (28,402 operations).

Given the corporate actions by the securities issuers whose titles to securities were recorded on customer depository accounts with Vnesheconombank, 5,972 operations were effected over the period under review, with the yield equivalent to USD 1.13 bn transferred to customers.

In 2014, securities of 583 issues were accepted for depository servicing by Vnesheconombank (in 2013 — 532 issues). The number of issues of issue-grade securities increased over the reported period to reach 3,000, whereas the Russian issuers' securities accounted for 30.2%, and foreign and international securities — for 69.8%.

Servicing Sovereign Internal Currency Debt

Over the year under report, Vnesheconombank, performing the functions of servicing sovereign internal currency debt, settled the public debt towards the blocked and special currency account holders amounting to USD 2.74 mn.

In 2014, Vnesheconombank drawing on the federal budget funds made payments under the V Series Minfin Bonds totalling USD 1.79 mn, including USD 1.24 mn in redemption of the principle debt and USD 0.55 mn — in redemption of the coupon yield.

With a view to improving the quality of its functions of an agent for the Russian Federation Government to service the sovereign internal currency debt, the Bank upgraded the automated system of settlements with the Russian Federation Ministry of Finance and Russian corporate holders of blocked and special currency accounts. The measures taken are aimed at ensuring prompt and faultless settlements.

Functions of a Paying Agent for Corporate Bonds Backed by State Guarantees of the Russian Federation

In the period under review, Vnesheconombank performed the functions of a paying agent for 21 issues of Russian corporate bonds totalling RUB 174 bn (at par value) and maturing before 2032.

The bonds were issued against the guarantees of the Russian Federation to attract resources to finance investment projects by OJSC AHML, OJSC ROSNANO, OJSC United Aircraft Corporation, OJSC Western High-Speed Diameter, LLC North-Western Concession Company, State Company Avtodor, and OJSC Main Road.

In 2014, drawing on the issuers' funds, Vnesheconombank effected RUB 16.5 bn worth of coupon yield payments and payments in redemption of the bonds.

Furthermore, Vnesheconombank entered into an agreement to perform the functions of an agent for the Russian Federation Ministry of Finance as the guarantor of obligations of OJSC AHML under the new bond issues of the A28-A30 series amounting to RUB 15 bn and maturing in 2029-2033.

Development of Depository Services

In the period under review, Vnesheconombank started performing the functions of a tax agent for dividends paid to the clients on the shares of Russian issuers.

As at the end of 2014, Vnesheconombank had electronic document management system in place with all the 20 registrars keeping the accounts of Vnesheconombank as a nominee holder.

Since 2014, Vnesheconombank has been posting a calendar of foreign issuers' upcoming corporate events on its website. This will help the Bank's clients stay informed and monitor the deadlines to submit their applications.

Furthermore, VEB website contains information and guidance materials concerning taxation of income from securities in the USA, Canada and France. The guidance materials provide information on taxation procedures, applicable tax rates, documents and procedures required to obtain a preferential tax treatment for income from foreign securities.

05 Agent for the Government of the Russian Federation

Federal Law No. 349-FZ dd. 2 December 2013, "On Federal Budget for 2014 and the 2015-2016 Planning Period"

Resolution by the Government of the Russian Federation No 1213 dd. 23 December 2013, "On Measures to Implement Federal Law 'On Federal Budget for 2014 and the 2015-2016 Planning Period'"

In 2014, Vnesheconombank continued to act as the agent for the Government of the Russian Federation as to:

- keeping records, servicing and repayment of the foreign debt of the Russian Federation;
- keeping records, servicing and repayment (utilisation) of the external financial assets of the Russian Federation;
- securing the repayment of debt owed to the Russian Federation by legal entities, Russian constituent entities and municipalities;
- extending and executing state guarantees of the Russian Federation.

In the reporting period, the Russian Ministry of Finance seeking to improve the procedure for issuing and executing state guarantees of the Russian Federation authorized Vnesheconombank to sign state guarantees of the Russian Federation, as well as state guarantee agreements and other related agreements and documents, on behalf of the Russian Ministry of Finance.

Throughout 2014, the amount of assets and liabilities under Vnesheconombank's management increased by 30% to exceed RUB 7.2 tn as at 01.01.2015.

Over the period under review, Vnesheconombank executed 1326 instructions by the Russian Ministry of Finance, prepared 39 analytical reports on international debt, and various reviews and summaries for meetings and sessions of Russian intergovernmental agencies for trade and economic cooperation, including any committees and subcommittees established under the auspices of such agencies, as well as for official meetings and summits.

The Bank's representatives participated in the work of the Russian delegation at 10 sessions of the Paris Club of creditors, in the annual Club meeting with the private sector representatives and a number of sovereign creditors, and in the Paris Club/G-20 Joint Forum.

5.1. SERVICING THE FOREIGN DEBT OF THE RUSSIAN FEDERATION

In 2014, the foreign debt of the Russian Federation registered in Vnesheconombank's books decreased from USD 42.89 bn to USD 41.15 bn due to the repayment of obligations under the Russian Federation Eurobonds and official bilateral loans of foreign states.

Over the reporting period, Vnesheconombank effected USD 4.16 bn worth of payments (drawing on the federal budget resources) in redemption and servicing of the Russian foreign debt. The bulk of the payments (USD 3.97 bn) were made in redemption and servicing of the Russian Federation Eurobonds.

The Bank ensured the redemption and servicing of the foreign debt of the former USSR and the Russian Federation through deliveries of goods and services for the amount equivalent to USD 103.48 mn (China, Kuwait).

Vnesheconombank participated in negotiating the drafts of an intergovernmental agreement and the Russian Government's Resolution aimed to settle the foreign debt of the former USSR and the Russian Federation to the Republic of Malta.

In 2014, Vnesheconombank prepared information and analytical materials on the current state of settlements with the CIS countries — former USSR Republics (Uzbekistan, Ukraine) under the internal foreign currency-denominated debt, as well as the respective expert opinions.

5.2. MANAGING EXTERNAL FINANCIAL ASSETS OF THE RUSSIAN FEDERATION

Over the reporting period, Vnesheconombank kept records and effected settlements of debts owed to Russia by 53 debtor-countries under the government loans extended by the former USSR and the Russian Federation in accordance with 270 loan agreements.

In 2014, Vnesheconombank participated in negotiating:

- 11 drafts of intergovernmental agreements, addenda and protocols, as well as the respective Russian Federation Government's resolutions on settlement of debt owed by debtor-countries to the Russian Federation, and on new government loans to be extended by the Russian Federation to foreign borrowers;
- regulatory and legal documents to ratify an agreement and a protocol to the intergovernmental agreement.

Furthermore, Vnesheconombank's professionals procured the execution of 11 technical agreements, addenda and protocols with designated foreign entities on accounting/settlement procedures applicable to the government loans extended by the Russian Federation.

In conformity with the Russian-Cuban and Russian-North Korean intergovernmental agreements on settlement of the Cuban and South Korean indebtedness towards the Russian Federation under the loans extended by the former USSR, Vnesheconombank used certain technical procedures to draw up the indebtedness, offset claims and write-off 90% of the outstanding balance owed by such debtor-countries to the Russian Federation.

5.3. ENSURING REPAYMENT OF DEBT OWED TO THE RUSSIAN FEDERATION BY LEGAL ENTITIES, RUSSIAN CONSTITUENT ENTITIES AND MUNICIPALITIES.

As at the end of the reporting period, Vnesheconombank kept records of RUB 501.9 bn worth of debt owed to the Russian Federation by 308 borrowers (as at 01.01.2014 – RUB 367.3 bn and 360 borrowers, respectively).

Within the effort to settle the debt to the Russian Federation, Vnesheconombank's professionals produced expert reports based on the financial evaluation of 2 debtors, as well as their respective sureties and guarantors, and ensured that amicable agreements are signed with the debtors mentioned.

Also, over the reporting period, Vnesheconombank assessed the financial standing of 5 debtors whose liabilities to the federal budget arouse out of financing the construction of vessels of German make. Consequently, the pledgee granted 5 permissions to the fishing vessels being contracted out on a time-charter basis, and 1 permission to insurance indemnity being paid to one of the debtors in connection with the insured accidents with 2 fishing vessels.

Overall, the liabilities to the Russian Federation settled in 2014 totalled RUB 66.7 bn (in 2013 – RUB 14.6 bn), with:

- more than RUB 6.1 bn transferred to the federal budget (including RUB 3.9 bn under previously concluded amicable and restructuring agreements);
- RUB 56.3 bn worth of indebtedness written off the Bank’s books;
- RUB 4.3 bn worth of indebtedness restructured.

5.4. EXTENSION AND EXECUTION OF THE RUSSIAN FEDERATION STATE GUARANTEES

As at 01.01.2015, Vnesheconombank kept records of 467 state guarantees of the Russian Federation totalling RUB 2,432.2 bn (as at the beginning of 2014 — 317 state guarantees totalling USD 1,640.9 bn).

In 2014, acting as the agent for the Russian Federation Government and following the instructions of the Russian Federation Ministry of Finance, Vnesheconombank prepared and submitted to the Russian Federation Ministry of Finance 1,335 opinions, including:

- 1,270 opinions based on the review and analysis of documents related to 185 principals' applications for state guarantees of the Russian Federation;
- 52 opinions based on the analysis of documents related to amendments to loan agreements backed by state guarantees of the Russian Federation;
- 13 opinions based on the analysis of 13 beneficiaries' claims to execute state guarantees of the Russian Federation, with 4 opinions upholding 4 of the claims.

In 2014, Vnesheconombank extended 150 state guarantees of the Russian Federation for the total amount of RUB 533.4 bn and USD 0.4 bn. The Bank also verified the financial standing of 68 principals under state guarantees of the Russian Federation.

In 2014, Vnesheconombank's representatives participated in 45 court hearings in connection with state guarantees of the Russian Federation.

06 Pension Savings Management

Federal Law No. 111-FZ dd. 24 July 2002, "On Investing Funds to Finance the Funded Component of Retirement Pension in the Russian Federation"

Resolution by the Russian Government No. 34 dd. 22 January 2003, "On Designating the Bank for Foreign Economic Affairs of the USSR (Vnesheconombank) as State Trust Management Company for Pension Savings"

Federal Law No. 360-FZ dd. 30 November 2011, "On Procedure for Financing Payments Drawing on Pension Savings"

Resolution by the Russian Government No. 503 dd. 14 June 2013, "On the Term of State Corporation 'Bank for Development and Foreign Economic Affairs (Vnesheconombank)' Acting as State Trust Management Company for Pension Savings, and State Management Company for Payment Reserve Resources"

Vnesheconombank was delegated the functions of a state trust management company for the pension savings of the insured citizens of the Russian Federation and a state management company for the payment reserve resources.

It is important to note that the funds under the management of Vnesheconombank are invested in strict compliance with the effective laws of the Russian Federation and on the arms length basis.

In 2014, the major focus of Vnesheconombank as the state trust management company (STMC) was on honouring its commitments on repaying pension savings to the trustor, i.e. the Russian Pension Fund, as well as ensuring positive yield on the investment portfolios formed drawing on the pension savings and payment reserve.

The results of the STMC investment activities in the reported period were adversely impacted by a significant drop in the market value of the federal loan bonds (OFZs) and corporate bonds due to a 3-fold increase of the key interest rate by Russia's Central Bank against the backdrop of the economic downturn and high inflation expectations in the Russian economy.

Over 2014, the average market yield on OFZ and non-government bonds comprising the investment portfolio of STMC grew by 640 and 400 basis points, respectively.

Trust Management of Pension Savings of Insured Citizens of the Russian Federation

Vnesheconombank uses the pension savings of the citizens of the Russian Federation who have not exercised their right to choose a private pension fund or a private asset management company, or have opted for a state management company, to form an extended investment portfolio and an investment portfolio of government securities.

Extended Investment Portfolio

The investment declaration of the extended investment portfolio allows Vnesheconombank to invest pension savings in government ruble- and foreign currency-denominated securities, securities of the Russian Federation constituent entities, Russian corporate bonds, mortgage securities and securities of international financial institutions, deposit such funds with credit institutions, and place them in ruble and foreign currency accounts with credit institutions.

Throughout 2014, the Russian Federation Pension Fund (the RFPF), transferred to STMC RUB 2.6 bn worth of funds to form the respective portfolio. The funds repaid to the Russian Federation Pension Fund in the reported period amounted to RUB 14.5 bn.

Over the reported period, one of Vnesheconombank's key tasks was to repay to the RFPF some RUB 390 bn worth of resources in order to honour the applications by the ensured citizens wishing to switch to a non-governmental pension fund or opting for an investment portfolio of an asset management company. To accomplish the task, Vnesheconombank conducted 4 auctions that resulted in RUB 267 bn worth of deposits with credit institutions, which is a 18.7% increase on the previous year (RUB 225 bn). An average weighted interest rate on the deposits was running at 11.70% (in 2013 — 7.89%).

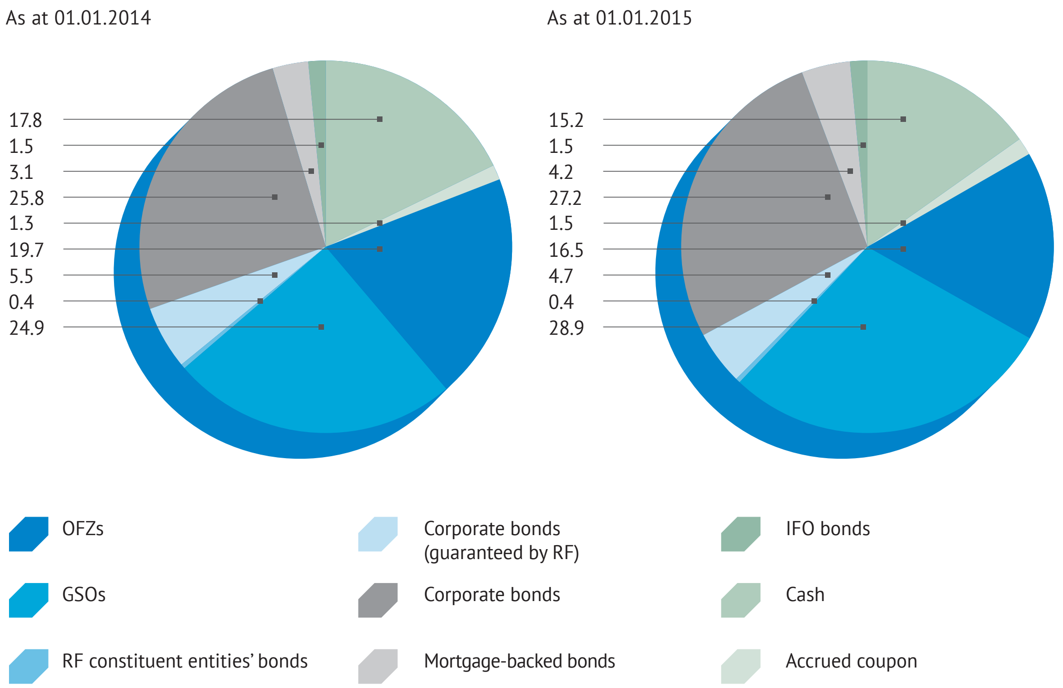
The funds invested in 2014 in non-government bonds totalled RUB 127.7 bn at market value as at the date of purchase (accrued coupon income not included). In particular, at the initial placement, Vnesheconombank invested RUB 50 bn worth of the funds of the extended portfolio in the bonds of OJSC Russian Railways, and RUB 37.5 bn — in mortgage-backed bonds. Over the year under report, the total amount of non-government bonds in the extended investment portfolio at market value (accrued coupon income not included) increased from RUB 667 bn to RUB 710.2 bn.

The government securities in the extended investment portfolio amounted to RUB 126.8 bn at market value (accrued coupon income excluded).

The market value of the extended investment portfolio over 2014 increased from RUB 1,854.6 bn (as at year start) to RUB 1,892.3 bn (as at the year-end).

At year-end, the return on investment of pension savings comprising the extended investment portfolio made 2.68% p.a. The major factor responsible for the investment results in 2014 was a significant decline in OFZ market value. The negative revaluation of OFZs made (-) RUB 62.9 bn.

Structure of extended investment portfolio, %



Portfolio of Government Securities

In conformity with the Investment Declaration of the government securities portfolio (GSP), pension savings may be invested in government ruble- and foreign currency-denominated securities, Russian corporate bonds backed by state guarantees of the Russian Federation, as well as placed in ruble and foreign currency accounts with credit institutions.

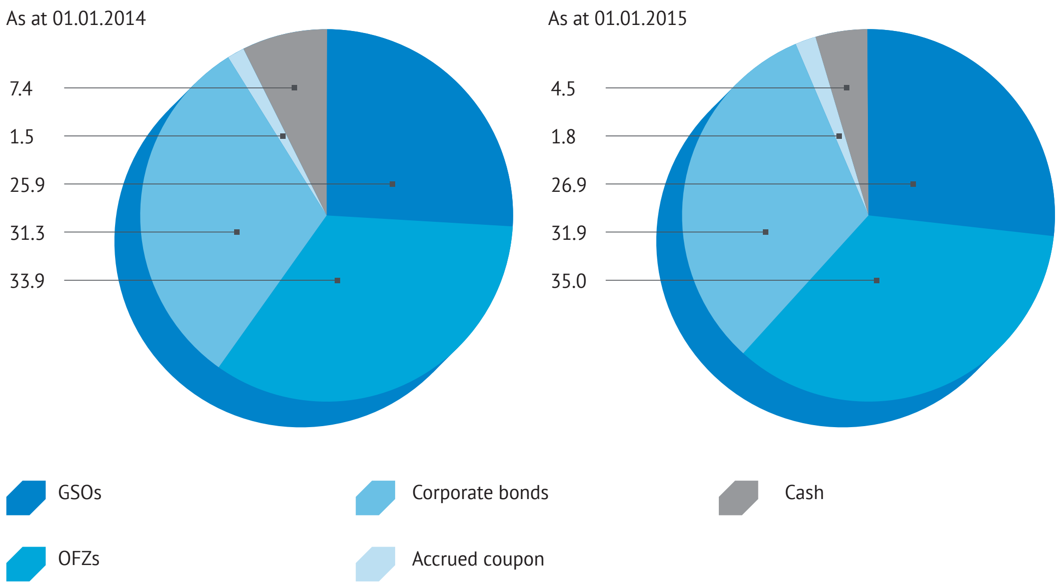
In 2014, no funds were transferred by RFPF to GSP, with RUB 169.5 mn worth of funds repaid to RFPF.

Over the period under review, the GSP market value decreased from RUB 10,938.6 mn to RUB 10,535 mn.

At year-end, return on investment of GSP made (-) 2.05% p.a.

Major factors behind the negative return on investment of the portfolio included a decline in the market prices for OFZs and other Russian bonds, and a very insignificant size of the initial offering of bonds against the guarantees of the Russian Federation.

Government securities investment portfolio, %



Managing Funds of Payment Reserve and Pension Savings of Insured Citizens Entitled to Term Pension Payments

In 2014, the Russian Federation Pension Fund transferred to Vnesheconombank RUB 1.4 bn worth of payment reserve resources and RUB 149.8 mn worth of pension savings of insured citizens entitled to term pension payments, to be held in trust and to form a payment reserve portfolio and a term pension payments portfolio, respectively. Over the reporting period, the amount of funds repaid to the Russian Federation Pension Fund under the portfolios mentioned made RUB 1,12.7 mn and RUB 18.8 mn, respectively.

In 2014, the payment reserve portfolio (at market value) increased from RUB 1,371.1 mn to RUB 2,562.5 mn. The amount of the term pension payments portfolio grew 2-fold from RUB 123.2 mn to RUB 247.7 mn.

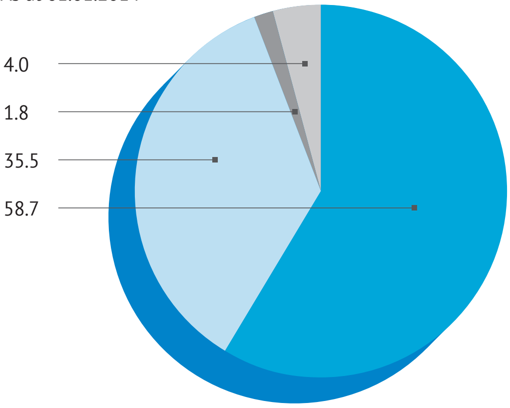
The share of top-quality and higher yield corporate bonds (as compared to OFZs) and bonds of Russian constituent entities in the payment reserve and term pension payments portfolios increased from 35.48% and 35.55% to 49.03% and 44.58%, respectively.

At year-end, the return on investment of the payment reserve and term pension payments portfolios made (-) 2.96% p.a. and (-) 2.69% p.a., respectively.

Negative return on investment of the portfolios was brought about by a significant decline in the market prices for Russian bonds and, primarily, OFZs accounting for approximately 59% in the payment reserve and term pension payments portfolios as at the beginning of 2014, and 37.7% and 31.2% (respectively) — as at the end of 2014.

Structure of payment reserve portfolio, %

As at 01.01.2014



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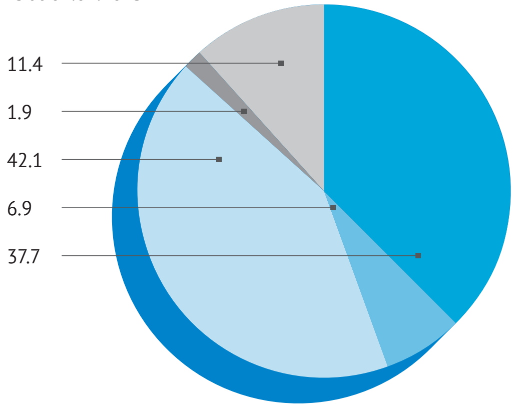
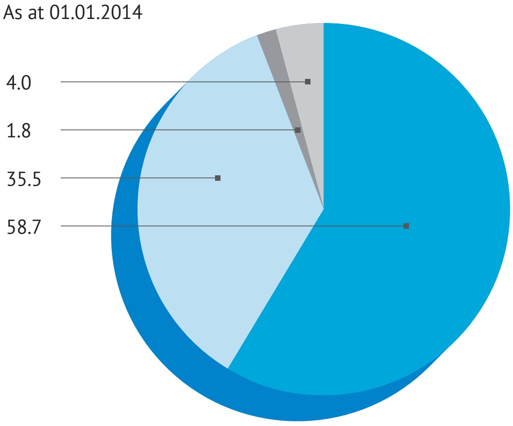
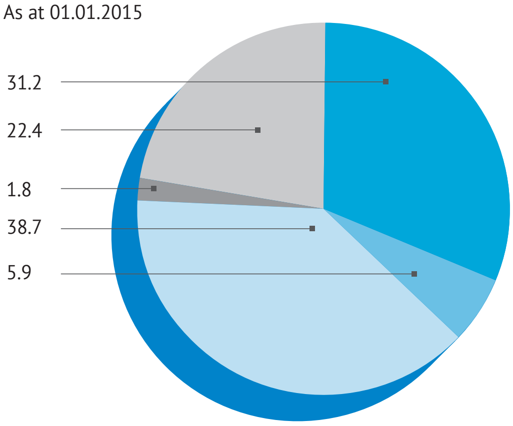


Structure of portfolio of pension savings of the ensured citizens entitled to a term pension payment, %

As at 01.01.2014



As at 01.01.2015



07 System of Governance

7.1. GOVERNING BODIES

The functions, powers and operating procedures of Vnesheconombank's governing bodies are regulated by the Federal Law "On Bank for Development" and the Bank's regulations on governing bodies.

Supervisory Board of Vnesheconombank

The Bank's highest governing body is the Supervisory Board consisting of 8 members and the Chairman of Vnesheconombank.

The Chairman of the Russian Federation Government is the Chairman of Vnesheconombank's Supervisory Board.

The members of the Supervisory Board of Vnesheconombank are appointed by the Government of the Russian Federation.

The scope of functions of Vnesheconombank's Supervisory Board include defining the major areas of the Bank's activities, approving the Bank's revenues/expenditures plan (budget), the Bank's annual report and an independent external auditor to perform mandatory annual audit of the Bank's annual financial statements.

In 2014, 22 meetings of the Supervisory Board were held and 144 issues carefully scrutinized.

Vnesheconombank's Management Board

Vnesheconombank's Management Board is a collective executive body of Vnesheconombank. The Management Board consists of Vnesheconombank's Chairman (ex officio) and 8 Board members appointed by Vnesheconombank's Supervisory Board.

The Chairman of Vnesheconombank superintends the Management Board activities.

In the reporting year, 945 issues were closely scrutinized by the Bank's Management Board at 232 meetings.

Chairman of Vnesheconombank

Chairman of Vnesheconombank acts as the sole executive body.

Vnesheconombank's Chairman is appointed to office by the President of the Russian Federation on the nomination of the Chairman of the Russian Federation Government.

The Chairman heads the Management Board and manages the Bank's day-to-day operations.

With a view to supporting the activities of Vnesheconombank's executive bodies, collective working bodies give preliminary consideration to the issues that come within the competences of the Bank's executive bodies and prepare the relevant recommendations.

These include Committee for Strategic Development, Credit Committee, Budget Committee, Committee for Assets/Liabilities Management, Risk Management Committee, Situational Committee, Information and Communication Technology Committee and Committee on Trust Management of Pension Savings.

7.2. RISK MANAGEMENT SYSTEM

The risk management system employed at Vnesheconombank constitutes a complex of regulatory, methodological, managerial and IT solutions designed to secure financial sustainability of the Bank.

The procedures applied to risk management concern monitoring of the external environment, risk assessment, including proposals for the structure of limits set on risks, compliance control, and updating the Bank's management on the risks assumed to ensure timely and adequate managerial decision-making.

To assess the level of the credit risks assumed (both on a single borrower and groups of related borrowers), the Bank professionals produce expert opinions based on the analysis of the financial position and business record of borrowers and principals, collateral quality and other parameters of lending and guarantee transactions.

Credit risk management also includes a set of measures to monitor and limit both the level of risks assumed with respect to specific operations and the total risk level.

On a daily basis, to manage the risks of its market instruments portfolio, Vnesheconombank monitors the level of market risks, in particular, by calculating Value-at-Risk (VaR). VaR is calculated for individual instruments, portfolios by types of instruments and the overall portfolio of market instruments.
On a regular basis, the Bank tests the accuracy of risk assessment models using back-testing. Risk exposure computed based on the VaR methodology is augmented by the results of stress testing.

To reduce market risks, limits are set on the sizes and parameters of positions/portfolios.

Management of structural risks (interest rate, currency and liquidity risks) is carried out within the framework of the Bank's asset/liability management program and is aimed at maintaining a balanced structure of assets and liabilities sensitive to interest and foreign exchange rate fluctuations.

In order to assess and control the impact of changes in interest and foreign exchange rates on Vnesheconombank's financial indicators, the Bank regularly carries out scenario modeling, monitors the interest rate gaps in terms of maturities and currencies, the size of open positions for each currency and the Bank's overall open currency position

In order to control liquidity risks, the Bank continuously monitors the mismatches between the Bank's assets and liabilities (in terms of maturities and major currencies), the liquidity reserve and the amount of potential sources of market funding in order to identify funds available to cover unexpected liquidity gaps that could occur due to the unforeseen deterioration of market and credit factors. On a regular basis, stress testing of the Bank's liquidity position is carried out using various scenarios of market and credit risks realisation.

On a monthly basis, reports on the liquidity position specifying the amount and maturity breakdown, amounts of liquid assets and temporarily idle funds are provided to VEB's management.

Operational risk management is carried out through strict regulation of the Bank's business processes, as well as through risk insurance.

On an annual basis, Vnesheconombank concludes an agreement on complex insurance against fraud and liability insurance that includes complex insurance of the Bank's assets, cyber and computer crime insurance, as well as professional liability insurance.

In the reporting year, the Bank took various measures to upgrade the regulatory and methodological base of the risk management system. These include the approval of the VEB Group Risk Management Policies and the preparation of a heat map for Vnesheconombank's major operational risks.

As part of upgrading the IT base for risk management, the Bank enhanced the procedures for collecting data on the operational risk events and modernised the application software modules as regards the system of managing Vnesheconombank's market and credit risks. In order to ensure better risk management at credit institutions of the VEB Group, the Bank modernised the Module for Collecting and Analyzing Financial Statements of the Group's subsidiaries and associates.

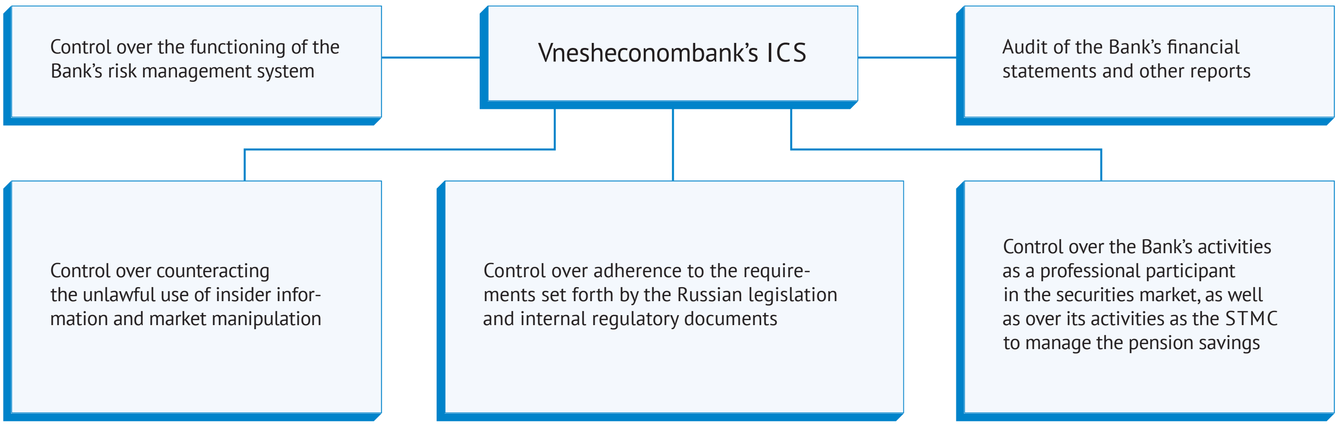
7.3. INTERNAL CONTROL SYSTEM

Vnesheconombank's governance system includes the internal control system adequate to the nature and scale of Vnesheconombank's transactions and the level of risks assumed.

The Bank's internal control system embraces all the areas of its activities and is oriented towards ensuring enhanced effectiveness and efficiency of the Bank's financial and economic activities, compliance with the legislation, regulatory acts governing the respective areas of activities, and Vnesheconombank's internal regulatory documents, as well as the procedures set and powers granted to secure the absence of the conflict of interest between the Bank's structural divisions and/or employees.

Vnesheconombank's structural subdivisions include the Internal Control Service (ICS) that is accountable to Vnesheconombank's Supervisory Board and, in terms of its day-to-day activities, to the Chairman of the Bank.

The Head of ICS is appointed by the Supervisory Board of Vnesheconombank.



ICS's activities include, among other things, monitoring critical business processes, in particular those related to Vnesheconombank's lending and investment activities, upgrading the regulatory framework governing the activities of the Bank and the entities comprising the VEB Group, conducting inspections and limited scope audits, in particular full scope audits of financial and economic activities of Vnesheconombank's subsidiaries.

In the reporting year, the ICS carried out 22 reviews (full scope audits, limited scope audits, inspections) within the internal auditing of Vnesheconombank subdivisions' activities.

The audits concerned the Bank's business lines such as support for exports, control over reserve creation procedure and over compliance with the limits set for the Bank's financial stability indicators, the limits on specific transactions and on the volume of transactions with Vnesheconombank's specific counterparties.

ICS carried out more than 40 audits of financial and economic activities of Vnesheconombank's subsidiaries and affiliates.

Vnesheconombank's Internal Control Service also exercises control over the efficiency and adequacy of measures undertaken by the Bank in order to eliminate any inconsistencies identified.

In 2014, the VEB Group Sustainability Report was audited by the ICS as well.

Upgrading the internal regulatory framework is viewed as one of the major preconditions for enhanced efficiency of the internal control.

Upgrading the internal regulatory framework in 2014: major outcomes

- The methodologies of exercising control over the receipt and application of dynamically provided IT-resources and services (cloud computing) and control over the development of IT-services were developed.

- The Bank updated 24 methodologies of monitoring the system of internal control over Vnesheconombank's investment and financial activities, including the methodology of the procedure for granting loans within export financing and the procedure for ensuring control over the current servicing of loans granted within export financing.
- The methodologies related to preparing and presenting financial statements of a professional participant in the securities market were developed.

An increased focus is placed on upgrading the internal regulatory system in order to ensure the quality audit of Vnesheconombank's subsidiaries and affiliates.

As at 01.01.2015, the ICS staff had 7 permits from the Russian Ministry of Finance authorizing them to engage in banking audit activities and 1 certificate for engaging in general audit; 21 certificates from the FCSM/FFMS to engage in various activities in the securities markets; 1 ITIL certificate, 1 MBA diploma, 1 diploma of a professional accountant of the Institute of Professional Accountants and Auditors of Russia (IPAA) and 1 diploma in International Financial Reporting (DipIFR).

7.4. THE BANK'S ORGANISATIONAL STRUCTURE AND HR MANAGEMENT

In 2014, the Bank's organisational structure and HR management underwent no substantial changes.

A standalone business unit (a directorate) was abolished while a new business unit (a division) was established. One more business unit was set up to address macroeconomic policies and cluster analysis.

At the end of 2014, the Bank's organisational structure comprised 36 standalone business units and 17 representative offices in Russia and abroad.

Seeking to streamline the governance system, Vnesheconombank stepped up its efforts to optimise the headcount number in compliance with the span of control requirements and challenges facing the Bank.

Vnesheconombank imposes strict requirements for its employees' professional skills. Thus, in 2014 the principal focus of staff development remained on corporate training events, in particular, multiple-choice e-learning tests devised by Vnesheconombank's specialists. Furthermore, the Bank arranged for its employees to study at higher education institutions and other training organisations and participate in various seminars and conferences in order to acquire new knowledge and upgrade professional skills. All in all, 1,976 employees took training organised by the Bank in the year under report.

Traditionally, the most popular training programs were those designed to prevent corruption, counteract legalisation of illicit gains and terrorism financing, as well as promote computer and legal literacy.

In 2014, the Bank continued to organise experience sharing events with its foreign partners: development institutions, multilateral financial institutions, associations and consortia. To illustrate, more than 150 specialists from Vnesheconombank and its subsidiaries took part in the events aimed at learning from best global practices and leading-edge technologies.

Seeking to provide its employees, their relatives, as well as the retirees – members of the Bank's Retiree Council with social protection, Vnesheconombank implements a voluntary medical insurance program based on the mechanism of the Bank/employee co-investment. For many years, the complex program of voluntary medical insurance has been providing the insured persons with a comprehensive spectrum of medical services including rehabilitation and sanatorium treatment. Furthermore, the retiree support package also includes a non-governmental pension scheme.

Following the long-established tradition and in celebration of the 70th Anniversary of Victory in the Great Patriotic War, Vnesheconombank held a gala night for the retirees – members of the Bank's Retiree Council in May 2014.

On a regular basis, the Bank organises the Partners of the 21st Century sporting event together with the members of the VEB Group. Such events tangibly contribute to reinforcing corporate relations between the VEB employees and those of the VEB Group.

The reporting year marked the 90th Anniversary of Vnesheconombank. To celebrate this event, the Bank's employees were invited to attend Giuseppe Verdi's La Traviata hosted by the Historical Stage of the Bolshoi Theatre.

7.5. DEVELOPING AND PUTTING IN PLACE THE BANK'S CSR SYSTEM

The principles of corporate social responsibility (CSR) have an increasingly important role to play in economic development. Social, economic and environmental commitments undertaken by companies over and above mandatory requirements demonstrate their sustainable development and are being viewed, in many countries, as a strategic priority.

Vnesheconombank not only seeks to develop its own CSR system, but also actively engages in promoting the CSR principles in Russian business community and globally in the context of the UN Global Compact (UNGC).

UNGC is the world's biggest voluntary initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Today, the initiative embraces over 12,000 corporate participants from 145 countries.

Notably, at the Global Compact Local Regional Meeting Europe in Skopje, Macedonia and the Global Compact XII Annual Local Network Forum in Addis Ababa, Ethiopia, both held in 2014, foreign colleagues recognised the increased activity of the Russian network and its entering a whole new development level.

A highlight of 2014 was the first World Conference on Indigenous Peoples. The meeting was an opportunity to share perspectives and best practices on the realisation of the rights of indigenous peoples, including pursuing the objectives of the United Nations Declaration on the Rights of Indigenous Peoples. The Conference concluded with resounding support for the Outcome Document that articulated the tools to protect the rights of indigenous peoples and urged the business community and other stakeholders to respect the Guiding Principles on Business and Human Rights.

Admittedly, Vnesheconombank's efforts under the UNGC aegis help promote the Bank's positive image of a socially responsible institution committed to promoting the UNGC principles for the benefit of the global sustainable development.

In the year under report, Vnesheconombank was directly involved in the institutional development of the UNGC local network, i.e. establishing a separate legal entity that would bring together the members of the UN Global Compact Network Russia. This work resulted in the statutes of the Global Compact Network Russia being ratified. To further promote the UN Global Compact Network Russia, a newsletter was prepared and distributed, the corporate visual identity was shaped and a web page developed.

In 2014, Vnesheconombank continued to introduce the concept of responsible financing in the Bank's lending and investment activities in compliance with the Responsible Financing Policies adopted in 2013. A number of internal documents were prepared to define the objectives and principles of Vnesheconombank's activities in the area of social responsibility and green office practices. In particular, Vnesheconombank's corporate environmental policies were drafted and Regulation on VEB Group's Sustainability Report was approved.

The Youth Club acting under the auspices of Vnesheconombank held a master class on Corporate Social Responsibility and Responsible Financing at Vnesheconombank. The event resulted in project teams organised to continue research and practical work in the Corporate Social Responsibility workshop of Vnesheconombank's Youth Club.

In 2014, Vnesheconombank was awarded an honorary diploma for its valuable contribution to promoting sustainable development and responsible financing practices. The competition for the award was organised by the Association of Development Financing Institutions of the Asia-Pacific Region (ADFIAP), the European Organisation for Sustainable Development (EOSD) and the World Federation of Development Financing Institutions (WFDFI). A project funded by Vnesheconombank and aimed at the construction and reconstruction of small hydroelectric power plants in the Republic of Karelia became a laureate of the competition.

The VEB Group's Sustainability Report 2013 was presented by the League of American Communications Professionals with the highest Platinum Award in the competition category Conglomerates, Holding Cos., Divers. Invest. of the 2013/14 Vision Awards Annual Report Competition, with the score of 99 out of a possible 100.

In 2014, Vnesheconombank's project Series of Annual Conferences on Investment in Sustainable Development entered the top 30 best projects according to the Russia's Best Social Projects National Program in the category Corporate Projects.

Corporate Volunteering Initiatives

In the reporting year, Vnesheconombank continued to promote employee volunteering. On a regular basis, the Bank extended aid to specialised children institutions, social institutions for the elderly, Russian Orthodox Church, and organised actions to help people in hardships and victims of natural disasters.

More than 20 volunteering events were organised in 2014 to include:

- aid for the start of a new school year to boarding schools for orphans and abandoned children in Moscow and Moscow Region, orphan asylums, and children from disadvantaged families; aid to homes for elderly people in Moscow, Pskov, Ryazan and Tula Regions;
- initiatives to support the Russian Orthodox Church;
- initiatives to support victims of the flood in Altai and Republika Srpska, humanitarian aid and supplies to Ukrainian refugees.

Furthermore, more than 300 volunteers took part in 3 blood donor initiatives undertaken by Vnesheconombank.

A new line of volunteering that evoked an encouraging response from the Bank's employees was their assistance in finding foster families for children from orphan asylums in Amur, Kemerovo, Samara and Ryazan Regions, and Primorsky Krai.

The Bank's volunteers also joined the municipal initiative “Books in Parks”, as well as donated goods for the BlagoBoutique charity shop and their own handmade souvenirs for a charity bazaar in Sokolniki Park.

7.6. INFORMATION POLICY

Vnesheconombank's information policy aims to provide ready access to the data on Vnesheconombank's operations and timely cover the latest developments.

In 2014, the Bank brought about a number of transformations in its visual identity to enshrine its unique status as a national development institution. Transition to a single VEB brand for all the members of the VEB Group is designed to exert a synergic effect and increase the public awareness of the objectives, goals and operating results of the Bank for Development.

Seeking to revamp its corporate identity in 2014, the Bank also significantly changed its official website (www.veb.ru).

Apart from restyling, Vnesheconombank's website was changed to feature some state-of-the-art functional solutions for better usability, in particular, online search engines, photo and video galleries, and infographics.

In the year under report, 3.5 million of the website visitors took advantage of the opportunity to obtain comprehensive information about Vnesheconombank's operations.

Vnesheconombank continued its efforts to integrate information on the Bank into the dataflow in media and social networks. The coverage reached an audience of some 5 million people in Russia and abroad.

In 2014, Vnesheconombank promoted active cooperation with mass media. Thus, Russian mass media featured 72 interviews and copyrighted materials presenting the view of Vnesheconombank's management on key economic events. Ogonyok Weekly magazine published a series of articles "Projects of the Bank for Development" describing major investment projects financed by Vnesheconombank, and their implications for respective regions, including social and economic impacts of the project delivery.

Special attention was paid by the media to Vnesheconombank's participation in Olympic project finance. The Bank was directly involved in the ambitious task set by the Russian Government, i.e. to create in Sochi a sports cluster capable of hosting international competitions at the highest level and modernise the infrastructure of the famous Russian resort to provide its guests with excellent recreational amenities.

Still another area of public relations was the program of events to mark the 90th Anniversary of Vnesheconombank. The reporting year witnessed the publication of the three-volume History of Vnesheconombank, a unique source of information on the Bank. In its “VEB: Investment for the Future” documentary, Russia-24 TV channel introduced the audience to significant milestones, as well as current projects of Vnesheconombank. Internet users obtained an opportunity to get acquainted with the Bank's history on the information portal of TASS, Russia's biggest information agency.

In 2014, the Bank resumed publication of its corporate magazine "Bank for Development" designed to inform the readers of the objectives facing Vnesheconombank, its projects and focus areas. Also in 2014, 18 series of TV program "Development Projects" were aired. The program was made in cooperation with VGTRK Media Corporation and attracted the audience of 12 million people. Furthermore, the Bank initiated the publication of a specialised corporate periodical devoted to Vnesheconombank and its subsidiaries' support to SMEs. The magazine addresses various aspects of this work, as well as provides entrepreneurs with practical advice and recommendations.

Traditionally, Vnesheconombank has been using important forums and exhibitions, both in Russia and abroad, to raise awareness of the Bank and its subsidiaries' activities. To illustrate, the Bank had its display stands at the St. Petersburg International Economic Forum, Open Innovations Forum, and Exhibition "Trade and Industrial Dialogue Russia — Gulf" in the Kingdom of Bahrain.

7.7. INFORMATION TECHNOLOGY ACTIVITIES

With a view to ensuring functional development of IT support for its operations, Vnesheconombank accomplished a number of tasks in 2014 and, namely:

- got connected to the Real Time Gross Settlement System to enable continuous processing of payments within the Bank of Russia Payment System;
- to streamline and standardise interaction procedures between the VEB Group, and Russian Exporters and foreign buyers applying for guarantee support and financing, updated its automated system Financial Support to Russian Exports;
- to respond to changes in the procurement laws applicable to specific types of legal entities, got connected to the NAVIGATOR Web trade and clearing system and ensured technical capability for trading in standard derivative products of the Moscow Stock Exchange;
- updated the information analysis system "State Guarantee" and, in particular, computerised the beneficiary communication process;
- upgraded the software for filling in securities report forms to be submitted to the Central Bank of the Russian Federation pursuant to the regulator's requirements;
- computerised the process for collecting source data, obtaining reports and statements and providing Russia's Federal Financing Monitoring Service and Federal Tax Service with information about chains of the counterparties' beneficiaries in electronic format.

As part of the efforts to enhance the system for counteracting legalisation of illicit gains and terrorism financing, the Bank computerised its due diligence procedures for customer representatives, beneficiaries and beneficial owners in order to identify whether these are subject to jurisdiction of any listed states or territories. To prevent illegal use of insider information, the Bank upgraded its insider software.

08 Vnesheconombank's SCO IBC- And BRICS-Related Activities

In the current geopolitical environment, a greater focus is placed on increased economic cooperation within the Shanghai Cooperation Organisation (SCO) and BRICS union.

Vnesheconombank participated in all major events organised in the reporting year within the Interbank Consortium of the Shanghai Cooperation Organisation (IBC SCO). These included an informal meeting between CEOs of the SCO IBC member-banks, sessions of coordinators and senior offices of the SCO IBC member-banks, meetings of the SCO IBC Council.

In September 2014, at the meeting of the SCO IBC Council in Dushanbe (Tajikistan), CEOs of the SCO IBC member-banks signed An Action Plan on strengthening financial cooperation and promoting regional development. The document sets forth the key business lines and forms of cooperation within the SCO IBC designed to accelerate the work on implementing joint investment projects and broadening interregional interaction.

In 2014, in order to exchange experience on SME support, Vnesheconombank held a round table discussion "Alternative Development of Central Asia as a New Prospect for Small- and Medium-sized Enterprises in the SCO Region". The participants included representatives from the IBC SCO member-banks, relevant ministries and agencies, as well as business circles of the SCO member-states.

Furthermore, in 2014 the Bank was actively involved in major events organised under the BRICS Interbank Cooperation Mechanism, such as the meeting of the expert working group, the annual meeting of heads of partner banks, the BRICS Financial and Business Forums, as well as the BRICS Business Council.

At the BRICS Summit held in Fortaleza (Brazil) in July 2014, the partner banks under the BRICS Interbank Cooperation Mechanism concluded the Cooperation Agreement on Innovation. The Agreement is aimed at supporting innovations and high technologies in the BRICS countries, including the implementation of joint investment projects. The document also provides for experience sharing between the parties in the area of investment project finance.

09 Vnesheconombank's Participation in NCO

Vnesheconombank is a participant in more than 40 associations, unions and other non-commercial organisations. These include organisations aimed at supporting economic development and investment activities, associations and partnerships related to Vnesheconombank's business lines. Such membership enables the Bank to efficiently exchange experience and promote cooperation with partners, establish new business contacts, bolster the Bank's image of a leading development institution.

Major NCOs in which Vnesheconombank is a participant/member as at 01.01.2015 (by business lines)

Developing trade and economic relations	World Economic Forum
	Russo-British Chamber of Commerce
	Moscow Chamber of Commerce and Industry
	Italian-Russian Chamber of Commerce
	Russian International Affairs Council
	Norwegian-Russian Chamber of Commerce
	Franco-Russian Dialogue Association
	Russian Union of Industrialists and Entrepreneurs (All-Russian Association of Employers)
	International Chamber of Commerce – The World Business Organisation
	Institutional Investors Roundtable

Fostering and improving business relationships	Russian-American Council for Business Cooperation (Non-Profit Association of Legal Entities)
	Russian-Chinese Business Council
	Russian-Arab Business Council
	Russian-American Business Council
	Association of Russian Banks
	Dialogue Forum Non-Profit Partnership
	Russian Finance and Banking Union
	CIS Finance and Banking Council (Non-Profit Partnership for Cooperation between CIS Member-States)
	Russian Public Relations Association – RASO (Non-Profit Partnership)
Creating favourable conditions for the development of innovation process	Foundation for Development of the Centre for New Technologies Development and Commercialisation (Non-Commercial Organisation)
	Fund to Operate the Financial Aid Program for Innovation Projects of Skolkovo Foundation (Non-Commercial Organisation)
Co-financing projects	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)
Supporting development of micro, small and medium enterprises	Montreal Group
	Foundation for Development of Single-Industry Towns (Non-Commercial Organisation)
Developing and using professional standards in the securities market	National Currency Association (Non-Commercial Organisation)
	National Stock Association (Self-Regulating Non-Commercial Organisation)
	National Association of Securities Market Participants (Self-Regulating Non-Commercial Organisation)
	International Capital Market Association
	Professional Association of Registrars, Transfer Agents and Depositories
Developing standards and regulations for conducting transactions in the payment services market	Association of MasterCard Participants (before 13.05.2013 – Association of the Russian Members of Europay)
	Russian National SWIFT Association
	National Payments Council (Non-Commercial Partnership)

10 Charitable Activities and Sponsorship

Vnesheconombank engages in social responsibility programmes demonstrating charitable support for financially disadvantaged citizens, social and healthcare institutions, veterans' organisations, as well as initiatives designed to preserve cultural heritage and protect environment.

Also, the Bank acts as a sponsor of large-scale cultural, educational and sporting events. The Bank's sponsorship for major forums, conferences and exhibitions helps to foster cultural and economic relations, including interstate cooperation, and improve the investment climate in Russia.

Healthcare and Social Support

In 2014, charitable support was rendered to the First Hospice for Children with Cancer, Research Institute for Pediatric Oncology and Hematology at the Blokhin Cancer Research Centre, Research Institute of Rheumatology named after V.A. Nasonova, Chair of Urology at the Department for General Medicine of the Moscow State Medical and Dental University named after A.I. Evdokimov under Russia's Ministry of Health, and Moscow Regional Psychoneurological Hospital for Children with Central Nervous System Disorders.

Vnesheconombank acted as a sponsor of the "Sunny Day" initiative that allowed the young patients from the Research Institute of Child Oncology and Hematology to visit the "Canterville Ghost" performance after Oscar Wilde's tale at the Moscow Governorate Theatre under Sergey Bezrukov's guidance.

In the reporting year, in order to eliminate the damage caused by the flood in the Far East of Russia, Vnesheconombank allocated funds (Tranche II) to reconstruct the regional hospital in Leninskoye (Jewish Autonomous Region) by way of charitable support.

Culture and Education

In 2014, under sponsor support of Vnesheconombank, the Museums of the Moscow Kremlin hosted a unique exhibition "India. The Jewellery That Conquered the World". The exposition included about 300 jewellery pieces of art created during five centuries by the best Indian and European jewellers.

Also, Vnesheconombank sponsored the exhibition "Grand Masters of Renaissance Art from the Carrara Academy Gallery" at the Pushkin State Museum of Fine Arts as part of the announced Year of Italian Tourism in Russia. The visitors could enjoy 58 masterpieces by famous Renaissance artists.

In the reporting year, Vnesheconombank charitably supported projects such as the establishment of Nikita Mikhalkov's Academy of Cinematographic and Theatrical Arts, research activities by the Federal State Budgetary Institution of Culture to prepare a large scale refurbishment of Muromtsevo (country estate of Khrapovitsky) in the State Vladimir-Suzdal Historic- Architectural and Art Open-air Museum.

The Bank also supported the project on preserving and reconditioning the historic and memorial monuments "Russian Necropolis in Beograd" occasioned with the centenary of the First World War. The project envisages reconstructing the graves of Russian soldiers and emigrants that came to Serbia after the October Revolution, and Iverskaya Chapel — one of the symbols of the centuries-long relations between Russia and Serbia.

As a sponsor, Vnesheconombank participated in the implementation of a museum and theatrical project timed to coincide with the 215th anniversary of the birth of Alexander Pushkin as part of the Year of the Russian Language and Literature in Germany.

Charitable support was provided for the organisation of an international competition entitled Children's New Wave under the guidance of Igor Krutoi as part of events dedicated to the return of Crimea and Sevastopol to Russia.

Sports

In 2014, as in the previous years, Vnesheconombank sponsored the Russian Hockey Federation, Russian Football Union, All-Russia Volleyball Federation, All-Russia Swimming Federation, Professional Rugby League, Russian Dance Sport Union, etc.

Support for Russian Orthodox Church

In the context of the celebration of the 700th anniversary of the birth of Reverend Sergius of Radonezh, Vnesheconombank charitably supported the reconstruction of the Pilgrim Centre and refurbishment of the Church of Holy Apostles Peter and Paul at the Holy Trinity — St. Sergius Lavra being the major centre of Russian spiritual culture.

As part of charitable support of the Russian Orthodox Church abroad, Vnesheconombank allocated funds to the Russian Orthodox Church Parish of Reverend Sergius of Radonezh in Johannesburg (Republic of South Africa), for the construction of the Russian Orthodox Church of All Saints in Strasbourg and the orthodox friary in Hetzendorf (Germany).

Environment Protection

Over a number of years, Vnesheconombank has provided charitable support for environmental projects on preserving the flora and fauna of the Belovezhskaya Pushcha National Park, State Environment Institution "National Park "Pripyatsky" and on restoring the Far-Eastern leopard population (Autonomous Non-Profit Organisation "Eurasian Centre for Leopard Preservation").

Economic Forums, Conferences and Exhibitions

One of the major international events supported by Vnesheconombank was St. Petersburg International Economic Forum, which included a session "Creation of Economic Growth Centres in Russian Regions" and a round table "Russian-Italian Business Dialogue: Prospects of Long-term Cooperation" co-arranged by the Bank.

Other events sponsored by Vnesheconombank included Sochi–2014 International Investment Forum, XI Krasnoyarsk Economic Forum, Moscow International Forum for Innovative Development "Open Innovations", VII International Helicopter Industry Exhibition "HeliRussia–2014", "Hydroaviasalon-2014" as well as forum-exhibitions "Technologies in Machine Building" and "Transport Week–2014".

The events abroad supported by the Bank over the years include Russian economic and financial forums in Western Europe and Banking Forum of the Eastern Europe and CIS Countries held in Austria and Hungary.

11 Accounting and Reporting

Subject to Federal Law No. 82-FZ dated 17.05.2007 "On Bank for Development", Vnesheconombank organises its accounting procedure in accordance with the accounting and reporting rules established for the Russian banks, with due regard for certain accounting specifics provided for Vnesheconombank by the CBR.

Over 2014, the Bank engaged in accounting procedure in line with the accounting rules applicable to the banks located in the Russian Federation, as approved by the CBR Directive No. 385-p dated 16.07.2012.

In accordance with the Tax Code of the Russian Federation, Vnesheconombank pays taxes in Russia and is registered with Interregional Tax Inspectorate for Major Taxpayers No. 9 of the Federal Tax Service.

Pursuant to the laws of the Russian Federation and with a view to complying with the requirements set by the global financial community, Vnesheconombank prepares its annual financial statements in conformity with the international financial reporting standards.

Independent auditor's report

Building a better working world

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

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

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

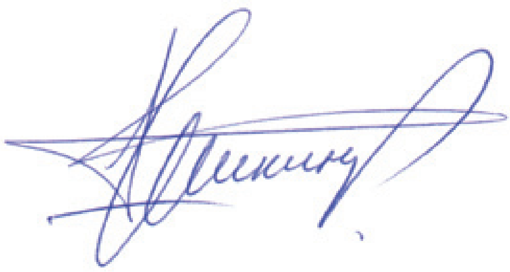
We conducted our audit in accordance with the Federal Standards on Auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated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

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

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

Opinion

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



G.A. Shinin
Partner
Ernst & Young Vneshaudit CJSC
29 April 2015

Details of the audited entity

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

Details of the auditor

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

Consolidated statement of financial position As of 31 December 2014

(in millions of Russian rubles)

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

	Notes	2014	2013 (Restated)	2012 (Restated)
Unrealized revaluation of investment financial assets available for sale		(13,940)	(10,491)	41,102
Foreign currency translation reserve		976	958	(1,426)
Equity attributable to the Russian Government		**374,254**	**571,450**	**531,177**
Non-controlling interests		**4,311**	**5,409**	**706**
Total equity		**378,565**	**576,859**	**531,883**
Total equity and liabilities		**3,885,820**	**3,313,958**	**2,919,100**

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

Vladimir A. Dmitriev — Chairman of the Bank

Vladimir D. Shaprinsky — Chief Accountant

29 April 2015

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

Consolidated statement of profit or loss For the year ended 31 December 2014

(in millions of Russian rubles)

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

	Notes	2014	2013
Attributable to:			
- the Russian Government		(249,024)	8,571
- non-controlling interests		(632)	(63)
		(249,656)	**8,508**

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

Consolidated statement of comprehensive income
For the year ended 31 December 2014

(in millions of Russian rubles)

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

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

Consolidated statement of changes in equity For the year ended 31 December 2014

(in millions of Russian rubles)

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

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

Consolidated statement of cash flows For the year ended 31 December 2014

(in millions of Russian rubles)

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

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

	Notes	2014	2013 (Restated)
Debt securities issued, net of bonds and Eurobonds		(20,423)	738
Finance lease liabilities		(3,812)	(1,371)
Other liabilities		1,906	1,540
Net cash used in operating activities		**(189,355)**	**(343,386)**
Cash flows from investing activities			
Purchase of investment financial assets		(187,921)	(161,454)
Proceeds from sale and redemption of investment financial assets		167,273	243,107
Redemption of investment financial assets held to maturity		–	15,000
Investments in associates and jointly controlled entities		29	(2,454)
Acquisition of subsidiaries, net of cash acquired	7	1	(2,389)
Purchase of property and equipment		(2,277)	(5,529)
Subordinated loans repaid by Russian banks	13	278,992	–
Net cash from investing activities		**256,097**	**86,281**
Cash flows from financing activities			
Long-term interbank financing raised	23	217,318	165,878
Long-term interbank financing repaid	23	(182,050)	(70,174)
Long-term financing raised from the Bank of Russia	9	93,000	–
Special purpose financing repaid to the Bank of Russia	9	(212,636)	–
Long-term financing repaid to the Russian Ministry of Finance	9	(278,992)	–
Placement of bonds and Eurobonds	25	244,886	204,007
Redemption of bonds	25	(9,839)	(16,571)
Purchase of bonds issued by the Group		(47,640)	(17,525)
Proceeds from sale of previously purchased bonds		39,194	19,073
Change in interest in existing subsidiaries	7	53	372
Contribution to charter capital from the Russian Government	27	30,000	–
Government grants and government assistance received	22, 37	10,233	–
Government grants and government assistance used	22	(75)	–
Dividends from subsidiaries		(8)	–
Net cash from/(used in) financing activities		**(96,556)**	**285,060**
Effect of changes in foreign exchange rates against the Russian ruble on cash and cash equivalents		79,747	8,042
Net increase in cash and cash equivalents		**49,933**	**35,997**
Cash and cash equivalents, beginning	11	**275,994**	**239,997**
Cash and cash equivalents, ending	11	**325,927**	**275,994**
Supplemental information:			
Income tax paid		(2,435)	(3,033)
Interest paid		(163,430)	(121,138)
Interest received		186,361	200,128
Dividends received		8,751	7,882

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

(in millions of Russian rubles)

1. Principal activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(in millions of Russian rubles)

1. Principal activities (continued)

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

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

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

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

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

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

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

At 31 December 2014 and 31 December 2013, the Group had 18,026 and 18,526 employees, respectively.

2. Basis of preparation

General

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

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

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

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

Functional currency

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

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

Segregation of operations

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

(in millions of Russian rubles)

2. Basis of preparation (continued)

General (continued)

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

3. Reclassification of comparative information

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

	As previously reported	Reclassification amount	As reclassified
Consolidated statement of financial position as at 31 December 2013			
Financial assets at fair value through profit or loss pledged under repurchase agreements	15,697	(15,697)	–
Investment financial assets pledged under repurchase agreements			
- available for sale	15,376	(15,376)	–
- held to maturity	33	(33)	–
Financial assets lent and pledged under repurchase agreements	–	31,106	31,106
Finance lease liabilities	–	24,435	24,435

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

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

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

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

4. Major subsidiaries

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

	Ownership			
Subsidiaries	31 December 2014	31 December 2013	Country of incorporation	Type of activity
EXIMBANK OF RUSSIA	100%	100%	Russia	Banking
Bank BelVEB OJSC	97.52%	97.52%	Republic of Belarus	Banking
OJSC "VEB-Leasing"	98.96%	98.96%	Russia	Leasing
"SME Bank"	100%	100%	Russia	Banking

(in millions of Russian rubles)

4. Major subsidiaries (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

(in millions of Russian rubles)

4. Major subsidiaries (continued)

Subsidiaries with material non-controlling interests

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

2014

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

2013

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

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

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

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

5. Summary of accounting policies

Changes in accounting policies

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

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

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

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

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

IFRIC Interpretation 21 Levies (IFRIC 21)

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the

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5. Summary of accounting policies (continued)

Changes in accounting policies (continued)

specified minimum threshold is reached. This IFRIC had no impact on the Group's consolidated financial statements, as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

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

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

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

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

Basis of consolidation

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

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

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

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

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

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

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

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

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

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

Acquisition of subsidiaries from parties under common control

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

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

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5. Summary of accounting policies (continued)

Acquisition of subsidiaries from parties under common control (continued)

assets, including the Predecessor's goodwill, and the consideration paid is accounted for in consolidated financial statements as an equity adjustment.

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

Investments in associates and jointly controlled entities

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

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

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

Fair value measurement

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

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

- In the principal market for the asset or liability; or

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

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

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

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

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin.

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Financial assets (continued)

Derivatives are also classified as held for trading. Gains and losses resulting from operations with financial assets at fair value through profit or loss are recognized in profit or loss within gains less losses from financial instruments at fair value through profit or loss.

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Reclassification of financial assets

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

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;

- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

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

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

Measurement of financial instruments at initial recognition

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

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

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

Offsetting of financial assets

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

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

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

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5. Summary of accounting policies (continued)

Cash and cash equivalents

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

Precious metals

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

Repurchase and reverse repurchase agreements and securities lending

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

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

Derivative financial instruments

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

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

Promissory notes

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

Borrowings

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

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

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

Government grants and government assistance

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

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

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5. Summary of accounting policies (continued)

Leases

Finance leases – Group as lessee

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

Finance leases – Group as lessor

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

Operating leases – Group as lessee

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

Operating leases – Group as lessor

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

Impairment of financial assets

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

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

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

Amounts due from banks and loans to customers

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

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices,

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5. Summary of accounting policies (continued)

Impairment of financial assets (continued)

commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

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

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

Available-for-sale financial investments

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

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

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

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.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the statement of financial position;

- If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for financial liabilities described below;

- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the future cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan in not impaired after restructuring, the Group derecognizes the initial asset and a new asset is recorded in the consolidated statement of financial position.

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

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;

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

- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

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

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

Financial liabilities

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

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5. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

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

Property and equipment

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

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

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

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

Land has an indefinite useful life and is not depreciated.

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

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

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

Goodwill

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

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

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

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Goodwill (continued)

assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

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

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

Intangible assets other than goodwill

Intangible assets other than goodwill include computer software and licenses.

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

Assets classified as held for sale

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

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

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

Investment property

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

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

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

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

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

Inventory (real estate properties and land for sale)

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

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

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

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Provisions

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

Retirement and other benefit obligations

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

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

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

Charter capital

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

Dividends
Vnesheconombank neither accrues nor pays dividends.

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

Fiduciary assets

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

Segment reporting

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

Contingencies

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

Income and expense recognition

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

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

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

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

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

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

/ *Fee income from providing transaction services*

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

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Income and expense recognition (continued)

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 profit or loss as 'Gains less losses from foreign currencies – translation differences'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

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

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

On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular organization is recognized in profit or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 14 Regulatory Deferral Accounts

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

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government*

Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group as the Group does not have any bearer plants.

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

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

Annual improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

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

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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

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

IAS 24 Related Party Disclosures
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011–2013 Cycle

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

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

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

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

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

Meaning of Effective IFRSs – Amendments to IFRS 1
The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided that either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. Since the Group is an existing IFRS preparer, this standard would not apply.

Annual improvements 2012–2014 Cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements
In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "[A]n entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods." The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim

(in millions of Russian rubles)

5. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

financial report. The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment becomes effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

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

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'
The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment becomes effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

6. Significant accounting judgments and estimates

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

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

Fair 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 34.

Fair value of investment property

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

Allowance for impairment of loans and receivables

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

Impairment of goodwill

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

7. Business combination

Acquisitions in 2014

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

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

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

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

(in millions of Russian rubles)

7. Business combination (continued)

Acquisitions in 2014 (continued)

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

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

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

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

Cash flows on acquisition of the subsidiary

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

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

Acquisitions in 2013

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

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

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

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

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

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

(in millions of Russian rubles)

7. Business combination (continued)

Acquisitions in 2013 (continued)

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

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

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

Cash outflow on acquisition of the subsidiary

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

Changes in ownership interest in subsidiaries in 2014

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

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

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

Changes in ownership interest in subsidiaries in 2013

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

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

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

8. Segment information

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

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

(in millions of Russian rubles)

8. Segment information (continued)

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

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

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

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

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

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

2014	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6	Total before adjustments and eliminations	Adjustments and eliminations	Total
Income									
External customers									
Interest income	166,423	51,060	15,422	10,166	36,404	860	**280,335**	–	**280,335**
Fee and commission income	4,210	2,357	1,487	2,411	116	–	**10,581**	–	**10,581**
Gains less losses from financial instruments at fair value through profit or loss	2,431	(1,388)	8	–	(203)	5,469	**6,317**	–	**6,317**
Gains less losses arising from investment securities available for sale	(15,034)	(858)	(11)	11	–	(765)	**(16,657)**	–	**(16,657)**
Gains less losses from foreign currencies	(38,264)	(1,850)	1,138	(5,037)	7,397	1,660	**(34,956)**	–	**(34,956)**

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

(in millions of Russian rubles)

8. Segment information (continued)

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

2013 (Restated)	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6	Total before adjustments and eliminations	Adjustments and eliminations	Total
Income									
External customers									
Interest income	147,847	43,401	15,817	7,564	28,151	964	**243,744**	–	**243,744**
Fee and commission income	4,898	2,195	1,281	1,612	183	–	**10,169**	–	**10,169**
Gains less losses from financial instruments at fair value through profit or loss	2,702	(248)	–	–	(62)	(1,062)	**1,330**	–	**1,330**
Gains less losses arising from investment securities available for sale	68,190	81	2	92	–	37	**68,402**	–	**68,402**
Gains less losses from foreign currencies	(8,312)	(354)	248	220	304	(43)	**(7,937)**	–	**(7,937)**
Share in net income/(loss) of associates and jointly controlled entities	284	4	–	11	(1,115)	168	**(648)**	–	**(648)**
Other income	18,181	1,370	269	560	3,817	3,698	**27,895**	–	**27,895**
Total external income	**233,790**	**46,449**	**17,617**	**10,059**	**31,278**	**3,762**	**342,955**	–	**342,955**
Intersegment income									
Interest income	14,220	1,649	–	10	807	9,513	**26,199**	(26,199)	**–**
Other intersegment income less expenses	(298)	728	881	124	328	194	**1,957**	(1,957)	**–**
Total intersegment income	**13,922**	**2,377**	**881**	**134**	**1,135**	**9,707**	**28,156**	**(28,156)**	**–**
Total income	**247,712**	**48,826**	**18,498**	**10,193**	**32,413**	**13,469**	**371,111**	**(28,156)**	**342,955**
External customers									
Interest expense	(103,611)	(21,312)	(6,894)	(2,608)	(11,163)	817	**(144,771)**	–	**(144,771)**
Fee and commission expense	(1,396)	(608)	(136)	(355)	(19)	(28)	**(2,542)**	–	**(2,542)**
Provision for loan impairment	(111,027)	(5,012)	(3,328)	(524)	(2,893)	(533)	**(123,317)**	–	**(123,317)**
Payroll and other staff costs	(7,977)	(6,239)	(2,473)	(1,503)	(2,115)	(2,869)	**(23,176)**	–	**(23,176)**
Depreciation of property and equipment	(513)	(783)	(416)	(158)	(480)	(113)	**(2,463)**	–	**(2,463)**
Other impairment provision (charges)/reversal	193	(48)	85	(8)	(1,022)	(3,003)	**(3,803)**	–	**(3,803)**
Other expenses	(12,307)	(6,268)	(2,378)	(1,562)	(4,420)	(4,563)	**(31,498)**	–	**(31,498)**
Total external expense	**(236,638)**	**(40,270)**	**(15,540)**	**(6,718)**	**(22,112)**	**(10,292)**	**(331,570)**	**–**	**(331,570)**
Intersegment expenses									
Interest expense	(7,534)	(8,003)	(3,081)	(1,307)	(4,880)	(1,559)	**(26,364)**	26,364	**–**
Other intersegment (expenses)	(24,365)	(14)	(105)	(176)	(57)	(61)	**(24,778)**	24,778	**–**

2013 (Restated)	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6	Total before adjust-ments and elimina-tions	Adjust-ments and elimina-tions	Total
Total intersegment expenses	**(31,899)**	**(8,017)**	**(3,186)**	**(1,483)**	**(4,937)**	**(1,620)**	**(51,144)**	**51,142**	**–**
Total expenses	**(268,537)**	**(48,287)**	**(18,726)**	**(8,201)**	**(27,049)**	**(11,912)**	**(382,712)**	**51,142**	**(331,570)**
Segment results	**(20,825)**	**539**	**(228)**	**1,992**	**5,364**	**1,557**	**(11,601)**	**22,986**	**11,385**
Gain on bargain purchase	–	–	–	–	–	–	**–**	818	**818**
Loss on net monetary position resulting from hyperinflation	–	–	–	(921)	–	–	**(921)**	–	**(921)**
Income tax (expense)/benefit	(330)	(475)	154	(359)	(1,560)	(204)	**(2,774)**	–	**(2,774)**
Profit/(loss) for the year	**(21,155)**	**64**	**(74)**	**712**	**3,804**	**1,352**	**(15,297)**	**23,805**	**8,508**
Other segment information									
Capital expenditure	1,327	7,401	1,297	635	2,320	2,364	**15,344**	–	**15,344**
Investments in associates and jointly controlled entities	4,486	526	0	118	–	5,343	**10,473**	–	**10,473**

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

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

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

(in millions of Russian rubles)

8. Segment information (continued)

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

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

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

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

Geographical information

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

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

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

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

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

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

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

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

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

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

At 31 December 2014, interest-bearing deposits from the Russian Ministry of Finance also include RUB denominated deposits of NWF in the amount of RUB 35,935 million (31 December 2013:

(in millions of Russian rubles)

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

RUB 35,292 million) placed with Vnesheconombank pursuant to Federal Law No. 173-FZ at the annual interest rate 6.25% maturing in May 2020 for further lending to OJSC "AHML" (Note 15).

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

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

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

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

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

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

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

At 31 December 2014, under repurchase agreements with the Bank of Russia, the Group sold debt securities with a fair value of RUB 100,873 million, subject to repurchase (31 December 2013: RUB 27,989 million). Pledged securities are treated as trading financial assets with a fair value of RUB 451 million (31 December 2013: RUB 15,697 million) (Note 12), investment financial assets available for sale with a fair value of RUB 58,869 million (31 December 2013: RUB 12,259 million)

(Note 16), and investment financial assets held to maturity with a fair value of RUB 29,210 million (31 December 2013: RUB 33 million) (Note 16), loans to customers with a fair value of RUB 10,595 million (at 31 December 2013, there were no pledged securities treated as loans to customers) (Note 15), amounts due from banks with a fair value of RUB 1,748 million (at 31 December 2013, there were no pledged securities treated as amounts due from banks) (Note 13).

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

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

Subordinated deposits

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

10. Agency operations

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

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

(in millions of Russian rubles)

11. Cash and cash equivalents

Cash and cash equivalents comprise:

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

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

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

12. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

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

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

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

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

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

Trading financial assets held by the Group comprise:

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

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

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

(in millions of Russian rubles)

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

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

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

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

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

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

13. Amounts due from banks

Amounts due from credit institutions comprise:

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

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

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

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

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

During the reporting period ended 31 December 2014, early repayment took place concerning the subordinated loans of RUB 278,992 to Vnesheconombank provided at an interest rate below market level in accordance with Article 6.1 of Federal Law No. 173-FZ. At 31 December 2013, these loans amounted to RUB 260,819 million. The gain from the early repayment of loans in the amount of RUB 16,328 mil-

(in millions of Russian rubles)

13. Amounts due from banks (continued)

lion is recorded in gains less losses from initial recognition of financial instruments, restructuring and early repayment in the consolidated statements of profit or loss.

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

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

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

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

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

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

14. Derivative financial instruments

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

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

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

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

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

Forwards

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

(in millions of Russian rubles)

14. Derivative financial instruments (continued)

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

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

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

15. Loans to customers

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

Loans to customers comprise:

	2014	2013
Project financing	1,345,701	918,160
Commercial loans, including loans to individuals	1,050,870	814,079
Net investment in leases	384,834	236,052

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

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

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

(in millions of Russian rubles)

15. Loans to customers (continued)

Allowance for impairment of loans to customers

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

2014	Project financing	Commercial loans	Export and pre-export financing	Net investment in leases	Financing of operations with securities
At 1 January 2014	**160,689**	**115,664**	**2,845**	**1,569**	**3,210**
Charge/(reversal)	167,545	109,920	2,640	2,798	27,641
Write off	(2,024)	(6,332)	–	(296)	–
Interest accrued on impaired loans	(11,595)	(4,807)	–	–	(560)
Reversal of allowance previously written off	7,173	699	–	–	–
31 December 2014	**321,788**	**215,144**	**5,485**	**4,071**	**30,291**
Individual impairment	288,747	200,370	3,235	2,333	20,890
Collective impairment	33,041	14,774	2,250	1,738	9,401
	321,788	**215,144**	**5,485**	**4,071**	**30,291**
Total amount of individually impaired loans before allowance for impairment	**642,049**	**430,660**	**4,621**	**124,087**	**59,260**

	Project financing 2013	Commercial loans 2013	Export and pre-export financing 2013	Net investment in leases 2013	Financing of operations with securities 2013
At 1 January 2013	**92,565**	**87,946**	**2,510**	**900**	**2,348**
Charge/(reversal)	75,332	44,282	335	930	862
Write off	(4)	(13,584)	–	(261)	–
Interest accrued on impaired loans	(7,204)	(3,995)	–	–	–
Reversal of allowance previously written off	–	1,015	–	–	–
31 December 2013	**160,689**	**115,664**	**2,845**	**1,569**	**3,210**
Individual impairment	126,499	99,617	1,926	740	–
Collective impairment	34,190	16,047	919	829	3,210
	160,689	**115,664**	**2,845**	**1,569**	**3,210**
Total amount of individually impaired loans before allowance for impairment	**198,428**	**179,825**	**2,895**	**32,896**	**–**

Promissory notes	Reverse repurchase agreements	Back-to-back financing	Claims under letters of credit	Mortgage bonds	Other	Total	Loans to customers pledged under repurchase agreements
813	–	1,749	3,169	129	1,652	291,489	–
(25)	1,264	104	217	(129)	699	312,674	188
–	–	–	–	–	–	(8,652)	–
–	–	–	–	–	–	(16,962)	–
–	–	–	–	–	–	7,872	–
788	1,264	1,853	3,386	–	2,351	586,421	188
737	–	–	2,687	–	1,627	520,626	–
51	1,264	1,853	699	–	724	65,795	188
788	1,264	1,853	3,386	–	2,351	586,421	188
737	–	–	2,923	–	6,022	1,270,359	–

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
549	4	1,605	3,075	79	1,855	193,436
264	(4)	144	94	50	675	122,964
–	–	–	–	–	(878)	(14,727)
–	–	–	–	–	–	(11,199)
–	–	–	–	–	–	1,015
813	–	1,749	3,169	129	1,652	291,489
737	–	–	2,617	–	1,605	233,741
76	–	1,749	552	129	47	57,748
813	–	1,749	3,169	129	1,652	291,489
737	–	–	3,052	–	4,005	421,838

(in millions of Russian rubles)

15. Loans to customers (continued)

Individually impaired loans

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

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

Concentration of loans to customers

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

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

Loans have been granted to the following types of customers:

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

Loans are made principally in the following industry sectors:

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

(in millions of Russian rubles)

15. Loans to customers (continued)

Concentration of loans to customers (continued)

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

Finance lease receivables

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

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

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

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

16. Investment financial assets

Investment financial assets available for sale

Investment financial assets available for sale comprise:

	2014	2013
Debt securities		
Corporate bonds	67,011	153,559
Debt instruments issued by foreign government bodies	20,649	17,882

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

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

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

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

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

During the fourth quarter of 2014, the Group reclassified certain financial assets that meet the definition of loans and receivables and financial assets held to maturity from the available-for-sale category, as the Group has the intention and ability to hold such assets for the foreseeable future or until maturity.

(in millions of Russian rubles)

16. Investment financial assets (continued)

Investment financial assets available for sale (continued)

The assets were reclassified as at 1 October 2014 and 31 December 2014 at fair value as of these dates. The impact of reclassification is as follows:

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

Investment financial assets held to maturity

Investment financial assets held to maturity comprise:

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

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

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

17. Amounts due from the Russian Government

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

18. Investments in associates and jointly controlled entities

Associates

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

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

(in millions of Russian rubles)

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

Associates (continued)

The following table illustrates financial information on a significant associate:

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

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

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

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

Joint ventures

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

19. Property and equipment

The movements in property and equipment were as follows:

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

(in millions of Russian rubles)

19. Property and equipment (continued)

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

20. Taxation

Income tax comprises:

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

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

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

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

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

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

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

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

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

(in millions of Russian rubles)

20. Taxation (continued)

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

		Origination and reversal of temporary differences		
	2012	In the statement of profit or loss	In other comprehensive income	Effect of business combination (Note 7)
Tax effect of deductible temporary differences				
Allowance for impairment	1,534	152	–	–
Change in fair value of securities	104	(94)	4	–
Initial recognition of financial instruments at fair value	748	(254)	–	–
Tax losses carried forward	7,147	1,721	–	315
Accrued income and expense	41	6	–	–
Derivative financial instruments	86	(43)	–	–
Property and equipment	106	33	–	67
Other	3,240	(707)	(39)	148
	13,006	**814**	**(35)**	**530**
Unrecognized deferred tax assets	(7,997)	735	39	–
	5,009	**1,549**	**4**	**530**
Tax effect of taxable temporary differences				
Change in fair value of securities	(829)	30	2	–
Loans to customers	(216)	(1,357)	–	–
Initial recognition of financial instruments at fair value	(959)	159	–	–
Allowance for impairment	(97)	(73)	–	–
Accrued income and expense	(116)	(47)	–	–
Derivative financial instruments	(121)	93	–	–
Property and equipment	(700)	(133)	(6)	–
Other	(850)	(141)	–	(2,367)
	(3,888)	**(1,469)**	**(4)**	**(2,367)**
Deferred tax asset	**2,560**	**989**	**4**	**321**
Deferred tax liability	**(1,439)**	**(909)**	**(4)**	**(2,158)**

			Origination and reversal of temporary differences				
	Currency translation effect	2013	In the statement of profit or loss	In other comprehensive income	Effect of business combination (Note 7)	Currency translation effect	2014
	4	**1,690**	1,948	–	–	32	**3,670**
	(4)	**10**	–	452	–	(154)	**308**
	–	**494**	84	–	–	–	**578**
	118	**9,301**	7,299	–	447	(181)	**16,866**
	–	**47**	27	–	–	(22)	**52**
	–	**43**	123	–	–	–	**166**
	13	**219**	525	–	–	67	**811**
	95	**2,737**	3,107	–	–	147	**5,991**
	226	**14,541**	**13,113**	**452**	**447**	**(111)**	**28,442**
	(101)	**(7,324)**	(7,066)	(138)	–	(248)	**(14,776)**
	125	**7,217**	**6,047**	**314**	**447**	**(359)**	**13,666**
	(2)	**(799)**	71	–	–	–	**(728)**
	–	**(1,573)**	(5,275)	–	–	–	**(6,848)**
	–	**(800)**	106	–	–	–	**(694)**
	(8)	**(178)**	44	–	–	(25)	**(159)**
	23	**(140)**	(38)	–	(420)	(11)	**(609)**
	(3)	**(31)**	(484)	–	–	(7)	**(522)**
	(10)	**(849)**	(343)	(121)	(55)	(3)	**(1,371)**
	(5)	**(3,363)**	(1,570)	–	–	160	**(4,773)**
	(5)	**(7,733)**	**(7,489)**	**(121)**	**(475)**	**114**	**(15,704)**
	66	**3,940**	**1,232**	**193**	**26**	**(278)**	**5,113**
	54	**(4,456)**	**(2,674)**	**–**	**(54)**	**33**	**(7,151)**

(in millions of Russian rubles)

21. Other impairment and provisions

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

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

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

22. Other assets and liabilities

Other assets comprise:

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

	2014	2013
Less allowance for impairment of other assets (Note 21)	(11,249)	(4,309)
Other assets	**134,107**	**113,949**

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

Investment property

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

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

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

Intangible assets

Included in other assets are intangible assets in the amount of RUB 6,757 million (31 December 2013: RUB 5,862 million), less accumulated amortization of RUB 2,578 million (31 December 2013: RUB 1,874 million). In 2014, the Group disposed of intangible assets in the amount of RUB 217 million

(in millions of Russian rubles)

22. Other assets and liabilities (continued)

Intangible assets (continued)

(2013: RUB 297 million), less accumulated amortization of RUB 216 million (2013: RUB 296 million). The respective amortization charges for the year ended 31 December 2014 are RUB 908 million (for the year ended 31 December 2013: RUB 654 million), which are included in other operating expenses.

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

Other liabilities

Other liabilities comprise:

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

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

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

23. Amounts due to banks

Amounts due to banks comprise:

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

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

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

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

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

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

(in millions of Russian rubles)

23. Amounts due to banks (continued)

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

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

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

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

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

24. Amounts due to customers

Amounts due to customers comprise:

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

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

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

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

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

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

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

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

(in millions of Russian rubles)

25. Debt securities issued

Debt securities issued comprise:

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

During 2014, the Group issued the following domestic bonds:

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

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

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

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

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

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

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

During 2014, the Group repaid the following domestic bonds:

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

(in millions of Russian rubles)

25. Debt securities issued (continued)

During 2013, the Group issued the following debt securities:

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

During 2013, the Group repaid the following domestic bonds:

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

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

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

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

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

(in millions of Russian rubles)

26. Finance lease liabilities

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

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

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

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

27. Equity

Charter capital

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

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

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

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

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

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

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

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

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

Additional paid-in capital

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

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

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

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

(in millions of Russian rubles)

27. Equity (continued)

Additional paid-in capital (continued)

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

Nature and purpose of other reserves

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

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

Unrealized gains/(losses) on investment financial assets available for sale
This reserve records fair value changes on available-for-sale investments.

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

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

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

28. Commitments and contingencies

Operating environment

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

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

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

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

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

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

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

(in millions of Russian rubles)

28. Commitments and contingencies (continued)

Operating environment (continued)

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

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

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

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

Legal issues

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

Taxation

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

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

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

Commitments and contingencies

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

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

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

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

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

Insurance

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

(in millions of Russian rubles)

29. Interest income and expense

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

30. Net fee and commission income

Net fee and commission income comprises:

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

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

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

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

32. Other operating income and expenses

Other operating expenses comprise:

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

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

Other operating expenses comprise:

	2014	2013
Cost of sales	10,741	2,448
Charity	2,803	2,065

(in millions of Russian rubles)

32. Other operating income and expenses (continued)

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

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

33. Risk management

Introduction

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

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

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

Risk management structure in place at Group members

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

- The supreme collegial management body (Supervisory Board, Board of Directors) takes strategic decisions aimed at organizing and supporting the operation of the risk management system.

- Collegial management bodies (Management Board, Banking Risk Management Committee, Financial Committee, Assets and Liabilities Committee, Credit Committee, Technology Committee) and sole executive bodies (Chairman of the Bank, Chairman of the Management Board) adopt/prepare management decisions within their established authority, over a particular type of activity or type of risk.

- Independent risk management business division (Risk Management Department, Risk Analysis and Control Department) coordinates activities carried out by independent business divisions to implement risk management decisions taken by management bodies, including development of a regulatory framework that underlies risk assessment and control, independent assessment and subsequent control of risk level, and prepares risk reports for Group member management on a regular basis.

- Business divisions engaging in/supporting operations exposed to risks perform initial risk identification and assessment, control compliance with established limits and generate risk reports subject to the requirements of the adopted/approved regulatory framework.

- The Internal Control Function controls compliance with requirements of internal regulations and evaluates the effectiveness of the risk management system. Following the completion of respective audits, the Internal Control Function reports its findings and recommendations to Group member management.

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

Vnesheconombank's risk management structure

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

Supervisory Board

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

(in millions of Russian rubles)

33. 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 available cash (liquidity).

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

Management Board

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

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

Chairman of Vnesheconombank

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

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

Group Risk Director

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

Vnesheconombank's Risk Management Committee

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

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

Credit Committee

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

Assets and Liabilities Committee

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

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

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

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.

(in millions of Russian rubles)

33. Risk management (continued)

Introduction (continued)

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

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

Directorate for Currency and Financial Transactions

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

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

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

Economic Planning Department

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

Risk management

Risk assessment and reporting systems

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

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

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

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

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

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

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

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

Risk mitigation

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

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

Excessive risk concentration

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

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

(in millions of Russian rubles)

33. Risk management (continued)

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.

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

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

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

Credit-related commitments risks

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

Maximum exposure to credit risk

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

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

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

Credit quality per class of financial assets

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

(in millions of Russian rubles)

33. Risk management (continued)

Credit risk (continued)

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

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

		Not past due					
		Not impaired					
	Notes	High grade 2014	Standard grade 2014	Sub-standard grade 2014	Individually impaired 2014	Past due 2014	Total 2014
Other		10,935	9,966	3,019	4,418	1,604	**29,942**
		716,022	**858,080**	**296,012**	**755,765**	**592,320**	**3,218,199**
Debt investment securities	16						
Available for sale		102,205	47,554	879	93	–	**150,731**
Held to maturity		15,898	5,556	–	–	74	**21,528**
		118,103	**53,110**	**879**	**93**	**74**	**172,259**
Total		**1,076,506**	**949,808**	**298,947**	**755,957**	**594,136**	**3,674,454**

		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 banks	13						
Subordinated loans		297,446	11,490	–	–	–	**308,936**
Interbank loans under small and medium-sized business support program		75,542	12,113	0	0	873	**88,528**
Mortgage bonds		6,306	–	–	–	–	**6,306**
Other amounts due from banks		26,703	4,344	–	–	80	**31,127**
		405,997	**27,947**	**0**	**0**	**953**	**434,897**
Loans to customers	15						
Project finance		154,413	333,323	194,466	131,516	104,442	**918,160**
Commercial loans		196,204	362,946	68,522	75,951	110,456	**814,079**
Net investment in leases		170,800	16,590	4,831	1,223	42,608	**236,052**
Financing of operations with securities		59,472	5,966	–	0	–	**65,438**
Back-to-back finance		35,330	–	–	–	–	**35,330**
Export and pre-export finance		18,864	3,685	2,876	–	2,895	**28,320**
Claims under letters of credit		6,198	3,102	3,608	584	2,468	**15,960**
Reverse repurchase agreements		5,215	3,661	–	–	–	**8,876**
Promissory notes		4,534	647	–	7	730	**5,918**
Mortgage bonds		–	2,603	–	–	–	**2,603**
Other		703	3,004	80	3,763	242	**7,792**
		651,733	**735,527**	**274,383**	**213,044**	**263,841**	**2,138,528**

(in millions of Russian rubles)

33. Risk management (continued)

Credit risk (continued)

		Not past due					
		Not impaired					
	Notes	High grade 2013	Standard grade 2013	Sub-standard grade 2013	Individually impaired 2013	Past due 2013	Total 2013
Debt investment securities	16						
Available for sale, including those pledged under repurchase agreements		153,647	84,592	505	–	–	**238,744**
Held to maturity		797	–	–	–	74	**871**
		154,444	**84,592**	**505**	–	**74**	**239,615**
Total		**1,212,174**	**848,066**	**274,888**	**213,044**	**264,868**	**2,813,040**

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

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

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

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

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

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

Liquidity risk and funding management

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

The Group manages its liquidity risk at the following levels:

- Each member of the Group manages its liquidity on a standalone basis so that it can meet its obligations in full and comply with requirements of the national regulator; for this purpose relevant policies and procedures have been developed that detail the liquidity risk assessment and control process;

(in millions of Russian rubles)

33. Risk management (continued)

Liquidity risk and funding management (continued)

- Liquidity-related issues are considered on the Group's level at the meetings of the Working Group on Coordination of Subsidiary Banks' and Financial Companies' Liquidity and Risk Management and the Working Group on Coordination of Public Borrowings of Subsidiary Banks and Companies of Vnesheconombank.

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

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

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

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

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

- Cash on the Bank's correspondent accounts, cash on hand, cash on accounts in stock exchange and clearing centers, and the net balance of the Bank's overnight placements;

- Short-term deposits placed with banks considered by the Bank as highly reliable;
- Liquid securities measured at fair value less any discount for unexpected losses due to market risk realization that can be promptly converted into cash or used as a collateralized funding.
- Loans from the Bank of Russia secured by non-market assets (or rights to claim under loan agreements) under third-party guarantees.

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

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

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

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

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

(in millions of Russian rubles)

33. Risk management (continued)

Liquidity risk and funding management (continued)

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

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

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

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

Due to the fact that Standard & Poor's downgraded the long-term foreign currency credit rating of Vnesheconombank to BBB- in 2014, for a number of loan agreements lending banks obtained the right to demand the early repayment of the loans provided. As at 31 December 2014, the liabilities of Vnesheconombank under these agreements comprised RUB 124,945 million. As of the date of authorisation of these consolidated financial statements, Vnesheconombank did not receive notices demanding an early repayment of previously provided loans. The creditors under agreements that provide for credit rating compliance confirmed that they did not demand early repayment. The Bank classified these liabilities in "Up to 1 month" in the amount of RUB 1,812 million, in "1 to 6 months" in the amount of

(in millions of Russian rubles)

33. Risk management (continued)

Liquidity risk and funding management (continued)

RUB 7,934 million, in "6 to 12 months" in the amount of RUB 9,657 million and in "Over 1 year" in the amount of RUB 105,542 million based on the expectations to repay the liabilities in due time, as set forth in the relevant agreements. The management of the Bank is taking all of the appropriate liquidity management measures and expects the state to provide support if necessary.

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

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

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

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

Analysis of financial liabilities by remaining contractual maturities

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

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

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

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

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33. Risk management (continued)

Liquidity risk and funding management (continued)

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

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

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

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

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

Market risk

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

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

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

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

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

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

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

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

Interest rate risk

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

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

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33. Risk management (continued)

Market risk (continued)

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

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

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

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

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

/ expected appearance of large or concentrated positions in financial instruments' portfolios or significant changes in their value, which can significantly affect the balance of the interest rate position;

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

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

/ the actual structure of volume and maturities of claims and obligations is kept constant in the whole projection horizon;

/ changes in the term structure of interest rates occur instantly as of the reporting date and once during the projection horizon.

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

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

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

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

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

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

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33. Risk management (continued)

Market risk (continued)

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

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

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

	2014	2013
VaR	17,259	2,543

Currency risk

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

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

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

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

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

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

	2014	2013
VaR	1,535	40

In order to assess this factor, positions in UAH and BYR based mainly on investments in subsidiary banks are eliminated from the open currency position since currency revaluation of these shares that are not traded in the market may not reflect changes in the real economic value of these companies. Moreover, these investments are not considered for the purpose of calculation of the open currency

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33. Risk management (continued)

Market risk (continued)

position pursuant to the regulation issued by the Bank of Russia concerning changes in accounting for investments in subsidiary and associate joint-stock companies denominated in foreign currencies.

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

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

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

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

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

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

	2014	2013
VaR	22,219	16,480

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

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

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

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

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

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

Prepayment risk

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

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33. Risk management (continued)

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.

34. Fair value measurement

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

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

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

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Trading financial assets	**11,954**	**80**	**–**	**12,034**
- Corporate bonds	3,942	80	–	**4,022**
- Federal Loan Bonds (OFZ)	88	–	–	**88**
- Eurobonds issued by the Russian Federation	347	–	–	**347**
- Eurobonds of Russian and foreign issuers	706	–	–	**706**
- Equity securities	6,245	–	–	**6,245**
- Other debt financial assets	626	–	–	**626**
Derivative financial instruments	**–**	**11,220**	**–**	**11,220**
- Foreign exchange contracts: foreign	–	14	–	**14**
- Foreign exchange contracts: domestic	–	329	–	**329**
- Forward contracts: debt securities	–	58	–	**58**
- Forward contracts: equity securities	–	253	–	**253**
- Cross-currency interest rate swap	–	6,540	–	**6,540**
- Option contracts with securities	–	3,293	–	**3,293**
- Option contracts with foreign currency	–	733	–	**733**
Financial assets designated as at fair value through profit or loss	**2,767**	**–**	**18,325**	**21,092**
Trading financial assets pledged under repurchase agreements	**451**	**–**	**–**	**451**
Investment financial assets available for sale	**241,070**	**79,962**	**47,685**	**368,717**
- Corporate bonds	25,731	41,280	–	**67,011**
- Debt instruments issued by foreign government bodies	3,103	17,546	–	**20,649**
- Promissory notes	–	8,764	2	**8,766**
- Federal Loan Bonds (OFZ)	2,067	–	–	**2,067**
- Municipal and sub-federal bonds, bonds of the Bank of Russia	1,872	–	–	**1,872**
- Eurobonds of Russian and foreign issuers	27,972	7,207	–	**35,179**
- Eurobonds issued by the Russian Federation	11,904	3,283	–	**15,187**
- Equity securities	168,421	1,882	11,509	**181,812**
- Other financial assets available for sale	–	–	36,174	**36,174**
Investment financial assets available for sale pledged under repurchase agreements	**24,807**	**34,717**	**–**	**59,524**

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34. Fair value measurement (continued)

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
- Corporate bonds	12,201	34,717	–	**46,918**
- Eurobonds issued by the Russian Federation	10,198	–	–	**10,198**
- Eurobonds of Russian and foreign issuers	1,555	–	–	**1,555**
- Federal Loan Bonds (OFZ)	501	–	–	**501**
- Equity securities	255	–	–	**255**
- Municipal and sub-federal bonds, bonds of the Bank of Russia	97	–	–	**97**
Investment property	**–**	**–**	**8,309**	**8,309**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	325,927	**325,927**
Amounts due from banks	–	–	177,451	**177,451**
Loans to customers including pledged under repurchase agreements	–	33,201	2,498,110	**2,531,311**
Investment financial assets held to maturity	9,410	9,665	106	**19,181**
Investment financial assets held to maturity pledged under repurchase agreements	16,038	13,172	–	**29,210**
	306,497	**182,017**	**3,075,913**	**3,564,427**

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

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities measured at fair value				
Derivative financial liabilities	**–**	**2,670**	**–**	**2,670**
- Foreign exchange contracts: foreign	–	0	–	**0**
- Foreign exchange contracts: domestic	–	195	–	**195**
- Forward contracts: equity securities	–	21	–	**21**
- Interest rate swaps: foreign	–	596	–	**596**
- Interest rate swaps: domestic	–	5	–	**5**
- Cross-currency interest rate swap	–	1,853	–	**1,853**
Liabilities for which fair values are disclosed				

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Amounts due to banks	–	–	962,649	**962,649**
Amounts due to the Russian Government and the Bank of Russia	–	–	559,380	**559,380**
Amounts due to customers	–	34,145	475,555	**509,700**
Debt securities issued	648,268	165,790	25,834	**839,892**
Subordinated deposits	–	–	303,015	**303,015**
	648,268	**202,605**	**2,326,433**	**3,177,306**

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

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
Trading financial assets	**49,024**	**2,385**	**–**	**51,409**
- Corporate bonds	12,273	2,381	–	**14,654**
- Federal Loan Bonds (OFZ)	660	–	–	**660**
- Eurobonds issued by the Russian Federation	3,041	–	–	**3,041**
- Eurobonds of Russian and foreign issuers	892	–	–	**892**
- Equity securities	31,846	4	–	**31,850**
- Other debt financial assets	312	–	–	**312**
Derivative financial instruments	**–**	**26,513**	**–**	**26,513**
- Foreign exchange contracts: foreign	–	348	–	**348**
- Foreign exchange contracts: domestic	–	182	–	**182**
- Forward contracts: debt securities	–	59	–	**59**
- Forward contracts: equity securities	–	159	–	**159**
- Cross-currency interest rate swap	–	1,386	–	**1,386**
- Option contracts	–	24,379	–	**24,379**
Financial assets designated as at fair value through profit or loss	**9,392**	**–**	**11,521**	**20,913**
Trading financial assets pledged under repurchase agreements	**14,783**	**914**	**–**	**15,697**
Investment financial assets available for sale	**291,698**	**99,446**	**51,190**	**442,334**
- Corporate bonds	91,387	62,172	–	**153,559**
- Promissory notes	–	19,028	2	**19,030**

(in millions of Russian rubles)

34. Fair value measurement (continued)

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
- Debt instruments issued by foreign government bodies	11,022	6,860	–	**17,882**
- Federal Loan Bonds (OFZ)	2,677	–	–	**2,677**
- Municipal and sub-federal bonds, bonds of the Bank of Russia	89	–	–	**89**
- Eurobonds of Russian and foreign issuers	15,926	7,475	–	**23,401**
- Eurobonds issued by the Russian Federation	4,452	2,278	–	**6,730**
- Equity securities	166,145	1,633	9,733	**177,511**
- Other financial assets available for sale	–	–	41,455	**41,455**
Investment financial assets available for sale pledged under repurchase agreements	**15,376**	**–**	**–**	**15,376**
- Corporate bonds	12,259	–	–	**12,259**
- Eurobonds of Russian and foreign issuers	3,117	–	–	**3,117**
Investment property	**–**	**–**	**7,551**	**7,551**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	275,994	**275,994**
Amounts due from banks	1,003	–	433,319	**434,322**
Loans to customers	696	10,615	1,826,003	**1,837,314**
Investment financial assets held to maturity	765	–	–	**765**
Investment financial assets held to maturity pledged under repurchase agreements	34	–	–	**34**
	382,771	**139,873**	**2,605,578**	**3,128,222**

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

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities measured at fair value				
Derivative financial liabilities	**–**	**946**	**–**	**946**
- Foreign exchange contracts: foreign	–	20	–	**20**
- Foreign exchange contracts: domestic	–	195	–	**195**

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

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

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

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

(in millions of Russian rubles)

34. Fair value measurement (continued)

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

Valuation methodologies and assumptions

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

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

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

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

Assets and liabilities recorded at fair value

Valuation methodologies and assumptions

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

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

Trading securities and available-for-sale investment securities

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

Movements in Level 3 assets and liabilities measured at fair value

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

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

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

(in millions of Russian rubles)

34. Fair value measurement (continued)

Assets and liabilities recorded at fair (continued)

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

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

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

Transfers between Level 1 and Level 2

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

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

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

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

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

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

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

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

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

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

(in millions of Russian rubles)

34. Fair value measurement (continued)

Assets and liabilities recorded at fair (continued)

31 December 2014	Carrying value	Valuation technique	Unobservable input	Range (weighted average)
			EV/Sales	3.646
Investment property	8,309	Other valuation techniques	Not applicable	Not applicable

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

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

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

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

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

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

(in millions of Russian rubles)

34. Fair value measurement (continued)

Assets and liabilities recorded at fair (continued)

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

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

Transferred financial assets that are not derecognized in their entirety

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

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

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

Repurchase agreements

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

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

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

Assets pledged as collateral

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

(in millions of Russian rubles)

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

Assets provided as collateral

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

Assets held as collateral

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

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

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

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

36. Offsetting of financial instruments

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

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

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

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

(in millions of Russian rubles)

37. Related party transactions

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

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

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

Transactions with associates, jointly controlled entities and key management personnel

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

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

	2014			2013		
	Associates	Jointly controlled entities	Key management personnel	Associates	Jointly controlled entities	Key management personnel
Current accounts	**1,352**	**–**	**53**	**1,035**	**–**	**41**
Customer deposits at 1 January	13,263	1	2,541	1,486	–	2,104
Deposits received during the year	8,026	–	7,037	15,408	1	2,934

	2014			2013		
	Associates	Jointly controlled entities	Key management personnel	Associates	Jointly controlled entities	Key management personnel
Deposits repaid during the year	(4,544)	(1)	(6,129)	(3,640)	–	(2,518)
Other changes	27	–	510	9	0	24
Hyperinflation effect	–	–	10	–	–	(3)
Customer deposits at 31 December	**16,772**	**–**	**3,969**	**13,263**	**1**	**2,541**
Guarantees issued and undrawn loan commitments	**1,467**	**–**	**18**	**2,740**	**1,709**	**13**

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

Compensation to key management personnel comprises the following:

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

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

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

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

(in millions of Russian rubles)

37. Related party transactions (continued)

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

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

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

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

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

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

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

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

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

(in millions of Russian rubles)

37. Related party transactions (continued)

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

Borrower	Industry	Loans to customers	Undrawn loan commitments	Loans to customers	Undrawn loan commitments
		At 31 December 2014		At 31 December 2013	
Customer 21	Manufacturing, including heavy machinery and military-related goods production	5,995	12,101	2,014	7,052
Customer 22	Transport	5,515	–	3,355	–
Customer 23	Telecommunications	5,500	0	2,936	3,064
Customer 24	Transport	5,472	–	3,331	–
Customer 25	Electric energy	5,239	6,821	4,850	7,030
Customer 26	Manufacturing, including heavy machinery and the production of military-related goods	4,306	–	5,382	–
Customer 27	Telecommunications	3,007	2,798	0	8,229
Customer 28	Manufacturing, including heavy machinery and the production of military-related goods	1,294	6,502	–	–
		607,045	**141,610**	**374,039**	**148,452**

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

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

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

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

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

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

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

(in millions of Russian rubles)

37. Related party transactions (continued)

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

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

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

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

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

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

38. Capital adequacy

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

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

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

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

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

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

39. Subsequent events

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

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

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

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

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

(in millions of Russian rubles)

39. Subsequent events (continued)

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

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

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

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

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

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

In March 2015, the Bank fulfilled its obligations, under the respective offer, to purchase 828,090 bonds with a nominal value of RUB 828 million, representing Series 21 bonds with the total nominal value of RUB 15,000 million, maturing in 2032. All of the purchased bonds were resold in the MICEX stock market on the same day. This issue provides for a half-year offer.

In March 2015, a subsidiary bank placed exchange-traded Series BO-04 bonds with a nominal value of RUB 5,000 million, maturing in March 2018. This issue of exchange-traded bonds provides for a one-year offer.

In March 2015, Vnesheconombank received a subsidy from the federal budget in the form of an asset contribution of the Russian Federation as compensation for part of the costs to incur within activity to support the manufacturers of high-tech products in the amount of RUB 4,466 million in accordance with Resolution of the Russian Government No. 1302, dated 13 December 2012 (Note 22).

In March 2015, the Bank purchased 50,337,125 ordinary registered shares additionally issued by JSC "GLOBEXBANK" for the total amount of RUB 5,034 million. As a result of the placement of the additional shares of JSC "GLOBEXBANK", the Bank's interest in the share capital of the subsidiary remained unchanged at 99.99%.

In April 2015, the National Securities and Stock Market Commission of Ukraine registered the report on the results of PSC Prominvestbank's placement of additionally issued shares (Vnesheconombank paid for the additional shares of PSC Prominvestbank in December 2014) (Note 3).

In April 2015, the Bank transferred the full amount of the subsidy (RUB 2,328 million) received in December 2014 as an asset contribution pursuant to Federal Law No. 349-FZ dated 2 December 2013 "On the Federal Budget for 2014 and for the 2015 and 2016 Planned Period" (Note 22), to purchase 2,129 additional units of its subsidiary Mutual Fund RDIF.

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

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