MDM Bank

Consolidated Financial Statements
For the Year Ended 31 December 2014

Contents

Notes to the Consolidated Financial Statements

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Auditors' Report

To the Shareholders and the Board of Directors

MDM Bank, Public Joint Stock Company

We have audited the accompanying consolidated financial statements of MDM Bank, Public Joint Stock Company (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

Report of findings from procedures performed in accordance with the requirements of Article 42 of Federal Law dated 2 December 1990 No 395-1 On Banks and Banking Activity

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal control and organising risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2015 as established by the Bank of Russia; and
- compliance of elements of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to enquiries, analyses, inspections of documents, comparisons of the Bank's internal policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with mandatory ratios as established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2015 were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Group other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

- Based on our procedures with respect to compliance of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia, we found that:

  - as at 31 December 2014, the Bank's internal audit function was subordinated to, and reported to, the Board of Directors, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;
  - the Group's internal documentation, effective on 31 December 2014, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
  - as at 31 December 2014, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;

- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2014, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2014, the Board of Directors and Executive Management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2014 the Board of Directors and Executive Management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

Our procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and described above, are in compliance with the requirements established by the Bank of Russia.

Malyutina M.S.
Director
(power of attorney dated 16 March 2015 No. 16/15)
JSC "KPMG"
Moscow, Russian Federation
22 April 2015

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	5	60 912	35 952
Mandatory cash balances with the Central Bank of the Russian Federation		2 396	2 071
Due from banks	6	6 758	15 349
Derivative financial instruments	7	12 295	488
Available-for-sale financial assets	8		
- owned by the Group		13 417	6 888
- pledged under sale and repurchase agreements		23 319	23 185
Loans and advances to customers	9	181 412	156 047
Investment property	10	10 462	9 483
Property, equipment and intangible assets	11	9 546	9 840
Current income tax prepayment		520	578
Deferred tax asset	23	6 085	5 645
Other assets	12	1 759	2 173
Total assets		**328 881**	**267 699**
Liabilities			
Due to the Central Bank of the Russian Federation	13	27 353	21 532
Due to other banks	13	18 649	18 075
Derivative financial instruments	7	5 943	686
Customer accounts	14	225 076	180 524
Debt securities in issue	15	7 631	6 135
Other liabilities	16	10 595	4 784
Total liabilities		**295 247**	**231 736**
Equity			
Share capital	17	4 207	4 207
Share premium		31 852	31 852
Treasury shares	17	(5 518)	(5 518)
Revaluation of premises		4 784	4 757
Revaluation of available-for-sale financial assets		(3 119)	(184)
Cumulative translation reserve		136	132
Retained earnings		1 281	714
Equity attributable to equity holders of the Bank		**33 623**	**35 960**
Non-controlling interest		**11**	**3**
Total equity		**33 634**	**35 963**
Total liabilities and equity		**328 881**	**267 699**

The consolidated financial statements were approved for issue by the Management Board and signed on its behalf on 22 April 2015.

Timur Avdeyenko
Chief Executive Officer

Oleg Andriyankin
Chief Financial Officer

MDM Bank
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the Year Ended 31 December 2014
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	2014	2013
Interest income	18	25 850	25 665
Interest expense	18	(15 642)	(15 149)
Net interest income		**10 208**	**10 516**
Loan impairment losses	9	(4 400)	(17 710)
Net interest income/(expense) after loan impairment losses		**5 808**	**(7 194)**
Net foreign exchange gain		1 367	1 649
Gains less losses from trading and available-for-sale financial assets	19	25	20
Fee and commission income	20	5 929	4 975
Fee and commission expense	20	(1 438)	(1 376)
Other income		866	729
Other expenses		(349)	(289)
Operating expenses	22	(11 320)	(10 148)
Net operating profit/(loss) before impairment losses other than on loans, revaluation losses and other losses		**888**	**(11 634)**
Loss from revaluation of investment property	10	(43)	(2 186)
Impairment reversals/(losses) other than on loans and provisions	21	171	(937)
Net profit/(loss) before other losses		**1 016**	**(14 757)**
Loss on fair value adjustment for financial instruments	9	(187)	(23)
Profit/(loss) before tax		**829**	**(14 780)**
Income tax (expense)/benefit	23	(308)	1 495
Profit/(loss) after tax for the year		**521**	**(13 285)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Available-for-sale financial assets:			
Losses from changes in fair value		(3 661)	(217)
Reclassification adjustments for items included in profit or loss		(8)	(74)
Currency translation differences		4	15
Income tax related to components of other comprehensive income	23	734	58
Total items that are or may be reclassified subsequently to profit or loss		*(2 931)*	*(218)*
Items that will not be reclassified to profit or loss			
Revaluation of premises		101	823
Income tax related to components of other comprehensive income	23	(20)	(165)
Total items that will not be reclassified to profit or loss		*81*	*658*
Other comprehensive (expense)/income for the year, net of tax		**(2 850)**	**440**
Total comprehensive expense for the year		**(2 329)**	**(12 845)**

The notes form an integral part of these consolidated financial statements.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	2014	2013
Profit/(loss) attributable to:			
Equity holders of the Bank		513	(13 267)
Non-controlling interest		8	(18)
Profit/(loss) after tax		**521**	**(13 285)**
Total comprehensive expense attributable to:			
Equity holders of the Bank		(2 337)	(12 827)
Non-controlling interest		8	(18)
Total comprehensive expense		**(2 329)**	**(12 845)**

Timur Avdeyenko
Chief Executive Officer

Oleg Andriyankin
Chief Financial Officer

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	2014	2013
Cash flows from operating activities			
Interest received		25 714	24 900
Interest paid		(15 673)	(14 988)
Net (payments)/receipts from trading and available-for-sale financial assets		(210)	19
Net receipts from trading in precious metals		311	186
Net (payments)/receipts from trading in foreign currencies		(4 702)	263
Commissions received		5 961	4 972
Commissions paid		(1 449)	(1 358)
Other income received		866	729
Other expense incurred		(349)	(289)
Operating expenses paid		(9 997)	(8 944)
Income tax paid		(15)	(109)
Cash flows from operating activities before changes in operating assets and liabilities		**457**	**5 381**
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(325)	1 005
Due from banks		9 257	26 737
Available-for-sale financial assets		(827)	(15 897)
Loans and advances to customers		(7 411)	9 973
Other assets		242	1 421
Net increase/(decrease) in operating liabilities			
Due to the Central Bank of the Russian Federation		5 719	11 430
Due to other banks		(4 070)	(14 662)
Customer accounts		17 254	(23 421)
Promissory notes issued		444	(2 646)
Other liabilities		99	18
Net cash from/(used in) operating activities		**20 839**	**(661)**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(397)	(364)
Proceeds from sale of property, equipment and intangible assets		6	11
Purchase of investment property		(996)	(1 768)
Proceeds from sale of investment property		356	2 216
Net cash (used in)/from investing activities		**(1 031)**	**95**
Cash flows from financing activities			
Domestic bonds issued		1 209	-
Domestic bonds repaid		(235)	(3 722)
Subordinated debt repaid		-	(1 139)
Net cash from/(used in) financing activities		**974**	**(4 861)**
Effect of exchange rate changes on cash and cash equivalents		4 178	1 485
Net increase/(decrease) in cash and cash equivalents		**24 960**	**(3 942)**
Cash and cash equivalents at the beginning of the year		35 952	39 894
Cash and cash equivalents at the end of the year	5	**60 912**	**35 952**

Timur Avdeyenko
Chief Executive Officer

Oleg Andriyankin
Chief Financial Officer

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

	Equity attributable to equity holders of the Bank									
	Share capital	Share premium	Treasury shares	Revaluation of premises	Revaluation of available-for-sale financial assets	Cumulative translation reserve	Retained earnings	Total	Non-controlling Interest	Total equity
Balance as at 1 January 2013	4 207	31 852	(5 518)	4 188	49	117	13 892	48 787	21	48 808
Loss after tax for the year	-	-	-	-	-	-	(13 267)	(13 267)	(18)	(13 285)
Other comprehensive income										
Items that are or may be reclassified subsequently to profit or loss										
Revaluation of available-for-sale financial assets, net of tax	-	-	-	-	(233)	-	-	(233)	-	(233)
Currency translation differences	-	-	-	-	-	15	-	15	-	15
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*(233)*	*15*	-	*(218)*	-	*(218)*
Items that will not be reclassified to profit or loss										
Revaluation of premises, net of tax	-	-	-	658	-	-	-	658	-	658
Total Items that will not be reclassified to profit or loss	-	-	-	*658*	-	-	-	*658*	-	*658*
Total other comprehensive income/(expense) for the year ended 31 December 2013	-	-	-	658	(233)	15	-	440	-	440
Total comprehensive income/(expense) for the year ended 31 December 2013	-	-	-	658	(233)	15	(13 267)	(12 827)	(18)	(12 845)
Reclassification of revaluation reserve on disposal	-	-	-	(89)	-	-	89	-	-	-
Balance as at 31 December 2013	4 207	31 852	(5 518)	4 757	(184)	132	714	35 960	3	35 963
Profit after tax for the year	-	-	-	-	-	-	513	513	8	521
Other comprehensive income										
Items that are or may be reclassified subsequently to profit or loss										
Revaluation of available-for-sale financial assets, net of tax	-	-	-	-	(2 935)	-	-	(2 935)	-	(2 935)
Currency translation differences	-	-	-	-	-	4	-	4	-	4
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*(2 935)*	*4*	-	*(2 931)*	-	*(2 931)*
Items that will not be reclassified to profit or loss										
Revaluation of premises, net of tax	-	-	-	81	-	-	-	81	-	81
Total Items that will not be reclassified to profit or loss	-	-	-	*81*	-	-	-	*81*	-	*81*
Total other comprehensive income/(expense) for the year ended 31 December 2014	-	-	-	81	(2 935)	4	-	(2 850)	-	(2 850)
Total comprehensive income/(expense) for the year ended 31 December 2014	-	-	-	81	(2 935)	4	513	(2 337)	8	(2 329)
Reclassification of revaluation reserve on disposal	-	-	-	(54)	-	-	54	-	-	-
Balance as at 31 December 2014	4 207	31 852	(5 518)	4 784	(3 119)	136	1 281	33 623	11	33 634

Timur Avdeyenko
Chief Executive Officer

Oleg Andriyankin
Chief Financial Officer

The notes form an integral part of these consolidated financial statements.

1 Organisation of the Group and its Principal Activities

These consolidated financial statements comprise the financial statements of MDM Bank, Pubic Joint Stock Company (the Bank or MDM Bank), and its subsidiaries. MDM Bank and its subsidiaries are hereinafter collectively referred to as the Group.

MDM Bank, the parent company and the lead operating entity of the Group, carries out banking activities in the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation (the CBR). MDM Bank is a member of the state deposit insurance system. The Bank also has broker and dealer licenses issued by the Russian Federal Financial Markets Service.

The Group operates in six major business areas: Corporate Banking, Retail Banking, Small and Medium Enterprises (SME) Banking, Private Banking, Financial Markets and Asset Liability management (ALM) (Note 24).

The activities of the Group are conducted principally in Russia, although the Group also conducts operations in the international markets.

The registered address of MDM Bank is 3-6th floors, 33/1, Kotelnicheskaya Naberezhnaya street, Moscow, 115172, Russian Federation.

As at 31 December 2014 the Bank has 23 branches (31 December 2013: 23). All branches are located in the Russian Federation. The Bank also operates a number of sub-branches in the Russian Federation and cash exchange offices and a network of retail micro offices in Moscow. As at 31 December 2014, the total number of points of sale is 186 (31 December 2013: 195).

For the purposes of these consolidated financial statements, key management personnel of the Group, collectively, is referred to as management.

2 Operating Environment of the Group

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of a developing market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. Current economic and politic situation, including situation in Ukraine and introduction of sanctions against the Russian Federation by particular countries and introduction of responsive sanctions against particular countries by the Russian Federation creates risks for operations conducted by the Group. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment. These consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3 Basis of Preparation

(a) Statement of compliance

These consolidated financial statements are prepared in accordance with the requirements of International Financial Reporting Standards (IFRS).

(b) Basis of measurement

These consolidated financial statements are prepared on a historical cost basis except that derivative financial instruments, other financial instruments held for trading, available-for-sale financial instruments and investment property are stated at fair value, certain classes of property and equipment are stated at revalued amounts and assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

3 Basis of Preparation (Continued)

(c) Presentation currency

These consolidated financial statements are presented in Russian Roubles (RUB). Amounts in Russian Roubles are rounded to the nearest million.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Note 9 "Loans and advances to customers" in respect of loan impairment allowances
- Note 10 "Investment property" in respect of the valuation of investment property
- Note 11 "Property, equipment and intangible assets" in respect of the valuation of premises and impairment of intangible assets
- Note 23 "Income taxes" in respect of deferred tax assets
- Notes 9 "Loans and advances to customers" in respect of the determination of control over investees.

4 Significant Accounting Policies

The following significant accounting policies are applied in the preparation of these consolidated financial statements. The accounting policies are consistently applied and they are consistent with those used in the consolidated financial statements for the year ended 31 December 2013. Changes in accounting policies are described at the end of this note.

(a) Subsidiaries, including structured entities

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transaction become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Intra-group transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, but only to the extent that there is no evidence of impairment. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

4 Significant Accounting Policies (Continued)

(a) Subsidiaries, including structured entities (continued)

Non-controlling interest is a part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of equity. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statement of profit or loss and other comprehensive income. The Group elects on transaction-by-transaction basis whether to measure non-controlling interest at fair value, or at its proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Non-controlling interests in mutual funds consolidated by the Group are presented as a liability as the Group has an obligation to repurchase these non-controlling interests in certain cases. The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with creditors. Results from transactions with non-controlling interests and changes in non-controlling interests due to changes in net assets of the funds are recognised as income or expense in profit or loss.

(b) Functional currency

The functional currency for each Group company is determined as the currency of the primary economic environment in which the company operates. The Russian Rouble is selected as the functional currency for the Bank, Group companies domiciled in the Russian Federation and certain Group companies domiciled outside of the Russian Federation, where it reflects the economic substance of the underlying events and circumstances. For other Group companies the currencies of the respective countries in which these companies are domiciled are their functional currencies.

The results and financial position of each foreign entity of the Group (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at the reporting date

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)

(iii) all resulting exchange differences are recognised as a separate component of equity as cumulative translation reserve.

When a foreign subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity as part of other comprehensive income are reclassified to profit or loss.

(c) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the relevant Group entity at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rates at the respective reporting date. The foreign currency gain or loss on monetary assets and liabilities is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for interest accrued using the effective interest rate and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary items that are measured at 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. Foreign exchange differences arising on translations are recognised in profit or loss, except for differences arising on translation on available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

4 Significant Accounting Policies (Continued)

(c) Foreign currency translation (Continued)

As at 31 December 2014 the principal rates of exchange used for translating foreign currency balances are RUB 56.2584 to USD 1 and RUB 68.3427 to EUR 1 (31 December 2013: RUB 32.7292 to USD 1 and RUB 44.9699 to EUR 1).

(d) Accounting for the effects of hyperinflation

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and, accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

(e) Financial assets and liabilities

(i) Classification of financial instruments

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and financial instruments designated at fair value through profit or loss at initial recognition.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or it is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- a group of financial assets, liabilities or both is managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy
- the designation eliminates or significantly reduces a measurement or recognition inconsistency (“an accounting mismatch”) which would otherwise arise or
- the financial instrument represents a hybrid (combined) contract that contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial instruments at fair value through profit or loss include trading securities, derivative financial instruments and trading liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, which are classified as held for trading, or those which the Group designates at initial recognition as at fair value through profit or loss or available-for-sale financial assets. Loans and receivables include cash equivalents, due from other banks, including the Central Bank of the Russian Federation, loans and advances to customers, and other receivables.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss. Available-for-sale financial assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Promissory notes purchased are included in trading securities, available-for-sale financial assets, in loans and advances to customers or in due from other banks, depending on their substance and are subsequently re-measured and accounted for in accordance with the accounting policies applicable for these classes of assets.

4 Significant Accounting Policies (Continued)

(e) Financial assets and liabilities (continued)

Financial liabilities, which are not financial liabilities at fair value through profit or loss or financial guarantee contracts, include debt securities in issue, due to other banks, due to the Central Bank of the Russian Federation, customer accounts, subordinated debt and other payables.

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of the fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of at fair value through profit or loss or available-for-sale category. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

(ii) Amortised cost measurement principles

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses, which are not considered when estimating those cash receipts) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(iii) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

4 Significant Accounting Policies (Continued)

(e) Financial assets and liabilities (continued)

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

The fair value of a financial liability with a demand feature, such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be redeemed by the counterparty.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(iv) Initial recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Trading securities, derivatives and other financial assets and liabilities at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(v) Subsequent measurement

Subsequent to initial recognition, financial assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables and held to maturity investments, which are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

Financial liabilities at fair value through profit or loss are measured at their fair value. Financial liabilities, other than financial liabilities at fair value through profit or loss, financial guarantee liabilities and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost subsequent to initial recognition.

(vi) Gains and losses on subsequent measurement

All gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss (except for a derivative that is a designated and effective hedging instrument) are included in profit or loss in the period in which they arise. Interest earned on trading securities and other securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading in the period in which they arise.

4 Significant Accounting Policies (Continued)

(e) Financial assets and liabilities (continued)

Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Foreign exchange gains or losses on available-for-sale debt securities are recognised in profit or loss. Dividends on available-for-sale equity securities are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity as part of other comprehensive income until the instrument is derecognised or impaired, at which time the cumulative gain or loss is transferred from other comprehensive income to profit or loss.

(vii) Derecognition

Financial assets

A financial asset (or where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognised 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 retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement
- 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 of the asset.

Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred asset and retains control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. When continuing involvement takes the form of a guarantee for the transferred asset, the extent of the continuing involvement is the lower of the amount of the asset and the maximum amount of the consideration received that the Group could be required to repay.

The Group also derecognises certain financial assets determined to be uncollectible when they are written off against impairment allowance. Refer to impairment of financial assets policy below.

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the transfer of these assets to structured entities that issue debt securities to investors. The Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another one 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 derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains from early redemption of debt.

4 Significant Accounting Policies (Continued)

(e) Financial assets and liabilities (continued)

(viii) Offsetting

Financial assets and liabilities are set off and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to set off the amounts, and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only where either the Group has set off the related assets and liabilities as described above, or for gains and losses arising from a group of similar transactions such as trading activities.

(ix) Impairment of financial assets

The Group assesses at the end of each reporting period 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 impaired and impairment losses are incurred 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. Objective evidence that financial assets are impaired can include significant financial difficulty, default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group. In the case of equity investments classified as available-for-sale, objective evidence would additionally include a significant or prolonged decline in the fair value of the instrument below its cost. The Group deems more than 20% decline below cost as "significant" and a decline for more than 6 months as "prolonged".

Financial assets carried at amortised cost. For amounts due from other banks, loans to customers, including net investment in finance leases, investment securities held to maturity and other financial assets carried at amortised cost, the Group initially assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, and individually 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, recognised are not included in a collective assessment 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 (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 recognised 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. Changes in impairment allowance attributable to time value are reflected as a component of interest income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If an asset 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 collateralised 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. Each asset individually assessed for impairment is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently verified by the Risks Department.

4 Significant Accounting Policies (Continued)

(e) Financial assets and liabilities (continued)

The adequacy of the allowances depends on how accurately future cash flows from specific counterparties are estimated and how accurately the model assumptions and parameters used in determining collective allowances predict future cash flows from loans collectively assessed for impairment.

In some cases the observable data required to estimate the amount of impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is limited available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay the amounts due according to the contractual terms of the assets being evaluated. In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate. The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods vary between 6 and 12 months.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the allowance for loan impairment in profit or loss.

Financial assets carried at cost. Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

Available-for-sale financial assets. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is transferred from other comprehensive income and recognised in profit or loss.

Impairment losses on equity instruments are not reversed through profit or loss; increases in their fair value after impairment are recognised as other comprehensive income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Future interest income is based on the reduced carrying amount and is accrued using the effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

4 Significant Accounting Policies (Continued)

(e) Financial assets and liabilities (continued)

(x) Cash and cash equivalents

Cash and cash equivalents are items, which can be converted into cash within a day. Overnight deposits are included in cash and cash equivalents. Amounts which relate to funds that are of restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(xi) Mandatory balances with the Central Bank of the Russian Federation

Mandatory balances with the Central Bank of the Russian Federation represent mandatory reserve deposits that are not available to finance day-to-day operations and hence are not considered as part of cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows.

(xii) Sale and repurchase agreements

Where the Group sells/purchases a financial asset and simultaneously enters into an agreement to repurchase/resell the asset at a fixed price on a future date, the arrangement is accounted for as a secured financing transaction.

Assets sold subject to sale and repurchase (repo) agreements continue to be recognised in the consolidated financial statements. They are reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability is included in amounts due to other banks or to customers, as appropriate.

Assets purchased under agreements to resell (reverse repo) are not recognised in the consolidated financial statements, and corresponding amounts are recorded as due from banks or loans and advances to customers as appropriate.

The differences between the sale and repurchase prices are treated as interest and accrued over the life of the repo/reverse repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(xiii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in profit or loss, unless a derivative is a designated and effective hedging instrument.

(f) Precious metals

The carrying value of precious metals is estimated based on quoted market prices. Precious metals are recorded within other assets in the consolidated statement of financial position.

Precious metals lent to counterparties are retained in the consolidated financial statements.

Precious metals borrowed are recognised in the consolidated financial statements as customer accounts or due to banks, as appropriate, at the carrying value of the precious metals borrowed and related accrued interest. If the borrowed precious metals are sold to third parties, the obligation to return the borrowed precious metals is recorded in the statement of financial position at its fair value.

4 Significant Accounting Policies (Continued)

(g) Property and equipment

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment. Subsequent expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, is capitalised and the carrying amount of the component is written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in profit or loss.

Premises are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. A revaluation increase for an item of premises is recognised as part of other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease for an item of premises is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as part of other comprehensive income, in which case it is recognised as part of other comprehensive income in equity. The revaluation reserve for premises included in equity as part of other comprehensive income is transferred directly to retained earnings on the retirement or disposal of the asset.

Construction in progress is carried at cost less impairment losses. Upon completion, assets are transferred to property and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount and are recorded in profit or loss.

(h) Intangible assets

Intangible assets have a definite useful life and primarily include capitalised computer software. They are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

(i) Depreciation and amortisation

Depreciation/amortisation commences when the asset is available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation/amortisation is applied on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

	years
Premises	40
Fixtures and fittings	6 - 10
Office, computer and other equipment	4 - 6
Intangible assets	4 - 7

The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate.

4 Significant Accounting Policies (Continued)

(j) Impairment

The carrying amounts of non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each annual reporting date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

The recoverable amount of a non-financial asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a non-financial asset is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Provisions

Provisions are recognised if, as a result of past events, the Group has a present legal or constructive obligation, that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

(l) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(m) Assets held for sale

Assets are classified in the consolidated statement of financial position as assets held for sale if their carrying amount will be recovered principally through a sale transaction within twelve months from the date of classification. Assets are classified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated or amortised.

4 Significant Accounting Policies (Continued)

(n) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Any increase in the liability relating to financial guarantees is recognised in profit or loss. The premium received is recognised in profit or loss on a straight-line basis over the life of the guarantee.

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities in the consolidated statement of financial position.

(o) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Preference shares that are non-redeemable and carry no mandatory dividends are classified as equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary or preference shares recognised as equity are reflected as an appropriation of retained earnings in the period when they are declared.

(p) Income taxes

Income tax for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or items recognised directly in equity, in which case it is recognised in other comprehensive income or directly in equity.

Taxation is provided for in the consolidated financial statements in accordance with applicable legislation currently in force in the respective countries in which the Group operates. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxes, other than on income, are recorded within operating expenses.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries, where the parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4 Significant Accounting Policies (Continued)

(p) Income taxes (Continued)

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. For investment property that is measured at fair value, the presumption is that the carrying amount of investment property will be recovered through sale. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are netted only within the individual entities of the Group.

(q) Income and expense recognition

(i) Interest income and expense

Interest income and expense are recorded in profit or loss for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

(ii) Fee and commission and other income and expense

Other fees, commissions and other income and expense items are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down (and are not expected to be sold shortly after recognition), are deferred (together with related incremental costs) and recorded as an adjustment to the effective interest rate on the loan. Where a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Fees for provision of credit related commitments and other forms of financial insurance are recognised over the term of the related contract.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees are recognised when the performance criteria are fulfilled.

Dividend income is recognised within other operating income in profit or loss on the date that the dividend is declared if it is probable that it will be collected.

Non-interest expenses are recognised at the time the products are received or the services are provided, unless the expenses result from a constructive obligation, against which a liability and related expense are recognised in the consolidated financial statements.

4 Significant Accounting Policies (Continued)

(r) Pension costs

Companies within the Group which operate in the Russian Federation contribute to the Russian Federation state pension, social and medical insurance funds in respect of their employees. The contributions to these funds are expensed as incurred and included within staff costs in profit or loss. The Group has no further payment obligation once the contribution has been paid.

(s) Leases

(i) Finance leases where the Group is a lessor

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments (net investment in leases) is recorded as part of loans and advances to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognised over the term of the lease using the effective interest method. Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in lease. Finance income from leases is recognised as part of interest income on loans and advances to customers in profit or loss.

The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs.

(ii) Operating leases

Where the Group is the lessee in a lease agreement and the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated statement of financial position, and lease expenses are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is the lessor in a lease agreement and does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is recognised in the consolidated statement of financial position, and depreciation and lease income are recognised in profit or loss on a straight-line basis over the period of the lease.

(t) Fiduciary assets

The Group provides custody, asset management and other fiduciary services that result in holding or placing of assets on behalf of third parties. These assets and income arising thereon are excluded from the consolidated financial statements as they are not assets of the Group. Commissions received from such business are shown as fees and commissions received in profit or loss.

4 Significant Accounting Policies (Continued)

(u) Segment reporting

A segment is a distinguishable component of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

(v) Changes in accounting policies

The accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2013, except for changes in accounting policies resulting from the amendments to IFRS as described below.

(i) Changes resulting from the amendments to IFRS

The Group has adopted the following new standards, and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. As a result the Group adopted clarifications as set out above. The adoption of clarifications does not have an impact on the consolidated financial statements.

(x) New standards not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective.

IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS *39 Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard will be effective for annual periods beginning on or after 1 January 2018. It is permitted earlier adoption of this standard.The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Group does not intend to adopt this standard early.

Various Improvements to IFRS are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

5 Cash and Cash Equivalents

	31 December 2014	31 December 2013
Cash on hand	19 482	13 646
Correspondent accounts with the Central Bank of the Russian Federation	5 413	4 774
Correspondent accounts and overnight deposits with other banks	11 073	15 563
Settlement accounts with trading systems	1 944	1 969
Overnight deposits with the Central Bank of the Russian Federation	23 000	-
Total cash and cash equivalents	**60 912**	**35 952**

Correspondent accounts and overnight deposits with other banks comprise:

	31 December 2014	31 December 2013
Investment grade international banks	3 987	9 075
Russian subsidiaries of investment grade international banks	105	1 004
Large Russian banks	6 052	253
Other Russian banks	858	2 921
Other foreign banks	71	2 310
Total correspondent accounts and overnight deposits	**11 073**	**15 563**

Investment grade international banks in the table above are multinational or OECD-based banks with investment grade ratings as at 31 December 2014 and 2013. Large Russian banks in the table above are the top thirty Russian banks by total assets in accordance with local accounting standards as at 31 December 2014 and 2013.

As at 31 December 2014, the Group has no counterparty, other than the Central Bank of the Russian Federation, with aggregate balances on correspondent accounts and overnight deposits greater than 10% of equity at that date (31 December 2013: no counterparty).

6 Due from Banks

	31 December 2014	31 December 2013
Current interbank loans		
Investment grade international banks	186	56
Russian subsidiaries of investment grade international banks	1 709	615
Large Russian banks	978	5 244
Other Russian banks	811	2 914
Other foreign banks	2 125	2 012
Total current interbank loans	**5 809**	**10 841**
Reverse sale and repurchase agreements		
Russian subsidiaries of investment grade international banks	-	2 065
Large Russian banks	-	60
Other Russian banks	949	2 383
Total reverse sale and repurchase agreements	**949**	**4 508**
Total due from banks	**6 758**	**15 349**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

6 Due from Banks (Continued)

As at 31 December 2014, the Group has no counterparty with aggregate balances greater than 10% of equity at that date (31 December 2013: no counterparty).

As at 31 December 2014 securities received as collateral under reverse sale and repurchase agreements are marketable corporate debt securities (31 December 2013: marketable corporate debt securities). The following table presents information about the fair value of these securities:

	31 December 2014	31 December 2013
Securities received as collateral under reverse sale and repurchase agreements	1 112	5 405

As at 31 December 2014 securities received as collateral under reverse sale and repurchase agreements in the amount of RUB 751 million were re-pledged by the Group (31 December 2013: RUB 5 402 million).

7 Derivative Financial Instruments

The fair values of derivative instruments are set out in the following table:

	31 December 2014			31 December 2013		
	Contract/ notional amount	Fair values		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange derivative contracts						
- currency forwards	99 275	10 764	(5 539)	119 173	434	(558)
- options	4 753	372	(404)	8 257	54	(21)
Precious metals derivative contracts						
- precious metals forwards	320	1	-	4 144	-	(107)
Other derivative contracts						
- cross currency interest rate swaps	2 847	1 158	-	-	-	-
Total recognised derivative assets/ (liabilities)	**107 195**	**12 295**	**(5 943)**	**131 574**	**488**	**(686)**

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions or exchange traded. The notional amounts of certain types of derivative instruments provide a basis for comparison with instruments recognised in the consolidated statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the exposure to credit or price risks. The derivative instruments become favourable (positive fair value) or unfavourable (negative fair value) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

Currency and precious metal forwards are over-the-counter contracts that are settled at a future date.

Interest rate swaps are over-the-counter contracts whereby one party swaps principal and interest payments determined using a fixed or floating interest rate for principal and interest payments determined using a floating or fixed interest rate.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

8 Available-for-Sale Financial Assets

	31 December 2014	31 December 2013
Government bonds		
Russian Federal loan bonds (OFZ)	2 481	771
Russian Federal Eurobonds	-	29
Municipal bonds issued by Russian municipalities	141	3
Corporate debt and equity securities		
Corporate bonds	8 608	2 122
Corporate Eurobonds	1 732	1 146
Promissory notes	385	2 652
Corporate shares	70	165
Total available-for-sale financial assets owned by the Group	**13 417**	**6 888**
Pledged under sale and repurchase agreements		
Russian Federal loan bonds (OFZ)	1 048	5 954
Russian Federal Eurobonds	6 752	2 060
Municipal bonds issued by Russian municipalities	288	396
Corporate bonds	8 382	11 522
Corporate Eurobonds	6 849	2 618
Corporate shares	-	635
Total available-for-sale financial assets pledged under sale and repurchase agreements (Note 13)	**23 319**	**23 185**
Total available-for-sale financial assets	**36 736**	**30 073**

The following table provides details of debt available-for-sale securities as at 31 December 2014:

	Maturity		Coupon rate per annum		Yield to maturity per annum
	Earliest	Latest	Minimum	Maximum	Average
Russian Federal loan bonds (OFZ)	31 January 2018	19 January 2028	6.2%	8.2%	13.6%
Russian Federal Eurobonds	29 April 2015	31 March 2030	3.3%	7.9%	6.0%
Municipal bonds issued by Russian municipalities	01 June 2017	01 October 2018	7.9%	11.5%	14.2%
Corporate bonds	23 January 2015	22 June 2021	1.8%	25.0%	15.0%
Corporate Eurobonds	11 March 2015	28 April 2034	3.7%	9.5%	13.1%
Promissory notes	20 January 2015	26 January 2015	13.3%	20.7%	19.7%

The following table provides details of debt available-for-sale securities as at 31 December 2013:

	Maturity		Coupon rate per annum		Yield to maturity per annum
	Earliest	Latest	Minimum	Maximum	Average
Russian Federal loan bonds (OFZ)	31 January 2018	19 January 2028	6.2%	8.2%	7.8%
Russian Federal Eurobonds	27 September 2018	4 April 2042	5.6%	7.9%	4.9%
Municipal bonds issued by Russian municipalities	1 June 2017	9 November 2017	7.9%	9.0%	8.0%
Corporate bonds	29 March 2014	9 September 2045	2.0%	11.5%	3.9%
Corporate Eurobonds	21 April 2014	16 August 2037	3.7%	11.5%	6.2%
Promissory notes	16 January 2014	14 October 2014	1.3%	16.6%	8.1%

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

8 Available-for-Sale Financial Assets (Continued)

The following table provides information on the credit quality of corporate debt securities based on Standard & Poor's ratings as at 31 December 2014 and 2013:

	31 December 2014	31 December 2013
Corporate bonds		
Between A- and AAA+	398	250
Between BBB+ and BB+	7 399	1 452
Between BB and B-	709	420
Not rated	102	-
Total corporate bonds	8 608	2 122
Corporate Eurobonds		
Between BBB+ and BB+	1 732	930
Between BB and B-	-	216
Total corporate Eurobonds	1 732	1 146
Promissory notes		
Between BBB+ and BB+	257	1 215
Between BB and B-	128	1 437
Total promissory notes	385	2 652
Corporate bonds pledged under sale and repurchase agreements		
Between BBB+ and BB+	4 585	8 065
Between BB and B-	3 797	3 457
Total corporate bonds pledged under sale and repurchase agreements	8 382	11 522
Corporate Eurobonds pledged under sale and repurchase agreements		
Between BBB+ and BB+	6 134	2 396
Between BB and B-	715	222
Total corporate Eurobonds pledged under sale and repurchase agreements	6 849	2 618

Movements in impairment of available-for-sale financial assets are as follows:

	2014	2013
Impairment as at 1 January	1 515	1 241
Impairment losses (Note 21)	1	651
Sales or write-offs	(746)	(377)
Impairment as at 31 December	770	1 515

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

9 Loans and Advances to Customers

	31 December 2014	31 December 2013
Loans to corporate customers	152 360	126 619
Loans to individuals	52 293	51 530
Investment banking loans	2 360	1 146
Small business loans	10 962	9 692
Lease financing	2 971	3 360
Total gross loans and advances to customers	**220 946**	**192 347**
Less loan impairment allowance	(39 534)	(36 300)
Total loans and advances to customers	**181 412**	**156 047**

(a) Loan impairment

Movements in the loan impairment allowances by class of loans to customers for the year ended 31 December 2014 are as follows:

	Loans to corporate customers	Loans to individuals	Investment banking loans	Small business loans	Lease financing	Total
Loan impairment allowance as at 1 January 2014	**27 516**	**5 847**	**-**	**699**	**2 238**	**36 300**
Impairment losses	2 296	1 564	134	470	(64)	4 400
Write-offs	(241)	(777)	(134)	(182)	(164)	(1 498)
Loans sold	(709)	(845)	-	(287)	-	(1 841)
Effect of foreign currency translation	1 736	363	-	74	-	2 173
Loan impairment allowance as at 31 December 2014	**30 598**	**6 152**	**-**	**774**	**2 010**	**39 534**

Movements in the loan impairment allowances by class of loans to customers for the year ended 31 December 2013 are as follows:

	Loans to corporate customers	Loans to individuals	Investment banking loans	Small business loans	Lease financing	Total
Loan impairment allowance as at 1 January 2013	**19 084**	**4 847**	**273**	**1 152**	**3 567**	**28 923**
Impairment losses	13 386	4 027	77	281	(61)	17 710
Write-offs	(4 544)	(1 660)	(214)	(460)	(543)	(7 421)
Loans sold	(458)	(1 378)	(136)	(276)	(729)	(2 977)
Effect of foreign currency translation	48	11	-	2	4	65
Loan impairment allowance as at 31 December 2013	**27 516**	**5 847**	**-**	**699**	**2 238**	**36 300**

During the year ended 31 December 2014 the Group sold several watch-list loans to unconsolidated structured entities.

The loans sold had a gross book value of RUB 5 407 million and a net book value of RUB 4 539 million as at the transaction date. The Group determined that the transaction meets the criteria for derecognition of financial assets as the Group neither retained nor transferred substantially all risks and rewards of ownership and the Group lost control of the loans sold.

The loans were sold for a deferred consideration of RUB 4 925 million, which is recognized as loans and advances to customers in the consolidated statement of financial position as at 31 December 2014.

9 Loans and Advances to Customers (Continued)

(a) Loan impairment (continued)

The deferred consideration is payable within 1 year and carries a notional interest of 3.3%. The Group presented the deferred consideration within watch list loans and loans with individual signs of impairment.

As a result of the transaction the Group recognized a loss on fair value adjustment for financial instruments in relation to deferred consideration receivables of RUB 186 million during the year ended 31 December 2014.

In the past, the Group sold certain loans with individual indicators of impairment to the same unconsolidated structured entities. Management of the Bank believes that these unconsolidated structured entities are not affiliated to the Group in accordance with the Russian legislation.

The unconsolidated structured entities received majority of financing from deferred consideration arrangement with the Bank and from companies, for which the major beneficiary of the Bank is also the major beneficiary. The structure of financing arrangements allows the major beneficiary of the Bank to benefit from performance of these unconsolidated structured entities.

Although there are no restrictions on activities of the transferees and the transferees obtained control over loans purchased from the Group, the loans purchased from the Group represent the majority of assets of the transferees. As such, the ability of the Group to recover amounts receivable from the transferees depends significantly on the recoverability of loans sold. The Group regularly receives information about the financial position of the debtors and uses this information for assessment of impairment of receivables.

The Group has a right to receive back the loans sold and related collateral in case the counterparties fail to repay amounts due to the Group in accordance with the agreed deferred payment schedule. A total receivable of RUB 15 179 million represents the maximum exposure to loss from the Group's continuing involvement in these transferred assets as at 31 December 2014 (31 December 2013: RUB 10 108 million).

During the year ended 31 December 2014 the Group recognized interest income in the amount of RUB 1 453 million in the consolidated statement of profit or loss and other comprehensive income including a portion of amortisation of fair value adjustment for financial instruments.

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them. The Group includes loans into the watch list if there are signs of possible deterioration in the financial position of the borrower or its ability to repay the loan when due. Once there are objective signs of impairment the loan is included into the loans with individual signs of impairment.

The objective signs of loan impairment include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in the business environment, or negative changes in the borrower's markets
- restructuring of a loan on terms that the Group would not otherwise consider (refer to Note 25).

Included in corporate loans with individual signs of impairment are loans with net book value of RUB 13 728 million to borrowers for which the Group is the largest lender (31 December 2013: RUB 14 877 million). The Group as the largest lender has the ability to monitor operating activities of these borrowers and exercise a certain level of influence over the operations of the borrowers in order to protect its rights as a lender.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

9 Loans and Advances to Customers (Continued)

(a) Loan impairment (continued)

Included in loans and advances to customers as at 31 December 2014 is interest accrued on loans for which individual indications of impairment are identified of RUB 3 755 million (31 December 2013: RUB 2 977 million).

The Group reviewed its loan portfolio as at 31 December 2014 and recognised loan impairment as follows:

	31 December 2014	31 December 2013
Loans to corporate customers		
Loans without individual signs of impairment:		
Standard not overdue loans	57 560	58 267
Watch list not overdue loans	26 302	6 386
Total loans without individual signs of impairment	83 862	64 653
Loans with individual signs of impairment		
- not overdue	45 366	42 752
- overdue less than 90 days	3 575	4 247
- overdue more than 90 days and less than 1 year	3 704	9 695
- overdue more than 1 year	15 853	5 272
Total loans with individual signs of impairment	68 498	61 966
Total loans to corporate customers	**152 360**	**126 619**
Impairment allowance on corporate customers	(30 598)	(27 516)
Net loans to corporate customers	**121 762**	**99 103**
Loans to individuals		
Consumer loans		
- not overdue	29 930	28 657
- overdue less than 30 days	1 424	1 227
- overdue 30-89 days	589	513
- overdue 90-179 days	771	655
- overdue 180-360 days	1 503	1 022
- overdue more than 360 days	2 888	1 347
Total consumer loans	**37 105**	**33 421**
Impairment allowance on consumer loans	(3 896)	(3 391)
Net consumer loans	**33 209**	**30 030**
Auto loans		
- not overdue	932	1 809
- overdue less than 30 days	64	69
- overdue 30-89 days	15	34
- overdue 90-179 days	33	27
- overdue 180-360 days	72	40
- overdue more than 360 days	115	96
Total auto loans	**1 231**	**2 075**
Impairment allowance on auto loans	(166)	(163)
Net auto loans	**1 065**	**1 912**
Refinanced loans		
- not overdue	1 259	1 892
- overdue less than 30 days	198	316
- overdue 30-89 days	68	89
- overdue 90-179 days	49	86
- overdue 180-360 days	66	94
- overdue more than 360 days	261	412
Total refinanced loans	**1 901**	**2 889**
Impairment allowance on refinanced loans	(1 557)	(1 760)
Net refinanced loans	**344**	**1 129**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

9 Loans and Advances to Customers (Continued)

(a) Loan impairment (continued)

	31 December 2014	31 December 2013
Mortgage loans		
- not overdue	10 607	11 598
- overdue less than 30 days	587	688
- overdue 30-89 days	111	117
- overdue 90-179 days	60	65
- overdue 180-360 days	230	226
- overdue more than 360 days	461	451
Total mortgage loans	12 056	13 145
Impairment allowance on mortgage loans	(533)	(533)
Net mortgage loans	11 523	12 612
Total loans to individuals	52 293	51 530
Total Impairment allowance on loans to individuals	(6 152)	(5 847)
Total net loans to individuals	46 141	45 683
Investment banking loans		
Loans without individual signs of impairment:		
Reverse sale and repurchase agreements	2 360	1 037
Other standard loans	-	109
Total loans without individual signs of impairment	2 360	1 146
Total investment banking loans	2 360	1 146
Impairment allowance on investment banking loans	-	-
Net investment banking loans	2 360	1 146
Small business loans		
Loans without individual signs of impairment:		
Standard not overdue loans	9 868	8 641
Watch list not overdue loans	4	-
Total loans without individual signs of impairment	9 872	8 641
Loans with individual signs of impairment		
- not overdue	107	88
- overdue less than 90 days	174	117
- overdue more than 90 days and less than 1 year	363	521
- overdue more than 1 year	446	325
Total loans with individual signs of impairment	1 090	1 051
Total small business loans	10 962	9 692
Impairment allowance on small business loans	(774)	(699)
Net small business loans	10 188	8 993

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

9 Loans and Advances to Customers (Continued)

(a) Loan impairment (continued)

	31 December 2014	31 December 2013
Lease financing		
Loans without individual signs of impairment:		
Standard not overdue loans	528	629
Total loans without individual signs of impairment	528	629
Loans with individual signs of impairment		
- not overdue	1 950	2 150
- overdue less than 90 days	61	37
- overdue more than 90 days and less than 1 year	-	32
- overdue more than 1 year	432	512
Total loans with individual signs of impairment	2 443	2 731
Total lease financing	**2 971**	**3 360**
Impairment allowance on leasing finance loans	(2 010)	(2 238)
Net lease financing	**961**	**1 122**
Total loans to legal entities	**168 653**	**140 817**
Total impairment allowance	(33 382)	(30 453)
Net loans to legal entities	**135 271**	**110 364**
Total loans to customers	**220 946**	**192 347**
Total Impairment allowance on loans to customers	(39 534)	(36 300)
Total net loans to customers	**181 412**	**156 047**

For loans to corporate customers, investment banking loans, small business loans and lease financing without individual signs of impairment collectively assessed for impairment, the Group creates impairment allowances for losses incurred but not reported of 0.1%-6.3% considering the economic environment, past loss experience and the loss identification period from 6 to 12 months. For loans with individual signs of impairment the Group estimates loan impairment based on an analysis of the future cash flows for the loan. The Group usually uses discounts from 20% to 50% to originally appraised realizable value of collateral and assumes a delay of 12 to 36 months in obtaining proceeds from the foreclosure.

The Bank estimates loan impairment for loans to individuals based on its past historical loss experience for each type of loans. In making these estimates the Bank assumes that loss migration rates are constant and that they can be estimated using loss statistics for past two years depending on the type of loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the loan impairment allowance on loans to customers as at 31 December 2014 would be RUB 5 442 million lower/higher (31 December 2013: RUB 4 681 million).

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

9 Loans and Advances to Customers (Continued)

(b) Collateral

The following table provides an analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2014:

	Securities	Real estate	Motor vehicles	Other realisable collateral	Other collateral	No collateral	Total
Loans to corporate customers	5 065	63 906	1 480	8 637	2 544	40 130	121 762
Loans to individuals	-	11 642	1 098	-	-	33 401	46 141
Investment banking loans	2 360	-	-	-	-	-	2 360
Small business loans	-	6 648	69	1 250	127	2 094	10 188
Lease financing	-	209	52	658	-	42	961
Total	**7 425**	**82 405**	**2 699**	**10 545**	**2 671**	**75 667**	**181 412**

The following table provides an analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2013:

	Securities	Real estate	Motor vehicles	Other realisable collateral	Other collateral	No collateral	Total
Loans to corporate customers	1 107	45 736	1 261	14 360	10 534	26 105	99 103
Loans to individuals	-	12 972	2 024	-	-	30 687	45 683
Investment banking loans	1 037	-	-	-	-	109	1 146
Small business loans	-	1 328	155	462	321	6 727	8 993
Lease financing	-	169	21	868	1	63	1 122
Total	**2 144**	**60 205**	**3 461**	**15 690**	**10 856**	**63 691**	**156 047**

The tables above represent the carrying amount of the loan to the extent covered by collateral and may not reflect the fair value of collateral at the reporting date. The fair value of collateral for most loans was estimated at the inception of the loans and is not adjusted for subsequent changes. The tables above excludes overcollateralization.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

Loans to legal entities

The recoverability of loans without individual signs of impairment is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not significantly impact the impairment assessment.

As at 31 December 2014, loans to legal entities with individual signs of impairment are secured by collateral with a recoverable value of RUB 31 078 million, excluding the effect of overcollateralization (31 December 2013: RUB 31 137 million).

During the year ended 31 December 2014, the Group obtained certain assets by taking possession of collateral for loans to legal entities. As at 31 December 2014, the carrying amount of such assets was RUB 1 224 million (31 December 2013: RUB 2 729 million), which consisted of property of RUB 1 209 million (31 December 2013: RUB 2 709 million) and other assets of RUB 15 million (31 December 2013: RUB 20 million). The Group's policy is to sell these assets as soon as it is practicable.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

9 Loans and Advances to Customers (Continued)

(b) Collateral (continued)

Securities received as collateral under reverse sale and repurchase agreements are marketable corporate bonds and equity securities. The following table presents information about the fair value of these securities:

	31 December 2014	31 December 2013
Securities received as collateral under reverse sale and repurchase agreements	2 722	1 236

As at 31 December 2014 securities received as collateral under reverse sale and repurchase agreements in the amount of RUB 2 392 million were re-pledged by the Group (31 December 2013: nil).

Loans to individuals

Mortgage loans are secured by the underlying real estate and property rights. Auto loans are secured by the underlying vehicles. The Group's policy is that the fair value of collateral generally should exceed the loan amount by at least 30% for mortgage loans and 25% for auto loans.

The fair value of collateral is estimated at inception of the loans and is not adjusted for subsequent changes.

During the year ended 31 December 2014, the Group obtained certain assets by taking possession of collateral for loans to individuals. As at 31 December 2014, the carrying amount of such assets was RUB 236 million (31 December 2013: RUB 347 million), which consisted of property of RUB 220 million (31 December 2013: RUB 326 million) and other assets of RUB 16 million (31 December 2013: RUB 21 million). The Group's policy is to sell these assets as soon as it is practicable.

(c) Finance leases

As at 31 December 2014, lease financing includes loans to leasing companies in the gross amount of RUB 2 469 million (31 December 2013: RUB 2 728 million) and finance lease receivables in the gross amount of RUB 502 million (31 December 2013: RUB 632 million), which are analysed as follows:

	31 December 2014	31 December 2013
Gross investment in finance leases, receivable:		
- Not later than 1 year	384	403
- Later than 1 year and not later than 5 years	274	500
- Later than 5 years	-	1
Less unearned finance income	(156)	(272)
Net investment in finance leases	**502**	**632**

Net investment in finance leases are analysed as follows:

	31 December 2014	31 December 2013
Net investment in finance leases, receivable:		
- Not later than 1 year	348	362
- Later than 1 year and not later than 5 years	154	270
- Later than 5 years	-	-
Net investment in finance leases	**502**	**632**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

9 Loans and Advances to Customers (Continued)

(d) Pledged loans and asset securitisation

Included in mortgage loans as at 31 December 2014 are mortgage loans of RUB 2 028 million (31 December 2013: RUB 2 487 million) that are pledged as collateral for the mortgage-backed securities which were issued by URSA Mortgage Finance S.A. The associated liabilities were re-purchased by the Group and are not recognized in these consolidated financial statements.

(e) Concentration analysis

As at 31 December 2014, credit exposure to the ten largest borrowers (or groups of borrowers) totals RUB 61 715 million, or 28% of the gross loan portfolio (31 December 2013: RUB 46 833 million, or 24% of the gross loan portfolio).

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2014		31 December 2013	
	Amount	%	Amount	%
Individuals	52 293	24	51 530	27
Retail trade	31 239	14	30 327	16
Real estate	30 448	14	19 338	10
Finance	27 795	13	21 546	11
Wholesale trade	23 052	10	18 201	10
Manufacturing	18 274	8	11 935	6
Construction	10 243	5	10 398	6
Chemicals	7 963	4	5 065	3
Food and agriculture	5 061	2	4 606	2
Transport	2 725	1	2 725	1
Oil and gas	2 434	1	2 594	1
Health care	2 153	1	3 072	2
Tourism	1 296	1	1 500	1
Information technology and communication	728	-	757	-
Ore	633	-	2 782	1
Other	4 609	2	5 971	3
Total gross loans and advances to customers	**220 946**	**100**	**192 347**	**100**

Geographical and currency analysis, effective interest rates and maturity structure of loans and advances to customers are disclosed in Note 25. Information on related party transactions is disclosed in Note 29.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

10 Investment Property

	31 December 2014	31 December 2013
Investment property at fair value as at 1 January	**9 483**	**11 126**
Additions	996	2 561
Disposals	(356)	(2 216)
Transfer from assets held for sale	353	91
Transfer from property, equipment and intangible assets (Note 11)	29	107
Losses from revaluation of investment property	(43)	(2 186)
Investment property at fair value as at 31 December	**10 462**	**9 483**

As at 31 December 2014 the investment properties are mainly premises that the Group holds to earn rental income and for capital appreciation.

Losses from revaluation of investment property in the amount of RUB 43 million (31 December 2013: RUB 2 186 million) are mainly related to unrealized losses from revaluation of investment property held at the end of the reporting period.

The fair values of investment properties are categorised within Level 3 of the fair value hierarchy (Note 27).

As at 31 December 2014 the investment properties are valued by management based on the results of appraisals performed by independent, professionally qualified valuators who have recent experience in valuing similar properties in the Russian Federation.

The Group has a control framework with respect to the measurement of fair values. This framework includes a Collateral Service, which is independent of front office management and reports to the Head of the Risk Department, and which has overall responsibility for independently verifying the results of all significant fair value measurements. Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- a review and approval process for new models and changes to models involving both the Collateral Service and the Chief Financial Officer
- annual calibration and back testing of models against observed market transactions
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to the previous year, by the Head of the Collateral Service and the Head of IFRS Department.

Where third-party information, such as rental rates and prices for similar types of property, are used to measure fair value, the Collateral Service assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the sources of above information are reliable and acceptable by the Group for use in appraisal
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions
- when prices for similar types of property are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the assets subject to measurement.

Significant valuation issues are reported to the Chief Financial Officer and the Audit Committee (the same approach is applied to valuation of buildings and premises – see Note 11).

10 Investment Property (Continued)

The primary basis used for the appraisal is the income capitalization approach. The income capitalization approach considers income and expense data relating to the property being valued and estimates fair value through a capitalization process. The market approach is used to assess the reasonableness of the results of the income capitalization approach. The market approach is based upon an analysis of the results of comparable sales of similar premises.

The following key assumptions are used in applying the income capitalisation approach:

- annual cash flows are projected for 3 to 5 years based on estimated rental income, net of operating and maintenance expenses based on current market rental rates and actual average operating and maintenance expenses
- rental income rates are increased for future periods by 2.6% to 6.5%, vacancy and collection losses are estimated at up to 20.0% of potential gross rental income. An increase of rental income rates will lead to an increase in the fair value of the investment property. Positive or negative changes in vacancy and collection losses will result in negative or positive changes in the fair value of the investment property
- discount rates of 14.2% to 23.2% are applied to capitalise annual cash flows depending on region and location of the premises. An increase or decrease of discount rates that are applied to capitalise annual cash flows will result in a decrease or increase in the fair value of the investment property
- a terminal rates of 3.6% is used to estimate the terminal value of investment properties. An increase or decrease of the terminal rate will result in an increase or decrease in the fair value of the investment property.

Changes in the estimates above could affect the value of the investment properties. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus ten percent, the fair value of the investment properties as at 31 December 2014 would be RUB 1 046 million higher/lower (31 December 2013: RUB 948 million higher/lower).

The majority of investment property is held by the Group through investments in mutual funds controlled by the Group.

During 2014 the Bank lent approximately 20% of shares in the mutual funds under the securities lending agreement. The Bank concluded that shares lent do not qualify for derecognition as the Bank has not transferred substantially all risks and rewards related to its investments and the Bank retains control over operations with the shares.

Also the Bank sold approximately 30% shares in the mutual funds for consideration in form of loan participation notes. The loan participation notes are included in loan and advances to customers in the consolidated statement of financial position. The Bank derecognised sold shares as substantially all risks and rewards were transferred to counterparty.

As a result of these transactions the Bank retains control over relevant activities of the mutual funds and exposure to returns and continues to consolidate the mutual funds. Also as at 31 December 2014 the Bank recognised non-controlling interests in the mutual funds (Note 16).

During the year ended 31 December 2014 the Group earned rentals of RUB 768 million (2013: RUB 617 million) from investment property, which is included in other income in the consolidated statement of profit or loss and other comprehensive income.

Operating expenses arising from the investment property that generated rental income during the year ended 31 December 2014 totalled RUB 323 million (2013: RUB 289 million).

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Property, Equipment and Intangible Assets

The reconciliation of the carrying amount of property, equipment and intangible assets as at 31 December 2014 and as at 1 January 2014 is presented below:

	Premises	Office, computer and other equipment	Fixtures and fittings	Total property and equipment	Intangible assets	Total
Net book amount as at 1 January 2014	**8 802**	**631**	**87**	**9 520**	**320**	**9 840**
Cost or valuation						
Opening balance	8 802	3 957	429	**13 188**	1 349	**14 537**
Additions	50	200	25	**275**	151	**426**
Disposals	(11)	(354)	(37)	**(402)**	(188)	**(590)**
Transfer to investment property	(29)	-	-	**(29)**	-	**(29)**
Elimination of accumulated depreciation on revalued assets	(211)	-	-	**(211)**	-	**(211)**
Revaluation	143	-	-	**143**	-	**143**
Effect of foreign currency translation	-	2	-	**2**	3	**5**
Closing balance	**8 744**	**3 805**	**417**	**12 966**	**1 315**	**14 281**
Accumulated depreciation, amortisation and impairment						
Opening balance	-	3 326	342	**3 668**	1 029	**4 697**
Depreciation and amortisation charge	288	285	28	**601**	174	**775**
Disposals	-	(314)	(36)	**(350)**	(179)	**(529)**
Elimination of accumulated depreciation on revalued assets	(211)	-	-	**(211)**	-	**(211)**
Effect of foreign currency translation	-	-	-	**-**	3	**3**
Closing balance	**77**	**3 297**	**334**	**3 708**	**1 027**	**4 735**
Net book amount as at 31 December 2014	**8 667**	**508**	**83**	**9 258**	**288**	**9 546**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Property, Equipment and Intangible Assets (Continued)

The reconciliation of the carrying amount of property, equipment and intangible assets as at 31 December 2013 and as at 1 January 2013 is presented below:

	Premises	Office, computer and other equipment	Fixtures and fittings	Total property and equipment	Intangible assets	Total
Net book amount as at 1 January 2013	**8 332**	**1 037**	**98**	**9 467**	**360**	**9 827**
Cost or valuation						
Opening balance	8 602	4 005	409	**13 016**	1 247	**14 263**
Additions	74	81	35	**190**	163	**353**
Disposals	(103)	(130)	(15)	**(248)**	(61)	**(309)**
Transfer to investment property and assets held for sale	(137)	-	-	**(137)**	-	**(137)**
Elimination of accumulated depreciation on revalued assets	(475)	-	-	**(475)**	-	**(475)**
Revaluation	841	-	-	**841**	-	**841**
Effect of foreign currency translation	-	1	-	**1**	-	**1**
Closing balance	**8 802**	**3 957**	**429**	**13 188**	**1 349**	**14 537**
Accumulated depreciation, amortisation and impairment						
Opening balance	270	2 968	311	**3 549**	887	**4 436**
Depreciation and amortisation charge	258	479	45	**782**	203	**985**
Disposals	(53)	(121)	(14)	**(188)**	(61)	**(249)**
Elimination of accumulated depreciation on revalued assets	(475)	-	-	**(475)**	-	**(475)**
Closing balance	**-**	**3 326**	**342**	**3 668**	**1 029**	**4 697**
Net book amount as at 31 December 2013	**8 802**	**631**	**87**	**9 520**	**320**	**9 840**

As at 31 December 2014 premises were revalued by management based on the results of independent appraisals performed by an independent valuator. For a description of the valuation process refer to Note 10.

The fair values of premises are categorised within Level 3 of the fair value hierarchy (Note 27).

The primary basis used for the appraisal is the income capitalization approach. The income capitalization approach considers income and expense data relating to the property being valued and estimates fair value through a capitalization process. The market approach is used to assess the reasonableness of the results of the income capitalization approach. The market approach is based upon an analysis of the results of comparable sales of similar premises.

The following key assumptions are used in applying the income capitalisation approach:

- annual cash flows are projected for 3 to 5 years based on estimated rental income, net of operating and maintenance expenses based on current market rental rates and actual average operating and maintenance expenses
- vacancy losses are estimated from 10% to 20% of potential gross rent income. Positive or negative changes in vacancy losses will result in negative or positive changes in the fair value of the premises
- collection losses are assumed to be nil due to a common practice of depositing an upfront payment for several months rent in advance. Positive or negative changes in collection losses will result in negative or positive changes in the fair value of the premises

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

11 Property, Equipment and Intangible Assets (Continued)

- discount rates of 9.5% to 14% are applied to capitalise annual cash flows depending on the region and location of premises. An increase or decrease of discount rates that are applied to capitalise annual cash flows will result in a decrease or increase of the fair value of the premises
- terminal rate of 6.0% is used to estimate the terminal value of premises. An increase or decrease of the terminal rate will result in an increase or decrease of the fair value of the premises.

Changes in the estimates above could affect the value of the premises. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus ten percent, the net book value of premises as at 31 December 2014 would be RUB 867 million higher/lower (31 December 2013: RUB 880 million higher/lower). Included in the gross book value of premises as at 31 December 2014 is RUB 5 721 million (31 December 2013: RUB 5 619 million) representing the revaluation surplus.

The net book value of premises that would have been recognised under the historical cost method is RUB 3 792 million as at 31 December 2014 (31 December 2013: RUB 3 957 million).

The gross book value of fully depreciated property and equipment that is still in use is RUB 3 447 million as at 31 December 2014 (31 December 2013: RUB 2 727 million).

12 Other Assets

	31 December 2014	31 December 2013
Amounts in the course of settlement	45	145
Total other financial assets	**45**	**145**
Assets held for sale	510	837
Prepayments	666	742
Precious metals	325	381
Prepaid taxes other than income tax	341	261
Other	327	371
Total other non-financial assets	**2 169**	**2 592**
Total gross other assets	**2 214**	**2 737**
Less other assets impairment allowance	(455)	(564)
Total other assets	**1 759**	**2 173**

Movements in the other assets impairment allowance are as follows:

	2014	2013
Other assets impairment allowance as at 1 January	**564**	**389**
Impairment (reversals)/losses (Note 21)	(108)	220
Write-offs	(1)	(45)
Other assets impairment allowance as at 31 December	**455**	**564**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

13 Due to the Central Bank of the Russian Federation and Other Banks

	31 December 2014	31 December 2013
Due to the Central Bank of the Russian Federation		
Sale and repurchase agreements	23 347	21 532
Term deposits	4 006	-
Total due to the Central Bank of the Russian Federation	**27 353**	**21 532**
Due to other banks		
Term deposits from other banks	6 914	5 755
Trade finance facilities	2 526	2 597
Loans from international financial institutions	3 593	3 293
Correspondent accounts and overnight deposits of other banks	4 713	3 221
Sale and repurchase agreements	903	3 209
Total due to other banks	**18 649**	**18 075**

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as pledged under sale and repurchase agreements. In addition, the Group recognises a financial liability for cash received as collateral included in amounts due to deposits and balances from banks.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary.

The following table presents information about the fair value of assets pledged as collateral under sale and repurchase agreements with other banks:

	31 December 2014	31 December 2013
Assets pledged as a collateral under sale and repurchase agreements with the Central Bank of the Russian Federation		
Available-for-sale financial assets, fair value (Note 8)	22 271	19 339
Assets purchased under agreements to resell (reverse repo), fair value (Note 6 and Note 9)	3 143	6 442
Total assets pledged as a collateral under sale and repurchase agreements with the Central Bank of the Russian Federation	**25 414**	**25 781**
Assets pledged as a collateral under sale and repurchase agreements with other banks		
Available-for-sale financial assets, fair value (Note 8)	1 048	3 833
Total assets pledged as a collateral under sale and repurchase agreements with other banks	**1 048**	**3 833**

As at 31 December 2014, the Group had one counterparty, other than the Central Bank of the Russian Federation, with aggregate balances greater than 10% of equity (31 December 2013: no counterparties). The aggregate amount of these balances is RUB 3 517 million, or 19% of total due to other banks.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

14 Customer Accounts

	31 December 2014	31 December 2013
State organisations		
- Current/settlement accounts	826	945
- Term deposits	8 178	9 770
Other legal entities		
- Current/settlement accounts	19 823	23 453
- Term deposits	43 167	33 983
- Sale and repurchase agreement (Note 8)	-	13
Individuals		
- Current/demand accounts	11 378	12 077
- Term deposits	141 704	100 283
Total customer accounts	**225 076**	**180 524**

Economic sector concentrations within customer accounts are as follows:

	31 December 2014		31 December 2013	
	Amount	%	Amount	%
Individuals	153 082	68	112 360	62
State	9 004	4	10 715	6
Trade	19 858	9	15 233	8
Finance	14 026	6	16 329	9
Manufacturing	10 420	5	12 019	7
Construction	9 884	4	7 757	4
Mining and oil	3 146	1	316	0
Other	5 656	3	5 795	4
Total customer accounts	**225 076**	**100**	**180 524**	**100**

As at 31 December 2014, the aggregate balances of the ten largest customers (or groups of customers) total RUB 23 029 million, or 10% of total customer accounts (31 December 2013: RUB 23 199 million, or 13% of total customer accounts).

As at 31 December 2014, the Group has one customer with aggregate balances greater than 10% of equity (31 December 2013: one customer). The total aggregate amount of these balances is RUB 3 830 million or 2% of the total customer accounts (31 December 2013: RUB 6 841 million or 4% of the total customer accounts).

15 Debt Securities in Issue

	31 December 2014	31 December 2013
Domestic bonds	5 156	4 182
Promissory notes	2 475	1 953
Total debt securities in issue	**7 631**	**6 135**

Domestic bonds issued and promissory notes are unconditional debt instruments issued by the Group.

As at 31 December 2014 domestic bonds comprised the following issues:

	Carrying amount	Issue date	Maturity	Coupon rate
Russian bonds denominated in RUB – 8th issue	5 156	17 April 2008	9 April 2015	9.00%
Total	**5 156**			

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

15 Debt Securities in Issue (Continued)

As at 31 December 2013 loan participation notes and domestic bonds comprise the following issues:

	Carrying amount	Issue date	Maturity	Coupon rate
Russian bonds denominated in RUB – 8th issue	3 947	17 April 2008	9 April 2015	9.00%
Russian bonds denominated in RUB – 2nd issue	174	25 March 2011	21 March 2014	8.15%
Russian bonds denominated in RUB – 4th issue	61	16 December 2011	16 December 2014	9.50%
Total	4 182			

Maturity dates in the tables above represent the earliest repayment dates.

As at 31 December 2014 Russian bonds denominated in RUB – 2nd issue and 4th issue were fully repaid.

16 Other Liabilities

	31 December 2014	31 December 2013
Settlements on factoring operations	4 115	1 625
Non-controlling interest (Note 10)	2 797	-
Settlements with suppliers and other creditors	2 140	1 254
Deferred consideration for investment property	-	793
Accrued staff compensation expenses	875	477
Settlements on leasing transactions	72	66
Liabilities from credit related commitments	1	1
Total other financial liabilities	10 000	4 216
Taxes other than income tax payable	287	176
Provisions for legal claims (Note 26)	22	147
Current income tax liability	1	40
Other	285	205
Total other non-financial liabilities	595	568
Total other liabilities	10 595	4 784

As at 31 December 2014 the Group recognised non-controlling interest in mutual funds as a liability as the Group has an obligation to repurchase these shares in certain cases.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

17 Share Capital and Reserves

(a) Composition of share capital

The share capital of the Bank as at 31 December 2014 and 31 December 2013 comprises the following:

	Number of shares	Nominal value	Hyperinflation adjustment	Total share capital
Ordinary shares	3 865 149 987	3 865	274	4 139
Preference shares:				
- first type	150 000	-	8	8
- fourth type	1 415 280	1	-	1
- fifth type	1 210	-	-	-
- sixth type	21 450	-	-	-
- seventh type	2 530 800	3	-	3
- eighth type	55 710 289	56	-	56
Total share capital	**3 924 979 016**	**3 925**	**282**	**4 207**

All shares have a par value of RUB 1 per share and they are fully paid.

The holders of ordinary shares are entitled to receive dividends as may be declared from time to time by the Board of Directors and approved by the General Meeting of the Shareholders and are entitled to one vote per share at annual and general meetings of the Bank.

As at 31 December 2014 and 31 December 2013 the Group has 3 483 293 888 outstanding ordinary shares and 381 856 099 treasury ordinary shares. There were no movements in shares outstanding during 2014 and 2013.

(b) Dividends

The holders of preference shares are entitled to receive dividends as may be declared from time to time by the Board of Directors and approved by the General Meeting of the Shareholders as described below:

- holders of the first type - 10% per annum on the par value of their shares
- holders of the fourth type - 10% per annum on the par value of their shares
- holders of the fifth type - 100% per annum on the par value of their shares
- holders of the sixth type - 110% per annum on the par value of their shares
- holders of the seventh type and holders of the eighth type have no set dividend entitlement.

All preference shares carry no voting rights but rank ahead of ordinary shares in the event of the liquidation of the Bank. These shares are not redeemable.

If the dividends are not paid, the holders of preference shares carry the right to vote at annual and general meetings until dividends are paid. Dividends are not cumulative. In the event of liquidation, preference shareholders are entitled to receive declared unpaid dividends and par value of the preference shares. Preference shares are recognised as equity in these consolidated financial statements.

Dividends payable to shareholders are restricted to the maximum amount of retained earnings of the Bank, which are determined in accordance with the legislation of the Russian Federation, excluding non-distributable reserve fund of RUB 275 million.

No dividends on ordinary or preference shares were declared during the years ended 31 December 2014 and 2013.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

17 Share Capital and Reserves (Continued)

(c) Nature and purpose of reserves

- *Cumulative translation reserve*

The cumulative translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

- *Revaluation surplus for buildings*

The revaluation surplus for buildings comprises the cumulative positive fair value of buildings, until the assets are derecognised or impaired.

- *Revaluation reserve for available-for-sale financial assets*

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

18 Interest Income and Expense

The following table provides the details of interest income and expense for the year ended 31 December:

	2014	2013
Interest income		
Loans and advances to customers	21 670	22 647
Available-for-sale financial assets	2 587	1 790
Overnight deposits and due from other banks	1 593	1 228
Total interest income	**25 850**	**25 665**
Interest expense		
Customer accounts	(11 601)	(11 751)
Due to the Central Bank of the Russian Federation and Other banks	(3 055)	(2 013)
Debt securities in issue	(527)	(856)
State deposit insurance system membership fee	(459)	(480)
Subordinated debt	-	(49)
Total interest expense	**(15 642)**	**(15 149)**
Net interest income	**10 208**	**10 516**

19 Gains less Losses from Trading and Available-for-Sale Financial Assets

The following table provides the details of gains from trading and available-for-sale financial assets for the years ended 31 December:

	2014	2013
Gains arising from available-for-sale financial assets, net	8	74
Losses arising from trading securities, net	-	(54)
Gains from early redemption of debt	17	-
Total gains less losses from trading and available-for-sale financial assets, net	**25**	**20**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

20 Fee and Commission Income and Expense

The following table provides the details of fee and commission income and expense for the years ended 31 December:

	2014	2013
Settlement and trade finance transactions	3 225	3 181
Cash transactions	608	556
Foreign currency transactions	920	378
Agency commissions on insurance operations	661	532
Factoring operations	222	103
Asset management and fiduciary services	45	46
Brokerage and other services of an investment banking nature	9	23
Other	239	156
Total fee and commission income	**5 929**	**4 975**
Settlement transactions	(1 149)	(1 132)
Foreign currency transactions	(109)	(84)
Cash transactions	(107)	(104)
Other	(73)	(56)
Total fee and commission expense	**(1 438)**	**(1 376)**
Net fee and commission income	**4 491**	**3 599**

21 Impairment Reversals/(Losses) Other than on Loans and Provisions

Impairment losses other than on loans and provisions for the years ended 31 December are presented below:

	2014	2013
Impairment of available-for-sale financial assets (Note 8)	(1)	(651)
Reversal of impairment/(impairment) of assets held for sale (Note 12)	99	(4)
Reversal of provisions/(provisions) for legal claims (Note 26)	64	(69)
Reversal of impairment/(impairment) of other assets (Note 12)	9	(216)
Reversal of provision on credit related commitments (Note 26)	-	3
Total impairment reversals/(losses) other than on loans and provisions	**171**	**(937)**

22 Operating Expenses

Operating expenses for the years ended 31 December are presented below:

	2014	2013
Staff costs	6 953	5 958
Depreciation and amortisation, rent and other expenses related to property and equipment	1 839	1 898
Professional services	855	653
Taxes other than on income	734	621
Software	267	404
Telecommunications	198	195
Security	142	156
Advertising and marketing	118	75
Other	214	188
Total operating expenses	**11 320**	**10 148**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

23 Income Taxes

Income tax expense for the years ended 31 December comprises the following:

	2014	2013
Current tax charge	34	109
Deferred taxation movement due to origination and reversal of temporary differences	274	(1 604)
Income tax expense/(benefit)	**308**	**(1 495)**

As at 31 December 2014, the income tax rate applicable to the majority of Russian entities is 20% (31 December 2013: 20%). As at 31 December 2014, the income tax rate applicable to non-Russian entities ranges from 12.5% to 25% (31 December 2013: from 12.5% to 25%).

The reconciliation between the expected and the actual income tax benefit for the years ended 31 December is provided below:

	2014	2013
Profit/(loss) before taxation	**829**	**(14 780)**
Theoretical income tax expense/(benefit) at the applicable statutory rate	166	(2 956)
Tax effect of items taxed at different tax rates	(56)	3
Tax effect of items that are not deductible or assessable for taxation purposes, and other items of a non-temporary nature	98	59
Deferred tax asset not recognised	100	1 399
Income tax expense/(benefit)	**308**	**(1 495)**

Movements in temporary differences for the year ended 31 December 2014 are as follows:

	1 January 2014	Movement recorded in profit or loss	Movement recorded in other comprehensive income	31 December 2014
Tax effect of deductible/(taxable) temporary differences				
Impairment allowances and provisions	4 538	(929)	-	3 609
Accruals	1 834	510	-	2 344
Property, equipment and intangible assets	(1 235)	211	(20)	(1 044)
Securities	388	(1 847)	734	(725)
Derivatives	(40)	(1 230)	-	(1 270)
Investment property	745	9	-	754
Debt securities in issue	(33)	(33)	-	(66)
Tax loss carry-forwards	565	3 075	-	3 640
Other	282	60	-	342
Deferred tax asset/(liability)	**7 044**	**(174)**	**714**	**7 584**
Less non-recognised deferred tax asset	**(1 399)**	(100)	-	**(1 499)**
Net deferred tax asset/(liability)	**5 645**	**(274)**	**714**	**6 085**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

23 Income Taxes (Continued)

Movements in temporary differences for the year ended 31 December 2013 are as follows:

	1 January 2013	Movement recorded in profit or loss	Movement recorded in other comprehensive income	31 December 2013
Tax effect of deductible/(taxable) temporary differences				
Impairment allowances and provisions	2 216	2 322	-	4 538
Accruals	2 258	(424)	-	1 834
Property, equipment and intangible assets	(1 236)	166	(165)	(1 235)
Securities	407	(77)	58	388
Investment property	296	449	-	745
Debt securities in issue	(33)	-	-	(33)
Tax loss carry-forwards	-	565	-	565
Other	240	2	-	242
Deferred tax asset/(liability)	**4 148**	**3 003**	**(107)**	**7 044**
Less non-recognised deferred tax asset	-	(1 399)	-	**(1 399)**
Net deferred tax asset/(liability)	**4 148**	**1 604**	**(107)**	**5 645**

The tax effects relating to components of other comprehensive income comprise:

	31 December 2014			31 December 2013		
	Amount before tax	Tax Expense	Amount net-of-tax	Amount before tax	Tax Expense	Amount net-of-tax
Available-for-sale financial assets:						
Losses from changes in fair value	(3 661)	732	(2 929)	(217)	43	(174)
Less reclassification adjustments for items included in profit or loss	(8)	2	(6)	(74)	15	(59)
Revaluation of premises	101	(20)	81	823	(165)	658
Total	**(3 568)**	**714**	**2 854**	**532**	**(107)**	**425**

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rates applicable to the entities of the Group.

Net deferred tax assets are recognised in these consolidated financial statements. Management estimates that the Group will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments.

The future tax benefits will only be realised if profits are available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods. The deductible temporary differences have no expiry date under current tax legislation. As at 31 December 2014 the Group reduced the carrying amount of deferred tax assets previously recognized by two of its subsidiaries by RUB 1 499 million as management concluded that it is no longer probable that sufficient taxable profit will be available to allow the benefit from there deferred assets to be utilised (31 December 2013: RUB 1 399 million).

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

24 Analysis by Segment

The activities of the Group are managed through Corporate Banking, Retail Banking, SME Banking, Private Banking, Financial Markets and Asset Liability Management ("ALM") that are presented as reportable segments.

- Corporate Banking – includes deposit taking and lending to corporate clients, leasing, factoring, settlements, cash management, cash collection, trade finance, syndications, a forfeit financing, corporate finance and export credit agency financing.
- Retail Banking – includes deposit taking and lending to individuals, money transfer and foreign exchange services, a range of banking card products provided to individual customers, settlements, and cash management.
- SME Banking – includes deposit taking and lending to small and medium enterprises and individual entrepreneurs, foreign exchange services, settlements, cash management, and cash collection for small and medium enterprises.
- Private Banking – includes active advisory, discretionary portfolio management, and financial planning services to high worth individuals, and administration and management of the Group's asset management products, including mutual funds.
- Financial Markets – includes debt and equity capital markets, money markets, trading and brokerage in securities, foreign exchange and precious metals, repo transactions, banknote trading, trading in derivatives.
- ALM – includes operations initiated by the Asset Liability Management Committee that manages the liquidity portfolio and funding and performs centralized risk management activities through wholesale borrowings, including issue of debt securities and investing in liquid assets, such as short-term placements.

The Group evaluates performance of its operating segments on the basis of profit and loss before tax and other comprehensive income not including non-recurring gains and losses, such as results on disposal of property and equipment or results from business combinations. Measurement of segmental assets, liabilities, income and expenses is in accordance with the Group's accounting policies (Note 4).

All assets and liabilities of operating segments are subject to mandatory placement/funding through the asset liability management system (the ALM system), which results in internal funding charges related to such placement/funding. Such charges are calculated using internal rates, which are based on current market borrowing rates.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

24 Analysis by Segment (Continued)

The majority of operations, credit related commitments, capital expenditure, and revenues relate to residents of the Russian Federation (including subsidiaries or associates of these customers registered outside the Russian Federation). Revenues from external customers domiciled in foreign countries represent mainly interest income on placement with international banks.

Segment information for the reportable segments for the year ended 31 December 2014 is set out below:

	Corporate Banking	SME Banking	Retail Banking	Private Banking	Financial Markets	ALM	Unallocated	Consolidated Group
Interest income	11 061	2 192	8 584	-	3 899	114	-	25 850
Interest expense	(3 317)	(637)	(5 583)	(2 568)	(2 901)	(636)	-	(15 642)
Net interest income/(expense)	**7 744**	**1 555**	**3 001**	**(2 568)**	**998**	**(522)**	**-**	**10 208**
Internal funding charge	(5 930)	54	1 974	3 079	448	375	-	-
Fee and commission income	1 693	1 687	2 286	142	121	-	-	5 929
Fee and commission expense	(485)	(631)	(242)	(57)	(23)	-	-	(1 438)
Net fee and commission income	**1 208**	**1 056**	**2 044**	**85**	**98**	**-**	**-**	**4 491**
Net foreign exchange gain	179	141	92	34	2 265	(1 344)	-	1 367
Gains less losses from trading and available-for-sale financial assets	-	-	-	-	25	-	-	25
Other income	768	-	-	-	-	-	98	866
Other expenses	(349)	-	-	-	-	-	-	(349)
Operating expenses	(2 843)	(2 252)	(4 903)	(337)	(406)	(543)	(36)	(11 320)
Net operating (loss)/profit before impairment losses, revaluation losses and other losses	**777**	**554**	**2 208**	**293**	**3 428**	**(2 034)**	**62**	**5 288**
Loss from revaluation of investment property	(43)	-	-	-	-	-	-	(43)
Impairment losses and provisions	(2 294)	(420)	(1 514)	-	(1)	-	-	(4 229)
Net operating (loss)/profit before other gains and losses	**(1 560)**	**134**	**694**	**293**	**3 427**	**(2 034)**	**62**	**1 016**
Loss on fair value adjustment for financial instruments	(187)	-	-	-	-	-	-	(187)
(Loss)/profit before tax	**(1 747)**	**134**	**694**	**293**	**3 427**	**(2 034)**	**62**	**829**
Income tax benefit	-	-	-	-	-	-	(308)	(308)
(Loss)/profit after tax	**(1 747)**	**134**	**694**	**293**	**3 427**	**(2 034)**	**(246)**	**521**
Loss on revaluation of available-for-sale financial assets and items reclassified to profit or loss	-	-	-	-	(3 669)	-	-	(3 669)
Currency translation differences	-	-	-	-	-	-	4	4
Revaluation of premises	-	-	-	-	-	-	101	101
Income tax related to components of other comprehensive income	-	-	-	-	-	-	714	714
Total segment result	**(1 747)**	**134**	**694**	**293**	**(242)**	**(2 034)**	**573**	**(2 329)**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

24 Analysis by Segment (Continued)

Segment information for the reportable segments for the year ended 31 December 2013 is set out below:

	Corporate Banking	SME Banking	Retail Banking	Private Banking	Financial Markets	ALM	Unallocated	Consolidated Group
Interest income	11 109	2 294	8 736	-	3 018	508	-	25 665
Interest expense	(2 670)	(339)	(5 468)	(3 773)	(2 013)	(886)	-	(15 149)
Net interest income/(expense)	**8 439**	**1 955**	**3 268**	**(3 773)**	**1 005**	**(378)**	**-**	**10 516**
Internal funding charge	(8 597)	(574)	1 243	4 246	837	2 845	-	-
Fee and commission income	1 249	1 715	1 848	27	136	-	-	4 975
Fee and commission expense	(454)	(771)	(144)	(7)	-	-	-	(1 376)
Net fee and commission income	**795**	**944**	**1 704**	**20**	**136**	**-**	**-**	**3 599**
Net foreign exchange gain	158	84	243	47	1 117	-	-	1 649
Gains less losses from trading and available-for-sale financial assets	-	-	-	-	(8)	28	-	20
Other income	648	-	-	-	-	-	81	729
Other expenses	(289)	-	-	-	-	-	-	(289)
Operating expenses	(1 850)	(1 696)	(3 778)	(386)	(452)	(88)	(1 898)	(10 148)
Net operating (loss)/profit before impairment losses, revaluation losses and other losses	**(696)**	**713**	**2 680**	**154**	**2 635**	**2 407**	**(1 817)**	**6 076**
Loss from revaluation of investment property	(2 186)	-	-	-	-	-	-	(2 186)
Impairment losses and provisions	(14 196)	(281)	(4 072)	-	(98)	-	-	(18 647)
Net operating (loss)/profit before other gains and losses	**(17 078)**	**432**	**(1 392)**	**154**	**2 537**	**2 407**	**(1 817)**	**(14 757)**
Loss on fair value adjustment for financial instruments	(23)	-	-	-	-	-	-	(23)
(Loss)/profit before tax	**(17 101)**	**432**	**(1 392)**	**154**	**2 537**	**2 407**	**(1 817)**	**(14 780)**
Income tax benefit	-	-	-	-	-	-	1 495	1 495
(Loss)/profit after tax	**(17 101)**	**432**	**(1 392)**	**154**	**2 537**	**2 407**	**(322)**	**(13 285)**
Loss on revaluation of available-for-sale financial assets and items reclassified to profit or loss	-	-	-	-	(291)	-	-	(291)
Currency translation differences	-	-	-	-	-	-	15	15
Revaluation of premises	-	-	-	-	-	-	823	823
Income tax related to components of other comprehensive income	-	-	-	-	-	-	(107)	(107)
Total segment result	**(17 101)**	**432**	**(1 392)**	**154**	**2 246**	**2 407**	**409**	**(12 845)**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

24 Analysis by Segment (Continued)

Substantially all revenues from external customers relate to residents of the Russian Federation. The total amount of revenues from any single external customer or group of external customers known to be under common control does not exceed 10 per cent of revenues. Substantially all non-current assets are located in the Russian Federation.

The segment breakdown of assets and liabilities of the Group is set out below:

	31 December 2014	31 December 2013
Assets		
Corporate Banking	136 618	113 362
SME Banking	14 644	11 834
Retail Banking	59 446	56 069
Private Banking	7 829	4 618
Financial Markets	84 452	57 551
ALM	8 818	7 134
Unallocated assets	17 074	17 131
Total assets	**328 881**	**267 699**
Liabilities		
Corporate Banking	49 505	51 538
SME Banking	26 198	15 572
Retail Banking	116 232	73 650
Private Banking	39 385	38 710
Financial Markets	58 637	45 460
ALM	4 019	4 587
Unallocated assets	1 271	2 219
Total liabilities	**295 247**	**231 736**

Capital expenditures and depreciation and amortisation charges for the operating segments for the year ended 31 December 2013 are set out below:

	Corporate Banking	Retail Banking	SME Banking	Private Banking	Financial Markets	ALM	Unallocated	Consolidated Group
Capital expenditures	-	-	-	-	-	-	353	**353**
Depreciation and amortisation charge (Note 11)	-	-	-	-	-	-	985	**985**

Outstanding credit related commitments for the operating segments as at 31 December 2014 and 2013 are set out below:

	31 December 2014	31 December 2013
Corporate Banking	61 743	42 722
SME Banking	4 877	3 597
Retail Banking	8 071	8 212
Financial Markets	7 103	-
Total credit related commitments (Note 26)	**81 794**	**54 531**

25 Financial Risk Management, Corporate Governance and Internal Control

(a) Corporate governance framework

The Bank is established as an open joint stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is convened annually or through extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Board of Directors. The Board of Directors is responsible for the overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Board of Directors.

The general activities of the Bank are managed by the sole executive body of the Bank (Chief Executive Officer) and the collective executive body of the Bank (Management Board). The Board of Directors elects the Chief Executive Officer. The executive bodies of the Bank are responsible for the implementation of decisions of the general shareholders' meeting and the Board of Directors of the Bank. Executive bodies of the Bank report to the Board of Directors of the Bank and to the general shareholders' meeting.

(b) Internal control policies and procedures

The Board of Directors and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Group that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business, accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(b) Internal control policies and procedures (continued)

- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Group has put in place a system of automated controls.

The internal control system in the Bank comprises:

- the Board of Directors and its committees, including the Audit Committee
- the Chief Executive Officer and the Board of Management
- the Chief Accountant
- the risk management function
- the security function, including IT-security
- the human resource function
- the Internal Audit service
- the Internal control (compliance) service
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
- other employees/divisions with control responsibilities
- heads of branches and heads of business-units
- business processes managers
- division responsible for compliance with anti-money laundering requirements
- professional securities market participant controller – an executive office responsible for compliance with the requirements for securities market participants
- the legal officer – an employee responsible for compliance with the legal and regulatory requirements

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of the Regulations of the Central Bank of Russia dated 16 December 2003 No 242-P *On the organisation of internal control in credit organisations and banking groups* sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(b) Internal control policies and procedures (continued)

The main functions of internal audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organisation (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping the credit organisation's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of internal control service and risk management service.

Internal control service conducts compliance activities focused primarily on regulatory risks faced by the Group.
The main functions of internal control (compliance) service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation of design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organized organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The Internal Audit function is independent from management and reports directly to the Board of Directors. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Board of Directors and senior management of the Group.

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(b) Internal control policies and procedures (continued)

Russian legislation, including the Federal Law dated 2 December 1990 No 395-1 *On banks and banking activity*, Direction of the CBR dated 1 April 2014 No 3223-U *On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organisation* establish the professional qualifications, business reputation and other requirements for members of the Board of Directors, Management Board, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the Internal Audit, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management framework

The major (significant) risks to which the Group is exposed are credit risk, market risk, liquidity risk, operational risk, legal and reputational risks.

Risk management is performed centrally for the Bank and its subsidiaries.

The risk management policies aim to identify, analyse and manage the risks to which the Group is exposed. The Group has developed a system of reporting on significant risks and capital.

As at 31 December 2014, the Group's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The Board of Directors approves the risk management strategy, including the general risk management policy, as well as certain transactions associated with risks.

The Management Board determines composition of the Risk Committee, develops the general risk management policy, approves acceptable levels of risk and controls the implementation of the risk management framework.

The Board of Directors and Executive Management of the Bank have responsibility for controlling the Group's compliance with risk limits and capital adequacy ratios as established by the Group's internal documentation. With the view of controlling effectiveness of the Group's risk management procedures and their consistent application the Board of Directors and Executive Management of the Bank periodically receive reports prepared by the internal audit function and the Risk Department, discuss the contents of these reports and consider proposed corrective actions.

The Risk Committee is responsible for proper functioning of the risk management framework, its implementation and further improvement; controls compliance of risk levels with strategic goals and requirements of the general risk management policy. The Risk Committee monitors and controls the elements of the risk management framework.

The Assets and Liabilities Management Committee (ALMC) is responsible for maintaining sufficient liquidity, execution of the business plan in terms of net interest margin, compliance of structural risk levels with requirements of the general risk management policy and setting of relevant limits.

Bodies/officers authorized to take credit decisions are responsible for ensuring the effective management of credit risk bearing assets provided that the appropriate level of the "risk-profit" ratio is maintained; ensure the compliance of the risk levels with requirements of the general risk management policy and other internal documents.

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(c) Risk management framework (continued)

The Risks Department is a centralized division aimed to identify the risks (with the participation of business units), analyse, assess, monitor the risks and to report on both financial and non-financial risks. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

Business units manage risks of transactions initiated by them on a daily basis.

In compliance with the Group's internal documentation the Risk Department and Internal Audit frequently prepare reports, which cover the Group's significant risks management. The reports include observations as to assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.

The Group and the Bank calculate mandatory ratios on a daily basis in accordance with the requirement of the CBR. As at 31 December 2014 and 2013 the mandatory ratios were in compliance with limits set by the CBR.

The Group and the Bank calculate mandatory ratios based on the legal form of transactions. Certain transactions are of a complex nature and their legal form may be different from their nature. The Group defines the group of related borrowers for the purposes of large exposure mandatory ratios calculations using legal criteria established by the Russian legislation for identification of affiliated parties. Management of the Group believes that the methodology used by the Group and the Bank to calculate mandatory ratios is in line with the CBR requirements and that the Bank and the Group comply with mandatory ratios limits set by the CBR. If certain complex transactions of the Group or judgements applied by the Group in application of the CBR requirements are evaluated on a different basis, the effect on mandatory ratios could be significant.

(d) Credit risk

Credit risk is the risk of losses as a result of non-performance, late or partial performance by a debtor on its contractual financial obligations to the Group.

(i) Credit risk management

Credit risk is managed at the individual counterparty level (by individual credit limits and limits for groups of connected borrowers) and on the portfolio level.

The Group additionally establishes industry limits. To establish the limits, the Group analyses client industry data and general information on the Russian economy. Limits are applied to the industries with a significant share in the loan portfolio. The limit compliance control is automated.

(ii) Principles of setting credit risk limits

Individual credit risk limits and credit risk limits for groups of connected borrowers are established by authorized bodies based on the comprehensive analysis and evaluation of risks (credit, reputational, legal, environmental and other risks) of an individual counterparty and the group of its related companies.

Analysis of a debtor's financial position is performed using all the information available to the Group in accordance with the methodology applied. This analysis includes an assessment of the current and expected debtor's financial position and the business of the debtor. Generally, the group of companies of the debtor is evaluated as a whole, provided that all members of the group accept responsibility for the loan.

Credit risk analysis within retail lending programs is performed based on the current income and the profile of the customer using scoring models that are based on statistical analysis of defaults by specific lending programs.

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(d) Credit risk (continued)

The hierarchy of the collegial bodies and officers (authorized bodies) responsible for making credit decisions is comprised of:

- the Board of Directors
- the Principal Credit Committee
- the credit committees of the Macro Regions' branches
- authorized bodies responsible for making credit decisions in respect to standard small and retail business loans.

The participation of the Risk Department in credit committees is required. The expert conclusion of the Risks Department is also required for the credit committees to make credit decisions.

(iii) Principles for credit risk monitoring

Credit risk monitoring comprises the following components:

- Monitoring of established limits

Business units, credit analysis divisions and Risks Department of the Group regularly monitor the payment discipline of debtors, the financial position of debtors and guarantors, their ecological/social risks and compliance with other covenants established under the limits.

Based on the monitoring results, the credit managers perform a regular assessment of the credit exposures for any individual impairment indications. If necessary, the Group implements steps to mitigate credit risk. These may include revision of the loan terms and conditions, request for additional collateral, etc. In certain cases recovery of the loan is delegated to the special department responsible for collection of bad debts.

- Portfolio-based monitoring

Apart from monitoring of individual risk limits, the Risks Department also regularly assesses credit risk for the loan portfolio as a whole and for individual standard programs and products.

Such analysis includes the analysis of the default rates for portfolios, adequacy of impairment losses recognised, level of industry and geographical concentration, and portfolio diversification.

- Monitoring of the quality of credit risk assessment

The Risks Department monitors existence and valuation of the collateral, exercises control over compliance with the requirements of standard documents for client evaluation and credit decision making. The control results are reported to the Board of Directors and the Management Board if significant risks are identified.

If negative trends are identified, the Risks Department analyses the trends and initiates necessary changes to the credit policies and methodology of the Group.

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(d) Credit risk (continued)

(iv) Maximum exposure to credit risk

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The maximum exposure to credit risk arising from credit related commitments is presented in Note 26 "Credit related commitments". The Group uses the same procedures and methodologies, as defined by the credit policy, for approving credit related commitments (undrawn loan commitments, letters of credit and guarantees) as it does for recognised credit obligations (loans).

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates (mitigates) the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or a group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds (capital).

N22 ratio regulates (mitigates) the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds (capital).

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Direction of the CBR dated 25 October 2013 No. 3090-U "Calculation of own funds (capital), mandatory ratios and open currency position limits for banking groups" and may differ from the Group structure determined in accordance with IFRS requirements.

(v) Allowance for loan losses

The Group establishes an impairment allowance that represents its estimate of losses incurred at the reporting date.

The Group writes off a loan balance against related impairment allowances when an authorised body determines that the loan is uncollectible and when all necessary and possible procedures to collect the loan are completed.

(vi) Bad debt work-out procedures

In order to maximize the efficiency of bad debt work-out procedures the Group established:

- a centralized division for bad debt recovery
- collegial bodies authorized to make credit decisions in order to minimize losses from bad debts (including transaction costs).

Where possible, the Group seeks to restructure loans to borrowers experiencing temporary financial difficulties rather than to take possession of collateral. This may involve modification of the contractual payment terms of loans in order to improve the management of customer relationships and maximise collection opportunities.

The Bank employs a set of preventive measures for identification of the financial difficulties experienced by clients. Such measures include:

- developing special expertise in identifying potential client risks prior to the critical deterioration of the issue
- timely cooperation with the client's management representatives in order to seek optimal solutions for problem situations.

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(d) Credit risk (continued)

The mandatory conditions for loans restructuring are:

- availability of adequate and sustainable loan repayment sources, which indicate the prospects for the client solvency recovery and business development in the medium and long-term, confirmed by a full financial and qualitative analysis of client business performed by credit analysts
- the loyalty of the client to the Bank.

Restructuring implies modifying the material terms and conditions of the initial agreement, that enables the client to fulfil its liabilities on more manageable terms (e.g.: modified principal or/and interest repayment term, interest rate, the rate calculation method, etc.).

The Bank gives more attention to restructured loans through detailed monitoring. The detailed monitoring continues until the client fulfils three initial payments to the principal or six initial payments to the accrued interest (whichever comes first). The restructured loans are presented in these consolidated financial statements within the watch list category, except for the cases described below.

Impairment losses for such loans are estimated individually based on an analysis using a discounted expected cash flow technique (Note 9).

In the event that the financial position of a client recovers and the client fulfils the restructured loan in full and in a timely manner within an established period, the loan is presented in the consolidated financial statements within the category "Without Individual Signs of Impairment" (providing the credit division or the Risks Department has no grounds to consider, as at the date of the preparation of the consolidated statements, that the client will not be able to redeem the loan in full and in a timely manner). Loan impairment allowances for such loans are determined using the same approach/assumptions that are used for impairment allowances estimated for loans without individual signs of impairment.

Should restructuring fail to achieve the financial improvement and solvency of clients, the loans are presented under the category "With Individual Signs of Impairment" in the consolidated financial statements. Any further measures for recovery of the loan are implemented by the special department responsible for the collection of bad debts. Information on restructured loans is presented to the Management Board of the Bank on a monthly basis.

(e) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will have an adverse effect on income or the value of the financial instruments. Market risk comprises interest rate risk, currency risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are subject to general and specific market movements and changes in the level of volatility of market prices in foreign currency rates.

(i) Market risk management

Market risk is managed through the system of limits, which includes Value at Risk (VaR) limits, position limits, stop-loss limits, and limits on certain transaction parameters, as well as diversification of portfolios. The system of limits sets the acceptable risk level at any point of time, including intra-day positions.

Monitoring and management of market risks is performed centrally across the Group. Decision making in the market risk management, including establishing risk limits, is performed by the ALMC. Control over compliance with the established exposure limits is performed by the Risks Department on a daily basis.

Financial market operations of the Group are executed by the Treasury. Control over compliance with the established exposure limits is performed by the Risks Department on a daily basis. Regular reports on the market risk levels (open positions, VaR values, etc.) are presented to the senior management.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(e) Market risk (continued)

Positions in financial instruments, which are vulnerable to risks, are managed by the Treasury. The Group takes positions for the purposes of developing client business, liquidity management and arbitrage transactions.

(ii) Quantitative assessment of market risk

Quantitative assessment of market risks for the trading and available-for-sale positions is performed on a daily basis using the VaR methodology. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The Group applies a historical VaR model. Potential movements in market prices are determined with reference to market data for at least the last 12 months. Back-testing of the model is performed at least once every month.

A summary of the VaR estimates in respect of foreign currency risk for financial assets and financial liabilities and securities price risk for trading positions and liquid available-for-sale financial instruments as at 31 December 2014 and 2013 is set out below. These amounts represent the potential losses the Group could incur based on the current holdings of trading positions and liquid available-for-sale financial assets.

	31 December 2014	31 December 2013
Foreign exchange risk	352	256
Securities price risk	4 332	3 382

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets, that include the majority of the debt and equity instruments traded in Russia:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios
- a 10-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR
- as VaR is only calculated on the end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day.

Stress-testing is performed for trading positions to model the possible financial impact of exceptional market scenarios on trading portfolios, financial result and equity.

(iii) Price risk

Price risk is the risk that movements in market prices resulting from factors associated with issuers of equity financial instruments (specific risk) and general changes in the market prices of equity financial instruments (general risk) will have an adverse effect on income or the value of equity financial instruments.

Positions in securities are monitored centrally across the Group.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(e) Market risk (continued)

(iv) Currency risk

Currency risk is the risk that movements in foreign exchange rates will have an adverse effect on the income or the value of the portfolios of financial instruments.

Currency risk mainly results from open foreign currency positions. All transactions with currency risk exposure are performed within limits on open foreign currency positions and VaR limits established by ALMC.

Monitoring and management of currency risk is performed centrally across the Group.

Transactions are generally performed in three major currencies: the Russian rouble, US dollar and Euro.

As at 31 December 2014, the Group has the following positions in different currencies:

	RUB	USD	EUR	Precious metals	Other currencies	Total
Assets						
Cash and cash equivalents	46 673	9 093	4 601	229	316	60 912
Mandatory cash balances with the Central Bank of the Russian Federation	2 396	-	-	-	-	2 396
Due from banks	1 607	1 429	3 720	-	2	6 758
Derivative financial instruments	279	11 957	55	1	3	12 295
Available-for-sale financial assets						
- owned by the Group	11 905	1 497	15	-	-	13 417
- pledged under sale and repurchase agreements	8 360	14 959	-	-	-	23 319
Loans and advances to customers	138 282	33 071	10 059	-	-	181 412
Investment property	10 462	-	-	-	-	10 462
Property, equipment and intangible assets	9 544	2	-	-	-	9 546
Current income tax prepayment	520	-	-	-	-	520
Deferred tax asset	6 085	-	-	-	-	6 085
Other assets	1 303	94	5	325	32	1 759
Total assets	**237 416**	**72 102**	**18 455**	**555**	**353**	**328 881**
Liabilities						
Due to the Central Bank of the Russian Federation	13 233	14 120	-	-	-	27 353
Due to other banks	9 969	6 096	2 561	19	4	18 649
Derivative financial instruments	5 693	145	99	1	5	5 943
Customer accounts	167 337	41 464	15 588	211	476	225 076
Debt securities in issue	7 631	-	-	-	-	7 631
Other liabilities	10 574	14	7	-	-	10 595
Total liabilities	**214 437**	**61 839**	**18 255**	**231**	**485**	**295 247**
Net recognised position	**22 979**	**10 263**	**200**	**324**	**(132)**	**33 634**
Net recognised position less recognised position on derivatives	**28 393**	**(1 549)**	**244**	**324**	**(130)**	**27 282**
Net recognised and unrecognised position on derivatives	**7 316**	**(22)**	**(501)**	**(313)**	**(128)**	**6 352**
Net position	**35 709**	**(1 571)**	**(257)**	**11**	**(258)**	**33 634**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(e) Market risk (continued)

As at 31 December 2013, the Group had the following positions in different currencies:

	RUB	USD	EUR	Precious metals	Other currencies	Total
Assets						
Cash and cash equivalents	20 535	10 851	3 574	514	478	35 952
Mandatory cash balances with the Central Bank of the Russian Federation	2 071	-	-	-	-	2 071
Due from banks	10 874	2 826	1 648	-	1	15 349
Derivative financial instruments	209	237	31	-	11	488
Available-for-sale financial assets						
- owned by the Group	5 035	1 841	12	-	-	6 888
- pledged under sale and repurchase agreements	17 691	5 494	-	-	-	23 185
Loans and advances to customers	136 114	14 403	5 530	-	-	156 047
Investment property	9 483	-	-	-	-	9 483
Property, equipment and intangible assets	9 838	2	-	-	-	9 840
Current income tax prepayment	578	-	-	-	-	578
Deferred tax asset	5 645	-	-	-	-	5 645
Other assets	1 675	77	8	381	32	2 173
Total assets	**219 748**	**35 731**	**10 803**	**895**	**522**	**267 699**
Liabilities						
Due to the Central Bank of the Russian Federation	21 532	-	-	-	-	21 532
Due to other banks	7 343	4 885	2 016	3 818	13	18 075
Derivative financial instruments	99	445	26	107	9	686
Customer accounts	143 369	25 801	10 806	364	184	180 524
Debt securities in issue	6 068	-	67	-	-	6 135
Other liabilities	4 727	9	8	-	40	4 784
Total liabilities	**183 138**	**31 140**	**12 923**	**4 289**	**246**	**231 736**
Net recognised position	**36 610**	**4 591**	**(2 120)**	**(3 394)**	**276**	**35 963**
Net recognised position less recognised position on derivatives	**36 500**	**4 799**	**(2 125)**	**(3 287)**	**274**	**36 161**
Net recognised and unrecognised position on derivatives	**6 440**	**(7 538)**	**(1 644)**	**3 293**	**(749)**	**(198)**
Net position	**42 940**	**(2 739)**	**(3 769)**	**6**	**(475)**	**35 963**

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(e) Market risk (continued)

(v) Interest rate risk

Interest rate risk is the risk that movements in interest rates will have an adverse effect on the income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Management of interest rate risk is performed through the analysis of the structure of assets and liabilities by re-pricing dates (gap-analysis).

The Group assesses the sensitivity of its net interest income to shifts in the interest rate curves, and performs stress testing. All new products and transactions are evaluated from the interest rate risk perspective prior to entering into these transactions.

The ALMC is responsible for decisions in the interest rate risk management. The interest rate risk management is performed by branches (in the course of managing the branch asset and liability structure). The Treasury Department controls the interest rate mismatch and takes measures to mitigate this risk if necessary. The Risks Department independently monitors compliance with the interest rate risk limits across the Group on a consolidated basis.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(e) Market risk (continued)

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013. The analysis is prepared on the basis of weighted average interest rates for the various financial instruments using period-end effective interest rates.

	31 December 2014 %			31 December 2013 %		
	RUB	USD	EUR and other currencies	RUB	USD	EUR and other currencies
Assets						
Due from banks:						
- Current interbank loans	-	6.7	6.9	6.8	5.7	5.5
- Reverse sale and repurchase agreements	21.3	10.0	-	6.3	-	-
Available-for-sale financial assets:						
- Russian Federal loan bonds (OFZ)	7.6	-	-	7.6	-	-
- Russian Federal Eurobonds	7.9	5.6	-	7.9	-	-
- Municipal bonds issued by Russian municipalities	9.2	-	-	8.4	-	-
- Corporate bonds	10.0	1.8	-	8.6	2.0	-
- Corporate Eurobonds	8.7	6.8	3.7	8.5	6.3	-
- Promissory notes	18.3	-	-	7.5	-	-
Loans and advances to customers:						
- Loans to corporate customers	14.0	9.6	9.1	11.1	8.4	9.6
- Loans to individuals	25.3	13.8	10.0	18.0	11.8	12.1
- Investment banking loans	20.0	-	-	7.1	-	-
- Small business loans	15.2	11.1	8.3	14.5	10.0	-
- Lease financing	11.9	-	-	7.4	-	-
Liabilities						
Due to the Central Bank of the Russian Federation	17.9	0.9	-	5.6	-	-
Due to other banks:						
- Term deposits from other banks	17.7	3.1	0.9	6.3	2.1	-
- Trade finance facilities	-	2.7	1.5	-	1.9	1.3
- Loans from international financial institutions	-	4.8	-	-	5.2	3.1
- Sale and repurchase agreements	12.2	-	-	6.6	-	-
Customer accounts:						
- Term deposits	15.4	5.6	5.1	8.8	4.5	4.2
Debt securities in issue:						
- Domestic bonds	10.5	-	-	9.0	-	-
- Promissory notes	9.0	-	-	9.0	-	-

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(e) Market risk (continued)

Included in the tables are the assets and liabilities at their carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Overdue loans are presented within "from 1 to 3 years" category.

The table below summarises the exposure to interest rate risks as at 31 December 2014.

	Less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	34 073	-	-	-	-	26 839	60 912
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	2 396	2 396
Due from banks	3 158	3 600	-	-	-	-	6 758
Derivative financial instruments	-	-	-	-	-	12 295	12 295
Available-for-sale financial assets							
- owned by the Group	483	2 125	2 866	3 431	4 442	70	13 417
- pledged under sale and repurchase agreements	-	8 988	704	4 679	8 948	-	23 319
Loans and advances to customers	17 510	36 339	21 155	68 496	37 912	-	181 412
Investment property	-	-	-	-	-	10 462	10 462
Property, equipment and intangible assets	-	-	-	-	-	9 546	9 546
Current income tax prepayment	-	-	-	-	-	520	520
Deferred tax asset	-	-	-	-	-	6 085	6 085
Other assets	-	-	-	-	-	1 759	1 759
Total assets	**55 224**	**51 052**	**24 725**	**76 606**	**51 302**	**69 972**	**328 881**
Liabilities							
Due to the Central Bank of the Russian Federation	23 353	4 000	-	-	-	-	27 353
Due to other banks	15 775	2 582	292	-	-	-	18 649
Derivative financial instruments	-	-	-	-	-	5 943	5 943
Customer accounts	51 341	73 500	64 511	35 203	521	-	225 076
Debt securities in issue	2 098	5 222	210	97	4	-	7 631
Other liabilities	-	-	-	-	-	10 595	10 595
Total liabilities	**92 567**	**85 304**	**65 013**	**35 300**	**525**	**16 538**	**295 247**
Interest rate sensitivity gap	**(37 343)**	**(34 252)**	**(40 288)**	**41 306**	**50 777**	**53 434**	

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(e) Market risk (continued)

The table below summarises the exposure to interest rate risks as at 31 December 2013.

	Less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	15 563	-	-	-	-	20 389	35 952
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	2 071	2 071
Due from banks	11 042	2 793	1 514	-	-	-	15 349
Derivative financial instruments	-	-	-	-	-	488	488
Available-for-sale financial assets							
- owned by the Group	1 208	1 120	1 241	1 132	2 022	165	6 888
- pledged under sale and repurchase agreements	-	4 200	3 353	3 523	11 474	635	23 185
Loans and advances to customers	11 394	38 268	18 335	59 947	28 103	-	156 047
Investment property	-	-	-	-	-	9 483	9 483
Property, equipment and intangible assets	-	-	-	-	-	9 840	9 840
Current income tax prepayment	-	-	-	-	-	578	578
Deferred tax asset	-	-	-	-	-	5 645	5 645
Other assets	-	-	-	-	-	2 173	2 173
Total assets	**39 207**	**46 381**	**24 443**	**64 602**	**41 599**	**51 467**	**267 699**
Liabilities							
Due to the Central Bank of the Russian Federation	21 532	-	-	-	-	-	21 532
Due to other banks	12 671	2 947	1 664	793	-	-	18 075
Derivative financial instruments	-	-	-	-	-	686	686
Customer accounts	54 368	47 548	41 967	36 216	425	-	180 524
Debt securities in issue	128	509	858	4 636	4	-	6 135
Other liabilities	-	-	-	-	-	4 784	4 784
Total liabilities	**88 699**	**51 004**	**44 489**	**41 645**	**429**	**5 470**	**231 736**
Interest rate sensitivity gap	**(49 492)**	**(4 623)**	**(20 046)**	**22 957**	**41 170**	**45 997**	

(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(e) Market risk (continued)

The assessment of the interest rate risk by monitoring the interest rate gap is supplemented by the sensitivity indicators of profit/loss after tax and equity to various interest rate scenarios.

An analysis of sensitivity of profit/loss after tax to changes in the market interest rate as a result of changes in net interest income based on a simplified scenario of a 100 basis point (bp) parallel fall or rise in all yield curves (assuming no asymmetrical movement in yield curves and not taking into consideration the effect such changes may have on fair values of financial instruments) is as follows:

RUB million	31 December 2014	31 December 2013
100 bp parallel increase	(572)	(437)
100 bp parallel decrease	572	437

(f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk when the maturities of assets and liabilities do not match. Liquidity risk may also result from a failure of the Group's counterparties to fulfill their obligations or from unforeseen liquidity requirements.

(i) Liquidity risk management

Liquidity risk management is aimed to create an assets and liabilities structure which allows:

- timely and complete fulfilment of all financial obligations of the Group
- to meet the current demand for the Group's products
- to ensure the execution of the Group's plans for maintaining and developing the business.

Liquidity risk management includes:

- assessment and control of liquidity risk within different time horizons
- evaluation and forecasting of financial markets liquidity, including its impact on the Group's liquidity
- optimization of the funding source structure and liquidity reserves.

Liquidity management tools include:

- liquidity ratios, including instant, current and long-term liquidity ratios, planning of customer payments and receipts, gap analysis, stress-testing, liquidity ratios calculated in accordance with the requirements of the Central Bank of the Russian Federation
- additional liquidity reserves consisting of the most liquid financial instruments of the highest credit quality sufficient to ensure a stable liquidity position, both in normal conditions and in case of crisis. Stress-testing and analysis of the current and expected market conditions are used determine liquidity reserves
- the system of early warning indicators of the liquidity crisis
- establishing and increasing the credit limits from counterparties in order to increase the opportunities in the interbank market within the current liquidity management.

Liquidity risk management is aimed at balancing of the structure of assets and liabilities in terms of demand and maturity.
The ALMC is responsible for taking decisions for the liquidity risk management. The consolidated liquidity management is performed by the Treasury Department.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(f) Liquidity risk (continued)

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates. Liquidity risk measurement is performed by the Risks Department.

The tables below show the carrying amounts of assets and liabilities by their remaining contractual maturity, except for the following. Assets held for sale are shown by their expected dates of sale. Overdue loans to customers are included in the period from 1 to 3 years. Management believes that in spite of a substantial portion of customer accounts being on demand (customer current/settlement accounts), diversification of these funds by number and type of depositors and the past experience indicate that these deposits provide a long-term and stable source of funding for the Group and as such they are shown in the category "From 1 to 3 years". As at 31 December 2014 the total amount of such customer accounts is RUB 31 149 million (31 December 2013: RUB 33 718 million). In accordance with the Russian legislation individuals have the right to withdraw their deposits, including term deposits, at any point of time before maturity, usually with a loss of accrued interest. These deposits are presented in the tables below according to their contractual maturities.

Contractual maturities of term deposits of individuals are as follows:

	31 December 2014	31 December 2013
Less than 1 month	7 401	11 094
From 1 to 6 months	47 161	27 758
From 6 to 12 months	56 247	32 781
From 1 to 3 years	30 796	28 315
More than 3 years	99	335
Total term deposits of individuals	**141 704**	**100 283**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(f) Liquidity risk (continued)

The position as at 31 December 2014 is set out below:

	Less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	60 912	-	-	-	-	-	60 912
Mandatory cash balances with the Central Bank of the Russian Federation	214	783	687	706	6	-	2 396
Due from banks	3 158	3 600	-	-	-	-	6 758
Derivative financial instruments	3 167	6 223	1 747	1 158	-	-	12 295
Available-for-sale financial assets							
- owned by the Group	483	2 125	2 866	3 431	4 442	70	13 417
- pledged under sale and repurchase agreements	-	8 988	704	4 679	8 948	-	23 319
Loans and advances to customers	17 510	34 020	21 317	69 591	38 974	-	181 412
Investment property	-	-	-	-	-	10 462	10 462
Property, equipment and intangible assets	-	-	-	-	-	9 546	9 546
Current income tax prepayment	-	-	520	-	-	-	520
Deferred tax asset	-	-	-	-	-	6 085	6 085
Other assets	908	341	510	-	-	-	1 759
Total assets	**86 352**	**56 080**	**28 351**	**79 565**	**52 370**	**26 163**	**328 881**
Liabilities							
Due to the Central Bank of the Russian Federation	23 353	4 000	-	-	-	-	27 353
Due to other banks	13 142	1 597	2 034	1 686	190	-	18 649
Derivative financial instruments	1 952	3 189	802	-	-	-	5 943
Customer accounts	20 193	73 500	64 510	66 352	521	-	225 076
Debt securities in issue	2 098	5 222	210	97	4	-	7 631
Other liabilities	7 510	287	2 798	-	-	-	10 595
Total liabilities	**68 248**	**87 795**	**70 354**	**68 135**	**715**	**-**	**295 247**
Net liquidity gap	**18 104**	**(31 715)**	**(42 003)**	**11 430**	**51 655**	**26 163**	**33 634**
Cumulative liquidity gap	**18 104**	**(13 611)**	**(55 614)**	**(44 184)**	**7 471**	**33 634**	

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(f) Liquidity risk (continued)

The position as at 31 December 2013 is set out below:

	Less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	35 952	-	-	-	-	-	35 952
Mandatory cash balances with the Central Bank of the Russian Federation	237	545	481	802	6	-	2 071
Due from banks	11 042	2 793	1 514	-	-	-	15 349
Derivative financial instruments	229	225	34	-	-	-	488
Available-for-sale financial assets							
- owned by the Group	1 208	1 120	1 241	1 132	2 022	165	6 888
- pledged under sale and repurchase agreements	-	4 200	3 353	3 523	11 474	635	23 185
Loans and advances to customers	12 463	38 124	18 822	59 846	26 792	-	156 047
Investment property	-	-	-	-	-	9 483	9 483
Property, equipment and intangible assets	-	-	-	-	-	9 840	9 840
Current income tax prepayment	-	-	-	578	-	-	578
Deferred tax asset	-	-	-	-	-	5 645	5 645
Other assets	1 188	261	724	-	-	-	2 173
Total assets	**62 319**	**47 268**	**26 169**	**65 881**	**40 294**	**25 768**	**267 699**
Liabilities							
Due to the Central Bank of the Russian Federation	21 532	-	-	-	-	-	21 532
Due to other banks	9 751	2 435	2 441	3 138	310	-	18 075
Derivative financial instruments	97	239	350	-	-	-	686
Customer accounts	20 650	47 548	41 967	69 934	425	-	180 524
Debt securities in issue	128	509	858	4 636	4	-	6 135
Other liabilities	4 568	176	40	-	-	-	4 784
Total liabilities	**56 726**	**50 907**	**45 656**	**77 708**	**739**	**-**	**231 736**
Net liquidity gap	**5 593**	**(3 639)**	**(19 487)**	**(11 827)**	**39 555**	**25 768**	**35 963**
Cumulative liquidity gap	**5 593**	**1 954**	**(17 533)**	**(29 360)**	**10 195**	**35 963**	

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(f) Liquidity risk (continued)

The following tables show the undiscounted cash flows on financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The gross nominal (inflow)/outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment. The expected cash flows on these financial liabilities and unrecognised loan commitments may vary significantly from this analysis.

The position as at 31 December 2014 is as follows:

	Less than 1 month	From 1 to 6 month	From 6 to 12 months	From 1 to 3 year	More than 3 years	Total gross nominal (inflow)/ outflow	Carrying amount
Non-derivative liabilities							
Due to the Central Bank of the Russian Federation	23 415	4 176	-	-	-	27 591	27 353
Due to other banks	13 201	1 616	2 104	1 773	200	18 894	18 649
Customer accounts	185 701	26 809	8 644	4 774	673	226 601	225 076
Debt securities in issue	2 108	5 348	240	109	150	7 955	7 631
Other financial liabilities	7 203	-	2 797	-	-	10 000	10 000
Gross settled derivative financial instruments							
- Inflow	(67 271)	(30 835)	(6 207)	(35)	(2 847)	(107 195)	(12 295)
- Outflow	66 044	28 222	5 440	37	2 538	102 281	5 943
Total	**230 401**	**35 336**	**13 018**	**6 658**	**714**	**286 127**	**282 357**
Credit related commitments	**81 794**	**-**	**-**	**-**	**-**	**81 794**	**81 794**

The position as at 31 December 2013 is as follows:

	Less than 1 month	From 1 to 6 month	From 6 to 12 months	From 1 to 3 year	More than 3 years	Total gross nominal (inflow)/ outflow	Carrying amount
Non-derivative liabilities							
Due to the Central Bank of the Russian Federation	21 574	-	-	-	-	21 574	21 532
Due to other banks	9 769	2 459	2 536	3 388	334	18 486	18 075
Customer accounts	143 557	19 965	9 495	8 539	123	181 679	180 524
Debt securities in issue	128	696	1 094	4 859	150	6 927	6 135
Other financial liabilities	4 216	-	-	-	-	4 216	4 216
Gross settled derivative financial instruments							
- Inflow	(82 408)	(15 247)	(16 508)	(17 531)	-	(131 694)	(488)
- Outflow	81 904	15 378	16 472	18 305	-	132 059	686
Total	**178 740**	**23 251**	**13 089**	**17 560**	**607**	**233 247**	**230 680**
Credit related commitments	**54 531**	**-**	**-**	**-**	**-**	**54 531**	**54 531**

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(f) Liquidity risk (continued)

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year.

The Bank is in compliance with these ratios as at 31 December 2014 and 2013.

To identify and mitigate the liquidity risk in a timely fashion, the Group monitors early warning indicators. The system of early warning indicators includes a number of indicators characterising the Group's vulnerability to liquidity risk, market indicators of financial market conditions (volatility of stock indices, currencies and interest rates, etc.), as well as other external data suggesting a potential deterioration of the economic environment. The daily monitoring of the early warning indicators is performed by the Risks Department, which, if necessary and following results of the monitoring, recommends measures to mitigate the liquidity risk.

(g) Country risks

Country risk is the risk of losses as a result of foreign counterparties failing to meet their obligations due to economic, political and social changes in the respective country.

The majority of the operations of the Group are located in the Russian Federation. The Group accepts country risk only after performing a separate analysis. To reduce country risk, the Group transacts predominantly with foreign counterparties from the group of developed countries (OECD) with senior ratings assigned by international rating agencies.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(g) Country risks (continued)

The geographical analysis of assets and liabilities as at 31 December 2014 is set out below:

	Russia	OECD countries	Non-OECD countries	Total
Assets				
Cash and cash equivalents	56 781	4 113	18	60 912
Mandatory cash balances with the Central Bank of the Russian Federation	2 396	-	-	2 396
Due from banks	4 439	194	2 125	6 758
Derivative financial instruments	7 402	4 893	-	12 295
Available-for-sale financial assets				
- owned by the Group	13 417	-	-	13 417
- pledged under sale and repurchase agreements	23 319	-	-	23 319
Loans and advances to customers	179 619	1 366	427	181 412
Investment property	10 462	-	-	10 462
Property, equipment and intangible assets	9 544	2	-	9 546
Current income tax prepayment	520	-	-	520
Deferred tax asset	6 085	-	-	6 085
Other assets	1 677	70	12	1 759
Total assets	**315 661**	**10 638**	**2 582**	**328 881**
Liabilities				
Due to the Central Bank of the Russian Federation	27 353	-	-	27 353
Due to other banks	9 974	6 107	2 568	18 649
Derivative financial instruments	2 568	3 374	1	5 943
Customer accounts	215 620	5 840	3 616	225 076
Debt securities in issue	7 631	-	-	7 631
Other liabilities	9 870	723	2	10 595
Total liabilities	**273 016**	**16 044**	**6 187**	**295 247**
Net position	**42 645**	**(5 406)**	**(3 605)**	**33 634**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(g) Country risks (continued)

The geographical analysis of assets and liabilities as at 31 December 2013 is set out below:

	Russia	OECD countries	Non-OECD countries	Total
Assets				
Cash and cash equivalents	24 463	11 473	16	35 952
Mandatory cash balances with the Central Bank of the Russian Federation	2 071	-	-	2 071
Due from banks	13 281	68	2 000	15 349
Derivative financial instruments	76	398	14	488
Available-for-sale financial assets				
- owned by the Group	6 888	-	-	6 888
- pledged under sale and repurchase agreements	23 185	-	-	23 185
Loans and advances to customers	155 538	178	331	156 047
Investment property	9 483	-	-	9 483
Property, equipment and intangible assets	9 838	2	-	9 840
Current income tax prepayment	578	-	-	578
Deferred tax asset	5 645	-	-	5 645
Other assets	2 090	71	12	2 173
Total assets	**253 136**	**12 190**	**2 373**	**267 699**
Liabilities				
Due to the Central Bank of the Russian Federation	21 532	-	-	21 532
Due to other banks	6 077	11 309	689	18 075
Derivative financial instruments	98	574	14	686
Customer accounts	171 306	7 173	2 045	180 524
Debt securities in issue	6 135	-	-	6 135
Other liabilities	4 184	599	1	4 784
Total liabilities	**209 332**	**19 655**	**2 749**	**231 736**
Net position	**43 804**	**(7 465)**	**(376)**	**35 963**

The majority of credit related commitments, as at 31 December 2014 and 2013, are related to residents of the Russian Federation.

The geographical classification of financial assets and liabilities is based on the country in which the counterparty is located. The classification of non-monetary assets/liabilities (except for equity securities) and deferred tax asset/liability is based on the country in which they are physically held.

As at 31 December 2014, loans and advances to customers of RUB 31 589 million (31 December 2013: RUB 21 846 million), included in the above tables as being with Russian counterparties, are granted to subsidiaries and affiliates of these Russian counterparties located outside the Russian Federation or companies conducting business activities outside the Russian Federation or exposed to risks in the Russian Federation.

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(h) Capital management

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of business.

The CBR sets and monitors regulatory capital requirements for MDM Bank, the lead operating entity of the Group.

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Till 31 December 2013 the Group calculated the amount of capital in accordance with Provision of the CBR dated 10 February 2003 No 215-P *On methodology of calculation of own funds (capital) of the credit organisaitons* (Provision of the CBR No 215-P) and since 1 January 2014 – in accordance with Provision of the CBR dated 28 December 2012 No 395-P *On methodology of calculation of own funds (capital) of the credit organisations (Basel III)* (Provision of the CBR No 395-P).

As at 31 December 2013 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 10%. As at 31 December 2014 minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 5.0%, 5.5% and 10.0%, accordingly. Since 1 January 2015 minimum level of ratio N20.2 is 6.0%.

The Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR that supervise the Bank with information on mandatory ratios in accordance with set form on a quarterly basis. Department of Analysis and forecast of obligatory reports controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBR and the Group's internal policy this information is communicated to the Management Board and the Board of Directors.

The Group is in compliance with the statutory capital ratios as at 31 December 2014 and 2013.

The Group and the Bank are also subject to minimum capital requirements established by covenants under liabilities incurred by the Bank or the Group, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. As at 31 December 2014 and 2013, such minimum externally imposed capital requirement for the total capital ratio is 12%.

(expressed in millions of Russian Roubles – refer to Note 3)

25 Financial Risk Management, Corporate Governance and Internal Control (Continued)

(h) Capital management (continued)

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord (Basel I), as at 31 December 2014 and 2013:

	31 December 2014	31 December 2013
Tier 1 capital		
Share capital	4 207	4 207
Share premium	31 852	31 852
Cumulative translation reserve	136	132
Retained earnings	1 281	714
Non-controlling interest	11	3
Less Treasury shares	(5 518)	(5 518)
Total tier 1 capital	**31 969**	**31 390**
Tier 2 capital		
Asset revaluation reserves	1 665	4 573
Total tier 2 capital	**1 665**	**4 573**
Total capital	**33 634**	**35 963**
Risk-weighted assets		
Banking book	274 289	227 575
Trading book	2 111	7 159
Total risk weighted assets	**276 400**	**234 734**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**12.2**	**15.3**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**11.6**	**13.4**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for credit related commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Group and the Bank comply with all externally imposed capital requirements as at 31 December 2014 and 2013.

Management believes that a 10% tier I capital ratio and a 12% total capital ratio, calculated in accordance with the requirements of the Basel Accord, are the appropriate minimum capitalization levels for the Group and MDM Bank.

26 Contingent Liabilities and Commitments

(a) Legal proceedings

In the ordinary course of business, the Group is subject to legal actions and complaints. 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.

As at 31 December 2014, the Group recognised a provision of RUB 22 million (31 December 2013: RUB 147 million) in relation to pending litigations in respect of certain fees and commissions charged by the Bank on matured or existing loans (Note 16).

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Contingent Liabilities and Commitments (Continued)

(b) Tax legislation

The Group operates in a number of tax jurisdictions. In the normal course of business, management must interpret and apply existing legislation to transactions with third parties and its own activities.

Current Russian tax legislation is principally based on the form in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. The interpretation of Russian tax legislation by the tax authorities and court practice, which are constantly changing, in the future may focus less on the form and more on the substance of a transaction. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Tax years remain open to normal audit by the Russian tax authorities for three years; during such time any change in interpretation or practice, even if there is no change in Russian tax legislation, could be applied retroactively. The interpretation and practice in other jurisdictions in which the Group operates are also changing, sometimes with retroactive effect.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the short period since the current Russian transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

In management's opinion, the Group is in substantial compliance with the tax and other laws governing its operations in the Russian Federation and in other tax jurisdictions. However, a risk remains that the relevant authorities could take different positions with regard to interpretative issues or that court practice could develop adversely to positions taken by the Group and the effect on the financial position, should the authorities succeed in asserting their positions, could be significant.

(c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	31 December 2014	31 December 2013
Not later than 1 year	56	53
Later than 1 year and not later than 5 years	43	99
Later than 5 years	207	212
Total operating lease commitments	**306**	**364**

During the year ended 31 December 2014 RUB 551 million is recognised as an expense in the consolidated statement of profit or loss and other comprehensive income in respect of operating leases (year ended 31 December 2013: RUB 513 million).

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

26 Contingent Liabilities and Commitments (Continued)

(d) Credit related commitments

Credit related commitments comprise letters of credit, guarantees and undrawn loan commitments. The contractual amount of these commitments represents the value at risk should amounts under the contract be fully drawn upon.

Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. The primary purpose of undrawn loan commitments is to ensure that funds are available to a customer as required. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of such potential loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Outstanding credit related commitments as at 31 December are as follows:

	31 December 2014	31 December 2013
Guarantees issued	25 189	16 960
Undrawn loan commitments	44 467	36 493
Letters of credit	5 467	1 078
Surety for other banks	6 671	-
Total credit related commitments	**81 794**	**54 531**

The Group creates a provision for losses on a collective and individual basis for its credit related commitments.

Movements in provision for losses on credit related commitments for the year ended 31 December are as follows:

	2014	2013
Provision for losses on credit related commitments as at 1 January	1	4
Reversal of provision (Note 21)	-	(3)
Provision for losses on credit related commitments as at 31 December	**1**	**1**

Provision for losses on credit related commitments is included in other liabilities in the consolidated statement of financial position.

The total outstanding contractual amount of guarantees, letters of credit and undrawn loan commitments does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Geographical and currency analysis and maturity structure of credit related commitments is disclosed in Note 25. Information on related party transactions is disclosed in Note 29.

26 Contingent Liabilities and Commitments (Continued)

(e) Fiduciary assets

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

The Group also provides asset management services, trusts and retirement benefit plans to individuals and other institutions, whereby it holds or invests funds received at the discretion of the customer. The Group receives fee income for providing these services. Assets for which the Group provides asset management services to its customers are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit and market risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2014, total assets for which the Group provides asset management services to its customers are RUB 447 million (31 December 2013: RUB 609 million).

27 Fair Value of Financial Instruments

The Group performed an assessment of its financial instruments, as required by IFRS 13 *Fair Value Measurements* and IFRS 7 *Financial Instruments: Disclosures*.

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimated fair value of cash and cash equivalents, balances due from other banks, including the Central Bank of the Russian Federation and balances due to the Central Bank of the Russian Federation is their carrying value.

The estimated fair value of quoted trading securities, derivative financial instruments and liquid available-for-sale financial assets is based on quoted market prices at the reporting date without any deduction for transaction costs. For securities and derivative financial instruments not traded in an active market, the fair value is estimated by using valuation techniques that include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. For illiquid available-for-sale financial assets fair value normally cannot be reliably estimated.

The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received.

The estimated fair value of customer accounts balances, that are payable on demand, is their carrying value. The estimated fair value of customer accounts, that are not payable on demand, due to other banks and debt securities in issue, that are not quoted in an active market, is calculated based on discounted expected future principal and interest cash flows.

The estimated fair value of all other financial instruments represents the discounted amount of estimated future cash flows expected to be received or paid.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-based rate for a similar instrument at the reporting date.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

27 Fair Value of Financial Instruments (Continued)

Where discounted cash flow techniques are used the following discount rates were applied for estimation of fair values of major financial assets and liabilities as at 31 December 2014:

	RUB	USD	EUR	Other currencies
Financial assets				
Loans to legal entities	14.4%-22.3%	9.4%-12.3%	7.4%-9.0%	-
Loans to individuals	17.4%-25.3%	10.1%-13.9%	8.0%-12.0%	-
Financial liabilities				
Due to other banks	16.0%-17.9%	1.2%-4.3%	1.1%-3.2%	-
Customer accounts	12.2%-20.3%	2.4%-8.5%	2.9%-7.4%	3.2%-5.8%
Debt securities in issue	18.3%-24.3%	-	-	-

Where discounted cash flow techniques are used the following discount rates were applied for estimation of fair values of major financial assets and liabilities as at 31 December 2013:

	RUB	USD	EUR	Other currencies
Financial assets				
Loans to legal entities	9.1%-11.9%	4.4%-6.0%	2.5%-5.9%	-
Loans to individuals	15.2%-19.9%	9.3%-14.4%	8.6%-17.6%	-
Financial liabilities				
Due to other banks	5.7%-6.1%	0.1%-4.4%	0.2%-3.3%	2.0%-3.1%
Customer accounts	1.1%-8.1%	0.1%-4.5%	0.4%-2.8%	2.8%-5.7%
Debt securities in issue	4.9%-6.0%	-	-	-

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quote prices included within Level 1 that are observable either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

27 Fair Value of Financial Instruments (Continued)

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices and those whose fair value is calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2014:

	Quoted market price (Level I)	Inputs other than quoted prices included within Level I that are observable (Level II)	Total
Derivative financial instruments	-	12 295	**12 295**
Available-for-sale financial assets			
- owned by the Group	12 423	994	**13 417**
- pledged under sale and repurchase agreements	22 966	353	**23 319**
Financial liabilities			
Derivative financial instruments	-	5 943	**5 943**

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices and those whose fair value is calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2013:

	Quoted market price (Level I)	Inputs other than quoted prices included within Level I that are observable (Level II)	Total
Derivative financial instruments	-	488	**488**
Available-for-sale financial assets			
- owned by the Group	4 108	2 780	**6 888**
- pledged under sale and repurchase agreements	23 185	-	**23 185**
Financial liabilities			
Derivative financial instruments	-	686	**686**

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2014:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Loans and advances to customers	-	-	172 732	172 732	181 412
Liabilities					
Due to other banks	-	18 575	-	18 575	18 649
Customer accounts	-	222 260	-	222 260	225 076
Debt securities in issue	5 088	2 430	-	7 518	7 631

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Loans and advances to customers	-	-	156 296	156 296	156 047
Liabilities					
Due to other banks	-	17 985	-	17 985	18 075
Customer accounts	-	181 303	-	181 303	180 524
Debt securities in issue	4 348	2 040	-	6 388	6 135

The fair value of other financial assets and liabilities is not materially different from their carrying amounts.

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

28 Offsetting Financial Assets and Financial Liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements and reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Group's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owned by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement transactions.

The Group's sale and repurchase and reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in case of default Financial instruments	Net amount
Derivative financial instruments	12 295	-	12 295	(5 115)	7 180
Reverse sale and repurchase agreements	3 309	-	3 309	(3 309)	-
Total financial assets	**15 604**	**-**	**15 604**	**(8 424)**	**7 180**
Derivative financial instruments	5 943	-	5 943	(5 115)	828
Sale and repurchase agreements	24 250	-	24 250	(24 250)	-
Total financial liabilities	**30 193**	**-**	**30 193**	**(29 365)**	**828**

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

28 Offsetting Financial Assets and Financial Liabilities (Continued)

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in case of default: Financial instruments	Net amount
Derivative financial instruments	444	-	444	(352)	92
Reverse sale and repurchase agreements	5 545	-	5 545	(5 545)	-
Total financial assets	**5 989**	**-**	**5 989**	**(5 897)**	**92**
Derivative financial instruments	661	-	661	(352)	309
Sale and repurchase agreements	24 754	-	24 754	(24 754)	-
Total financial liabilities	**25 415**	**-**	**25 415**	**(25 106)**	**309**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- derivative assets and liabilities – fair value
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2014.

Types of financial assets/liabilities	Net amounts	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Derivative financial instruments	12 295	Derivative financial instruments	12 295	-	7
Reverse sale and repurchase agreements	3 309	Due from banks	6 758	5 809	6
		Loans and advances to customers	181 412	179 052	9
Total financial assets	**15 604**		**200 465**	**184 861**	
Derivative financial instruments	5 943	Derivative financial instruments	5 943	-	7
Sale and repurchase agreements	24 250	Due to the Central Bank of the Russian Federation	27 353	4 006	13
		Due to other banks	18 649	17 746	13
Total financial liabilities	**30 193**		**51 945**	**21 752**	

(expressed in millions of Russian Roubles – refer to Note 3)

28 Offsetting Financial Assets and Financial Liabilities (Continued)

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2013.

Types of financial assets/liabilities	Net amounts	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Derivative financial instruments	444	Derivative financial instruments	488	44	7
Reverse sale and repurchase agreements		Due from banks	15 349	10 841	6
	5 545	Loans and advances to customers	156 047	155 011	9
Total financial assets	**5 989**		**171 885**	**165 896**	
Derivative financial instruments	661	Derivative financial instruments	686	25	7
Sale and repurchase agreements		Due to the Central Bank of the Russian Federation	21 532	-	13
		Due to other banks	18 075	14 866	13
	24 754	Customer accounts	180 524	180 511	14
Total financial liabilities	**25 415**		**220 817**	**195 402**	

29 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or has joint control over the entity as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties comprise the ultimate beneficiary and entities where he has beneficial interest, directors and key management personnel.

As at 31 December 2014 the Bank's parent company is MDM Holding SE, a European company based in Cyprus, with a 58.3% direct voting interest (as at 31 December 2013: 58.3%).

MDM Holding SE is held for the ultimate benefit of Mr. Sergey Popov.

Banking transactions are entered into in the normal course of business with the related parties. These include settlements, loans, deposit taking, trade finance, securities and foreign currency transactions. These transactions are priced mainly on normal market terms.

The following table shows credit exposure to related parties as at 31 December 2014 and 2013:

	31 December 2014		31 December 2013	
	Amount	% of total assets	Amount	% of total assets
Total recognised credit exposure (net of impairment)	15 199	4.62	10 148	3.79
Total recognised and unrecognised credit exposure (net of impairment)	15 217	4.63	10 159	3.79

MDM Bank
(expressed in millions of Russian Roubles – refer to Note 3)

29 Related Party Transactions (Continued)

The outstanding balances as at 31 December 2014 with related parties are as follows:

	Ultimate beneficiary and entities where he has beneficial interest	Directors and key management personnel	Total
Assets			
Loans and advances to customers (gross)	18 285	20	**18 305**
Loan impairment allowance	(3 106)	-	**(3 106)**
Total assets	**15 179**	**20**	**15 199**
Liabilities			
Customer accounts			
- Current accounts	694	29	723
- Term deposits	-	239	239
Total liabilities	**694**	**268**	**962**
Credit related commitments	**12**	**6**	**18**

The results of transactions with related parties for the year ended 31 December 2014 are as follows:

	Ultimate beneficiary and entities where he has beneficial interest	Directors and key management personnel	Total
Interest income on loans and advances to customers	1 453	2	**1 455**
Interest expense on customer accounts	(3)	(9)	**(12)**
Loan impairment losses	(496)	-	**(496)**
Operating expenses	-	(382)	**(382)**

The outstanding balances as at 31 December 2013 with related parties are as follows:

	Ultimate beneficiary and entities where he has beneficial interest	Directors and key management personnel	Total
Assets			
Loans and advances to customers (gross)	12 718	40	**12 758**
Loan impairment allowance	(2 610)	-	**(2 610)**
Total assets	**10 108**	**40**	**10 148**
Liabilities			
Customer accounts			
- Current accounts	176	10	186
- Term deposits	-	220	220
Total liabilities	**176**	**230**	**406**
Credit related commitments	**7**	**4**	**11**

The results of transactions with related parties for the year ended 31 December 2013 are as follows:

	Ultimate beneficiary and entities where he has beneficial interest	Directors and key management personnel	Total
Interest income on loans and advances to customers	1 512	1	**1 513**
Interest expense on customer accounts	(1)	(10)	**(11)**
Loan impairment losses	(2 566)	-	**(2 566)**
Operating expenses	-	(498)	**(498)**

(expressed in millions of Russian Roubles – refer to Note 3)

29 Related Party Transactions (Continued)

(a) Transactions with the ultimate beneficiary and entities where he has beneficial interest

The table below summarises information about average effective interest rates and outstanding balances with ultimate beneficiary and entities where he has beneficial interest:

	31 December 2014				31 December 2013			
	RUB	USD	EUR	Total	RUB	USD	EUR	Total
Loans and advances to customers								
Outstanding balances	18 285	-	-	**18 285**	12 718	-	-	**12 718**
Average effective interest rate, %	11.2	-	-	**11.2**	11.2	-	-	**11.2**

(b) Transactions with directors and key management personnel

The table below summarises information about average effective interest rates and outstanding balances with the directors and key management personnel:

	31 December 2014				31 December 2013			
	RUB	USD	EUR	Total	RUB	USD	EUR	Total
Loans and advances to customers								
Outstanding balances	20	-	-	**20**	40	-	-	**40**
Average effective interest rate, %	13.8	-	-	**13.8**	12.9	-	-	**12.9**
Term deposits due to customers								
Outstanding balances	49	190	-	**239**	60	151	9	**220**
Average effective interest rate, %	21.0	8.6	-	**11.1**	9.1	3.2	3.9	**4.9**

The total remuneration of the members of the Board of Directors of MDM Bank, including discretionary compensation, amounts to RUB 166 million for the year ended 31 December 2014 (2013: RUB 210 million). MDM Bank's Board of Directors was composed of 7 members as at 31 December 2014 (31 December 2013: 7 members), 5 of whom are non-executive. The Board has elected three Board Committees: Audit Committee, Strategy and Risk Committee, and Nomination and Remuneration Committee. Board members stand for re-election every year under Russian law.

Total remuneration of other key management personnel, including discretionary compensation, amounts to RUB 216 million for the year ended 31 December 2014 (2013: RUB 288 million). Key management personnel comprise members of the Management Board of MDM Bank and heads of core business units. As at 31 December 2014, key management personnel comprised 9 persons (31 December 2013: 14 persons).

(expressed in millions of Russian Roubles – refer to Note 3)

29 Related Party Transactions (Continued)

(b) Transactions with directors and key management personnel

The total remuneration of the directors and key management personnel, including discretionary compensation, is as follows:

	Year Ended 31 December 2014	Year Ended 31 December 2013
Salary and bonuses	312	455
Contributions to the Russian Federation State pension fund	26	30
Share-based payments	-	13
Termination benefits	44	-
Total remuneration of the directors and key management personnel	**382**	**498**

30 Principal Subsidiaries

Principal subsidiaries

Included in the table below is the list of the principal subsidiaries, including consolidated structured entities of the Group as at 31 December 2014 and 2013.

Name	Jurisdiction	Voting rights/ equity owned, % 31 December 2014	Voting rights/ equity owned, % 31 December 2013
Securities trading			
MDM Investments Limited	Cyprus	100.0	100.0
MCM Russian Investments Limited	Cyprus	100.0	100.0
MDM Cyprus Ltd	Cyprus	100.0	100.0
Asset management			
MDM Asset Management	Russia	100.0	100.0
Leasing			
LeasingPromHold	Russia	100.0	100.0
MDM Leasing	Russia	100.0	100.0
Aliance	Russia	-	100.0
Consolidated structured entities for financing transactions			
MDM International Funding plc	Ireland	-	-
URSA Mortgage Finance S.A.	Luxemburg	-	-
Mutual funds			
Closed Mutual Investment fund of premises "Avangard. Pervystroitelny"	Russia	73.4	100.0
Closed Mutual Investment fund of premises "MDM – Regionalnaya nedvizhimost"	Russia	100.0	100.0
Closed Mutual Investment fund of premises "Trade Capital"	Russia	68.5	100.0
Closed Mutual Investment fund of premises "Zolotoy gorod"	Russia	68.0	100.0
Other			
MDM ECP Limited	Ireland	100.0	100.0
Kollectorsky fond MDM	Russia	100.0	100.0
Open Joint Stock Company "Moscvichka"	Russia	98.9	98.9

30 Principal Subsidiaries (Continued)

MDM Investments Limited is a company licensed by the Cyprus Securities and Exchange Commission specializing in securities brokerage, trading on its own account and asset management.

MCM Russian Investments Limited and MDM Cyprus Ltd are companies that specialize in trading in securities on their own accounts and providing margin loans to customers of MDM Investments Limited.

MDM Asset Management is a company licensed by the Russian Federal Financial Markets Service to manage third-party assets and collective investment schemes.

LeasingPromHold and MDM Leasing are companies specializing in provision of leasing services to corporate customers of the Group. During the year ended 31 December 2014 Aliance was reorganized through a merger with LeasingPromHold.

MDM ECP Limited and consolidated structured entities MDM International Funding Plc and URSA Mortgage Finance S.A. are used for financing transactions in international capital markets such as loan participation note issues, asset securitisations, etc. Consolidated structured entities are controlled by the Group as key decisions are made by the Group and the Group is exposed to variability of returns from these entities.

Closed Mutual Investment fund of premises "Avangard. Pervystroitelny", Closed Mutual Investment fund of premises "MDM – Regionalnaya nedvizhimost", Closed Mutual Investment fund of premises "Trade Capital" and Closed Mutual Investment fund of premises "Zolotoy gorod" are companies specialising in managing assets obtained by foreclosure of collateral in order to maximize its net realizable value.

Kollectorsky fond MDM is a company specializing in collection of overdue loans.

Open Joint Stock Company "Moscvichka" is a company specializing in real estate leasing.

31 Subsequent events

As at 9 April 2015 Russian bonds denominated in RUB – 8th issue were fully repaid.