

**MDM Bank**  
**Interim Consolidated Condensed**  
**Financial Information for the Three-Month Period**  
**Ended 31 March 2014**

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**ZAO KPMG**  
10 Presnenskaya Naberezhnaya  
Moscow, Russia 123317

Telephone +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
Internet www.kpmg.ru

## **Auditors' Report on Review of Interim Consolidated Condensed Financial Information**

To the Shareholders and Board of Directors

MDM Bank, Open Joint Stock Company

### *Introduction*

We have reviewed the accompanying interim consolidated condensed statement of financial position of MDM Bank, Open Joint Stock company, and its subsidiaries (the Group) as at 31 March 2014, and the related interim consolidated condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the interim consolidated condensed financial information (the "interim consolidated condensed financial information"). Management is responsible for the preparation and presentation of this interim consolidated condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim consolidated condensed financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim consolidated condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Audited entity: MDM Bank, Open Joint Stock Company.

Registered by The Central Bank of the Russian Federation on 25 June 1990, Registration No. 323.

Entered in the Unified State Register of Legal Entities on 14 November 2002 by Department of the Ministry of Taxes and Duties of the Russian Federation for Novosibirsk Region, Registration No. 1025400001571, Certificate series 54 No. 000922310.

Address of the audited entity: 630004, Novosibirsk, Lenina str, 18.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated condensed financial information as at 31 March 2014 and for the three-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

*Other Matter*

The corresponding figures for the three-month period ended 31 March 2013 are not reviewed.



Malyutina M.S.  
Director,  
power of attorney dated 1 October 2010 No 43/10,  
licence No. 01-000066  
ZAO KPMG  
22 May 2014  
Moscow, Russian Federation

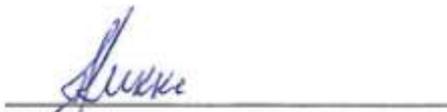
**MDM Bank****Interim Consolidated Condensed Statement of Financial Position as at 31 March 2014**

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

	Note	31 March 2014 (Unaudited)	31 December 2013
<b>Assets</b>			
Cash and cash equivalents	5	27 006	35 952
Mandatory cash balances with the Central Bank of the Russian Federation		1 930	2 071
Due from banks		7 410	15 349
Derivative financial instruments		2 343	488
Available-for-sale financial assets			
- owned by the Group		11 916	6 888
- pledged under sale and repurchase agreements		21 038	23 185
Loans and advances to customers	6	160 824	156 047
Investment property		9 741	9 483
Property, equipment and intangible assets		9 802	9 840
Current income tax prepayment		548	578
Deferred tax asset		5 688	5 645
Other assets		3 383	2 173
<b>Total assets</b>		<b>261 629</b>	<b>267 699</b>
<b>Liabilities</b>			
Due to the Central Bank of the Russian Federation		22 551	21 532
Due to other banks		18 904	18 075
Derivative financial instruments		1 055	686
Customer accounts	7	172 818	180 524
Debt securities in issue	8	5 951	6 135
Other liabilities		4 434	4 784
<b>Total liabilities</b>		<b>225 713</b>	<b>231 736</b>
<b>Equity</b>			
Share capital	10	4 207	4 207
Share premium		31 852	31 852
Treasury shares		(5 518)	(5 518)
Revaluation of premises		4 703	4 757
Revaluation of available-for-sale financial assets		(551)	(184)
Cumulative translation reserve		133	132
Retained earnings		1 085	714
<b>Equity attributable to equity holders of the Bank</b>		<b>35 911</b>	<b>35 960</b>
<b>Non-controlling interest</b>		<b>5</b>	<b>3</b>
<b>Total equity</b>		<b>35 916</b>	<b>35 963</b>
<b>Total liabilities and equity</b>		<b>261 629</b>	<b>267 699</b>

Approved for issue by the Management Board and signed on its behalf on 22 May 2014.

  
 Timur Avdeenko  
 Chief Executive Officer

  
 Tina Kukka  
 Chief Financial Officer

**MDM Bank**

**Interim Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income for the Three-Month Period Ended 31 March 2014 (Unaudited)**

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

	Note	Three-Month Period Ended 31 March 2014 (Unaudited)	Three-Month Period Ended 31 March 2013 (Unaudited)
Interest income		5 864	6 263
Interest expense		(3 332)	(3 668)
<b>Net interest income</b>		<b>2 532</b>	<b>2 595</b>
Loan impairment losses	6	(450)	(1 578)
<b>Net interest income after loan impairment losses</b>		<b>2 082</b>	<b>1 017</b>
Net foreign exchange (loss)/gain		(63)	325
Gains less losses from trading and available-for-sale financial assets	11	(322)	(20)
Fee and commission income		1 321	1 093
Fee and commission expense		(318)	(273)
Other income		291	203
Other expenses		(73)	(129)
Operating expenses		(2 493)	(2 426)
<b>Net operating profit/(loss) before impairment losses other than on loans, revaluation losses and other losses</b>		<b>425</b>	<b>(210)</b>
(Loss)/gain from investment property		(42)	90
Impairment and provision reversal/(losses) other than on loans and provisions	12	21	(306)
<b>Net operating profit/(loss) before other gains and losses</b>		<b>404</b>	<b>(426)</b>
Loss on fair value adjustment for financial instruments		-	(23)
<b>Profit/(loss) before tax</b>		<b>404</b>	<b>(449)</b>
Income tax (expense)/benefit		(85)	102
<b>Profit/(loss) after tax for the period</b>		<b>319</b>	<b>(347)</b>
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
Available-for-sale financial assets:			
Losses from changes in fair value		(517)	(120)
Reclassification adjustments for items included in profit or loss		58	14
Currency translation differences		1	8
Income tax related to items that are or may be reclassified subsequently to profit or loss		92	21
<b>Total items that are or may be reclassified subsequently to profit or loss</b>		<b>(366)</b>	<b>(77)</b>
<b>Items that will not be reclassified to profit or loss</b>			
Revaluation of premises		-	(20)
Income tax related to items that will not be reclassified subsequently to profit or loss		-	4
<b>Total items that will not be reclassified to profit or loss</b>		<b>-</b>	<b>(16)</b>
<b>Other comprehensive loss for the period, net of tax</b>		<b>(366)</b>	<b>(93)</b>
<b>Total comprehensive loss for the period</b>		<b>(47)</b>	<b>(440)</b>
<b>Profit/(loss) attributable to:</b>			
Equity holders of the Bank		317	(347)
Non-controlling interest		2	-
<b>Profit/(loss) after tax</b>		<b>319</b>	<b>(347)</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the Bank		(49)	(440)
Non-controlling interest		2	-
<b>Total comprehensive loss for the period</b>		<b>(47)</b>	<b>(440)</b>

  
 Timur Avdeenko  
 Chief Executive Officer

  
 Tina Kukka  
 Chief Financial Officer

The notes form an integral part of these interim consolidated condensed financial information.

**MDM Bank****Interim Consolidated Condensed Statement of Cash Flows  
for the Three-Month Period Ended 31 March 2014 (Unaudited)**

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

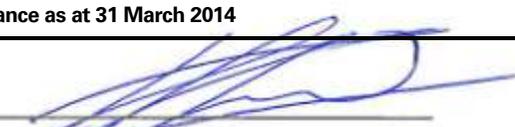
	Note	Three-Month Period Ended 31 March 2014 (Unaudited)	Three-Month Period Ended 31 March 2013 (Unaudited)
<b>Net cash (used in)/from operating activities</b>		<b>(9 202)</b>	<b>8 334</b>
<b>Net cash (used in)/from investing activities</b>		<b>(175)</b>	<b>392</b>
<b>Net cash used in financing activities</b>		<b>(170)</b>	<b>(44)</b>
Effect of exchange rate changes on cash and cash equivalents		601	282
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(8 946)</b>	<b>8 964</b>
Cash and cash equivalents at the beginning of the period		35 952	39 894
<b>Cash and cash equivalents at the end of the period</b>	5	<b>27 006</b>	<b>48 858</b>

  
\_\_\_\_\_  
Timur Avdeenko  
Chief Executive Officer  
\_\_\_\_\_  
Tina Kukka  
Chief Financial Officer

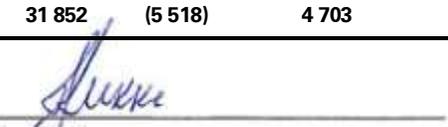
**MDM Bank**
**Interim Consolidated Condensed Statement of Changes in Equity for the Three-Month Period Ended 31 March 2014 (Unaudited)**

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

	Equity attributable to equity holders of the Bank									Non-controlling Interest	Total equity
	Share capital	Share premium	Treasury shares	Revaluation of premises	Revaluation of available-for-sale financial assets	Cumulative translation reserve	Retained earnings	Total			
<b>Balance as at 1 January 2013</b>	<b>4 207</b>	<b>31 852</b>	<b>(5 518)</b>	<b>4 188</b>	<b>49</b>	<b>117</b>	<b>13 892</b>	<b>48 787</b>	<b>21</b>	<b>48 808</b>	
Loss after tax for the period (Unaudited)	-	-	-	-	-	-	(347)	(347)	-	(347)	
<b>Other comprehensive income</b>											
<i>Items that are or may be reclassified subsequently to profit or loss</i>											
Revaluation of available-for-sale financial assets, net of tax	-	-	-	-	(85)	-	-	(85)	-	(85)	
Currency translation differences	-	-	-	-	-	8	-	8	-	8	
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	-	(85)	8	-	(77)	-	(77)	
<i>Items that will not be reclassified to profit or loss</i>											
Revaluation of premises, net of tax	-	-	-	(16)	-	-	-	(16)	-	(16)	
<i>Total items that will not be reclassified to profit or loss</i>	-	-	-	(16)	-	-	-	(16)	-	(16)	
<b>Total other comprehensive loss for the period (Unaudited)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16)</b>	<b>(85)</b>	<b>8</b>	<b>-</b>	<b>(93)</b>	<b>-</b>	<b>(93)</b>	
<b>Total comprehensive loss for the period (Unaudited)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16)</b>	<b>(85)</b>	<b>8</b>	<b>(347)</b>	<b>(440)</b>	<b>-</b>	<b>(440)</b>	
<b>Balance as at 31 March 2013</b>	<b>4 207</b>	<b>31 852</b>	<b>(5 518)</b>	<b>4 172</b>	<b>(36)</b>	<b>125</b>	<b>13 545</b>	<b>48 347</b>	<b>21</b>	<b>48 368</b>	
<b>Balance as at 1 January 2014</b>	<b>4 207</b>	<b>31 852</b>	<b>(5 518)</b>	<b>4 757</b>	<b>(184)</b>	<b>132</b>	<b>714</b>	<b>35 960</b>	<b>3</b>	<b>35 963</b>	
Profit after tax for the period (Unaudited)	-	-	-	-	-	-	317	317	2	319	
<b>Other comprehensive income</b>											
<i>Items that are or may be reclassified subsequently to profit or loss</i>											
Revaluation of available-for-sale financial assets, net of tax	-	-	-	-	(367)	-	-	(367)	-	(367)	
Currency translation differences	-	-	-	-	-	1	-	1	-	1	
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	-	(367)	1	-	(366)	-	(366)	
<b>Total other comprehensive loss for the period (Unaudited)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(367)</b>	<b>1</b>	<b>-</b>	<b>(366)</b>	<b>-</b>	<b>(366)</b>	
<b>Total comprehensive loss for the period (Unaudited)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(367)</b>	<b>1</b>	<b>317</b>	<b>(49)</b>	<b>2</b>	<b>(47)</b>	
Reclassification of revaluation reserve on disposal	-	-	-	(54)	-	-	54	-	-	-	
<b>Balance as at 31 March 2014</b>	<b>4 207</b>	<b>31 852</b>	<b>(5 518)</b>	<b>4 703</b>	<b>(551)</b>	<b>133</b>	<b>1 085</b>	<b>35 911</b>	<b>5</b>	<b>35 916</b>	



Timur Avdeenko  
Chief Executive Officer



Tina Kukka  
Chief Financial Officer

The notes form an integral part of these interim consolidated condensed financial information.

## **MDM Bank**

### **Notes to the Interim Consolidated Condensed Financial Information for the Three-Month Period Ended 31 March 2014 (Unaudited)**

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

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#### **1 Organisation of the Group and its Principal Activities**

This interim consolidated condensed financial information comprises the financial information of MDM Bank, Open 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 13).

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 18, Lenina street, Novosibirsk, Russian Federation, 630004.

As at 31 March 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 March 2014, the total number of points of sale is 193 (31 December 2013: 195).

For the purposes of this interim consolidated condensed financial information, 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. The political and economic instability witnessed in Ukraine has had and may continue to have a negative impact on the Russian economy. Certain sanctions were implemented by the EU and USA against Russian officials and businessmen. So far, these events have not had a significant impact on the Group's operations and financial position. However the impact on the interim consolidated condensed financial information of future instability in Ukraine, should it continue, and/or additional sanctions against Russia, if they were to be implemented, is at this stage difficult to determine. This interim consolidated condensed financial information reflects 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.

The Group is not subject to seasonal or cyclical variations in recurring operating income during the year. However, operating results for the three-month period ended 31 March 2014 are not necessarily indicative of the results that may be expected for the year ending 31 December 2014.

#### **3 Basis of Preparation**

##### **(a) Statement of compliance**

This interim consolidated condensed financial information is prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). It does not include all of the information required for full financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2013, as this interim consolidated condensed financial information provides an update of previously reported financial information.

### **3 Basis of Preparation (Continued)**

#### **(b) Basis of measurement**

However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2013.

This interim consolidated condensed financial information is prepared on the 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.

#### **(c) Presentation currency**

This consolidated condensed financial information is 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 IAS 34 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.

In preparing this interim consolidated condensed financial information the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

##### *(i) Measurement of fair values*

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level II: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level III: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in Note 15 – Fair Value of Financial Instruments.

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***4 Significant Accounting Policies**

The accounting policies applied in this interim consolidated condensed financial information are consistent with those applied in the consolidated financial statements for the year ended 31 December 2013, except for changes resulting from the amendments to International Financial Reporting Standards (IFRS) as described below.

**(a) Changes in Accounting Policies***(i) Changes resulting from the amendments to IFRS*

The Group has adopted the following amendments to standards with a date of initial application of 1 January 2014.

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 clarified 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 interim consolidated condensed financial information.

*(ii) New standards not yet adopted*

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 March 2014, and are not applied in preparing this interim consolidated condensed financial information. 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* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates general hedge accounting. The final standard is expected to be issued in 2014. 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 interim consolidated condensed financial information. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. 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.

**5 Cash and Cash Equivalents**

	<b>31 March 2014</b>	<b>31 December 2013</b>
Cash on hand	12 600	13 646
Correspondent accounts with the Central Bank of the Russian Federation	5 965	4 774
Correspondent accounts and overnight deposits with other banks	6 795	15 563
Settlement accounts with trading systems	1 332	1 969
Reverse repurchase agreements with other banks for 1 day	314	-
<b>Total cash and cash equivalents</b>	<b>27 006</b>	<b>35 952</b>

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***6 Loans and Advances to Customers**

	<b>31 March 2014</b>	<b>31 December 2013</b>
Loans to corporate customers	129 456	126 619
Loans to individuals	50 964	51 530
Investment banking loans	3 282	1 146
Small business loans	9 774	9 692
Lease financing	3 346	3 360
<b>Total gross loans and advances to customers</b>	<b>196 822</b>	<b>192 347</b>
Less loan impairment allowance	(35 998)	(36 300)
<b>Total loans and advances to customers</b>	<b>160 824</b>	<b>156 047</b>

Movements in the loan impairment allowance by class of loans to customers for the three-month period ended 31 March 2014 are as follows:

	<b>Loans to corporate customers</b>	<b>Loans to individuals</b>	<b>Investment banking loans</b>	<b>Small business loans</b>	<b>Lease financing</b>	<b>Total</b>
<b>Loan impairment allowance as at 1 January 2014</b>	<b>27 516</b>	<b>5 847</b>	-	<b>699</b>	<b>2 238</b>	<b>36 300</b>
Impairment losses	255	130	-	86	(21)	450
Write-offs	(69)	(212)	-	(11)	(12)	(304)
Loans sold	(895)	(15)	-	-	-	(910)
Effect of foreign currency translation	282	143	-	14	23	462
<b>Loan impairment allowance as at 31 March 2014</b>	<b>27 089</b>	<b>5 893</b>	-	<b>788</b>	<b>2 228</b>	<b>35 998</b>

Movements in the loan impairment allowance by class of loans to customers for the three-month period ended 31 March 2013 are as follows:

	<b>Loans to corporate customers</b>	<b>Loans to individuals</b>	<b>Investment banking loans</b>	<b>Small business loans</b>	<b>Lease financing</b>	<b>Total</b>
<b>Loan impairment allowance as at 1 January 2013</b>	<b>19 084</b>	<b>4 847</b>	<b>273</b>	<b>1 152</b>	<b>3 567</b>	<b>28 923</b>
Impairment losses	426	986	1	208	(43)	1 578
Write-offs	(3 156)	(440)	-	-	-	(3 596)
Loans sold	(75)	(1 054)	-	(249)	-	(1 378)
Effect of foreign currency translation	49	19	1	3	8	80
<b>Loan impairment allowance as at 31 March 2013</b>	<b>16 328</b>	<b>4 358</b>	<b>275</b>	<b>1 114</b>	<b>3 532</b>	<b>25 607</b>

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***6 Loans and Advances to Customers (Continued)**

The Group reviewed its loan portfolio as at 31 March 2014 and 31 December 2013 recognised loan impairment as follows:

	<b>31 March 2014</b>	<b>31 December 2013</b>
<b>Loans to corporate customers</b>		
Loans without individual signs of impairment:		
Standard not overdue loans	59 555	58 267
Watch list not overdue loans	8 367	6 386
Total loans without individual signs of impairment	67 922	64 653
Loans with individual signs of impairment		
- not overdue	41 707	42 752
- overdue less than 90 days	1 440	4 247
- overdue more than 90 days and less than 1 year	9 964	9 695
- overdue more than 1 year	8 423	5 272
Total loans with individual signs of impairment	61 534	61 966
<b>Total loans to corporate customers</b>	<b>129 456</b>	<b>126 619</b>
Impairment allowance on corporate customers	(27 089)	(27 516)
<b>Net loans to corporate customers</b>	<b>102 367</b>	<b>99 103</b>
<b>Loans to individuals</b>		
<b>Consumer loans</b>		
- not overdue	27 919	28 657
- overdue less than 30 days	1 421	1 227
- overdue 30-89 days	805	513
- overdue 90-179 days	791	655
- overdue 180-360 days	1 168	1 022
- overdue more than 360 days	1 622	1 347
<b>Total consumer loans</b>	<b>33 726</b>	<b>33 421</b>
Impairment allowance on consumer loans	(3 526)	(3 391)
<b>Net consumer loans</b>	<b>30 200</b>	<b>30 030</b>
<b>Auto loans</b>		
- not overdue	1 526	1 809
- overdue less than 30 days	88	69
- overdue 30-89 days	62	34
- overdue 90-179 days	40	27
- overdue 180-360 days	47	40
- overdue more than 360 days	92	96
<b>Total auto loans</b>	<b>1 855</b>	<b>2 075</b>
Impairment allowance on auto loans	(164)	(163)
<b>Net auto loans</b>	<b>1 691</b>	<b>1 912</b>
<b>Refinanced loans</b>		
- not overdue	1 603	1 892
- overdue less than 30 days	337	316
- overdue 30-89 days	121	89
- overdue 90-179 days	98	86
- overdue 180-360 days	59	94
- overdue more than 360 days	400	412
<b>Total refinanced loans</b>	<b>2 618</b>	<b>2 889</b>
Impairment allowance on refinanced loans	(1 670)	(1 760)
<b>Net refinanced loans</b>	<b>948</b>	<b>1 129</b>

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***6 Loans and Advances to Customers (Continued)****(a) Loan impairment (continued)**

	31 March 2014	31 December 2013
<b>Mortgage loans</b>		
- not overdue	10 959	11 598
- overdue less than 30 days	792	688
- overdue 30-89 days	217	117
- overdue 90-179 days	167	65
- overdue 180-360 days	166	226
- overdue more than 360 days	464	451
<b>Total mortgage loans</b>	<b>12 765</b>	<b>13 145</b>
Impairment allowance on mortgage loans	(533)	(533)
<b>Net mortgage loans</b>	<b>12 232</b>	<b>12 612</b>
<b>Investment banking loans</b>		
Loans without individual signs of impairment:		
Reverse sale and repurchase agreements	3 173	1 037
Other standard loans	109	109
Total loans without individual signs of impairment	3 282	1 146
<b>Total investment banking loans</b>	<b>3 282</b>	<b>1 146</b>
Impairment allowance on investment banking loans	-	-
<b>Net investment banking loans</b>	<b>3 282</b>	<b>1 146</b>
<b>Small business loans</b>		
Loans without individual signs of impairment:		
Standard not overdue loans	8 491	8 641
Total loans without individual signs of impairment	8 491	8 641
Loans with individual signs of impairment		
- not overdue	161	88
- overdue less than 90 days	203	117
- overdue more than 90 days and less than 1 year	487	521
- overdue more than 1 year	432	325
Total loans with individual signs of impairment	1 283	1 051
<b>Total small business loans</b>	<b>9 774</b>	<b>9 692</b>
Impairment allowance on small business loans	(788)	(699)
<b>Net small business loans</b>	<b>8 986</b>	<b>8 993</b>
<b>Lease financing</b>		
Loans without individual signs of impairment:		
Standard not overdue loans	637	629
Total loans without individual signs of impairment	637	629
Loans with individual signs of impairment		
- not overdue	2 147	2 150
- overdue less than 90 days	36	37
- overdue more than 90 days and less than 1 year	32	32
- overdue more than 1 year	494	512
Total loans with individual signs of impairment	2 709	2 731
<b>Total lease financing</b>	<b>3 346</b>	<b>3 360</b>
Impairment allowance on leasing finance loans	(2 228)	(2 238)
<b>Net lease financing</b>	<b>1 118</b>	<b>1 122</b>
<b>Total loans to customers</b>	<b>196 822</b>	<b>192 347</b>
Total Impairment allowance on loans to customers	(35 998)	(36 300)
<b>Total net loans to customers</b>	<b>160 824</b>	<b>156 047</b>

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***7 Customer Accounts**

	<b>31 March 2014</b>	<b>31 December 2013</b>
<b>State organisations</b>		
- Current/settlement accounts	1 448	945
- Term deposits	11 995	9 770
<b>Other legal entities</b>		
- Current/settlement accounts	21 940	23 453
- Term deposits	30 661	33 983
- Sale and repurchase agreement	-	13
<b>Individuals</b>		
- Current/demand accounts	10 810	12 077
- Term deposits	95 964	100 283
<b>Total customer accounts</b>	<b>172 818</b>	<b>180 524</b>

**8 Debt Securities in Issue**

	<b>31 March 2014</b>	<b>31 December 2013</b>
Domestic bonds	4 095	4 182
Promissory notes	1 856	1 953
<b>Total debt securities in issue</b>	<b>5 951</b>	<b>6 135</b>

**9 Significant Exposures and Concentrations**

As at 31 March 2014, credit exposure to ten largest borrowers (or groups of borrowers) totals RUB 48 512 million, or 25% of the gross loan portfolio (31 December 2013: RUB 46 833 million, or 24% of the gross loan portfolio).

As at 31 March 2014, aggregate balances of the ten largest customers (or groups of customers) totals RUB 24 276 million, or 14% of customer accounts balances (31 December 2013: RUB 23 199 million, or 13% of customer accounts balances).

As at 31 March 2014, the Group has one customer with aggregated balances on customer accounts greater than 10% of equity at that date (31 December 2013: one customer). The total aggregate amount of these balances of RUB 7 410 million or 4% of customer accounts balances (31 December 2013: RUB 6 841 million or 4% of customer accounts balances).

**10 Share Capital**

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

	<b>Number of shares</b>	<b>Nominal value</b>	<b>Hyperinflation adjustment</b>	<b>Total share capital</b>
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
<b>Total share capital</b>	<b>3 924 979 016</b>	<b>3 925</b>	<b>282</b>	<b>4 207</b>

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***10 Share Capital (Continued)**

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

No dividends on ordinary or preferences shares were declared during three-month periods ended 31 March 2014 and 2013.

**11 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 three-month period ended 31 March:

	<b>Three-Month Period Ended 31 March 2014 (Unaudited)</b>	<b>Three-Month Period Ended 31 March 2013 (Unaudited)</b>
Losses arising from available-for-sale financial assets, net	(324)	(20)
Gains from early redemption of debt	2	-
<b>Total gains less losses from trading and available-for-sale financial assets, net</b>	<b>(322)</b>	<b>(20)</b>

**12 Impairment and Provision Reversal/(Losses) Other than on Loans and Provisions**

Reversal other than on loans and provisions is presented below:

	<b>Three-Month Period Ended 31 March 2014 (Unaudited)</b>	<b>Three-Month Period Ended 31 March 2013 (Unaudited)</b>
Impairment of available-for-sale financial assets	(5)	(109)
Provisions for legal claims	(21)	(144)
Reversal of impairment/(Impairment) of other assets	47	(55)
Reversal of provision on credit related commitments	-	2
<b>Total impairment and provision reversal/(losses) other than on loans and provisions</b>	<b>21</b>	<b>(306)</b>

**13 Analysis by Segment**

The activities of the Group are managed through the 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 wealth individuals, and administration and management of the Group's asset management products, including mutual funds.

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***13 Analysis by Segment (Continued)**

- 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 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 or 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.

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

	<b>31 March 2014</b>	<b>31 December 2013</b>
<b>Assets</b>		
Corporate Banking	116 574	113 362
SME Banking	11 463	11 834
Retail Banking	52 748	56 069
Private Banking	3 882	4 618
Financial Markets	51 954	57 551
ALM	7 691	7 134
Unallocated assets	17 317	17 131
<b>Total assets</b>	<b>261 629</b>	<b>267 699</b>
<b>Liabilities</b>		
Corporate Banking	48 251	51 538
SME Banking	14 761	15 572
Retail Banking	72 293	73 650
Private Banking	34 647	38 710
Financial Markets	47 820	45 460
ALM	5 467	4 587
Unallocated liabilities	2 474	2 219
<b>Total liabilities</b>	<b>225 713</b>	<b>231 736</b>

**MDM Bank**  
**Notes to the Interim Consolidated Condensed Financial Information**  
**for the Three-Month Period Ended 31 March 2014 (Unaudited)**  
*(expressed in millions of Russian Roubles – refer to Note 3)*

**13 Analysis by Segment (Continued)**

Segment information for the reportable segments for the three-month period ended 31 March 2014 is set out below:

	<b>Corporate Banking</b>	<b>SME Banking</b>	<b>Retail Banking</b>	<b>Private Banking</b>	<b>Financial Markets</b>	<b>ALM</b>	<b>Unallocated</b>	<b>Consolidated Group</b>
Interest income	2 463	485	2 091	-	689	136	-	5 864
Interest expense	(690)	(74)	(1 268)	(680)	(450)	(170)	-	(3 332)
<b>Net interest income/(expense)</b>	<b>1 773</b>	<b>411</b>	<b>823</b>	<b>(680)</b>	<b>239</b>	<b>(34)</b>	-	<b>2 532</b>
Internal funding charge	(1 411)	(86)	277	748	135	337	-	-
Fee and commission income	364	323	552	34	48	-	-	1 321
Fee and commission expense	(63)	(59)	(173)	(20)	(3)	-	-	(318)
<b>Net fee and commission income</b>	<b>301</b>	<b>264</b>	<b>379</b>	<b>14</b>	<b>45</b>	-	-	<b>1 003</b>
Net foreign exchange gain	16	9	48	10	(146)	-	-	(63)
Gains less losses from trading and available-for-sale financial assets	-	-	-	-	(263)	(59)	-	(322)
Other income	241	-	-	-	-	-	50	291
Other expenses	(73)	-	-	-	-	-	-	(73)
Operating expenses	(466)	(417)	(934)	(79)	(78)	(13)	(506)	(2 493)
<b>Net operating profit/(loss) before impairment losses, revaluation losses and other losses</b>	<b>381</b>	<b>181</b>	<b>593</b>	<b>13</b>	<b>(68)</b>	<b>231</b>	<b>(456)</b>	<b>875</b>
Loss from revaluation of investment property	(42)	-	-	-	-	-	-	(42)
Impairment and provision (losses)/reversal other than on loans and provisions	(5)	17	14	-	(5)	-	-	21
Loan impairment losses	(231)	(89)	(130)	-	-	-	-	(450)
<b>Profit/(loss) before tax</b>	<b>103</b>	<b>109</b>	<b>477</b>	<b>13</b>	<b>(73)</b>	<b>231</b>	<b>(456)</b>	<b>404</b>
Income tax expense	-	-	-	-	-	-	(85)	(85)
<b>Profit/(loss) after tax</b>	<b>103</b>	<b>109</b>	<b>477</b>	<b>13</b>	<b>(73)</b>	<b>231</b>	<b>(541)</b>	<b>319</b>
Loss on revaluation of available-for-sale financial assets and items reclassified to profit or loss	-	-	-	-	(459)	-	-	(459)
Currency translation differences	-	-	-	-	-	-	1	1
Income tax related to components of other comprehensive income	-	-	-	-	-	-	92	92
<b>Total segments result</b>	<b>103</b>	<b>109</b>	<b>477</b>	<b>13</b>	<b>(532)</b>	<b>231</b>	<b>(448)</b>	<b>(47)</b>

**MDM Bank**  
**Notes to the Interim Consolidated Condensed Financial Information**  
**for the Three-Month Period Ended 31 March 2014 (Unaudited)**  
*(expressed in millions of Russian Roubles – refer to Note 3)*

**13 Analysis by Segment (Continued)**

Segment information for the reportable segments for the three-month period ended 31 March 2013 is set out below:

	<b>Corporate Banking</b>	<b>SME Banking</b>	<b>Retail Banking</b>	<b>Private Banking</b>	<b>Financial Markets</b>	<b>ALM</b>	<b>Unallocated</b>	<b>Consolidated Group</b>
Interest income	2 742	574	2 358	-	516	73	-	6 263
Interest expense	(635)	(113)	(1 344)	(980)	(365)	(231)	-	(3 668)
<b>Net interest income/(expense)</b>	<b>2 107</b>	<b>461</b>	<b>1 014</b>	<b>(980)</b>	<b>151</b>	<b>(158)</b>	<b>-</b>	<b>2 595</b>
Internal funding charge	(2 050)	(168)	297	1 114	78	729	-	-
Fee and commission income	388	393	273	9	30	-	-	1 093
Fee and commission expense	(121)	(122)	(25)	(3)	(2)	-	-	(273)
<b>Net fee and commission income</b>	<b>267</b>	<b>271</b>	<b>248</b>	<b>6</b>	<b>28</b>	<b>-</b>	<b>-</b>	<b>820</b>
Net foreign exchange gain	21	12	35	3	254	-	-	325
Gains less losses from trading and available-for-sale financial assets	-	-	-	-	(20)	-	-	(20)
Other income	203	-	-	-	-	-	-	203
Other expenses	(95)	-	-	-	-	-	(34)	(129)
Operating expenses	(474)	(424)	(949)	(81)	(79)	(13)	(406)	(2 426)
<b>Net operating (loss)/profit before impairment losses, revaluation losses and other losses</b>	<b>(21)</b>	<b>152</b>	<b>645</b>	<b>62</b>	<b>412</b>	<b>558</b>	<b>(440)</b>	<b>1 368</b>
Loss from revaluation of investment property	90	-	-	-	-	-	-	90
Impairment losses other than on loans and provisions	(214)	-	(20)	-	(72)	-	-	(306)
Loan impairment losses	(383)	(208)	(986)	-	(1)	-	-	(1 578)
<b>Net operating (loss)/profit before other gains and losses</b>	<b>(528)</b>	<b>(56)</b>	<b>(361)</b>	<b>62</b>	<b>339</b>	<b>558</b>	<b>(440)</b>	<b>(426)</b>
Loss on fair value adjustment for financial instruments	(23)	-	-	-	-	-	-	(23)
<b>(Loss)/profit before tax</b>	<b>(551)</b>	<b>(56)</b>	<b>(361)</b>	<b>62</b>	<b>339</b>	<b>558</b>	<b>(440)</b>	<b>(449)</b>
Income tax benefit	-	-	-	-	-	-	102	102
<b>(Loss)/profit after tax</b>	<b>(551)</b>	<b>(56)</b>	<b>(361)</b>	<b>62</b>	<b>339</b>	<b>558</b>	<b>(338)</b>	<b>(347)</b>
Loss on revaluation of available-for-sale financial assets and items reclassified to profit or loss	-	-	-	-	(106)	-	-	(106)
Currency translation differences	-	-	-	-	-	-	8	8
Revaluation of premises	-	-	-	-	-	-	(20)	(20)
Income tax related to components of other comprehensive income	-	-	-	-	-	-	25	25
<b>Total segments result</b>	<b>(551)</b>	<b>(56)</b>	<b>(361)</b>	<b>62</b>	<b>233</b>	<b>558</b>	<b>(325)</b>	<b>(440)</b>

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)**

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

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**14 Capital Management**

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

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

Since 1 January 2014 under capital requirements set by the CBR, banks have to maintain certain capital adequacy ratios (statutory capital adequacy ratio, statutory common equity capital ratio and statutory basic equity capital ratio) above the prescribed minimum levels. As at 31 March 2014, these minimum levels are 10% for the statutory capital adequacy ratio, 5.5% for the statutory common equity capital ratio and 5% for the statutory basic equity capital ratio.

As at 31 December 2013 under capital requirements set by the CBR banks have to maintain a ratio of capital to risk weighted assets (statutory capital adequacy ratio) above the prescribed minimum level. As at 31 December 2013, this minimum level is 10%.

MDM Bank was in compliance with the statutory capital adequacy ratios as at 31 March 2014 and 31 December 2013. As at 31 March 2014, the statutory capital of MDM Bank on a stand-alone basis is RUB 35 531 million (31 December 2013: RUB 34 336 million). Since 1 January 2014 there were certain changes in statutory capital calculation used by the CBR for prudential purposes. As at 31 March 2014 the statutory capital adequacy ratio of MDM Bank is 11.6%, the statutory common equity capital ratio - 9.8%, the statutory basic equity capital ratio - 9.2%. As at 31 December 2013 statutory capital adequacy ratio of MDM Bank is 11.9%.

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 March 2014 and 31 December 2013, such minimum externally imposed capital requirement for the total capital ratio is 12%.

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***14 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 March 2014 and 31 December 2013:

	<b>31 March 2014</b>	<b>31 December 2013</b>
<b>Tier 1 capital</b>		
Share capital	4 207	4 207
Share premium	31 852	31 852
Cumulative translation reserve	133	132
Retained earnings	1 085	714
Non-controlling interest	5	3
Less Treasury shares	(5 518)	(5 518)
<b>Total tier 1 capital</b>	<b>31 764</b>	<b>31 390</b>
<b>Tier 2 capital</b>		
Asset revaluation reserves	4 152	4 573
<b>Total tier 2 capital</b>	<b>4 152</b>	<b>4 573</b>
<b>Total capital</b>	<b>35 916</b>	<b>35 963</b>
<b>Risk-weighted assets</b>		
Banking book	233 640	227 575
Trading book	6 738	7 159
<b>Total risk weighted assets</b>	<b>240 378</b>	<b>234 734</b>
<b>Total capital expressed as a percentage of risk-weighted assets (total capital ratio)</b>	<b>14.9</b>	<b>15.3</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)</b>	<b>13.2</b>	<b>13.4</b>

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 March 2014 and 31 December 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.

**15 Fair Value of Financial Instruments**

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

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.

**15 Fair Value of Financial Instruments (Continued)**

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 due to other banks and customer accounts balances, that are payable on demand, is their carrying value. The estimated fair value of due to other banks and customer accounts, that are not payable on demand 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 quoted debt securities in issue is based on quoted market prices at the reporting date without any deduction for transaction costs.

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.

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 March 2014:

	<b>RUB</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>
<b>Financial assets</b>				
Loans to legal entities	9.5%-12.5%	4.5%-6.0%	3.0%-6.0%	-
Loans to individuals	15.5%-20.5%	9.5%-14.5%	9.0%-18.0%	-
<b>Financial liabilities</b>				
Due to other banks	6.0%-6.5%	0.5%-4.5%	0.5%-3.5%	2.5%-3.5%
Customer accounts	1.5%-8.5%	0.5%-4.5%	0.5%-3.0%	3.0%-6.0%
Debt securities in issue	5.0%-6.0%	-	-	-

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:

	<b>RUB</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>
<b>Financial assets</b>				
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%	-
<b>Financial liabilities</b>				
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	5.0%-6.2%	-	-	-

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***15 Fair Value of Financial Instruments (Continued)***Fair value hierarchy*

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 March 2014:

	Quoted market price (Level I)	Inputs other than quoted prices included within Level I that are observable (Level II)	Total
<b>Financial assets</b>			
Derivative financial instruments	-	2 343	<b>2 343</b>
Available-for-sale financial assets			
- owned by the Group	9 468	2 448	<b>11 916</b>
- pledged under sale and repurchase agreements	21 038	-	<b>21 038</b>
<b>Financial liabilities</b>			
Derivative financial instruments	-	1 055	<b>1 055</b>

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
<b>Financial assets</b>			
Derivative financial instruments	-	488	<b>488</b>
Available-for-sale financial assets			
- owned by the Group	4 108	2 780	<b>6 888</b>
- pledged under sale and repurchase agreements	23 185	-	<b>23 185</b>
<b>Financial liabilities</b>			
Derivative financial instruments	-	686	<b>686</b>

The following table analyses the fair value of major 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 March 2014:

	Level I	Level II	Level III	Total fair values	Total carrying amount
<b>Assets</b>					
Loans and advances to customers	-	-	161 123	161 123	160 824
<b>Liabilities</b>					
Due to other banks	-	18 814	-	18 814	18 904
Customer accounts	-	173 500	-	173 500	172 818
Debt securities in issue	-	6 164	-	6 164	5 951

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***15 Fair Value of Financial Instruments (Continued)**

The following table analyses the fair value of major 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 I	Level II	Level III	Total fair values	Total carrying amount
<b>Assets</b>					
Loans and advances to customers	-	-	156 296	156 296	156 047
<b>Liabilities</b>					
Due to other banks	-	17 985	-	17 985	18 075
Customer accounts	-	181 303	-	181 303	180 524
Debt securities in issue	-	6 388	-	6 388	6 135

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

**16 Related Party Transactions**

For the purposes of this interim consolidated condensed financial information, 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 controlling party and entities under his control, directors and key management personnel.

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

	31 March 2014		31 December 2013	
	Amount	% of Total assets	Amount	% of Total assets
Total recognised credit exposure (net of impairment)	10 461	4.00	10 148	3.79
Total recognised and unrecognised credit exposure (net of impairment)	10 475	4.00	10 159	3.79

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)***16 Related Party Transactions (Continued)**

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

	<b>Ultimate controlling party and entities under his control</b>	<b>Directors and key management personnel</b>	<b>Total</b>
<b>Assets</b>			
Loans and advances to customers (gross)	13 149	13	<b>13 162</b>
Loan impairment allowance	(2 701)	-	<b>(2 701)</b>
<b>Total assets</b>	<b>10 448</b>	<b>13</b>	<b>10 461</b>
<b>Liabilities</b>			
Customer accounts			
- Current accounts	221	14	<b>235</b>
- Term deposits	-	110	<b>110</b>
<b>Total liabilities</b>	<b>221</b>	<b>124</b>	<b>345</b>
<b>Credit related commitments</b>	<b>7</b>	<b>7</b>	<b>14</b>

The results of transactions with related parties for the three-month period ended 31 March 2014 are as follows:

	<b>Ultimate controlling party and entities under his control</b>	<b>Directors and key management personnel</b>	<b>Total</b>
Interest income on loans and advances to customers	417	1	<b>418</b>
Interest expense on customer accounts	(1)	(2)	<b>(3)</b>
Loan impairment losses	(91)	-	<b>(91)</b>
Operating expenses	-	(135)	<b>(135)</b>

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

	<b>Ultimate controlling party and entities under his control</b>	<b>Directors and key management personnel</b>	<b>Total</b>
<b>Assets</b>			
Loans and advances to customers (gross)	12 718	40	<b>12 758</b>
Loan impairment allowance	(2 610)	-	<b>(2 610)</b>
<b>Total assets</b>	<b>10 108</b>	<b>40</b>	<b>10 148</b>
<b>Liabilities</b>			
Customer accounts			
- Current accounts	176	10	186
- Term deposits	-	220	220
<b>Total liabilities</b>	<b>176</b>	<b>230</b>	<b>406</b>
<b>Credit related commitments</b>	<b>7</b>	<b>4</b>	<b>11</b>

**MDM Bank****Notes to the Interim Consolidated Condensed Financial Information  
for the Three-Month Period Ended 31 March 2014 (Unaudited)***(expressed in millions of Russian Roubles – refer to Note 3)*

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**16 Related Party Transactions (Continued)**

The results of transactions with related parties for the three-month period ended 31 March 2013 are as follows:

	<b>Ultimate controlling party and entities under his control</b>	<b>Directors and key management personnel</b>	<b>Total</b>
Interest income on loans and advances to customers	322	-	<b>322</b>
Interest expense on customer accounts	-	(2)	<b>(2)</b>
Impairment losses on loans	(1)	-	<b>(1)</b>
Operating expenses	-	(143)	<b>(143)</b>

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