МТИ-Банк
„Межрегиональный торгово-инвестиционный банк"
(Закрытое акционерное общество)
119530, Москва, Очаковское шоссе, д. 32, телефоны: (495) 442-3083, 449-16-00, факс: (495) 442-30-84, E-mail: mti-bank@mti-bank.ru

№

MTI-Bank

Financial Statements and Independent Auditor's Report

31 December 2014

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Исх. № 12/73-А от 29 июня 2015 года

Independent Auditor's Report

To the Shareholders and Board of Directors of MTI-Bank

Audited entity

Name:	MTI-Bank.
Registered by the Central Bank of the Russian Federation:	No.1052 on 3 December 1990.
Record made in the State Register of Legal Entities:	State Registration Number 1077711000080 on 1 June 2007.
Address:	32 Ochakovskoe Shosse, Moscow, 119530, Russian Federation.

Independent auditor

Name:	OOO RIAN-AUDIT.
Record made in the State Register of Legal Entities:	State Registration Number 1037709050664 on 10 June 2003.
Address:	Office 506, 141 Lublinskaya Str., Moscow, 109382, Russian Federation Building 1, 10 Lenskaya Str., Moscow, 129327, Russian Federation.
Membership in self-regulated organization of auditors	Non-profit Partnership "Moscow Audit Chamber".
Number in the register of auditors and audit organizations	10303005835.

We have audited the accompanying financial statements of MTI-Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

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

R.U. Bairamgalin

General Director

OOO RIAN-AUDIT

29 June 2015

Moscow, Russian Federation

(in thousands of Russian Roubles)

Statement of Financial Position

	Note	2014	2013
Assets			
Cash and cash equivalents	5	410,042	303,989
Mandatory cash balances with the Bank of Russia		5,221	15,927
Financial assets held for trading	6	128,285	-
Due from other banks	7	483,861	156,583
Loans and advances to customers	8	338,616	469,079
Fixed assets and intangible assets	9	14,404	16,455
Current income tax assets		-	5,321
Deferred income tax assets	21	-	287
Other assets	10	9,949	2,996
Total assets		**1,390,378**	**970,637**
Liabilities			
Due to customers	11	986,765	586,406
Debt securities issued	12	2,027	49,392
Other liabilities	13	18,197	11,184
Current income tax liabilities		5,714	-
Deferred income tax liabilities	21	1,992	-
Total liabilities		**1,014,695**	**646,982**
Equity			
Share capital	14	249,156	249,156
Other reserves		9,200	9,200
Retained earnings		117,327	65,299
Total equity		**375,683**	**323,655**
Total liabilities and equity		**1,390,378**	**970,637**

Approved for issue and signed on behalf of the Management Board on 29 June 2015.

Niyazov A.N.
Chairman of the Management Board

Starshinina M.D.
Chief Accountant

МТИ-Банк

The notes on pages 9 to 44 are an integral part of these financial statements.

(in thousands of Russian Roubles)

Statement of Profit or Loss and Other Comprehensive Income

	Note	2014	2013
Interest income	16	92,941	77,413
Interest expense	16	(4,746)	(5,970)
Net interest income		**88,195**	**71,443**
Fee and commission income	17	24,640	42,252
Fee and commission expense	17	(2,353)	(2,862)
Net fee and commission income		**22,287**	**39,390**
Net gains arising from trading in foreign currencies		109,120	35,070
Net foreign exchange translation gains / (losses)		27,271	(564)
Provision charge for impairment	18	(38,363)	5,168
Other operating income	19	3,709	1,975
Net operating income		**212,219**	**152,482**
Administrative and other operating expenses	20	(146,945)	(154,164)
Profit / (loss) before tax		**65,274**	**(1,682)**
Income tax (expense)/credit	21	(13,246)	155
Profit / (loss) for the year		**52,028**	**(1,527)**
Other comprehensive income for the year		-	-
Total comprehensive income / (loss) for the year		**52,028**	**(1,527)**

Approved for issue and signed on behalf of the Management Board on 29 June 2015.

Niyazov A.N.
Chairman of the Management Board

Starshinina M.D.
Chief Accountant

МТИ-Банк

(in thousands of Russian Roubles)

Statement of Changes in Equity

	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2013	**184,664**	**6,000**	**131,318**	**321,982**
Share issues	64,492	-	(64,492)	-
Financial assistance from shareholders	-	4,000	-	4,000
Less current income tax	-	(800)	-	(800)
Total comprehensive loss for the year	-	-	(1,527)	(1,527)
Balance at 31 December 2013	**249,156**	**9,200**	**65,299**	**323,655**
Total comprehensive income for the year	-	-	52,028	52,028
Balance at 31 December 2014	**249,156**	**9,200**	**117,327**	**375,683**

Approved for issue and signed on behalf of the Management Board on 29 June 2015.

Niyazov A.N.
Chairman of the Management Board

МТИ-Банк

Starshinina M.D.
Chief Accountant

(in thousands of Russian Roubles)

Statement of Cash Flows

	2014	2013
Cash flows from operating activities		
Interest received	91,320	77,148
Interest paid	(5,194)	(5,460)
Fees and commissions received	22,041	45,133
Fees and commissions paid	(2,353)	(2,862)
Net gains received from trading in foreign currencies	108,552	35,070
Other operating income received	3,553	2,256
Administrative and other operating expenses paid	(141,155)	(150,483)
Income tax paid	-	(1,932)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities	**76,764**	**(1,130)**
Net (increase) / decrease in operating assets		
Mandatory cash balances with the Bank of Russia	10,706	(10,435)
Financial assets held for trading	(128,285)	-
Due from other banks	(327,009)	33,454
Loans and advances to customers	100,578	(207,773)
Other assets	(6,323)	923
Net (increase) / decrease in operating liabilities		
Due to other banks	-	(20,651)
Due to customers	356,523	48,496
Debt securities issued	(47,000)	49,003
Other liabilities	922	(368)
Net cash from /(used in) operating activities	**36,876**	**(108,481)**
Cash flows from investing activities		
Purchases of fixed assets and intangible assets (Note 9)	(2,013)	(940)
Net cash used in investing activities	**(2,013)**	**(940)**
Cash flows from financing activities		
Financial assistance from shareholders	-	4,000
Less income tax paid	-	(800)
Net cash from financing activities	-	**3,200**
Effect of exchange rate changes on cash and cash equivalents	71,190	5,972
Net increase / (decrease) in cash and cash equivalents	**106,053**	**(100,249)**
Cash and cash equivalents at the beginning of the year	303,989	404,238
Cash and cash equivalents at the end of the year (Note 5)	**410,042**	**303,989**

In 2013, financing activities that do not require the use of cash or cash equivalents represent share capital increase by RR 64,492 thousand by means of retained earnings capitalization. Refer to Note 14.

Approved for issue and signed on behalf of the Management Board on 29 June 2015.

Niyazov A.N.
Chairman of the Management Board

МТИ-Банк

Starshinina M.D.
Chief Accountant

Notes to Financial Statements

1. Introduction

MTI-Bank (the "Bank") is a closed joint stock credit institution established under the laws of the Russian Federation in 1990 and operating in various forms since then.

The Bank operates under a banking licenses number 1052 reissued by the Bank of Russia on 6 July 2012 for providing banking services to corporate and retail customers in Russian Roubles and in foreign currencies.

Principal activities. The Bank's principal business activity is corporate and retail banking operations in Russian Federation.

The Bank participates in the State Deposit Insurance System. The System guarantees repayment of 100% of individual deposits up to RR 1,400 thousand per individual in case of the withdrawal of a license of a bank or the Bank of Russia imposed moratorium on payments.

At 31 December 2014, the Bank has 3 operating outlets in Moscow. The Bank has neither branches nor representative offices.

The Bank has neither subsidiaries nor associates.

The actual number of employees of the Bank at 31 December 2014 was 76 (31 December 2013: 63).

Registered address. 32 Ochakovskoe Shosse, Moscow, 119530, Russian Federation.

Functional and presentation currency.
The Bank's functional currency is Russian Rouble. The financial statements are presented in thousands of Russian Roubles ("RR thousands").

As at 31 December 2014 and 2013 the Bank's shareholders were:

Shareholder	31 December 2014		31 December 2013	
	Ownership, %	Nominal amount (RR thousands)	Ownership, %	Nominal amount (RR thousands)
Semashev M.K.	27.44	67,920	27.44	67,920
Potemkin A.V.	20.00	49,498	20.00	49,498
Koromyslov D.I.	15.55	38,493	15.55	38,493
Kondratov N.I.	10.53	26,059	10.53	26,059
Niyazov A.N.	10.06	24,904	10.06	24,904
Osetrov M.Yu.	4.22	10,428	6.71	16,601
Kondratova N.B.	3.54	8,760	3.54	8,760
Tkacheva V.E.	2.62	6,483	2.62	6,483
Kharitonov E.M.	2.49	6,173	-	-
Tkacheva T.Yu.	1.83	4,522	1.83	4,522
Kondratov V.N.	1.72	4,252	1.72	4,252
Total	**100.00**	**247,492**	**100.00**	**247,492**

(in thousands of Russian Roubles)

2. Operating Environment of the Bank

The Bank operates in Russian Federation.

The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory and political environment.

Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Bank of Russia significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. The exchange rate of Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight and other negative economic consequences.

The impact of further political and economical developments in Russia on future operations and financial position of the Bank is at this stage difficult to determine.

3. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of financial assets held for trading.

Transformation statutory accounting reports under RAL into financial statements under IFRS.

The Bank is required to maintain its records in accordance with Russian accounting and banking legislation ("RAL"). These financial statements are based on the Bank's RAL books and records, as adjusted in order to comply with IFRS in all material respects. The reconciliation of equity and profit for the year between RAL and IFRS is presented below:

	2014		2013	
	Equity	Profit for the year	Equity	Profit / (loss) for the year
Statutory accounting reports under RAL	**360,508**	**35,981**	**324,527**	**350**
Provision for impairment of financial assets	23,265	18,462	4,803	4,718
Provision for losses on credit related commitments	1,944	(33)	1,977	(328)
Depreciation	755	(446)	1,201	40
Accrued interest income and expenses	544	549	(5)	5
Hyperinflation effect on non-monetary items	14	(62)	76	-
Fair value of open spot transactions and financial guarantees	(104)	3,167	(3,271)	(2,881)
Deferred taxation	(3,796)	(4,083)	287	(439)
Accrued staff costs	(7,447)	(1,507)	(5,940)	208
Financial assistance from shareholders less current income tax	-	-	-	(3,200)
Financial statements under IFRS	**375,683**	**52,028**	**323,655**	**(1,527)**

3. Basis of Preparation (continued)

The preparation of financial statements under IFRS requires management to make estimates and judgements that affect reported amounts. The areas where judgements and estimates have the most significant effect on the financial statements are disclosed in Note 26.

Hyperinflation accounting
The Russian economy was considered hyperinflationary until 31 December 2002. Therefore, non-monetary assets acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant cumulative inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals and depreciation charge for the reporting period are recognised based on the restated cost of the non-monetary assets and liabilities.

Effective from 1 January 2003, the Russian Federation no longer meets the criteria of IAS 29 "Financial Reporting in Hyperinflationary Economies", and therefore, the Bank ceased applying IAS 29 to current periods and only recognised the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002.

New standards and interpretations effective in the current period
During the current period a number of new standards and interpretations that are applicable to the activities of the Bank became effective. At the reporting date the Bank has adopted the following standards:

Amendments to IAS 32 – *"Offsetting Financial Assets and Financial Liabilities".* The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'. There is no effect of these amendments on the financial statements as the Bank does not have any financial assets and financial liabilities that qualify to offset.

Amendments to IAS 36 – *"Recoverable* Amount Disclosures for Non-Financial A*ssets".* The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have any material impact on the Bank's financial statements.

Amendments to IAS 39 – *"Novation of Derivatives and Continuation of Hedge Accounting".* The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have any material impact on the Bank's financial statements.

IFRIC 21 – *"Levies".* The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have any material impact on the Bank's financial statements.

New standards and interpretations not yet effective
Certain new standards and interpretations have been published at the date of the authorisation of these financial statements that are not yet effective at 31 December 2014 and have not been applied by the Bank in preparing these financial statements.

3. Basis of Preparation (continued)

Amendments to IAS 19 – *"Defined benefit plans: Employee contributions".* The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

IFRS 15 "Revenue from Contracts with Customers". The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

IFRS 9 "Financial Instruments: Classification and Measurement". Key features of the standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Amendments to IFRS 11 – "Accounting for Acquisitions of Interests in Joint Operations". This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

3. Basis of Preparation (continued)

Amendments to IAS 16 and IAS 38 – "Clarification of Acceptable Methods of Depreciation and Amortisation". In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Amendments to IAS 27 – "Equity Method in Separate Financial Statements". The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Amendments to IFRS 10 and IAS 28 – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Annual Improvements to IFRSs 2010-2012. The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; the amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual Improvements to IFRSs 2011-2013. The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

3. Basis of Preparation (continued)

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

Annual Improvements to IFRSs 2012-2014. The amendments affect four standards.

IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset, which has been transferred, constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

4. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Consolidated financial statements
The Bank has not prepared consolidated financial statements, as the Bank has no subsidiaries.

Statement of profit or loss
In accordance with IAS1.81 the Bank has elected to present all items of income end expense items recognized in a period in a single statement of profit or loss and other comprehensive income therefore a separate statement of profit or loss is not presented.

Foreign currency translation
Foreign currency transactions are initially accounted for at the official exchange rate of the Bank of Russia at the date of the transaction. Differences between the contractual exchange rate of a certain transaction and the official exchange rate on the date of the transaction are recognised in profit or loss within net gains arising from trading in foreign currencies.

Monetary assets and liabilities denominated in foreign currency are translated into Russian Roubles at the official exchange rate of the Bank of Russia at the end of the respective reporting period. Foreign exchange gains and losses resulting from the translation of these assets and liabilities are recognised in profit or loss within net foreign exchange translation gains.

At 31 December 2014 the principal rates of exchange used by the Bank for translating foreign currency balances were USD 1 = RR 56.2584 and EUR 1 = RR 68.3427 (2013: USD 1 = RR 32.7292 and EUR 1 = RR 44.9699).

4. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and correspondent accounts. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the Bank of Russia
Mandatory cash balances with the Bank of Russia represent mandatory reserve deposit, which is not available to finance the Bank's day-to-day operations. Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the Bank of Russia, the amount of which depends on the level of funds received by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation and hence this deposit is not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Financial assets
The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; investments held to maturity; and financial assets available-for-sale. Management determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase or sale the asset. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

The Bank derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets at fair value through profit or loss
This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is 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. Derivatives are also categorised as held for trading.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss when the assets are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy. Financial assets at fair value through profit or loss are recognised initially and carried subsequently at fair value, which is determined by reference to quoted market bid prices or by using appropriate valuation techniques.

Realised and unrealised gains and losses arising from financial assets at fair value through profit or loss are recorded in profit or loss in the period in which they arise as net gains arising from financial assets held for trading or net gains arising from financial assets designated at fair value through profit or loss.

Interest income on financial assets at fair value through profit or loss is recorded in profit or loss within interest income on financial assets at fair value through profit or loss.

Dividends on equity instruments are recognised in profit or loss within dividend income when the entity's right to receive payment is established.

4. Summary of Significant Accounting Policies (continued)

Loans and receivables

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 Bank intends to sell immediately or in the short term, which are classified as held for trading; those that the entity upon initial recognition designates as at fair value through profit or loss; and those that the Bank upon initial recognition designates as available for sale.

Loans and receivables comprise due from banks, loans and advances to customers and other financial assets and are recognised when cash is advanced to the borrowers.

Loans and receivables are initially recognised at fair value plus transaction costs and measured subsequently at amortised cost using the effective interest rate method.

Loans originated at interest rates, which differ significantly from market rates are measured at origination at their fair values, being future interest payments and principal payments discounted at market interest rates for similar loans. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognised in profit or loss in the period the loan is issued.

The carrying amount of such loans is subsequently adjusted for amortization of the above difference using the effective interest method, and the related amortization is recorded in profit or loss as interest income.

Renegotiated loans

Where possible, the Bank seeks to restructure problem loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans continue to be subject to an individual or collective impairment assessment, calculating using the loan's original effective interest rate.

Financial assets available-for-sale

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets available-for-sale are initially recognised at fair value plus transaction costs and are measured subsequently at fair value, which is determined by reference to quoted market bid prices. For financial assets where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions and discounted cash flow analysis. Non-marketable financial assets that do not have fixed maturities are stated at cost less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Unrealised gains and losses arising from changes in the fair value of financial assets available-for-sale are recorded in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss is reclassified to profit or loss within net gains arising from financial assets available-for-sale.

Interest income on financial assets available for sale is recorded in profit or loss within interest income on financial assets available for sale. Dividends on equity instruments are recognised in profit or loss within dividend income when the entity's right to receive payment is established.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss, or in due from banks, or in loans and advances to customers, or in financial assets available-for-sale or in investments held to maturity, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

4. Summary of Significant Accounting Policies (continued)

Investments held to maturity
Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank the positive intention and ability to hold to maturity. The Bank determines the classification of investments held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

Investments held to maturity are initially recognised at fair value plus transaction costs and measured subsequently at amortised cost using the effective interest rate method. Interest income on investments held to maturity is recorded in profit or loss within interest income on investments held to maturity.

Borrowings
Borrowings are recognised initially at fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowed funds with interest rates, which differ significantly from market rates, are measured at origination at their fair values, being future interest payments and principal payments discounted at market interest rates for similar loans. The difference between the nominal value and the fair value is recognised in profit or loss. The carrying amount of the borrowings is subsequently adjusted for amortization of the proceeds/losses at origination, and the related expenses are recorded in profit or loss as interest expense using the effective interest method.

Borrowings are due to other banks, due to customers, debt securities issued, subordinated loans, other financial liabilities.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. The difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss within net gains arising from retirement of debt.

Impairment of financial assets carried at amortised cost
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- default or delinquency in interest or principal payments;
- significant financial difficulty of the issuer or obligor;
- a breach of contract terms;
- significant deterioration of the borrower’s or issuer’s competitive position;
- the value of collateral significantly decreases.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank 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 risk 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.

4. Summary of Significant Accounting Policies (continued)

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 discounted at the financial asset's original effective interest rate. 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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Changes in allowances are reported in profit or loss for the related period. When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets 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 related allowance for impairment in profit or loss.

Impairment of financial assets available-for-sale

The Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant (over 20%) or prolonged (over 6 months) decline in the fair value of the security below its cost is objective evidence of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss; increase in their fair value that occurs after the impairment is recorded in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 the profit or loss.

4. Summary of Significant Accounting Policies (continued)

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

Fixed assets
Fixed assets are carried at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged when incurred and included in administrative and other operating expenses.

Depreciation on fixed assets is calculated using the straight-line method to allocate their cost or revalued cost to their residual values over their estimated useful lives, as follows:

	Years
Leasehold improvements	30
Vehicles	5
Computer equipment and office equipment	5
Safe boxes	15

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amounts and are taken into account in determining profit or loss.

Intangible assets
Intangible assets comprise computer software, licenses and other identifiable intangible assets. Separately acquired intangible assets are carried at historical cost less accumulated amortization and impairment provision, where necessary.

Intangible assets have a definite or indefinite useful life. Intangible assets with a definite useful life are amortized over their estimated useful life (10 years). Intangible assets are reviewed for indications of impairment. The assets' useful lives are reviewed at each date of the statement of financial position.

Acquired computer software licenses are recognised as intangible assets at historical cost incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method on the basis of the expected useful lives. Costs associated with maintaining computer software programs are charged when incurred and included in other operating expenses.

Operating leases
Leases of assets, under which the risks and rewards of ownership are effectively retained with the lessor, are classified as operating leases.

Where the Bank is a lessee, the total lease payments are charged to profit or loss on a straight-line basis over the lease term as administrative and other operating expenses.

4. Summary of Significant Accounting Policies (continued)

Where the Bank is a lessor, the Bank presents assets subject to operating leases in the statement of financial position according to the nature of the assets. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term as other operating income. Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in profit or loss in the period in which they are incurred.

Share capital and share premium
Share capital is carried at historical or restated cost (refer to Note 3). Where the Bank purchases its own equity share capital, the consideration paid is deducted from total equity as treasury shares until they are sold. Where such shares are subsequently sold, any consideration received is included in equity.

Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends
Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Provisions
Provisions are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Credit related commitments
In the normal course of business, the Bank enters into credit related commitments, including loan commitments and financial guarantees.

Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties.

Financial guarantee contracts are recognised initially at fair value and remeasured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. Specific provisions are recorded against credit related commitments when losses are considered more likely than not.

Fiduciary activities
Assets and liabilities held by the Bank in its own name, but for the account of third parties, are not reported in the statement of financial position. Commissions received from such operations are shown within fee and commission income in profit or loss.

Derivative financial instruments
Derivative financial instruments, including forwards agreements and foreign exchange contracts are carried at their fair value. All derivative instruments are carried as assets when fair value at the end of the reporting period is positive and as liabilities when fair value at the end of the reporting period is negative. Changes in the fair value of derivative instruments are included in profit or loss.

4. Summary of Significant Accounting Policies (continued)

Income and expense recognition
Interest income and expense are recognised on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Staff costs and related contributions
Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, pensions, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

The Bank does not have any pension arrangements separate from the Russian Federation state pension system, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

Taxation
Taxation has been provided for in the financial statements in accordance with taxation legislation currently in force in the Russian Federation. The income tax charge in profit or loss comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the reporting date. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductible temporary differences can be utilised.

Deferred tax balances are measured at tax rates enacted or substantively enacted by the reporting date, which are expected to apply to the period when the temporary differences will reverse.

(in thousands of Russian Roubles)

5. Cash and Cash Equivalents

	2014	2013
Cash on hand	58,854	39,501
Cash balances with the Bank of Russia (other than mandatory reserve deposit)	233,977	92,172
Correspondent accounts with Russian banks	116,554	162,736
Correspondent accounts with foreign banks	657	9,580
Total cash and cash equivalents	**410,042**	**303,989**

6. Financial Assets Held For Trading

	2014	2013
Promissory notes	128,285	-
Total financial assets held for trading	**128,285**	**-**

At 31 December 2014, financial assets held for trading are represented by promissory notes issued by Russian banks with maturity in 2015 and interest rates between 15%-29% p.a. (2013: nil).

7. Due from Other Banks

	2014	2013
Correspondent accounts with a minimum balance	3,555	6,546
Term loans and deposits with banks	480,306	150,037
Total due from other banks	**483,861**	**156,583**
Current	483,861	156,583

8. Loans and Advances to Customers

	2014	2013
Corporate loans	208,087	231,418
Consumer loans	119,868	178,013
Cessions	49,443	67,193
Loans and advances to customers before provision for loan impairment	**377,398**	**476,624**
Provision for loan impairment	(38,782)	(7,545)
Total loans and advances to customers	**338,616**	**469,079**
Current	266,591	196,207
Non-current	72,026	272,872

Movements in the provision for impairment of loans and advances to customers were as follows:

(in thousands of Russian Roubles)

8. Loans and Advances to Customers (continued)

	Corporate loans	Consumer loans	Cessions	Total
Balance at 1 January 2013	**8,147**	**4,515**	**-**	**12,662**
Charge / (reversal) for the year	(4,907)	(4,218)	4,008	(5,117)
Balance at 31 December 2013	**3,240**	**297**	**4,008**	**7,545**
Charge for the year	18,123	3,662	9,452	31,237
Balance at 31 December 2014	**21,363**	**3,959**	**13,460**	**38,782**

9. Fixed Assets and Intangible Assets

	Leasehold improvements	Vehicles	Other equipment	Intangible assets	Total
Carrying amount at 1 January 2014	**5,171**	**1,039**	**10,242**	**3**	**16,455**
Cost					
Balance at 1 January 2014	5,877	1,681	21,374	51	28,983
Additions for the year	646	-	1,367	-	2,013
Disposals for the year	-	-	(324)	-	(324)
Balance at 31 December 2014	**6,523**	**1,681**	**22,417**	**51**	**30,672**
Accumulated depreciation					
Balance at 1 January 2014	(706)	(642)	(11,132)	(48)	(12,528)
Depreciation charge	(198)	(337)	(3,482)	(3)	(4,020)
Eliminated on disposals	-	-	280	-	280
Balance at 31 December 2014	**(904)**	**(979)**	**(14,334)**	**(51)**	**(16,268)**
Carrying amount at 31 December 2014	**5,619**	**702**	**8,083**	**-**	**14,404**

(in thousands of Russian Roubles)

9. Fixed Assets and Intangible Assets (continued)

	Leasehold improvements	Vehicles	Other equipment	Construction in progress	Intangible assets	Total
Carrying amount at 1 January 2013	**5,246**	**1,376**	**8,315**	**4,521**	**8**	**19,466**
Cost						
Balance at 1 January 2013	5,759	1,681	16,293	4,521	51	28,305
Additions for the year	118	-	822	-	-	940
Transfer between categories	-	-	4,521	(4,521)	-	-
Disposals for the year	-	-	(262)	-	-	(262)
Balance at 31 December 2013	**5,877**	**1,681**	**21,374**	**-**	**51**	**28,983**
Accumulated depreciation						
Balance at 1 January 2013	(513)	(305)	(7,978)	-	(43)	(8,839)
Depreciation charge	(193)	(337)	(3,397)	-	(5)	(3,932)
Eliminated on disposals	-	-	243	-	-	243
Balance at 31 December 2013	**(706)**	**(642)**	**(11,132)**	**-**	**(48)**	**(12,528)**
Carrying amount at 31 December 2013	**5,171**	**1,039**	**10,242**	**-**	**3**	**16,455**

Construction in progress consists of construction or refurbishment of the Bank's property and equipment. Upon completion, assets are transferred to property or equipment categories. Construction in progress is not depreciated until the asset is available for use.

As of 31 December 2014, equipment with a cost of RR 6,021 thousand (2013: RR 2,451 thousand) has been fully depreciated, but is still in use.

10. Other Assets

	2014	2013
Other financial assets		
Fair value of open spot transactions	568	-
Accrued non-interest income	164	8
Provision for impairment of other financial assets	(164)	(2)
Total other financial assets	**568**	**6**
Other non-financial assets		
Prepayments for goods and services	6,577	1,260
Tax advances other than income tax	1,726	440
Deferred expenses	903	923
Inventory	175	367
Total other non-financial assets	**9,381**	**2,990**
Total other assets	**9,949**	**2,996**

(in thousands of Russian Roubles)

10. Other Assets (continued)

Movements in the provision for impairment of other assets were as follows:

	2014	2013
Balance at 1 January	2	56
Charge / (reversal) for the year	162	(51)
Amounts written off during the year as uncollectible	-	(3)
Balance at 31 December	**164**	**2**

11. Due to Customers

	2014	2013
State and public organizations:		
- Current/settlement accounts	170,020	-
Other corporate customers:		
- Current/settlement accounts	730,364	492,464
- Term deposits	1,248	10,383
Individuals:		
- Current/demand accounts	49,159	30,706
- Term deposits	35,974	52,853
Total due to customers	**986,765**	**586,406**
Current	954,514	569,169
Non-current	32,251	17,237

The Bank repaid its debts in due time and met all the other debt agreement terms during 2014 and 2013.

As at 31 December 2014, the Bank's 10 largest groups of interrelated customers had aggregated balances amounted to RR 664,465 thousand or 67.3% of total due to customers (2013: RR 357,905 thousand or 61.0%).

As at 31 December 2014, deposits of RR 1,080 thousand (2013: RR 4,617 thousand) were held as collateral against commitments under guarantees. Refer to Note 23.

12. Debt Securities Issued

	2014	2013
Promissory notes	2,027	49,392
Total debt securities issued	**2,027**	**49,392**
Current	2,027	32,485
Non-current	-	16,907

Promissory notes represent debt securities issued by the Bank in the local market, which act as alternative to customer/bank deposits.

As at 31 December 2014, promissory notes comprise interest bearing securities and have a maturity in 2015 (2013: in 2014-2015).

As at 31 December 2014, promissory notes of RR 883 thousand were held as collateral against commitments under guarantees issued by the Bank (2013: RR 2,683 thousand). Refer to Note 23.

13. Other Liabilities

	2014	2013
Other financial liabilities		
Amounts received on the correspondent accounts to clarify	375	-
Payables on bank card settlements	60	-
Total other financial liabilities	**435**	**-**
Other non-financial liabilities		
Provision for credit related commitments	6,964	-
Payable to employees	5,753	4,562
Taxes payable other than on income	2,137	1,591
Deferred income	1,775	1,485
Deferred commissions received on guarantees issued	672	3,271
Accrued operating expenses	461	275
Total other non-financial liabilities	**17,762**	**11,184**
Total other liabilities	**18,197**	**11,184**

Movements in the provision for credit related commitments were as follows:

	2014	2013
Balance at 1 January	-	-
Charge for the year	6,964	-
Balance at 31 December	**6,964**	**-**

14. Share capital

Authorised, issued and fully paid share capital of the Bank comprises:

	31 December 2014 and 2013		
	Number of shares (in units)	**Nominal amount (in thousands of Russian Roubles)**	**Hyperinflation adjusted amount (in thousands of Russian Roubles)**
Ordinary shares	2,474,922	247,492	249,156
Total share capital	**2,474,922**	**247,492**	**249,156**

All ordinary shares have a nominal value of RR 100 per share. Each ordinary share carries one vote. Preferred shares are not provided by the Bank's statutes.

On 22 April 2013, the Annual General Meeting of MTI-Bank shareholders resolved to increase share capital of the Bank by RR 33,437 thousand by means of retained earnings capitalization. The Bank of Russia registered the issue on 21 October 2013.

On 15 May 2012, the Annual General Meeting of MTI-Bank shareholders resolved to increase share capital of the Bank by RR 31,055 thousand by means of retained earnings capitalization. The Bank of Russia registered the issue on 15 February 2013.

(in thousands of Russian Roubles)

15. Retained Earnings per Russian Accounting Legislation

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to general reserve fund on the basis of statutory accounting reports prepared in accordance with Russian Accounting Legislation.

As at 31 December 2014, retained earnings for prior years under RAL amount to RR 71,035 thousand (2013: RR 70,685 thousand), including general reserve fund in the amount of RR 70,685 thousand (2013: RR 70,685 thousand). Retained earnings for 2014 under RAL amount to RR 35,981 thousand (2013: RR 350 thousand).

16. Interest Income and Expense

	2014	2013
Interest income		
Due from other banks	16,074	22,066
Loans and advances to customers	75,405	55,347
Financial assets held for trading	1,462	-
Total interest income	**92,941**	**77,413**
Interest expense		
Due to other banks	-	205
Deposits of individuals	2,349	3,918
Deposits of legal entities	33	180
Debt securities issued	2,364	1,667
Total interest expense	**4,746**	**5,970**
Net interest income	**88,195**	**71,443**

17. Fee and Commission Income and Expense

	2014	2013
Fee and commission income		
Commission on currency control	8,491	18,685
Commission on cash and settlement transactions	7,839	9,449
Commission on guarantees issued	4,357	7,204
Commission on retail and corporate money transfers	2,616	5,633
Commission on bank cards settlements	1,337	1,281
Total fee and commission income	**24,640**	**42,252**
Fee and commission expense		
Commission on cash and settlement transactions	1,795	2,423
Commission on money transfers	552	430
Other	6	9
Total fee and commission expense	**2,353**	**2,862**
Net fee and commission income	**22,287**	**39,390**

(in thousands of Russian Roubles)

18. Provision Charge for Impairment

	2014	2013
Loans and advances to customers (Note 8)	(31,237)	5,117
Other assets (Note 10)	(162)	51
Credit related commitments (Note 13)	(6,964)	-
Total provision charge for impairment	**(38,363)**	**5,168**

19. Other Operating Income

	2014	2013
Rental income	2,582	1,893
Income from information services	61	25
Income from purchase the Bank's debt securities in issue	356	-
Other	710	57
Total other operating income	**3,709**	**1,975**

20. Administrative and Other Operating Expenses

	2014	2013
Staff costs	85,061	93,349
Rent expenses	22,172	20,304
Security expenses	12,658	13,866
Taxes other than on income	8,252	8,793
Repair and maintenance	5,421	4,345
Telecommunication expenses	4,099	3,777
Depreciation of fixed assets and intangible assets	4,020	3,932
Administrative expenses	2,742	3,028
Professional fees	2,023	1,965
Contributions to the State Deposit Insurance Agency	334	494
Insurance	104	93
Advertising and marketing	31	213
Other	28	5
Total administrative and other operating expenses	**146,945**	**154,164**

(in thousands of Russian Roubles)

21. Income Tax

Income tax expenses for 2014 and 2013 charged to profit or loss consist of the following components:

	2014	2013
Current tax expense	10,967	206
Deferred taxation movement due to the origination and reversal of temporary differences	2,279	439
Less current tax expense recognized directly in equity	-	(800)
Income tax expense / (credit) for the year	**13,246**	**(155)**

The income tax rate applicable to the majority of the Bank's income for 2014 is 20% (2013: 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

	2014	2013
IFRS profit / (loss) before tax	**65,274**	**(1,682)**
Theoretical tax charge at statutory rate (20%)	13,055	(336)
Non tax deductible expenditures	135	201
Other non-temporary differences	56	(20)
Income tax expense / (credit) for the year	**13,246**	**(155)**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2013: 20%).

Deferred tax assets and liabilities comprise:

	2014	Movement	2013
Tax effect of deductible temporary differences:			
- Accrued interest income	177	4	173
- Provision for credit related commitments	1,393	1,393	-
- Fair value of guarantees issued	134	(520)	654
- Provision for impairment of other assets	33	33	-
- Accrued staff costs	1,489	301	1,188
Gross deferred tax asset	**3,226**	**1,211**	**2,015**
Tax effect of taxable temporary differences:			
- Fair value of open spot transactions	114	114	-
- Fixed assets	577	(220)	797
- Provision for impairment of financial assets	4,527	3,596	931
Gross deferred tax liabilities	**5,218**	**3,490**	**1,728**
Total net deferred tax (liabilities) / assets	**(1,992)**	**(2,279)**	**287**
including:			
- charged to profit or loss	(1,992)	(2,279)	287

22. Financial Risk Management

The Bank's activities expose it to a variety of financial risks. Management of risks is fundamental to the banking business and is an essential element of the Bank's operations. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's financial risk management policies are designed to identify and analyse credit, market and liquidity risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Bank has established the following procedure for the involvement of governing bodies and business units in management of principal banking risks:

The Board of Directors

- establishes Bank's risks and capital management strategies, including as it relates to ensuring capital adequacy and liquidity to cover risks in the entire Bank, as well as in certain business segments, and also establishes management procedures for the most significant risks for the Bank and controls over the implementation of these procedures;
- establishes the application of bank risks management procedures and quantitative risk assessment models, including assets and liabilities valuations, off-balance sheet assets and liabilities valuation, as well as scenarios and stress tests results;
- establishes the list of banking transactions and other deals the performing of which requires quality assessment of corporate management of legal entity being a counterparty;
- controls over Bank's executive bodies for timely detection of bank risks, adequate assessment (evaluation) of their volumes, timely implementation of necessary control procedures.

Chairman of the Management Board and the Management Board of the Bank

- develop schemes, rules and procedures of bank risks management, ensure efficiency of bank risks management system, analyze quality of bank risks management;
- take decisions on banking transactions and other deals in case of deviations from schemes and procedures stipulated by the internal documents and in case the departments excess the internal limits of banking transactions and other deals (excluding banking transactions and other deals that require the approval of the General Shareholders Meeting or the Board of Directors).

The Credit Committee

- establishes and makes changes to the principles of Bank credit policy;
- considers and takes out conclusion according to drafts of internal documents (changes and additions to them), associated with the Bank credit policy, before the approval by the authorized management body of the Bank;
- controls over implementation of Bank credit policy;
- sets limits on customers of the Bank;
- sets personal limits on authorized officers of the Bank.

22. Financial Risk Management (continued)

Risks Management Service

- develops a report form system of management accounting to analyze the quality of assets and liabilities, liquidity cushion and flow liquidity, financial results of the Bank activity, Bank's brunches assessment of efficiency, control over customer base condition;
- develops and implements a complex analytic system for comparative profitability evaluation of different groups of assets, costs of resources and analysis and forecast of Bank profitability;
- develops, implements and (or) appraises bank risks estimation procedures, develops and implements measures, procedures, mechanisms and technologies to limit and (or) reduce them;
- monitors, evaluates and controls bank risks.

Internal Control Service

- implements measures for effective management and minimization of compliance risk, as well as provides the results of this work to the executive bodies of the Bank on annual basis, and to the Board of Directors on its request.

Internal Audit Service

- exercises internal control and assists Bank regulatory bodies to provide effective Bank functioning;
- carries out inspections of application completeness and methodology effectiveness of bank risks assessment and bank risks management procedures (methods, programs, rules, schemes and procedures of bank transactions and deals, bank risks management);
- carries out on a regular basis monitoring of functioning of internal control system in order to evaluate its compliance with the targets of the Bank functioning, troubleshooting, proposal development and control over decision implementation to improve Bank internal control system.

In the framework of organizational structure of the Bank as a whole, detection and control over both, internal and external, risk factors is carried out. Special attention is paid on preparation of reports on risks which are used for identification of the whole variety of risks and serves as a basis to determine the required procedures to reduce them. Reports on risks are submitted to the Board of Directors at least every six months, to the Management Board at least quarterly. In case of serious threat to the Bank due to increase of any risk, Risks Management Service shall inform the Chairman of the Management Board and the Management Board of the Bank immediately.

Concentrations arise when a number of financial instruments have similar economic features and are similarly affected by changes in economic, political or other conditions. In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

22.1 Credit Risk

The Bank is exposed to credit risk, which is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations in whole when due. Credit risk exposure arise principally from loans and advances to customers and banks, investments in debt securities, issuance of guarantees, loan commitments.

In terms of credit risk management the Bank adheres to conservative approaches, applies methods and procedures required by regulating bodies. While arranging risk management procedures, the Bank is also guided by international banking standards.

22. Financial Risk Management (continued)

The system of committing credit operations, assessment and ongoing monitoring of financial position of the borrower, collateral assessment procedures are regulated by the Credit policy of the Bank approved by Board of directors of the Bank.

In case of acceptance of credit risks by the Bank, credit risk management system is organized and operates which consists in comprehensive study of history of the borrower, his financial position, business reputation, assessment of collateral quality and debt service.

The credit risk management system involves the following units of the Bank: the Management Board, the Credit Committee, Risk Management Service, Department of Dealing Operations, Credit Department, the Board of Directors and the Shareholders' Meeting. Internal Audit Service is responsible for monitoring compliance with the Credit policy requirements and procedures.

In order to assess the credit risk the Bank classifies its loans and advances according to five categories: standard, substandard, doubtful, problem and loss. This classification depends on financial position of underlying borrower and debt servicing quality.

For credit risk assessment on loans to other banks and investments in debt securities at the stage of agreements, monitoring of history of relations between the Bank and the Bank's counterparties / issuers, an assessment of their business reputation and market strategy are carried out and, where possible, the external ratings assigned by rating agencies are used.

The Bank controls credit risk by setting limits for single counterparty or groups of interrelated counterparties, geographical regions and industry sectors, and by performing regular monitoring of compliance with these limits. These limits are subject to approval by the Management Board.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

Exposure to credit risk is also managed by obtaining collateral, corporate and personal guarantees. The main types of collateral for loans to customers are real estate, premises, inventory and equipment, debt securities and equities.

Investments in debt securities and loans to other banks are generally unsecured. In respect to off-balance sheet financial instruments the Bank uses the same credit policies as it does for on-balance sheet financial instruments through established credit approvals, risk control limits, collaterals and monitoring procedures.

Internal and external ratings used by the Bank for credit risk management as well for meeting the requirements banking supervision are mostly concentrated on expected losses at the moment of credit issue or investments in securities. At the same time, provision for impairment is recognized in financial statements only for losses, which were incurred as on the reporting date basing on objective evidences confirming that within the period after initial recognition impairment took place. Due to differences in methodologies applied, the volume of credit losses incurred calculated for financial statements is usually lower than those, which were determined based on expected losses model.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- default or delinquency in interest or principal payments;
- significant financial difficulty of the issuer or obligor;
- a breach of contract terms;
- significant deterioration of the borrower's or issuer's competitive position;
- the value of collateral significantly decreases.

The procedure for determination of impairment loss applied by the Bank is disclosed in Note 4.

(in thousands of Russian Roubles)

22. Financial Risk Management (continued)

Maximum exposure to credit risk before the effect of collateral agreements

The maximum credit risk exposure, ignoring the fair value of any collateral, is equal to the carrying value of financial assets and the nominal value of credit related commitments as disclosed in the table below.

The Bank considers that the credit risk on amounts due from the Bank of Russia is equal to zero therefore the analysis of credit risk on these instruments is not carried out.

31 December 2014	Neither past due nor impaired	Impaired	Collectively determined to be impaired	Gross	Individually assessed provision	Collectively assessed provision	Net
Credit risk exposures relating to on-balance sheet items:							
Correspondent accounts with banks	117,211	-	-	**117,211**	-	-	**117,211**
Debt securities held for trading	128,285	-	-	**128,285**	-	-	**128,285**
Loans to banks	483,861	-	-	**483,861**	-	-	**483,861**
Corporate loans	149,954	58,133	-	**208,087**	(17,464)	(3,899)	**186,724**
Consumer loans	112,158	7,710	-	**119,868**	(3,734)	(225)	**115,909**
Cessions	-	13,208	36,235	**49,443**	(6,448)	(7,012)	**35,983**
Other financial assets	568	-	164	**732**	-	(164)	**568**
Credit risk exposures relating to off-balance sheet items:							
Financial guarantees	35,450	-	-	**35,450**	(6,964)	-	**28,486**
Undrawn loan commitments	22,500	-	-	**22,500**	-	-	**22,500**
Total	**1,049,987**	**79,051**	**36,399**	**1,165,437**	**(34,610)**	**(11,300)**	**1,119,527**

31 December 2013	Neither past due nor impaired	Impaired	Collectively determined to be impaired	Gross	Individually assessed provision	Collectively assessed provision	Net
Credit risk exposures relating to on-balance sheet items:							
Correspondent accounts with banks	172,316	-	-	**172,316**	-	-	**172,316**
Loans to banks	156,583	-	-	**156,583**	-	-	**156,583**
Corporate loans	231,418	-	-	**231,418**	-	(3,240)	**228,178**
Consumer loans	177,803	210	-	**178,013**	(21)	(276)	**177,716**
Cessions	5,248	-	61,945	**67,193**	-	(4,008)	**63,185**
Other financial assets	-	-	8	**8**	-	(2)	**6**
Credit risk exposures relating to off-balance sheet items:							
Financial guarantees	98,922	-	-	**98,922**	-	-	**98,922**
Undrawn loan commitments	15,800	-	-	**15,800**	-	-	**15,800**
Total	**858,090**	**210**	**61,953**	**920,253**	**(21)**	**(7,526)**	**912,706**

(in thousands of Russian Roubles)

22. Financial Risk Management (continued)

Loans and advances to customers

Renegotiated loans are loans that would otherwise be past due or impaired.

The credit quality of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank as follows:

	31 December 2014			31 December 2013		
	Standard	**Substandard**	**Doubtful**	**Standard**	**Substandard**	**Doubtful**
Corporate loans	-	100,358	49,596	-	188,150	43,268
Consumer loans	4,029	49,741	58,388	4,561	165,517	7,725
Cessions	-	-	-	-	5,248	-
Total	**4,029**	**150,099**	**107,984**	**4,561**	**358,915**	**50,993**

As of 31 December 2014 and 2013, the Bank has no past due but not impaired loans and advances to customers.

As of 31 December 2014, individually impaired loans are not collateralised or the fair value of collateral cannot be reliably estimated. As of 31 December 2013, there was a decrease in the amount of allowance for impaired consumer loans of RR 309 thousand after taking into consideration the fair value of collateral pledged. These loans were collateralized by real estate.

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. The Bank did not repossess any collateral during 2013 and 2014.

Placements with other banks and investments in debt securities

The tables below present an analysis by credit quality of placements with other banks and investments in debt securities according to current credit rating of international rating agencies. The highest possible rating is AAA. Investment grade of the financial assets have ratings from AAA to BBB-. Financial assets which have rating lower then BBB- are classified as a speculative grade.

31 December 2014	**A- to AAA**	**BBB- to BBB+**	**BB- to BB+**	**B- to B+**	**Not rated**	**Total**
Correspondent accounts with banks	-	-	59,549	57,005	657	**117,211**
Debt securities held for trading	-	128,285	-	-	-	**128,285**
Loans to banks	-	-	-	483,861	-	**483,861**
Total	**-**	**128,285**	**59,549**	**540,866**	**657**	**729,357**

31 December 2013	**A- to AAA**	**BBB- to BBB+**	**BB- to BB+**	**B- to B+**	**Not rated**	**Total**
Correspondent accounts with banks	-	8,686	100,076	62,660	894	**172,316**
Loans to banks	-	-	50,008	106,575	-	**156,583**
Total	**-**	**8,686**	**150,084**	**169,235**	**894**	**328,899**

Credit risk concentration

Concentration of credit risk is managed by counterparty, by geographical region and by industry sector.

As of 31 December 2014, the maximum credit exposure to any group of interrelated borrowers was RR 58,388 thousand, or 16% of the Bank's capital calculated in accordance with the Basel Accord guidelines (2013: RR 60,000 thousand or 19%). The ratio is within the limits generally accepted in banking practice (25% of the capital).

(in thousands of Russian Roubles)

22. Financial Risk Management (continued)

As of 31 December 2014, the total aggregate amount of loans to the largest groups of interrelated borrowers with loan amounts due from each of these groups exceeding 10% of the Bank's capital was RR 98,888 thousand, or 26% of the Bank's capital (2013: RR 261,798 thousand or 81%). The ratio is within the limits generally accepted in banking practice (400% of the capital). The calculation of the Bank's capital in accordance with the Basel Accord guidelines is disclosed in Note 27.

As of 31 December 2014 and 2013, all the loans and advances were granted to Russian customers and banks except for correspondent accounts with OECD banks in the amount of RR 657 thousand (2013: RR 9,580 thousand).

The following tables break down the Bank's credit exposure at carrying amounts, as categorised by the industry sectors of the Bank's counterparties as of 31 December 2014 and 2013:

31 December 2014	Finance	Trade	Manufacturing	Service	Individuals	Total
Credit risk exposures relating to on-balance sheet items:						
Correspondent accounts with banks	117,211	-	-	-	-	**117,211**
Debt securities held for trading	128,285	-	-	-	-	**128,285**
Loans to banks	483,861	-	-	-	-	**483,861**
Corporate loans	11,557	171,065	-	4,102	-	**186,724**
Consumer loans	-	-	-	-	115,909	**115,909**
Cessions	-	-	-	-	35,983	**35,983**
Other financial assets	568	-	-	-	-	**568**
Credit risk exposures relating to off-balance sheet items:						
Financial guarantees	-	2,523	3,300	22,663	-	**28,486**
Undrawn loan commitments	-	20,000	-	2,500	-	**22,500**
Total	**741,482**	**193,588**	**3,300**	**29,265**	**151,892**	**1,119,527**

31 December 2013	Finance	Trade	Operations with real estate	Manufacturing	Service	Individuals	Total
Credit risk exposures relating to on-balance sheet items:							
Correspondent accounts with banks	172,316	-	-	-	-	-	**172,316**
Loans to banks	156,583	-	-	-	-	-	**156,583**
Corporate loans	-	164,137	57,188	-	6,853	-	**228,178**
Consumer loans	-	-	-	-	-	177,716	**177,716**
Cessions	-	-	-	-	-	63,185	**63,185**
Other financial assets	6	-	-	-	-	-	**6**
Credit risk exposures relating to off-balance sheet items:							
Financial guarantees	-	7,775	31,586	44,645	14,916	-	**98,922**
Undrawn loan commitments	-	15,800	-	-	-	-	**15,800**
Total	**328,905**	**187,712**	**88,774**	**44,645**	**21,769**	**240,901**	**912,706**

(in thousands of Russian Roubles)

22. Financial Risk Management (continued)

22.2 Liquidity Risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Bank has developed and applied the Policy for management and evaluation of liquidity. The bodies responsible for development, approval and implementation of the Policy, taking decisions on liquidity management, ensuring effective liquidity management, organization of control over liquidity and the implementation of relevant decisions are the Board of Directors, Management Board, Chairman of the Board, Risk Management Service and the Internal Audit Service. Structural units responsible for managing short-term liquidity (instant and current) are Department of Dealing Operations and Credit Department.

The Bank maintains the adequate liquidity level in order to ensure continuous availability of funds, required to fulfill its obligations as they fall due. Calculation and continuous monitoring of net liquidity position in Roubles and foreign currencies is carried out on daily basis. Liquidity management is made on the basis of cash flows analysis, taking into account reasonable terms of assets disposals, claiming and repayment of obligations. Based on result of cash flows analysis in every particular moment of a workday, total Bank's necessity of liquid funds is determined and required conditions to conduct continuous current transactions and to fulfill bank obligations are provided.

Every month the Bank evaluates a possibility to increase assets not related to liquid asset (mainly loans) and optimal investment periods. Survey on long-term liquidity is constantly carried out, but not less than once a month, by providing information on excess / lack of long-term liquidity to the Management of the Bank for review in order to take relevant management decisions to control long-term liquidity.

When the liquidity is being analyzed, all possible negative scenarios shall be accounted, depending on the nature of risks. The Management Board, based on assets management police, sets the limits of investments in liquid and non-liquid assets that limits the possibility of excess accumulation of recourses in this or that type of assets. It allows to diversify the structural risks of investments.

The necessity of liquid funds is planned. Limits on claims and obligation are established on terms. In case of insufficient liquidity the measures of assets restructuring are developed and implemented. Performance of liquidity ratios is controlled on daily basis.

The Bank of Russia has established instant (within one day), current (within 30 days) and long-term (after one year) liquidity ratios (N2, N3 and N4), which the Russian banks monitor against regulatory requirements on daily basis.

During the reporting periods these ratios were as follows:

	N2	N2	N3	N3	N4	N4
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
	%	%	%	%	%	%
31 December	43.1	56.4	95.5	83.1	16.9	75.7
Average	78.3	94.3	88.1	106.3	30.8	51.2
Maximum	93.3	138.1	112.1	142.9	73.2	75.7
Minimum	43.1	56.4	73.3	82.9	12.9	30.2
	minimum	**minimum**	**minimum**	**minimum**	**maximum**	**maximum**
Required level	**15%**	**15%**	**50%**	**50%**	**120%**	**120%**

(in thousands of Russian Roubles)

22. Financial Risk Management (continued)

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities and credit related commitments by remaining contractual maturities at the date of the statement of financial position. The table includes both interest and principal cash flows, so totals amounts for the items in this table do not match amounts reported in the statement of financial position. The Bank does not use the undiscounted contractual maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities of interest bearing assets and liabilities, the analysis of which is presented below under "Interest Rate Risk".

31 December 2014	Less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Due to customers	949,908	1,383	4,875	35,283	**991,449**
Debt securities issued	1,132	581	318	-	**2,031**
Other financial liabilities	435	-	-	-	**435**
Total potential future payments for financial obligations	**951,475**	**1,964**	**5,193**	**35,283**	**993,915**
Undrawn credit lines	22,500	-	-	-	**22,500**
Guarantees issued	35,450	-	-	-	**35,450**

31 December 2013	Less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Due to customers	535,559	17,641	17,718	18,523	**589,441**
Debt securities issued	-	2,006	32,761	18,415	**53,182**
Total potential future payments for financial obligations	**535,559**	**19,647**	**50,479**	**36,938**	**642,623**
Undrawn credit lines	15,800	-	-	-	**15,800**
Guarantees issued	98,922	-	-	-	**98,922**

The analysis does not reflect the historical stability of current accounts. These balances are included in amounts due less than 1 month in the tables above but their liquidation has historically taken place over a longer period.

The total outstanding contractual amount of undrawn loan commitments as included in the above maturity tables does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The maturity analysis of liabilities includes issued financial guarantees at the maximum amount of the guarantee in the earliest period in which the guarantee could be called. Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment disclosed in the above maturity analysis as the Bank does not generally expect the third party to draw funds under the agreement.

22.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(in thousands of Russian Roubles)

22. Financial Risk Management (continued)

The Bank's bodies responsible for market risks management and control are the Board of Directors, Management Board, Chairman of the Board, Risk Management Service, Internal Audit Service, as well as units conducting financial transactions (Dealing Operations Department, other structural units involved in financial transactions).

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event of unexpected movements.

The table below presents the interest sensitivity gap analysis of the Bank as of 31 December 2014 and 2013. Included in the table are the Bank's interest earning assets and interest bearing liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2014	**Less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Interest earning assets					
Debt securities held for trading	128,285	-	-	-	128,285
Due from other banks	483,861	-	-	-	483,861
Loans and advances to customers	49,482	154,825	62,283	72,026	338,616
Total interest earning assets	**661,628**	**154,825**	**62,283**	**72,026**	**950,762**
Interest bearing liabilities					
Term deposits of customers	226	724	4,021	32,251	37,222
Debt securities issued	1,130	580	317	-	2,027
Total interest bearing liabilities	**1,356**	**1,304**	**4,338**	**32,251**	**39,249**
Net interest sensitivity gap	**660,272**	**153,521**	**57,945**	**39,775**	**911,513**
Weighting factor	1%	1%	3.50%	8%	
Adjusted interest rate gap	6,603	1,535	2,028	3,182	13,348
Interest rate risk ratio	**1.76%**	**0.41%**	**0.54%**	**0.85%**	**3.55%**

31 December 2013	**Less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Interest earning assets					
Due from other banks	156,583	-	-	-	156,583
Loans and advances to customers	58,250	22,104	115,853	272,872	469,079
Total interest earning assets	**214,833**	**22,104**	**115,853**	**272,872**	**625,662**
Interest bearing liabilities					
Term deposits of customers	12,159	16,590	17,250	17,237	63,236
Debt securities issued	-	2,000	30,485	16,907	49,392
Total interest bearing liabilities	**12,159**	**18,590**	**47,735**	**34,144**	**112,628**
Net interest sensitivity gap	**202,674**	**3,514**	**68,118**	**238,728**	**513,034**
Weighting factor	1%	1%	3.50%	8%	
Adjusted interest rate gap	2,027	35	2,384	19,098	23,544
Interest rate risk ratio	**0.63%**	**0.01%**	**0.74%**	**5.90%**	**7.27%**

(in thousands of Russian Roubles)

22. Financial Risk Management (continued)

Assuming the financial assets and liabilities as of 31 December 2014 were to remain until maturity without any action by the Bank to alter the resulting interest rate risk exposure, an immediate and sustained for one year negative change of 1% (2013: 1%) in market interest rates across all maturities and currencies would reduce net interest income for the following year by approximately RR 2,542 thousand (2013: RR 1,112 thousand).

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank monitors its open currency position on a daily basis. The currency risk management policies of the Bank use such instruments as a system of limits established by the Bank of Russia, which include open currency position limits by currency (up to 10% of capital under RAL) and in aggregate (up to 20% of capital under RAL). The Bank complied with these limits in the presented reporting periods.

The tables below summarise the Bank's exposure to foreign exchange risk as at 31 December 2014 and 2013. The Bank does not use the analysis to manage currency risk.

31 December 2014	RUB	USD	EUR	CHF	Total
Monetary financial assets					
Cash and cash equivalents	283,784	55,414	70,782	62	**410,042**
Debt securities held for trading	128,285	-	-	-	**128,285**
Due from other banks	480,306	3,555	-	-	**483,861**
Loans and advances to customers	338,616	-	-	-	**338,616**
Other financial assets	568	-	-	-	**568**
Total monetary assets	**1,231,559**	**58,969**	**70,782**	**62**	**1,361,372**
Monetary financial liabilities					
Due to customers	885,257	30,944	70,535	29	**986,765**
Debt securities issued	2,027	-	-	-	**2,027**
Other financial liabilities	435	-	-	-	**435**
Total monetary financial liabilities	**887,719**	**30,944**	**70,535**	**29**	**989,227**
Net balance sheet position	**343,840**	**28,025**	**247**	**33**	**372,145**
Open spot transactions	**29,822**	**(29,254)**	**-**	**-**	**568**
Credit related commitments	**50,986**	**-**	**-**	**-**	**50,986**

31 December 2013	RUB	USD	EUR	CHF	Total
Monetary financial assets					
Cash and cash equivalents	233,552	50,413	19,748	276	**303,989**
Due from other banks	150,037	6,546	-	-	**156,583**
Loans and advances to customers	469,079	-	-	-	**469,079**
Other financial assets	6	-	-	-	**6**
Total monetary assets	**852,674**	**56,959**	**19,748**	**276**	**929,657**
Monetary financial liabilities					
Due to customers	510,004	56,112	20,271	19	**586,406**
Debt securities issued	49,392	-	-	-	**49,392**
Total monetary financial liabilities	**559,396**	**56,112**	**20,271**	**19**	**635,798**
Net balance sheet position	**293,278**	**847**	**(523)**	**257**	**293,859**
Credit related commitments	**114,722**	**-**	**-**	**-**	**114,722**

(in thousands of Russian Roubles)

22. Financial Risk Management (continued)

The following table details sensitivity of the Bank's profit for the year to a reasonably possible change in the relevant foreign currencies against the Russian Rouble with all other variables held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A positive number indicates an increase in profit for the year where the relevant currency strengthens against the Russian Rouble.

Currency	2014		2013	
	Increase %	Effect on profit for the year	Increase %	Effect on profit for the year
USD	10%	(98)	10%	68
EUR	10%	20	10%	(42)
Other currencies	5%	1	5%	10

Limitation of sensitivity analysis

The above tables demonstrate the effect of a change in a key risk factor while all other things held constant. In reality, there is a correlation between the assumptions and other factors. Other limitations include the assumption that all interest rates move in an identical fashion. Additionally, the sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed and use the Bank's view of possible near-term market changes that cannot be predicted with a fair degree of certainty.

23. Commitments and Contingencies

Legal proceedings

From time to time and in the normal course of business, the Bank 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 position or the results of future operations of the Bank.

Tax legislation

Russian tax and customs legislation is subject to varying interpretations. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. The management has not created any provisions for potential tax liabilities in these financial statements, as the management of the Bank believes that its interpretation of the relevant legislation is appropriate.

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2014	2013
Not later than 1 year	9,366	6,255
Total operating lease commitments	**9,366**	**6,255**

Credit related commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities. The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

(in thousands of Russian Roubles)

23. Commitments and Contingencies (continued)

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised in the financial statements if counterparties failed completely to perform as contracted. The total outstanding contractual amount of credit related commitments does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

	2014	2013
Financial guarantees issued	35,450	98,922
Undrawn loan commitments	22,500	15,800
Less provision for credit related commitments	(6,964)	-
Total credit related commitments	**50,986**	**114,722**

As at 31 December 2014, provision for credit related commitments has been made in the amount of RR 6,964 thousand and recorded within other liabilities. As at 31 December 2013, provision for credit related commitments has not been made. Refer to Note 13.

As at 31 December 2014, issued financial guarantees are secured by customer accounts in the amount of RR 1,080 thousand (2013: RR 4,617 thousand) and promissory notes in the amount of RR 883 thousand (2013: RR 2,683 thousand). Refer to Notes 11, 12.

24. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. an exit price) in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market condition, regardless of whether that price is directly observable or estimated using another valuation technique.

The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analyzed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices), and

(iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Management applies judgment in categorizing financial instruments using the fair value hierarchy. Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Analysis of financial instruments carried at fair value by level of the fair value hierarchy is provided below.

31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets held for trading	-	128,285	-	128,285
Total	**-**	**128,285**	**-**	**128,285**

As at 31 December 2013, the Bank had no assets or liabilities carried at fair value.

(in thousands of Russian Roubles)

24. Fair Value of Financial Instruments (continued)

The Bank considers the fair value of its financial assets and liabilities recorded at amortized cost in the financial statements to be approximately equal to the carrying value of these assets and liabilities. Fair value of these assets and liabilities comprise fair value hierarchy Level 3, except cash and cash equivalents, which comprise Level 1.

The fair value of fixed interest rate instruments, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

25. Related Party Transactions

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

A number of banking transactions are entered into with related parties in the normal course of business; these transactions are priced mostly at market rates. Transactions with related parties for years 2014 and 2013 are stated in the table below.

	Major shareholders		Key management personnel of the Bank and their close family members		Other related parties	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Loans and advances to customers:						
Loans outstanding at 1 January	-	-	5,087	-	-	-
Loans issued during the year	-	-	-	8,300	-	20,000
Loan repayments during the year	-	-	(2,614)	(3,213)	-	(20,000)
Loans outstanding at 31 December	-	-	2,473	5,087	-	-
Interest income	-	-	546	520	-	411
Due to customers:						
Balance at 1 January	21	44	13,494	26,598	2,682	123
Amounts received during the year	21,407	15,169	98,703	147,237	22,106	237,323
Amounts repaid during the year	(21,367)	(15,192)	(96,884)	(160,341)	(21,404)	(234,764)
Balance at 31 December	61	21	15,313	13,494	3,384	2,682
Debt securities issued:						
Balance at 1 January	15,000	-	-	-	-	-
Amounts received during the year	-	15,000	-	-	-	-
Amounts repaid during the year	(15,000)	-	-	-	-	-
Balance at 31 December	-	15,000	-	-	-	-
Interest expense	-	-	259	478	-	-
Fee and commission expense	-	5	82	86	15	276

In 2014, the total remuneration of the key management personnel of the Bank comprised short-term benefits of RR 17,931 thousand (2013: RR 17,696 thousand).

Other related parties are represented by a company which is controlled by one of the major shareholders.

26. Significant Accounting Estimates and Judgements in Applying Accounting Policies

Management of the Bank makes judgements and estimates in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances
The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. For new types of loans, where no historical loss experience is available, the Bank uses available market information for similar loans. The methodology and 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.

Taxation
Russian tax legislation is subject to varying interpretations. Refer to Note 23.

Deferred income tax assets recognition
Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances.

27. Capital Management

The Bank maintains a strong capital base to cover risks inherent in its activities and to support the development of its business. The primary objectives of the Bank's capital management are to comply with externally imposed capital requirements and to safeguard the Bank’s ability to continue as a going concern so that it can continue to provide returns for shareholders. Externally imposed capital requirements are set by the Bank of Russia.

The Bank’s regulatory capital is a broader concept than the equity on the face of balance sheet. Tier 1 capital comprises share capital (net of any book values of the treasury shares), share premium and retained earnings. Tier 2 capital comprises fair value reserve for premises, fair value reserve for financial assets available-for-sale and qualifying subordinated loans. Total Tier 2 capital should not exceed 100% of Tier 1 capital.

Under the current capital requirements set by the Bank of Russia banks have to maintain a ratio of regulatory capital to risk-weighted assets, computed based on Russian accounting legislation, above the minimum level of 10%. At 31 December 2014 this ratio was 35.8% (2013: 31.8%), exceeding the statutory minimum. Compliance with capital adequacy ratios is monitored daily with monthly reports to the Bank of Russia outlining their calculation. The Bank has complied with capital requirements set by the Bank of Russia throughout 2014 and 2013.

(in thousands of Russian Roubles)

27. Capital Management (continued)

At 31 December 2014 and 2013 the Bank's capital adequacy ratio in accordance with the Basel I requirements based on the audited financial statements of the Bank was computed as follows:

	2014	2013
Tier 1 capital:		
Share capital	249,156	249,156
Other reserves	9,200	9,200
Retained earnings	117,327	65,299
Total Tier 1 capital	**375,683**	**323,655**
Total Tier 2 capital	-	-
Total capital	**375,683**	**323,655**

28. Subsequent Events

The Annual General Meeting of Shareholders of the Bank resolved not to distribute dividends for 2014.

There were no other significant subsequent events.

Approved for issue and signed on behalf of the Management Board on 29 June 2015.

Niyazov A.N.
Chairman of the Management Board

Starshinina M.D.
Chief Accountant

МТИ-Банк

bound, numbered and sealed
45 (forty five) sheets.
R.U. Bairamgalin
General Director
OOO RIAN-AUDIT