



## Auditors' Report

on Consolidated Annual Financial Statements  
of

**Aljba Alliance Commercial Bank  
(Limited Liability Company)  
GROUP**

for 2018

in accordance with the International Financial Reporting Standards

### Auditee Information

Parent Organization of the Consolidated Group:

Aljba Alliance Commercial Bank (Limited Liability Company)

Location:

119019, Moscow, Kremlevskaya naberezhnaya, 1 Bldg. 2

Principal State Registration Number:

№ 1025000004787 of 21.11.2002

Registration with the Bank of Russia:

№ 2593 of 03.12.1993

Licenses Issued:

General Banking License (issued by the Bank of Russia on 27.10.2008); Precious Metals License (issued by the Bank of Russia on 27.10.2008)

## Independent Auditor's Report

TO THE PARTICIPANTS of Aljba Alliance Commercial Bank (Limited Liability Company)

### QUALIFIED OPINION

We have audited the attached consolidated annual financial statements of Aljba Alliance Commercial Bank (Limited Liability Company), hereinafter the Bank, and subsidiaries thereof (collectively referred to as the Group), comprised of:

- ✓ Consolidated Statement of Financial Position as of 31 December 2018;
- ✓ Consolidated Statement of profit and loss and other comprehensive income for 2018;
- ✓ Consolidated Statement of Cash Flows for 2018;
- ✓ Notes to the Consolidated Financial Statements for 2018.

In our opinion, the accompanying consolidated annual financial statements present fairly in all material respects the financial position of the Group as of 31 December 2018, its financial performance and cash flows for the year ending 31 December 2018, in accordance with International Financial Reporting Standards, with the exception of the matters presented in "Basis for the Qualified Opinion" Section of this Auditor's Report.

### BASIS FOR THE QUALIFIED OPINION

"Non-Current Assets Classified as Held for Sale" (Note 10 to the Consolidated Financial Statements) as part of other non-financial assets on the reporting date comprise real estate to the amount of RUB 4,969 thousand. With regard to Item 7(b) of ISA No. 705 "Modified Auditor's Opinion" we note that within the course of the audit procedures we could not obtain sufficient and appropriate audit evidence related to fair valuation of the said asset. In particular, we found it impossible to ascertain relevance of the asset book value as of the reporting date. Possible impact of the said misstatement is material but not pervasive for the 2018 Financial Statements.

We conducted the audit in accordance with the International Standards on Auditing (ISA). Our responsibility established by the Standards is described in Section "Auditor's Responsibility for the Audit of the Annual Financial Statements" of the present Report. We are independent of the Group as per the Auditors and Audit Organizations Independence Rules and Code of Ethics for Professional Auditors compliant with the Code of Ethics for Professional Accountants developed by the Accounting Professional and Ethical Standards Board and we discharged other obligations provided for by the above Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our opinion.

### MATERIAL GOING CONCERN UNCERTAINTY

We refer to Note 22 to the Consolidated Financial Statements that discloses the information whereby the maturity of outstanding customer loans of RUB 278,131 thousand (15% of total outstanding loans ) as of 31 December 2018 does not exceed 6 months from the reporting date. Therefore, the Group will be forced to attract assets again. New quality of loans may be different from that of the assets placed as of the reporting date, which, in its turn, may impact the financial status of the Group. The Group management endeavors to maintain the balance of the acceptable return on new financial instruments and quality thereof to minimize the risk of losses although the risk of future financial losses cannot be excluded. The said future events and circumstances indicate some uncertainty that may cause doubt in the future going concern status of the Group.

We refer to Note 22 to the Consolidated Financial Statements that discloses the information on the results of assessment by the Group management of the going concern prospects of the Group, future plans and measures enhancing the Group's financial position. Implementation level and

efficiency of the planned measures cannot be assessed now for the reasons including those beyond control of the Group.

The Consolidated Annual Financial Statements do not contain any adjustments that could arise due to such uncertainty. We do not provide a modified opinion on this issue.

### MATERIAL CIRCUMSTANCES

We refer to Note 9 to the Consolidate Financial Statements that disclose the information on revaluation of the Group assets as of 31 December 2018. This has not modified our opinion.

### REPORT ON THE AUDIT FOR COMPLIANCE WITH THE REQUIREMENTS OF FEDERAL LAW NO. 395-1 "ON BANKS AND BANKING" OF 2 DECEMBER 1990

Management of the Bank, it being the parent organization of the Group, shall be responsible for compliance by the Bank with the mandatory norms established by the Bank of Russia, as well as for compliance of the internal control and risk management systems of the Bank with the relevant requirements of the Bank of Russia.

Pursuant to Article 42 of Federal Law No. 395-1 of 2 December 1990 "On Banks and Banking" our audit of the Annual Consolidated Financial Statements of the Bank for the year ending 31 December 2018 covered:

compliance by the Bank with the mandatory norms established by the Bank of Russia as of 1 January 2019;

compliance of the internal control and risk control systems of the Bank with the relevant Bank of Russia requirements.

The said audit was limited to such selected on the basis of our judgment procedures as requests, analysis, documents review, comparison of the requirements approved by the Bank, procedures and methodologies with the requirements of the Bank of Russia, as well as recalculation and comparison of the indices and other information.

Our audit established the following:

1) compliance by the Bank with the mandatory norms established by the Bank of Russia:

Regulatory values established by the Bank of Russia were within the established limits as of 1 January 2019.

We have not performed any procedure applicable to the accounting data of the Bank with the exception of the procedures that we deemed necessary for the purposes of the opinion on fair representation by the Annual Consolidated Financial Statements of the Group in all material respects of its financial status as of 31 December 2018, its financial performance and cash flows for the year ending 31 December 2018 in accordance with the International Financial Reporting Standards;

2) compliance of the internal control and risk control systems of the Bank with the relevant Bank of Russia requirements:

a) pursuant to the requirements and recommendations of the Bank of Russia as of 31 December 2018, the Internal Audit Service of the Bank is reportable to the Board of Directors, Risk Management divisions of the Bank did not report to the divisions holding relevant risks, heads of the Internal Audit Service and Risk Management Service of the Bank comply with the qualification requirements of the Bank of Russia;

b) effective as of 31 December 2018 internal documents of the Bank establishing the methodologies for identification and management of the significant for the Bank lending, operating, market, interest, legal risks, liquidity and business reputation risks, as well as stress testing have been approved by the authorized bodies of management of the Bank in compliance with the requirements and recommendations of the Bank of Russia;

c) availability in the Bank as of 31 December 2018 of the system of reporting for material for the Bank lending, operating, market, interest, legal risks, liquidity and business reputation risks, as well as equity (capital) of the Bank;

d) period and sequence of the reports prepared by the Risk Management Service of the Bank and the Internal Audit Service of the Bank during the year ending 31 December 2018, on the matters of management of lending, operating, market, interest, legal risks, liquidity and business reputation risks of the Bank, compliant with the internal documents of the Bank; the said reports are to include the results of observation by the Risk Management Service and Internal Audit Service of the Bank relevant to assessment of efficiency of the Bank's methodologies, as well as recommendations on enhancement thereof;

e) as of 31 December 2018, authority of the Board of Directors of the Bank and its executive bodies shall cover control of compliance by the Bank with the risk and capital adequacy limits established by the internal documents of the Bank. For the purposes of the Bank's risk control procedures efficiency and application control during the year ending 31 December 2018 Board of Directors of the Bank and its executive bodies shall periodically review the reports prepared by the Risk Management Service and Internal Audit Service of the Bank and review the proposed mitigation measures.

Our procedures applicable to the Internal Control and Risk Management Services of the Bank targeted only verification of compliance of the Internal Control and Risk Management Systems of the Bank with the relevant Bank of Russia requirements.

### **RESPONSIBILITIES OF MANAGEMENT AND PERSONS RESPONSIBLE FOR CORPORATE GOVERNANCE OF THE AUDITEE AND ITS ANNUAL FINANCIAL STATEMENTS**

Management shall be responsible for preparation and fair presentation of these consolidated annual financial statements in accordance with the International Financial Reporting Standards, as well as for the internal control system deemed by management necessary for preparation of the consolidated annual financial statements that are free of material misstatements, whether due to fraud or error.

While preparing consolidated annual financial statements Management shall be responsible for assessment of the Auditee's ability to continue as a going concern, disclosure, as applicable, of the going concern-related matters and using the going concern basis of accounting unless Management either intends to liquidate the Auditee or to cease its operations, or has no realistic alternative but liquidation or termination of the operations.

Responsibility for overseeing of the Group's financial reporting process shall rest with Management of the Bank.

### **AUDITOR'S RESPONSIBILITIES FOR THE ANNUAL FINANCIAL STATEMENTS AUDIT**

Our objectives are to obtain reasonable assurance that the consolidated annual financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report presenting our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an ISA-compliant audit invariably detects material misstatements, if any. Misstatements can arise from fraud or error and shall be deemed material if, individually or in aggregate, could reasonably be expected to influence economic decisions of the users taken on the basis of these consolidated annual financial statements.

As part of an ISA-compliant audit, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- a) Identify and assess the risks of material misstatement of the consolidated annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to serve as a basis for our opinion. The risk of not-detection of a material misstatement resulting from fraud is higher than

- for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of the internal control system;
- b) Obtain an understanding of the internal control system relevant to the audit to design audit procedures that are appropriate under the circumstances, but not for the purposes of expressing an opinion on the efficiency of the Auditee's Internal Control System;
  - c) Evaluate appropriateness of the accounting policies used and reasonableness of the accounting estimates and relevant disclosures made by the Auditee's Management;
  - d) Conclude on appropriateness of application by Management of the going concern assumption and based on the audit evidence obtained, on whether there is a material uncertainty related to the events or conditions that may cast significant doubt on the ability of the Group companies to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the relevant disclosures in the consolidated annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained prior to the date of our Auditor's Report. However, future events or conditions may cause the Group to cease to continue as a going concern;
  - e) Evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that ensures fair presentation.

We communicate with the Board of Directors of the Bank on the matters, including but not limited to information on the planned scope and timing of the audit, as well as significant audit findings, including any material deficiencies of the Internal Control System that we identify during our audit.

We also represent to the Board of Directors of the Bank that we fully complied with the norms of ethics applicable to independence and advised these persons of all relations and other issues that may be reasonably expected to impact independence of the auditor and, where required, of the appropriate precautions.

Lead of the audit that formed the basis for this Independent Auditor's Report

Tatiana Yelkhimova  
(Auditor's Certificate No. 06-000060 issued pursuant to the Resolution of NP AAS of 30.03.2012, Minutes No. 55, perpetual)

By virtue of Power of Attorney No. 1/17 dated 01.02.2017

Auditor:  
Tax Consultants League  
Limited Liability Company  
OGRN 1025005242140  
123007, Moscow, Polina Osipenko str., 18, Bldg. 2, Apt. 354  
Member of Sodruzhestvo Association, Self-Regulating Auditors Organization  
Number in the Auditors and Audit Organizations Register: SRO10206018011

30 April 2019



# **Aljba Alliance CB Ltd**

Consolidated Financial Statements and  
Independent Auditor's Report  
for 2018

# Aljba Alliance Commercial Bank Ltd.

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# Aljba Alliance Commercial Bank Ltd.

## Statement of management's responsibility for preparation and approval of the consolidated financial statements for 2018

The management is responsible for preparation of the consolidated financial statements that present fairly the financial position of Aljba Alliance Commercial Bank Ltd. (the "Bank") and its subsidiary (the "Group") as of 31 December 2018, and the consolidated results of its operations, cash flows for 2018 in compliance with the International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, the management is responsible for:

- Selecting suitable accounting policies and applying them consistently;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific IFRS requirements are insufficient for users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

The management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the consolidated financial position of the Group to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking all reasonable measures to safeguard the assets of the Group; and
- Preventing and detecting fraud and other abuse.

These consolidated financial statements for 2018 are available on the Group website at <http://www.alal.ru>, in the «Financial Indicators» section.

**For the Bank:**

**A.S. Zarifov**  
Acting President

30 April 2019  
Moscow



**O.I. Anokhina**  
Chief Accountant

30 April 2019  
Moscow



# Aljba Alliance Commercial Bank Ltd.

## Consolidated statement of financial position as of 31 December 2018 (RUB thousand)

	Notes	31 December 2018	31 December 2017
<b>ASSETS</b>			
Cash and cash equivalents	5	2,397,549	3,140,470
Mandatory cash balances with the Central Bank of the Russian Federation		29,453	38,607
Financial assets at fair value through profit or loss	6	302,898	-
Due from banks	7	63,110	456,759
Loans to customers	8, 24	1,291,625	1,392,708
Property, plant and equipment	9	1,714,699	1,555,752
Current income tax assets		5,210	29,131
Other assets	10	44,836	38,875
<b>TOTAL ASSETS</b>		<b>5,849,380</b>	<b>6,652,302</b>
<b>LIABILITIES</b>			
Customer accounts	11, 24	2,948,255	3,870,792
Deferred income tax liabilities	18	267,387	239,642
Other liabilities	12	88,653	99,025
Net assets attributable to the participants of the Group	13	2,545,085	2,442,843
<b>TOTAL LIABILITIES</b>		<b>5,849,380</b>	<b>6,652,302</b>

For the Bank:

  
A.S. Zarifov  
Acting President

30 April 2019  
Moscow



  
O.A. Anokhina  
Chief Accountant

30 April 2019  
Moscow

The notes on pages 7-58 are an integral part of these consolidated financial statements.

## Aljba Alliance Commercial Bank Ltd.

### Consolidated statement of profit or loss and other comprehensive income for 2018 (RUB thousand)

	Notes	2018	2017
Interest income	14, 24	323,513	427,508
Interest expense	14, 24	(46,398)	(78,766)
<b>NET INTEREST INCOME BEFORE IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS</b>		277,115	348,742
Impairment loss (allowance)/recovery on interest bearing assets	5, 7, 8, 24	(3,296)	12,941
<b>Net interest income</b>		<b>273,819</b>	<b>361,683</b>
Net gain on financial assets at fair value through profit or loss	15	11,418	49,881
Gain/(loss) on foreign exchange transactions		28,043	(7,208)
(Loss)/gain on foreign exchange translation		(36,875)	16,059
Fee and commission income	16	27,590	30,373
Fee and commission expenses	16	(12,830)	(12,012)
Other income		33,286	32,747
<b>Net non-interest income</b>		<b>50,632</b>	<b>109,840</b>
<b>OPERATING INCOME</b>		<b>324,451</b>	<b>471,523</b>
Administrative and other operating expenses	17	(390,928)	(393,673)
<b>(Loss)/profit before income tax</b>		<b>(66,477)</b>	<b>77,850</b>
Income tax recovery/(expense)	18	6,954	(17,129)
<b>(Loss)/profit for the year</b>		<b>(59,523)</b>	<b>60,721</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
<b>Items that will not be subsequently reclassified to profit or loss:</b>			
Gain/(loss) on revaluation of property	9	191,564	(418,853)
Expense/(recovery) of deferred tax liability	18	(38,313)	83,771
<b>Total items that will not be reclassified subsequently to profit or loss</b>		<b>153,251</b>	<b>(335,082)</b>



# Aljba Alliance Commercial Bank Ltd.

## Consolidated statement of cash flows for 2018

(RUB thousand)

	Notes	2018 год	2017 год
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss)/profit before income tax		(66,477)	77,850
<b>Adjustments for non-monetary items:</b>			
Impairment loss provisions /(provisions recovery) for interest bearing assets	5,7,8	3,296	(12,941)
Depreciation of property and equipment	9,17	34,114	44,253
Net change in accrued interest income and expenses		3,196	6,533
Net change in fair value of financial assets at fair value through profit or loss	15	21	-
Foreign exchange gains/losses on transactions in foreign currency		36,875	(16,059)
Foreign exchange gains/losses on precious metals transactions		(1,704)	(525)
Impairment loss provisions for other assets	10,17	1,407	-
Impairment loss provisions for credit-related contingencies	17,19	68	-
Other expense		2,521	3,001
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>13,317</b>	<b>102,112</b>
<b>Changes in operating assets and liabilities</b>			
Net decrease/(increase) in the minimum deposit reserves with the Central Bank of the Russian Federation		9,154	6,400
Net decrease/(increase) in due from banks		424,969	(358,550)
Net (increase)/decrease in financial assets at fair value through profit or loss		(302,919)	129,426
Net decrease in loans to customers		152,310	583,701
Net decrease/(increase) in other assets		21,899	(3,989)
Net decrease in customer accounts		(1,225,522)	(167,658)
Net decrease in debt securities issued		-	(118,668)
Net (decrease)/increase in other liabilities		(13,607)	52,873
<b>Net cash flows from/(used in) operating activities before tax</b>		<b>(920,399)</b>	<b>225,647</b>
Income tax recovery		1,325	-
<b>Net cash flows from/(used in) operating activities before tax</b>		<b>(919,074)</b>	<b>225,647</b>

# Aljba Alliance Commercial Bank Ltd.

## Consolidated statement of cash flows (continued) for 2018 (RUB thousand)

	Notes	2018	2017
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
Purchase of property and equipment	9	(1,109)	(142)
<b>Net cash from/(used in) investment activities</b>		<b>(1,109)</b>	<b>(142)</b>
Effect of exchange rate changes on the balance of cash and cash equivalents in foreign currencies		177,482	(89,962)
Changes in interest on cash and cash equivalents		822	-
Provisions for cash and cash equivalents	5	(1,042)	-
<b>Net (decrease) /increase in cash and cash equivalents</b>		<b>(742,921)</b>	<b>135,543</b>
CASH AND CASH EQUIVALENTS, at the beginning of the year	5	3,140,470	3,004,927
<b>CASH AND CASH EQUIVALENTS, at the end of the year</b>	<b>5</b>	<b>2,397,549</b>	<b>3,140,470</b>

Interest paid and received over 2018 was RUB 42,771 thousand and RUB 323,082 thousand, respectively.

Interest paid and received over 2017 was RUB 100,910 thousand and RUB 456,185 thousand, respectively.

For the Bank:

  
**A.S. Zarifoy**  
**Acting President**  
 30 April 2019  
 Moscow



  
**O.A. Anokhina**  
**Chief Accountant**  
 30 April 2019  
 Moscow

The notes on pages 7-58 are an integral part of these consolidated financial statements.

# Aljba Alliance Commercial Bank Ltd.

## Notes to the consolidated financial statements for 2018

### 1. Core Business

Aljba Alliance Commercial Bank Ltd. (the "Bank") is a limited liability company incorporated in the Russian Federation (the "RF") in 1993. Bank business is regulated by the Central Bank of the Russian Federation (the "CBR") and conducted under license No. 2593. The Bank also holds licenses for broker, dealer, depository and security management operations issued by the Federal Service for Financial Markets in December 2000, and a stock exchange intermediary license issued by the Federal Service for Financial Markets of Russia in 2009.

The Bank is primarily engaged in commercial banking, security trading, foreign currencies and derivative instruments, lending and issue of guarantees, settlements on customer export/import transactions, brokerage, securities management, agency and other services provided to Russian financial market players.

The Bank's registered office is at 1 Kremlevskaya Naberezhnaya, bld. 2, Moscow, Russian Federation. The Bank's principal place of business is at 1 Kremlevskaya Naberezhnaya, bld. 2, 119019, Moscow, Russian Federation.

The Bank is a parent company of the banking group (the "Group") which includes the following companies consolidated to prepare these consolidated statements:

Company	Country of operation	Proportion of ownership interest/ voting rights, %		Core business
		31 December 2018	31 December 2017	
OOO CB Aljba Alliance»	RF	Parent company	Parent company	Banking
S.L. Capital Services Limited	Cyprus	100%	100%	Investment, brokerage, security management, agent and other services provided to Russian security market players.

As of 31 December 2018 and 2017, the following participants (ultimate beneficiaries) owned 100% of the Bank's share capital:

Participants	% in share capital
Alexander Markovich Fryman	50.0
Dmitri Yurievich Pyatkin	50.0
<b>Total</b>	<b>100.0</b>

# Aljba Alliance Commercial Bank Ltd.

## Notes to the consolidated financial statements for 2018 (continued)

### 2. Significant principles of accounting policy

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

#### Going concern.

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern. The Group has no intention or need to considerably reduce its operations. The management believes that the assumption of a going concern is applicable to the Group due to satisfactory capital sufficiency as well as based on prior experience evidencing that long-term liabilities will be refinanced in the course of business operations.

#### Preparation basis.

These financial statements have been prepared as per IFRS on the historical cost basis with the adjustment for revaluation of financial instruments categorized as the ones to be assessed at fair value as well as some fixed assets to be assessed at the revaluated (fair) value as of the reporting date, as explained in the accounting policies below. The historical cost is generally based on the fair value of the consideration given in exchange for assets.

Registered in the Russian Federation, the Bank maintains its accounting records in accordance with Russian Accounting Standards ("RAS"). The foreign subsidiary of the Bank prepares IFRS financial statements. These consolidated financial statements have been prepared based on the accounting records of the Bank and its subsidiary and adjusted to conform to IFRS.

#### Reporting currency.

These consolidated financial statements are presented in thousands of Russian Rubles ("RUB thousand"), if not specified otherwise.

#### Principles of consolidation.

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiary controlled by the Bank, i.e., the Group. The subsidiary is controlled by the Group because the Group:

- has the power to manage the company-investee, which considerably impacts the returns gained from the investee;
- is exposed to risks related to variable returns from its participation in the investee and has the right to receive such returns
- is able to use its power in respect to the investee to affect the investor's returns.

The Group reviews whether or not it controls the investee where facts and circumstances indicate that there have been changes to one or more of three controls listed above.

The Group considers all significant facts and circumstances in assessing whether or not the Group's voting rights in the investee are sufficient to give it power, including:

- the amount of voting shares owned by the Group relative to the size and dispersion of votes of other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group is able or not able to control significant activities at the time when decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

#### Functional currency.

The currency of the primary economic environment, where the entity operates, is the functional currency of each of the consolidated companies of the Group. Russian Ruble – national currency of the Russian Federation (RUB) is the Bank's functional currency.

The Bank's foreign subsidiary incorporated in the Republic of Cyprus has US Dollar as its functional currency and its financial statements are measured in US Dollars. For the submission of consolidated financial statements the assets and liabilities of the Group's foreign subsidiary are translated to RUB at the exchange rate as of the reporting date. Income and expense items are recalculated at the average exchange rate for the relevant period, if exchange rates did not change significantly over this period; otherwise, exchange rates at the date of transaction are used. Arisen exchange rate gains/losses are recognized as comprehensive income and got accumulated in net assets of Group participants. In case of the sale of a foreign subsidiary (sale of the whole Group's share in foreign operations and loss of control over a subsidiary) all exchange rate gains/losses accumulated in net assets of Group participants will be reclassified into profit and loss.

**Foreign currency.** For preparation of consolidated financial statements transactions in currencies different from the reporting currency ("foreign currencies") are presented at the exchange rate as of the date of transaction. Cash items in foreign currencies are translated at a respective exchange rate at the accounting date. Exchange rate differences on cash items arisen due to exchange rate fluctuations are accounted as profit and loss in the period when fluctuations occurred.

Below are the year-end exchange rates used by the Group for preparation of these consolidated financial statements:

	31 December 2018	31 December 2017
RUB/USD	69,4706	57.6002
RUB/EUR	79,4605	68.8668

The consolidated financial statements for the year that ended on 31 December 2018 were prepared with the same accounting policies, presentation and calculation methods that were used for preparation of the Group consolidated financial statements for the year ended on 31 December 2017, except for the accounting policies affected by the following new and revised standards and their interpretation:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"
- IAS 40 Amendment "Transfer of Investment Property"
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration".

#### New and Revised International Financial Reporting Standards That Became Operative in the Current Year

##### **IFRS 9 "Financial Instruments"**

***In the current year, the Group applied IFRS 9 (revised in July 2014) that superseded IAS 39 «Financial Instruments: Recognition and Measurement» to the annual reporting periods commencing on 1 January 2018 or thereafter and related to this Standard relevant amendments to other International Financial Reporting Standards in effect with regard to the annual period commencing on 1 January 2018 or thereafter. Transitional IFRS 9 provisions do not call for mandatory recalculation of the comparative data; the Group did not recalculate the 2017 comparative information on financial instruments under IFRS 9. Thus, the 2017 comparative information is reflected under IAS 39 and cannot be compared to the information for 2018. Differences arising from transition to IFRS 9 were charged against retained earnings included in the Group participants' equity as of 1 January 2018 года and are presented below.***

**IFRS 9** introduced new requirements to classification and measurement of financial assets and liabilities, to impairment and derecognition thereof.

##### (a) Classification and measurement



## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

As a result of enactment of new IFRS 9 **the Group reclassifies financial assets and liabilities, if any, to the new categories provided for by the Standard, depending on the business model selected. "Holding an Asset to Collect Contractual Cash Flows" and "Holding for Collection of Contractual Cash Flows and Selling Financial Assets" business models are applied by the Group to the Bank's financial assets and obligations portfolio based on the reasons for acquisition or establishment of such instruments and on the expected financial instruments movement. Categories established by IAS 39 and applied by the Group for preparation of the financial statements** for the year ending 31 December 2017 were replaced with the following financial instruments categories:

- Measured at fair value through profit or loss (FVTPL);
- Measured at fair value through other comprehensive income (FVTOCI);
- Measured at amortized cost.

**Pursuant to IFRS 9, all debt-based financial assets** non-compliant with the "solely payment of principal and interest" (SPPI) criterion are classified at the initial recognition as assets measured at fair value through profit or loss. Securities measured at fair value through profit or loss under **IAS 39 were classified and reflected at fair value through profit or loss** as these are held for the purposes of collection of contractual cash flows and sale (trade).

At the initial recognition, equity financial assets must be classified as measured at fair value through profit or loss with the exception of the cases when there is a discretionary irrevocable decision to classify the equity financial asset as measured at fair value through other comprehensive income. In the case of investment in the FVTOCI equity instruments all realized and unrealized gains and losses, with the exception of dividend income, shall be recognized as other comprehensive income not subject to subsequent reclassification as profit or loss.

Debt-based financial assets compliant with the SPPI criterion shall be classified at the initial recognition on the basis of the business model under which such instruments are managed:

- Instruments held to collect contractual cash flows shall be measured at the amortized cost;
- Instruments held to collect contractual cash flows and selling shall be classified as measured at fair value through other comprehensive income (FVTOCI);
- Instruments held for other purposes, including trading financial assets, shall be classified as measured at fair value through profit or loss (FVTPL).

Credits and advances to the customers compliant with the "solely payment of principal and interest" criterion shall be measured at the amortized cost.

In general, financial liabilities classification and measurement **are unaffected compared to the preceding IAS 39 requirements. Financial derivatives shall continue to be measured at fair value through profit or loss. Embedded derivatives are no longer separate from the principal contract for the financial asset.**

#### (b) Impairment

Enactment of IFRS 9 introduces cardinal changes in the approach to measurement of loans impairment.

The incurred losses approach under **IAS 39 is replaced by the expected losses approach that requires measurement of the expected** credit losses (hereinafter ECL). From 1 January 2018, the Group recognizes the ECL reserve for all credits and other loan-based financial assets that are not measured at fair value through profit or loss, as well as on the basis of the lending obligations and financial guarantee contracts (hereinafter collectively referred to as financial instruments). IFRS 9 impairment requirements shall not apply to financial instruments.

The ECL allowance for the FVTOCI financial assets shall be recognized as other comprehensive income and cannot reduce the financial assets carrying value in the Statement of Financial Position. In the rest of the cases the expected credit losses (or reversal thereof) amount required to adjust the loss allowance the reporting date shall be recognized in the Statement of Profit and Loss as impairment loss or gain.

The main principle of the financial instruments ECL model is reflection of the overall picture of deterioration or improvement of the financial instruments credit quality. Expected credit losses (with the exception of the losses on the purchased or originated credit-impaired financial assets that are discussed separately below). Measurement shall be through a valuation allowance equal to:

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

- the amount of credit losses expected for the next 12 months, i.e. the part of credit losses for the entire lifetime of the financial instrument that represents the ECL resulting from defaults on the instrument that may arise within the 12 months after the reporting date;
- the amount of credit losses expected for the lifetime of the financial instrument that arise as a result of all possible defaults on the instrument during the lifetime thereof.

**Pursuant to IFRS 9** the Group developed a methodology for valuation of significant increase of the credit risk on a financial instrument (primarily, credits) from the time of its initial recognition by the analysis of the changes of the default risk arising during the residual lifetime of the financial instrument. Under this methodology the Group allocates, in particular, credits to three stages and separately – purchased or originated credit-impaired financial assets:

- Stage 1: includes financial instruments that show no material credit risk increase from the date of the initial recognition (new transactions without material credit risk increase from the date of initial recognition or with a low credit risk on the reporting date). For such assets 12-month ECL shall be recognized, while interest revenue is calculated on the basis of gross carrying value of the asset.
- Stage 2: includes financial assets that show material credit risk increase from the date of the initial recognition and no objective impairment attributes. For such assets lifetime ECL shall be recognized, while interest revenue is still calculated on the basis of gross carrying value of the asset.
- Stage 3: includes financial assets with the identified objective impairment attributes on the reporting date. For such assets lifetime ECL shall be recognized, while interest revenue shall be calculated on the basis of the amortized cost of the asset, i.e. with discounting of the expected cash flows factored in.
- Purchased or originated credit-impaired (POCI) assets – financial assets credit-impaired at the time of initial recognition. Such assets shall be initially recognized at fair value, while interest revenue shall be subsequently recognized on the basis of the effective interest rate adjusted to credit risk. The ECL allowance shall be recognized or reversed only if there are further material ECL changes.

If the Group does not reasonably expect compensation of the financial asset in full or in part, gross carrying value of such financial asset must be reduced through derecognition of the financial asset in part or in full.

#### *(c) Stage determination criteria*

Assessment for the purposes of identification of significant increase of the credit risk from the date of the financial instrument recognition for each reporting date. The Group assesses the probability of debt repayment by the borrower on the basis of both qualitative and quantitative indices. Information to be assessed depends on the asset type.

Credits assessed individually shall be transferred from Stage 1 to Stage 2 due to the following factors:

- Arrears in excess of 30 days;
- Early warning signals of the credit risk increase;
- Requirement to vary the previously agreed loan agreement terms for the purposes of more advantageous conditions for the client due to the client's inability to perform under the current conditions resulting from the client's financial status;
- Full or partial refinancing of the current debt that would not have been required had the client not experience financial problems;
- Identification of the information on future assets movements that may result in credit losses not factored in assessment of the financial status of the client (for instance, sovereign, political risks and conflicts that may have a significant impact on the future credit quality);
- Assets with the risk of default not identified of the risk of default is identified for other credit products of the client.

If credits are allocated to Stage 3 (i.e. these are recognized credit-impaired), default is recognized in the event of occurrence of one of the following events:

1. It is unlikely that the borrower will repay the loan to the Group from the primary sources or
2. Arrears on any material credit obligation to the Group exceeds 90 days.

# Aljba Alliance Commercial Bank Ltd.

## Notes to the consolidated financial statements for 2018 (continued)

Objective evidence of default on other financial assets may be:

- significant financial problems of the issuers or the counterparty;
- violation of the contract, for instance, refusal or reluctance to repay the debt and/or pay interest;
- high probability of bankruptcy or financial reorganization of the debtor;
- disappearance of the active market for the financial asset for the reason of financial problems.

### (d) Determination of the default probability

Determination of the default probability is used to assess the ECL and to determine if the ECL reserve was calculated for the subsequent 12 months or for the entire credit period as the concept of default is part of the default probability concept that impacts both the ECL assessment and identification of significant credit risk increase.

For the purposes of assessment for default the Group employs various internal and external information sources. Thus, analyzing the change of the credit risk for the financial instrument from the initial recognition date and probability of default the Group is based on the following data:

- comparison of the assessment of the borrower's financial status on the date of initial recognition and on the date of assessment, as well as information on the quality of debt service by the borrower;
- statistical data on debt due and overdue published by the Bank of Russia and leading rating agencies;
- statistical data on the probability of transfer of debt overdue to default accumulated by the Group for several years on similar assets.

The Group applies the following default probability model:

- (a) probability of default within a 12-month period is determined on the basis of the statistics published by the Bank of Russia and/or leading rating agencies, and data from the internal sources;
- (b) probability of default for the lifetime of the asset is determined on the basis of assumption that the term from the reporting date to the date of default is a random value with exponential distribution with the parameter assessed on the basis of the data on the probability of default within a single 12-month period.

The Group defines the ECL allowance amount for financial assets and the ECL allowance for the loan obligations and financial guarantee contracts for each reporting date for the financial statements. Such assessment entails analysis of the default risk occurrence change for the duration of the of the agreement by comparison of the risk of default as of the reporting date to the risk of default as of the initial recognition date on the basis of the justified and supported information accessible with no extra effort.

### (e) Impact to transition to IFRS 9

Impact of enactment of IFRS 9 on certain lines of the Consolidated Statement of Financial Position of the Group as of 1 January 2018, including the effect of replacement of the actual credit losses model under IAS 39 to the expected credit losses model under IFRS 9 on the Loans to Customers is presented below.

Reporting Line	Per IAS 39 as of 31 December 2017	Revaluation	Per IFRS 9 as of 1 January 2018
Loans to customers (Note 8)	1,392,708	(5,657)	1,387,051
Deferred tax liabilities	(239,642)	1,131	(238,511)
Equity of the Group companies (Note 13)	(2,442,843)	4,526	(2,438,317)

Reconciliation of the impairment allowances under IAS 39 as of 31 December 2017 with the valuation allowances for expected losses as of 1 January 2018:

	Per IAS 39 as of 31 December 2017	Variance	Per IFRS 9 as of 1 January 2018
Loans to customers (Note 8)	680,069	(153,734)	526,335

### IFRS 15 "Revenue from Contracts with Customers"

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

IFRS 15 published in May 2014 and supplemented in April 2016 establishes a 5-stage model framework of accounting of income from contracts with purchases. According to IFRS 15, revenue shall be recognized in the amount reflecting compensation the right to which the organization expects to receive in exchange for transfer of the goods and services to the purchaser. This standard shall not apply to the income on financial instruments and leases and, thus, does not affect the major part of the Group income, including interest revenue, profit/(loss) on transactions with securities, leases revenue subject to IFRS 9 and IAS 17 "Leases". Thus, application of this standard has no effect on the significant part of the Group income.

#### **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"**

The clarification states that the transaction date for the purposes of determination of the exchange rate to be applied at the initial recognition of the relevant asset, cost or income (or a part thereof) in the event of derecognition of the non-monetary asset or non-monetary liability arising out of making or receiving of the prepayment shall be the date when the organization initially recognizes the non-monetary asset or obligation arising out of making or receiving a prepayment.

If there is a number of prepayments made or received, the organization must define the transaction date for each remittance or receipt date. This clarification had no effect on the consolidated financial statements of the Group.

#### **Amendments to IAS 40 "Transfers of Investment Property"**

The amendments clarify that the organizations must transfer the real estate assets, including work-in-progress, to or from the Investment Property Category. The amendments specify that the change of the nature of the application shall be active on the date when the property object commences or discontinues complying with the investment property definition and there is evidence of change in the use nature.

Change of the Management Team intention with regard to the use of real estate facilities does not confirm the change of use thereof. Such changes shall not affect the consolidated financial statements of the Group.

#### **Financial instruments – major approaches to evaluation.**

The Group recognizes financial assets and liabilities at amortized cost or fair value depending on their classification.

Fair value is the price that would be received during the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the date of transaction. The price of an active market is the best validation of fair value. Active market is the market, where transactions with assets or liabilities are rather frequent and transaction volumes are sufficient to receive information on quotes on a permanent basis.

The Group considers the last quote for purchase as a market quote for financial assets and the last quote for sale - for financial liabilities.

The fair value of financial instruments, for which market information about a transaction price from external sources is missing, is determined using a valuation technique based on discounted cash flows or pricing models using information about similar market transactions or analysis of financial information about investees. The use of such valuation methods may require some assumptions not confirmed by observed market data.

*Transaction costs* are additional costs related to purchase, issue or disposal of financial instruments. Additional costs are the costs that would not occur, if the transaction failed to take place. Transaction costs include considerations and commissions paid to agents, consultants, brokers and dealers; fees payable to regulators and stock exchanges. Transaction costs do not include premiums or discounts on debt, financing costs, internal administrative and warehousing costs.

*Depreciated cost* is the value of a financial instrument at its initial recognition less principal debt with accrued interest adjustment, and for financial assets - net of any written-off impairment loss. Accrued interest includes the depreciation of deferred transaction costs at initial recognition, any premiums or discounts on repayment amount by using the effective interest method. Interest income and expense (including accrued coupon yield or depreciated discount or premium) are recognised separately but as a part of the balance sheet value of a respective item in the consolidated statement of financial position.

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## Notes to the consolidated financial statements for 2018 (continued)

The *effective interest method* is a method of allocating the interest income or interest expense over the relevant period to obtain a permanent interest rate (effective interest rate) on the current instrument value. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (not including future loan losses through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount of the financial instrument.

### Initial recognition

#### Initial measurement

The classification of financial instruments at initial recognition depends on contractual terms and business models used for instrument management. Financial assets and financial liabilities are initially measured at fair value.

#### Categories of financial assets and liabilities

Starting from 1 January 2018, the Group classifies its financial assets using its business model for asset management and asset contractual terms at:

- Amortised cost;
- Fair value through other comprehensive income (FVTOCI);
- Fair value through profit or loss (FVTPL).

The Group classifies and measures derivatives used for trading through profit or loss..

Prior to 1 January 2018, the Group used to classify financial assets into the following categories: 'loans and receivables' (measured at amortised cost), 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'held-to-maturity' investments (HTM) (measured at amortised cost).

Starting from 1 January 2018, the Group evaluates funds in credit institutions, client loans and other financial investments at amortised cost subject to the following two conditions:

1. The financial assets is retained under the business model with the objective to receive contractual cash flows;
2. The contractual conditions of a financial asset provide for cash receipts on specified dates as solely payments of principal and interest on the principal amounts outstanding (SPPI).

At the second stage of classification the Group reviews contractual terms and conditions of financial assets to determine whether contracted cash flows for a respective asset are solely payments of principal and interest on the principal amount outstanding (i.e., SPPI test). The compensation of the time value of money and credit risk constitutes the most significant part of interest under loan agreements. For conducting the SPPI test the Group uses judgement and reviews relevant factors, for instance, the currency of a financial asset and the period for which an interest rate is set.

Financial assets are measured at fair value through other comprehensive income, if the following two conditions are met:

- (a) a financial asset is held under a business model, which objective is to hold the financial asset for collecting cash flows or for its sale, and
- (b) contractual terms of the financial asset provide for cash flow receipts on specified dates as solely payments of principal and interest on the principal amounts outstanding.

Financial assets are measured at fair value through profit or loss, if both of the above conditions (a) and (b) are not met, and the entity uses another business model, under which it manages the financial asset with the objective to collect cash flows via sale (trading). The Group takes decisions based on the fair value of assets and manages assets to gain this fair value. In this case, the objective will be met by active purchases and sales, while the collection of contractual cash flows will not be obligatory for achievement of business model targets but will be only a secondary operation. The Group focuses on the information about fair value and uses it for assessing the FA yield and taking decisions; therefore, the portfolio of financial assets meeting the criteria of FA intended for trading is measured at fair value through profit and loss.

Financial assets measured at fair value through profit or loss are subsequently accounted at fair value with booking revaluation to profit or loss.

# Aljba Alliance Commercial Bank Ltd.

## Notes to the consolidated financial statements for 2018 (continued)

**Derecognition.** The Group derecognizes financial assets (a) when assets are repaid or when the contractual rights to the cash flows from the asset expire, or (b) when the Group transfers the right to cash flows from the asset or signs a transfer agreement and subsequently transfers all risks and rewards of asset ownership to another party or loses control over this asset. Control will be retained if a counterparty is not capable to sale the asset in full to a non-related party without sale restrictions.

**Cash and cash equivalents.** Cash and cash equivalents are the assets that may be easily converted into some amount of cash and are slightly exposed to change in cash value. Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded deposits with the CBR and amounts due from credit and financial institutions with original maturity of less or equal to 30 days and are free from contractual encumbrances. Cash and cash equivalents are booked at amortised cost.

**Mandatory cash balances with the Central Bank of the Russian Federation.** Minimum reserve deposits with the Central Bank of the Russian Federation (the "CBR") represent minimum reserve deposits with the CBR that are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

**Trading securities** are financial assets purchased to gain profit due to short-term price fluctuations or trading margin. The Group classifies securities as the trading securities if it intends to sell them quickly after purchase.

**Other securities** are financial assets that do not meet qualification requirements to be measured at amortised cost or fair value through other comprehensive income and they are classified as to be measured at fair value through profit or loss.

**Accounts due from other banks** are funds the Group provides to other banks as advance payments to be repaid on the specified date or the date to be determined, while the Group has no intention to trade arisen receivables not related to derivatives that have no market quotes. Accounts with other banks are recognized at amortised cost.

**Loans and advance payments to customers.** Loans and advance payments to customers are recognized if the Group remits funds to customers to create receivables not related to derivatives and not quoted on the open market to be repaid on the specified date or the date to be determined, while the Group has not intention to trade these receivables. Loans and advance payments to customers are recognized at amortised cost.

**Write-off of financial assets.** Financial assets are written off in full or in part after the Group has exercised all possibilities available to collect amounts and concluded that there are no reasonable possibilities of their recovery. Write-off is actually derecognition. If the Group intends to collect amounts due under the contract with no reasonable expectations of such recovery, in this case the Group may write off financial assets still subject to enforcement.

In case of credit impairment of financial assets the Group calculates the interest yield by applying an effective interest rate to the net amortised value of the financial asset. If the financial asset is not classified as credit-impaired any longer, the interest yield is calculated on a gross basis.

**Financial instruments carried at FVTOCI.** Starting from 1 January 2018, under IFRS 9 debt instruments held as part of the business model with the objective to gain contracted cash flows and to sell the financial asset and also having contractual terms providing for cash flow receipts on specified dates as solely payments of principal and interest on the principal amounts outstanding shall be carried at FVTOCI. Expected credit losses for such debt instruments do not decrease the BS value of such financial assets in the statement of financial position. Accumulated losses recognized as part of other comprehensive income are transferred to profit and loss at derecognition of a relevant asset.

Moreover, pursuant to IFRS 9 when certain investments are initially recognized as share instruments (which otherwise would be measured at fair value through profit or loss), the Group may, at its own discretion, take a decision, without *its further reversal*, to present further revision of their fair value in other comprehensive income and to recognize dividend income in profit or loss.

### **Derivatives.**

**Forwards and futures contracts.** Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange helps ensure that these contracts are always honoured. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

**Swaps.** Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts, futures and swaps. Details are provided in Note 22.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently reassessed to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognised in profit or loss.

**Credit liabilities.** The Group issues financial guarantees and undertake credit liabilities. Financial guarantee contracts are initially recognized in financial statements at their fair values equal to received commission. Upon initial recognition of Group liabilities under each contract, guarantees are measured at the higher of the following value - the amount initially recognised in the consolidated statement of financial position less, where appropriate, cumulative amortisation or provision for expected credit losses (starting from 1 January 2018 under IFRS 9). Unused credit lines entitles the Group to give loans to clients on earlier agreed terms and conditions similar to financial guarantee contracts. In case of onerous contracts such liabilities are subject to IFRS 9 requiring to assess expected credit losses since 1 January 2018.

**Property and equipment.** The land plot and the building owned and used by the Group for its management purposes from the acquisition and until 31 December 2014 were recognized at historical cost in the consolidated statement of financial position, less accumulated depreciation. The cost of the building is the cash price equivalent at the recognition date.

Starting from the financial statements for 2015, the office building and the land plot adjoining the building are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any increase arising on the revaluation of the land and the building is recognized in other comprehensive income and accumulated in net assets attributable to the Group's participants, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and building is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Equipment and other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Expenses related to repairs and renewals are recognized as administrative expenses when incurred unless they qualify for capitalization.

An item of property and equipment is written off upon sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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## Notes to the consolidated financial statements for 2018 (continued)

**Depreciation.** Depreciation is recognized so as to write off the cost or valuation of assets other than the land plot over their useful lives, using the straight-line method. The estimated useful lives, carrying amounts and depreciation method are reviewed at the end of each reporting period, with the effect that any changes in estimates are accounted for without revision of comparative measures.

	<b>Useful life (years)</b>
Building	50
Structures and utilities adjoining the building	10-15
Office and computer equipment	3-5
Motor vehicles	5-8

Expenses related to depreciation of fixed assets are recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. The land plot owned by the Group is not subject to depreciation.

**Operating leases.** When the Group acts as a lessor all the risks and rewards of ownership are not transferred to Group lessees, the total amount of payments under operating lease agreements are accounted evenly in consolidated profit or loss for the year over the term of the relevant lease. When assets are transferred for operating lease, rent due is recognized in other operating income with a straight-line method over the term of such lease.

**Repossessed assets.** In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Assets re-possessed as a result of a claim are measured at the lower of: their carrying amount or fair value less costs to sell.

**Non-currents assets classified as held for sale.** Long-term assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction within 12 months upon the end of the reporting period rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

**Financial liabilities measured at amortised cost.** At initial recognition financial liabilities are measured at amortised cost, except for:

- Financial liabilities measured at fair value through profit or loss (FVTPL). Such financial liabilities are derivative financial instruments;
- Financial guarantee contracts that upon their initial recognition by an issuer are measured at the higher of the following values: the amount initially recognised in the consolidated statement of financial position less, where appropriate, cumulative amortisation or provision for expected credit losses договоров финансовой гарантии, которые после первоначального признания выпустившей стороной оцениваются по наибольшей величине из:
  - (i) amount of provision for expected credit losses, and
  - (ii) amount initially recognised less, where appropriate, cumulative recognized profit;
- Financial liabilities of provision of loans at the interest rate below the market. The party that undertook such liability further measures it at the higher of the following values:
  - (i) amount of provision for expected losses, and
  - (ii) amount initially recognized less, where appropriate, cumulative recognized profit.

**Customer accounts.** Customer accounts represent non-derivative financial liabilities to individuals and legal entities recognized at their depreciated value.

**Income tax.** Income tax expense comprises current tax and deferred tax.



## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

**Current income tax.** Current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Deferred income tax.** Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities of the Group include taxable temporary differences attributable to the subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets with regard to the subsidiaries are recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**Current and deferred tax for the year.** Current and deferred tax are recognised in profit or loss, except when they relate to items that are directly recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

**Fiduciary activities.** The Group provides trustee services to its customers. The Group also provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue from the fiduciary services is recognised as services are provided.

**Collateral.** The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

**Net assets attributable to the participants of the Group.** The Bank, which is a parent company of the banking group, was incorporated as a limited liability company. In accordance with the Bank's Articles of Association, a participant may withdraw at any time without the need for agreement by the remaining participants or the company.

In this case, the company is required to either pay the participant an amount that is proportionate to the participant's share in the net assets of the Bank or provide the participant with assets of similar value. For this reason, shares of the participants in the company's share capital, retained earnings and reserve funds of the company are reported as net assets attributable to the participants of the Group in the consolidated statement of financial position.

**Equity reserves.** In the consolidated statement of financial position, the net assets attributable to the participants of the Group (other comprehensive income) include:

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## Notes to the consolidated financial statements for 2018 (continued)

- Property revaluation reserve;
- Foreign currency translation reserve for converting cash flows from foreign operations to the reporting currency;
- Available for sale assets revaluation reserve, which comprises changes in fair value of available for sale financial assets of the FVTOCI category.

### Recognition of income and expenses

**Recognition of interest income/ expenses.** Interest income and expenses are accounted in profit and loss as part of "Net interest income" as "Interest income" and "Interest expenses" by using an effective interest rate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts for the financial instruments through the expected life of the financial instrument or liability to the net carrying amount. Future cash flows are estimated with consideration of all contractual terms of such instrument. The calculation includes all considerations and other amounts paid or received by the parties that are integral part of the effective interest rate and relate to these or those loan arrangements as well as transaction costs and other premiums or discounts.

Interest income from a financial asset is recognised when it is much probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income is measured with using the effective interest rate to the gross carrying amount of the financial asset (which is not impaired), except for:

- a) purchased or created impaired financial assets. In such cases, the Group applies the effective interest rate adjusted for credit risk and amortised value of the financial asset since its first recognition;
- b) financial assets not being purchased or created impaired financial assets, but which became impaired in the course of time. In such cases, the Group applies the effective interest rate to the amortised value of the financial asset over subsequent reporting periods.

The effective interest rate adjusted for credit risk is the discounting rate used for purchased or created impaired financial assets and estimated based on expected contractual cash flows and expected credit losses.

Interest income received from assets is measured at fair value and classified as interest income.

**Fee and commission income/ expenses.** Fee and commission income includes receipts that are not an integral part of the effective interest rate (see above). Loan origination fees are recognized as services are rendered.

All other commission income, as a rule, is recognized on an accrual basis depending on the completion of a specific transaction and determined as the share of actually rendered services in the total scope of services already rendered.

Expenses of paid fees and commissions are recognized upon completion of services.

**Recognition of dividend income.** Dividend income from investments is recognised when the shareholder's right to receive payment has been established. For listed shares it is the ex-dividend date and for unlisted shares it is, as a rule, the date of dividend approval by shareholders.

**Income/expenses on transactions with financial assets and liabilities intended for trading.** Net gain/loss on the transactions with the trading assets and liabilities includes gains and losses from changes in the fair value of financial assets and liabilities intended for trading, except for relevant interest income/expenses.

### Principles of accounting policy, presentation and calculation used for preparation of the Group's financial statements for the year that ended on 13 December 2017

**Financial instruments.** Financial assets and financial liabilities are accounted in the consolidated statement of the Group's financial position when the Group becomes a party to the contract on a respective financial instrument. The Group recognizes regular purchases and sales of financial assets and

# Aljba Alliance Commercial Bank Ltd.

## Notes to the consolidated financial statements for 2018 (continued)

liabilities at settlement date. Standard sale/purchase transactions are the sale of purchase of financial assets to be provided within the timeline set by regulations or market practice.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly related to purchase or issue of financial assets and financial liabilities (except for financial assets and liabilities recognized at fair value through profit or loss) either increase or decrease the fair value of financial assets and financial liabilities at initial recognition. Transaction costs directly related to purchase of financial assets or liabilities are recognized at fair value through profit or loss and accounted for as profit or loss.

**Financial assets.** Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments (HTM), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL. Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL upon initial recognition.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL with reflection of such revision in the statement of profit and loss and other comprehensive income.

Financial assets at FVTPL are stated at fair value, with recognition of their revaluated value in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "Net gain/(loss) on financial assets at fair value through profit or loss" line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 20.

Loans and receivables. Loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the CBR, due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost, using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements. In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos").

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repos are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks and customer accounts..

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### Notes to the consolidated financial statements for 2018 (continued)

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and/or loans to customers.

The Group enters into securities repos and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- Likely probability that the borrower will enter bankruptcy or financial re-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of an impaired portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at initial effective interest rate of this financial asset.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered noncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

If, in a subsequent period, the amount of the impairment loss on financial assets carried at amortised cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognised impairment loss is reversed through the profit and loss to the extent that the carrying amount of financial assets at the date the impairment is reversed cannot exceed what the carrying amount would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

**Renegotiated loans.** Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the repayment period and renegotiating the loan. Once the terms and conditions have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management monitors renegotiated loans to ensure that all of the criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

**Write-off of loans and advances.** Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss and other comprehensive income in the period of recovery.

**Derecognition of financial assets.** The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

**Financial liabilities.** Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

**Other financial liabilities.** Other financial liabilities, including depository instruments with the Central Bank of the Russian Federation, deposits by banks and customers, repurchase agreements, debt securities issued, and other financial liabilities, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Financial guarantee contracts.** A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
  - The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

**Derecognition of financial liabilities.** The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### 3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies the Group management uses judgements and assumptions that impact the carrying amounts of assets and liabilities to be reflected in the consolidated financial statements for the next financial year. Judgements and assumptions are reviewed on an ongoing basis based on the management's experience and other factors, including expectations of future events that, in the management's opinion, are relevant in current circumstances. In the application of the accounting policies the management also uses professional judgements and assessments. The judgements having the most significant impact on the amounts in the consolidated financial statements and estimates causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

**Losses caused by impairment of loans.** The Group regularly reviews its portfolio of loans to assess them for impairment. For estimation of losses caused by impairment of all categories of financial assets both IFRS 9 and IAS 39 require the application of judgements, in particular, estimation of amounts and period of future cash flows and cost of collateral and also the assessment of potential significant increase in credit risks.

Such judgements are based on a number of factors, which change may lead to revision of provisions. Expected credit losses are estimated by using complicated models that use a number of assumptions as regards the selected input date and their correlation.

*Significant increase in credit risk.* As it was explained in Note 2, expected credit risks are estimated as the estimated provision equal to credit losses expected within 12 months (for Stage 1 assets) or within the whole period of lending (for Stage 2 and Stage 3 assets). The asset is transferred to Stage 2 when credit risk considerably increases from its initial recognition. IFRS 9 has no definition of considerable increase in credit risk. For assessment of materiality of credit risk increase for a certain asset the Group reviews both quantitative and qualitative forecast information, which is reliable and can be confirmed.

*Default probability.* The probability of default is the key input signal to measure credit losses. The probability of default is estimated for the set time horizon based on historic data, assumptions and expectations of future conditions.

*Losses caused by default.* Losses in the event of default is the estimation of losses that may be caused by default based on the difference of cash flows due under a contract with those a lender is expecting to receive with consideration of cash flows gained from collateral and potential credit improvements.

**Fair value estimation.**

For estimation of fair value of financial assets or liabilities the Group uses data observed on the market to the extent they are available. If such Level 1 data are missing, the Group uses models to assess fair values of its financial instruments.

### 4. New accounting provisions and their effect on financial statements

As of the date of approval of these financial statements, the Group did not apply the following new and revised International Financial Reporting Standards released but not in force:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-Term Investments in Associates and Joint Ventures
- Annual Improvements to IFRSs, 2015-2017 Cycle – Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

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### Notes to the consolidated financial statements for 2018 (continued)

- Amendments to IFRS 3 - Definition of a Business
- Amendments to IAS 1 and IAS 8 – Definition of Material
- IFRIC 23 Uncertainty over Income Tax Treatments.

**IFRS 16 Leases.** IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. Once in effect with regard to the reporting periods commencing on 1 January 2019 or thereafter, IFRS 16 will supersede the current lease guidance including IAS 17 Leases and all related interpretations. IFRS 16 initial application date for the Group shall be 1 January 2019.

Impact of the New Lease Definition. Changes in the definition of a lease primarily apply to the concept of control. IFRS 16 distinguishes leases and service contracts on the basis of whether the identified asset is controlled by a customer. Control is exercised if the customer has:

- The right to practically all economic benefits resulting from use of the identified asset;
- The right to use such asset.

The Group will apply the lease definition and all related IFRS 16 guidance to all lease contracts entered into or modified on 1 January 2019 or thereafter (regardless of it being the lessor or the lessee).

Impact on Lease Accounting by Lessee. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability are to be recognized on balance sheet by lessees for all leases (with the exception of those referred to below).

Initial application of IFRS 16 to all lease contracts (with the exception of short-term and lease of low-value assets) requires the Group:

- (a) to recognize in the Consolidated Statement of Financial Position right-of-use assets and corresponding liabilities initially measured at the present value of the future lease payments;
- (b) to recognize in the Consolidated Statement of Profit and Loss depreciation of the right-of-use assets and interest on lease liabilities;
- (c) to separate in the Consolidated Statement of Cash Flows principal (financing cash flows) and interest (operating cash flows) portions of lease payments.

Pursuant to IFRS 16 measurement of the right-of-use assets for impairment will be compliant with IAS 36 Impairment of Assets.

Initial measurement of lease liabilities shall be at present value of the remaining lease payments. Upon initial recognition, lease liability shall be adjusted for interest on the liability and lease payments, as well as, inter alia, for modifications of the lease contract. VAT on lease payments shall not be included in the calculation of the right-of-use asset and lease liability whether recoverable or not.

The Group will use the exemptions offered by the Standard for short-term lease contracts (up to 12 months) and leases of low value assets (such as personal computers and office furniture) and will recognize lease costs by the straight-line method as provided for by IFRS 16.

Furthermore, a lessee may apply IFRS 16 to intangible assets leases. The Group elected not to apply IFRS 16 to intangible assets leases.

Impact on Lease Accounting by Lessor. Unlike accounting by lessee, accounting by lessor under IFRS 16 remained practically the same as under IAS 17 and requires differentiation of operating and financial leases. IFRS 16, however, changed and expanded the requirements to presentation of the information, in particular the information on management by the lessor of the risks related to the depreciated leased assets.

Pursuant to IFRS 9, the expected credit losses allowance will be recognized for the financial lease receivable. Leased assets will be derecognized and a financial lease receivable will be recognized.

As of 31 December 2018, the Group has no contractual obligations under financial lease contracts whereby the Group is a lessee or lessor. It is expected that the new IFRS 16 requirement to recognize right-of-use assets and the corresponding lease liability will have no significant impact on the amounts reported in the Consolidated Financial Statements of the Group.

Furthermore, IFRS 16 requires much more extensive information disclosures.

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

**IFRS 17 Insurance Contracts.** The new Standard establishes the principles of recognition, measurement, submission and disclosure of the information on insurance contracts and supersedes IFRS 4 Insurance Contracts. The Standard is effective for the periods commencing on 1 January 2021 or thereafter and earlier application is permitted.

The Management of the Group does not expect application of the said Standard to have an effect on the Consolidated Financial Statements of the Group in the future as the Group has no instruments within the scope of application of this Standard.

#### **Amendments to IFRS 9 Prepayment Features with Negative Compensation.**

Amendments to IFRS 9 clarify that to determine compliance of the prepayment features with the criteria for payment of loan principle and interest, a party to the contract can pay or receive reasonable compensation for the prepayment regardless of the reason for such prepayment. In other words, prepayment features with negative compensation does not automatically violate the criteria of the debt principal and interest payment. Amendments shall apply to the annual periods commencing on 1 January 2019 or thereafter and earlier application is permitted.

The Management of the Group does not expect application of the said amendments to have an effect on the Consolidated Financial Statements of the Group in the future.

**Amendments to IAS 28 Long-Term Investments in Associates and Joint Ventures.** The amendments clarify that IFRS 9, including the requirements to impairment, shall apply to long-term investments with no consideration for adjustment of the long-term investments carrying value required by IAS 28 (for instance, long-term investments carrying value adjustment resulting from distribution of the investment losses or measurement for impairment under IAS 28).

Amendments shall apply retrospectively and shall apply to the annual periods commencing on 1 January 2019 or thereafter and earlier application is permitted.

The Management of the Group does not expect application of the said amendments to have an effect on the Consolidated Financial Statements of the Group in the future.

**Annual Improvements to IFRSs, 2015-2017 Cycle – Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.** Annual improvements include amendment to four standards:

**IAS 12 Income Taxes.** The amendments clarify that an organization must recognize the tax effects on the dividends as part of profit and loss, other comprehensive income or equity, depending on the initial recognition of the transactions that generated the distributed profit. The amendments shall apply regardless of the income tax rates applicable to the distributable and non-distributable profit.

**IAS 23 Borrowing Costs.** The amendments clarify that if any loan remains outstanding when the relevant asset is ready for the intended use or sale, then such loan shall be included in the general-purpose borrowing for the purposes of calculation of the general-purpose borrowings capitalization rate.

**IFRS 3 Business Combinations.** Amendments to IFRS 3 clarify that if an organization gains control over a business combination, the organization shall apply the requirements to the staged business combination, and, inter alia, shall revalue its previously owned interest in business combinations at fair value. Revaluation of the previously owned interest участия covers any non-recognized assets, liabilities and goodwill related to business combinations.

**IFRS 11 Joint Arrangements.** Amendments to IFRS 11 clarify that if a party participating but not exercising joint control over joint arrangements that represent a business obtains joint control over such joint arrangements, such party shall not revalue its previously owned interest in joint arrangements.

All amendments shall apply to the annual periods commencing on 1 January 2019 or thereafter and, as a rule, require prospective application; earlier application is permitted.

The Management of the Group does not expect application of the said amendments to have an effect on the Consolidated Financial Statements of the Group in the future.

**Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment or Settlement** Amendments become effective in the reporting period commencing on 1 January 2019 or thereafter. Earlier application is permitted, shall apply prospectively.

The Management of the Group does not expect application of the said amendments to have an effect on the Consolidated Financial Statements of the Group as the Group has no pension plans.

**Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture.** Amendments to IFRS 10 and IAS 28 shall apply to sales or contributions of the assets between the investor and its associate or joint venture. In particular, the



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### Notes to the consolidated financial statements for 2018 (continued)

amendments clarify that the income or loss from loss of control over a subsidiary that is not a business in the transaction with an associate or joint venture accounted for by equity method shall be recognized as profit or loss of the parent company only in the share of other non-related investors in this associate or joint venture. Similarly, gains or losses resulting from remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture and is accounted for by equity method) to fair value shall be recognized as profit or loss of the former parent company only to the extent of the unrelated investors' interest in the new associate or joint venture.

Effective date must be determined by the International Accounting Standards Board but Earlier application is permitted. The Management of the Group expects application of the said amendments to have an effect on the Consolidated Financial Statements of the Group in the future periods if such transactions arise.

**Amendments to IFRS 3 Definition of a Business.** Under these amendments, to be deemed a business an acquired integrated combination of activities and assets must include, as minimum, input and the essential process that can considerably promote the output. The amendments narrow the definitions of business and output by excluding from the definition the income in the form of reduced expenditure shifting the accent to the output in the form of goods and services for the customers. The amendments also make assessment of the market participants' capability to replace any missing resources or processes with own inputs and processes for the purposes of continuous output unnecessary. The amendments become effective for the reporting periods commencing on 1 January 2020 or thereafter. Earlier application is permitted.

The Management of the Group does not expect application of the said amendments to have an effect on the Consolidated Financial Statements of the Group.

**Amendments to IAS 1 and IAS 8 Definition of Material.** The amendments serve to simplify the understanding of the materiality concept with no modification of the basic definition. The concept of material information masking by presentation thereof together with the non-material information was included as part of the updated definition. "Materiality" threshold of the information for users was increased from "may influence" to "could reasonably be expected to influence". Materiality definition presented in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors was replaced with the reference to IAS 1 Presentation of Financial Statements. The IFRS Board introduced amendments to other standards and Conceptual Framework that contain references to the definition of material or use this term, to ensure consistency of its application. The amendments become effective for the reporting periods commencing on 1 January 2020 or thereafter and shall be applied prospectively. Earlier application is permitted.

The Management of the Group does not expect application of the said amendments to have an effect on the Consolidated Financial Statements of the Group.

**IFRIC 23 Uncertainty over Income Tax Treatments.** IFRIC 23 clarifies the accounting for uncertainties in income taxes. The clarifications require the organization:

- to determine whether each tax treatment shall be defined separately or in conjunction with other tax treatments;
- to ascertain if there is a high probability of the tax authority agreeing with the tax treatment applied or proposed by the entity when the profit tax declaration was filed.

The interpretation shall be effective for the annual periods commencing on 1 January 2019 or thereafter.

The Management of the Group does not expect application of these amendments to have an effect on the Consolidated Financial Statements of the Group.

## 5. Cash and cash equivalents

Cash and cash equivalents presented in the statement of cash flows includes the following:

	31 December 2018	31 December 2017
Cash on hand	158,107	171,059
Accounts with the Central Bank of the Russian Federation (except for mandatory deposits)	129,388	143,067
Correspondent accounts on demand with credit institutions:		
- Russian Federation	16,661	7,269
- other countries	837,299	1,202,171
Settlement accounts with the Moscow Stock Exchange and other trading systems	136,315	216,233

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### Notes to the consolidated financial statements for 2018 (continued)

Deposit with the Central Bank of the Russian Federation with maturity up to 30 days	1,120,821	1,400,671
Less allowance for impairment losses	(1,042)	-
<b>Total, cash and cash equivalents</b>	<b>2,397,549</b>	<b>3,140,470</b>

As of 31 December 2018 and 2017, cash and cash equivalents included settlements accounts on demand for settlements with the Moscow Stock Exchange (ZAO JSCB National Clearing Center and NCO ZAO National Settlement Depository) and international exchanges of RUB 136,315 thousand and RUB 216,233 thousand, respectively.

As of 31 December 2018, correspondent accounts with foreign credit institutions were mostly in VTB Bank (Europe) SE (legal successor of VTB Bank (Deutschland) AG) for the amount of RUB 385,451 thousand (31 December 2017: RUB 821,104 thousand) and in Ceskoslovenska Obhodni Bank AS, CZ (Czech Republic) for the amount of RUB 415,484 thousand (31 December 2017: RUB 353,376 thousand), which represents a significant concentration.

Cash equivalents in accounts with other banks and non-bank credit institutions are represented by accounts with large and well-known foreign and leading Russian banks and financial institutions and may be easily used for financing on-going bank operations. As of 31 December 2018 and 1 January 2018 all cash equivalents are attributed to Stage 1 under IFRS 9. Within 2018, there was no movement of assets between stages of credit quality.

The analysis of cash and cash equivalents by location, currency structure and liquidity is given in Note 22.

### 6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and comprise:

	31 December 2018	31 December 2017
Debt securities	302,898	-
<b>Total financial assets at fair value through profit or loss</b>	<b>302,898</b>	<b>-</b>

  

	Interest rate to nominal, %	31 December 2018	Interest rate to nominal, %	31 December 2017
RF Central Bank bonds (KOB-15)	7.75	302,898	-	-
<b>Total debt securities</b>		<b>302,898</b>	<b>-</b>	<b>-</b>

The fair value of trading securities is estimated based on observed market quotes; therefore, the Group does not separately review and monitor the potential impairment of these securities.

### 7. Due from banks

Due from banks comprise:

	31 December 2018	31 December 2017
Term deposits	45,892	89,853
Correspondent accounts with other banks	18,712	30,031
Promissory note issued by a credit institution	-	338,161
<b>Due from banks before allowance for impairment losses</b>	<b>64,604</b>	<b>458,045</b>
Less allowance for impairment losses	(1,494)	(1,286)
<b>Total due from banks</b>	<b>63,110</b>	<b>456,759</b>

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## Notes to the consolidated financial statements for 2018 (continued)

As of 31 December 2018, due from banks included restricted amounts, such as the guarantee deposit with VTB Bank (Europe) SE of RUB 15,892 against the guarantee issued by VTB Bank, which is the settlement bank for operations of Group's customers with plastic cards (13 December 2017: RUB 59,853 thousand), and contributions of RUB 30,000 thousand into the insurance funds with ZAO JSCB National Clearing Center.

As of 31 December 2017, a promissory note was recognized in the amount of RUB 338,161 thousand issued by the Russian bank (rated BB+ and Ba2 by FitchRatings and Moody's rating agencies, respectively) with the par value of USD 5,900,000 and 0.80% yield, payable "on demand but not before 31 May 2018". As of 31 December 2018 the promissory note was fully redeemed with all settlements completed.

Movements in the allowances for impairment losses for due from banks by stage under IFRS 9 for 2018 comprise:

	Stage 1	Stage 2	Stage 3	Total
<b>Allowance for impairment losses at 01 January 2018 under IFRS 9</b>	7	-	1,279	<b>1,286</b>
Provision	208	-	-	<b>208</b>
<b>Allowance for impairment losses at 31 December 2018</b>	<b>215</b>	-	<b>1,279</b>	<b>1,494</b>

As of 31 December 2018 and 1 January 2018 all funds due from banks are attributed to Stage 1 under IFRS 9, except for the balance in the correspondent account in one bank of RUB 1,279 thousand (Stage 3). In 2018, there was no movement of assets between stages of credit quality.

The analysis of due from banks by location, currency structure and liquidity is given in Note 22.

### 8. Loans to customers

The Group classifies loans to customers as follows:

- Loans to legal entities with medium-size business (hereinafter - medium-sized enterprises);
- Loans to individuals.

Loans to customers comprise:

	31 December 2018	31 December 2017
Loans to medium-sized enterprises	1,247,501	1,468,786
Loans to individuals	563,675	603,991
<b>Loans to customers before allowance for impairment losses</b>	<b>1,811,176</b>	<b>2,072,777</b>
Allowance for impairment losses	(519,551)	(680,069)
<b>Total loans to customers</b>	<b>1,291,625</b>	<b>1,392,708</b>

The change in allowances for impairment losses for loans to customers for 2017 and 2018 comprise:

	2018	2017
<b>Allowance for impairment losses at the beginning of the period</b>	<b>680,069</b>	<b>693,017</b>
<b>Revision of accounting policies due to application of IFRS 9, including:</b>	<b>(153,734)</b>	-
- reassessment using the model of expected credit losses	5,657	
- other	(159,391)	
<b>Allowance for impairment losses at 1 January 2018 under IFRS 9</b>	<b>526,335</b>	-
Set-up of allowance for impairment losses	2,046	
Recovery of allowance by loans write-off over the year	(8,830)	(12,948)

# Aljba Alliance Commercial Bank Ltd.

## Notes to the consolidated financial statements for 2018 (continued)

<b>Allowance for impairment losses at the end of the period</b>	<b>519,551</b>	<b>680,069</b>
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For loans attributed by the Group to Stage 3 under IFRS 9 at 01 January 2018, the interest income recognized by the Group in the financial statements after their movement to Stage 3 under IFRS 9 was recalculated and written off at the expense of the allowance for potential losses of RUB 159,391 thousand.

Movements in allowances for impairment losses on loans to customers by borrower for the years ended 31 December 2018 and 2017 comprise:

	Medium-sized enterprises	Individuals	Total
<b>Allowance under IAS 39 at 31 December 2016</b>	<b>482,244</b>	<b>210,773</b>	<b>693,017</b>
Allowance/(recovery of allowance) for the period	(28,934)	15,986	(12,948)
<b>Allowance under IAS 39 at 31 December 2017</b>	<b>453,310</b>	<b>226,759</b>	<b>680,069</b>
Revision of accounting policies due to use of IFRS 9	(103,249)	(50,485)	(153,734)
<b>Allowance under IFRS 9 at 1 January 2018</b>	<b>350,061</b>	<b>176,274</b>	<b>526,335</b>
Accruals for the period	8,664	(6,618)	2,046
Allowance recovery by loans write-off as bad debt	(5,360)	(3,470)	(8,830)
<b>Allowance under IFRS 9 at 31 December 2018</b>	<b>353,365</b>	<b>166,186</b>	<b>519,551</b>

Movements in allowances for impairment losses on loans to customers by Stage under IFRS 9 for 2018 comprise:

	Stage 1	Stage 2	Stage 3	Total
<b>Allowance for impairment losses at 01 January 2018 under IFRS 9</b>	23,985	36,306	466,044	<b>526,335</b>
Accruals for the period	21,886	(36,082)	16,242	<b>2,046</b>
Allowance recovery by loans write-off as bad debt	-	-	(8,830)	<b>(8,830)</b>
<b>Allowance for impairment losses at 31 December 2018 under IFRS 9</b>	<b>45,871</b>	<b>224</b>	<b>473,456</b>	<b>519,551</b>

Below is the information about loans before allowances for impairment losses and respective amount of impairment by Stage under IFRS 9 as of 31 December 2018:

	Stage 1	Stage 2	Stage 3	Total
<b>Medium-sized enterprises:</b>				
Loans before allowances for impairment losses	928,445	-	319,056	1,247,501
Impairment	(34,309)	-	(319,056)	(353,365)
<b>Total loans to medium-sized enterprises after allowances for impairment losses</b>	<b>894,136</b>	<b>-</b>	<b>-</b>	<b>894,136</b>
<b>Individuals:</b>				
Loans before allowances for impairment losses	408,129	1,146	154,400	563,675
Impairment	(11,561)	(225)	(154,400)	(166,186)
<b>Total loans to individuals after allowances for impairment losses</b>	<b>396,568</b>	<b>921</b>	<b>-</b>	<b>397,489</b>
<b>Total impairment</b>	<b>(45,870)</b>	<b>(225)</b>	<b>(473,456)</b>	<b>(519,551)</b>
<b>Total loans to customers after allowances for impairment losses</b>	<b>1,290,704</b>	<b>921</b>	<b>-</b>	<b>1,291,625</b>

Loans were given mostly to customers registered in the Russian Federation with their core business in the following industries:

	31 December 2018	31 December 2017
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# Aljba Alliance Commercial Bank Ltd.

## Notes to the consolidated financial statements for 2018 (continued)

Individuals	563,675	603,991
Trade	694,022	558,398
Production	254,837	-
Construction	175,000	237,034
Transport and communications	39,929	38,609
Insurance	30,000	173,360
Real estate	25,300	119,450
Services	22,885	110,038
Finance	5,314	26,988
Agriculture	-	105,000
Food industry	-	99,200
Other	214	709
<b>Total loans to customers before allowance for impairment losses</b>	<b>1,811,176</b>	<b>2,072,777</b>
Less allowance for impairment losses	(519,551)	(680,069)
<b>Total loans to customers</b>	<b>1,291,625</b>	<b>1,392,708</b>
Loans to individuals comprise:		
	<b>31 December 2018</b>	<b>31 December 2017</b>
Investment loans	162,725	332,444
Consumer loans	400,950	246,460
Housing loans	-	25,087
<b>Total loans to individuals before allowance for impairment losses</b>	<b>563,675</b>	<b>603,991</b>
Less allowance for impairment losses	(166,186)	(226,759)
<b>Total loans to individuals</b>	<b>397,489</b>	<b>377,232</b>

The table below summarises loans to customers by type of impairment at 31 December 2018:

	Loans before allowance	Expected credit losses			Loans after allowance	Allowance, %
		Stage 1	Stage 2	Stage 3		
<b>Medium-sized enterprises:</b>						
No past due	1,180,777	(34,210)	-	(254,383)	892,184	24.4
Overdue:						
- for no more than 30 days	8,911	(98)	-	(6,860)	1,953	78.1
- from 61 to 90 days	13,670	-	-	(13,670)	-	100.0
- from 121 to 150 days	4,700	-	-	(4,700)	-	100.0
- for more than 180 days	39,443	-	-	(39,443)	-	100.0
<b>Total loans to medium-sized enterprises</b>	<b>1,247,501</b>	<b>(34,308)</b>	<b>-</b>	<b>(319,056)</b>	<b>894,137</b>	<b>28.3</b>
<b>Individuals:</b>						
No past due	418,675	(11,562)	(225)	(9,400)	397,488	5.1
Overdue for:						
- more than 180 days	145,000	-	-	(145,000)	-	100.0
<b>Total loans to individuals</b>	<b>563,675</b>	<b>(11,562)</b>	<b>(225)</b>	<b>(154,400)</b>	<b>397,488</b>	<b>29.4</b>
<b>Total loans to customers</b>	<b>1,811,176</b>	<b>(45,870)</b>	<b>(225)</b>	<b>(473,456)</b>	<b>1,291,625</b>	<b>28.7</b>

The table below summarises the quality of loans before allowance of impairment losses and amount of impairment at 31 December 2017:

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

	Loans before allowance for impairment losses	Allowance for impairment losses	Loans after allowance for impairment losses	Allowan ce, %
<b>Medium-sized enterprises:</b>				
No past due loans without signs of impairment	49,271	(3,697)	45,574	7.5
Impaired loans:				
- no past due	1,392,398	(422,496)	969,902	30.3
- overdue for no more than 30 days	7,841	(7,841)	-	100.0
- overdue for more than 180 days	19,276	(19,276)	-	100.0
<b>Total loans to medium-sized enterprises</b>	<b>1,468,786</b>	<b>(453,310)</b>	<b>1,015,476</b>	<b>30.9</b>
<b>Individuals:</b>				
No past due unimpaired loans	37,891	(14,829)	23,062	39.1
Impaired loans:				
- no past due	357,845	(3,675)	354,170	1.0
- overdue for no more than 30 days	208,255	(208,255)	-	
<b>Total loans to individuals</b>	<b>603,991</b>	<b>(226,759)</b>	<b>377,232</b>	<b>37.4</b>
<b>Total loans to customers</b>	<b>2,072,777</b>	<b>(680,069)</b>	<b>1,392,708</b>	<b>37.5</b>

The table below summarized the analysis of credit portfolio before allowance for impairment losses by type of collateral obtained by the Group:

	31 December 2018	31 December 2017
Loans collateralised by pledge of real estate or rights thereto	551,668	391,201
Loans collateralized by pledge of securities	148,848	195,373
Loans collateralised by pledge of inventories	137,346	191,596
Loans collateralized by pledge of equipment	106,524	78,679
Loans collateralized by other collateral	175,000	145,464
<b>Total loans to customers before allowance for impairment losses</b>	<b>1,811,176</b>	<b>2,072,777</b>
Less allowance for Impairment losses	(519,551)	(680,069)
<b>Total loans to customers</b>	<b>1,291,625</b>	<b>1,392,708</b>

As of 31 December 2018 and 31 December 2017 the total amount of unsecured loans was RUB 691,790 thousand and RUB 1,070,464 thousand, respectively, comprising 38.2% and 51.6% of the total Group credit portfolio representing considerable concentration of credit risk.

As at 31 December 2018 the Group gave loans to one group of borrowers, which total amount of loans exceeded 10% of net assets attributed to Group participants (31 December 2017: two borrowers /groups of borrowers). As at 31 December 2018 the aggregated amount of loans of the said borrowers was RUB 365,773 thousand (31 December 2017: RUB 594,842 thousand).

The analysis of loans to customers by location, currency structure and liquidity is given in Note 22.

## 9. Property and equipment

Property and equipment comprise:

	Land, buildings and structures	Furniture and equipment	Motor vehicles	Total
<b>Initial book value</b>				
<b>31 December 2016</b>	<b>2,008,690</b>	<b>59,512</b>	<b>12,398</b>	<b>2,080,600</b>
Additions	-	142	-	142

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

Revaluation	(418,853)	-	-	(418,853)
Disposals	-	(723)	(975)	(1,698)
Foreign exchange differences	-	(708)	(183)	(891)
<b>31 December 2017</b>	<b>1,589,837</b>	<b>58,223</b>	<b>11,240</b>	<b>1,659,300</b>
Additions	-	1,109	-	1,109
Revaluation	119,753	-	-	119,753
Disposals	-	(1,378)	-	(1,378)
Foreign exchange differences	-	2,771	566	3,337
<b>31 December 2018</b>	<b>1,709,590</b>	<b>60,725</b>	<b>11,806</b>	<b>1,782,121</b>
<b>Accumulated depreciation</b>				
<b>31 December 2016</b>	<b>-</b>	<b>52,315</b>	<b>9,147</b>	<b>61,462</b>
Charge for the year	40,560	3,005	688	44,253
Eliminated on disposal	-	(722)	(717)	(1,439)
Foreign exchange differences	-	(566)	(162)	(728)
<b>31 December 2017</b>	<b>40,560</b>	<b>54,032</b>	<b>8,956</b>	<b>103,548</b>
Charge for the year	31,251	2,176	687	34,114
Revaluation	(71,811)	-	-	(71,811)
Eliminated on disposal	-	(1,362)	-	(1,362)
Foreign exchange differences	-	2,392	541	2,933
<b>31 December 2018</b>	<b>-</b>	<b>57,238</b>	<b>10,184</b>	<b>67,422</b>
<b>Net book value</b>				
<b>31 December 2018</b>	<b>1,709,590</b>	<b>3,487</b>	<b>1,622</b>	<b>1,714,699</b>
<b>31 December 2017</b>	<b>1,549,277</b>	<b>4,191</b>	<b>2,284</b>	<b>1,555,752</b>

The Group owns an office building with a total area of 5,324.6 sq. m. The office building is used for an administrative purpose and located at 1 Kremlevskaya Naberezhnaya, bld. 2, Moscow and the land plot of 1,262 sq. m, where the building is located.

As at 31 December 2015, the office building and the related land plot were recognised at a revalued amount representing a fair value at the revaluation date less accrued later depreciation and impairment losses, if any.

As at 31 December 2017, the Bank tested the building and land plot carried for impairment using the assessment method based on inputs for similar property in the real estate market. The testing showed that the building carrying amount exceeded the price that, by our estimates, would be received to sell the asset by RUB 418,853 thousand. The building impairment losses amounting to RUB 418,853 thousand are reflected in the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2018, the said property was assessed by an independent qualified appraiser with prior experience of assessing similar property as regards its location and category. The resultant increase in the fair (market) value of the said property of RUB 191,564 thousand was reflected in other comprehensive income (before deferred tax of RUB 38,313 thousand (20%)).

The total accumulated value of reassessed property (the office building and the land plot) reflected at reassessed value at 31 December 2018 and 31 December 2017 was RUB 1,316,359 thousand and RUB 1,124,795 thousand, respectively.

Details of fair value of the Group's real estate as at 31 December 2018 and 31 December 2017 as well as information about the fair value hierarchy are as follows:

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

	Level 1	Level 2	Level 3	Fair value as at 31 December 2018
Building	-	-	1,466,082	1,466,082
Land	-	-	243,508	243,508
<b>Total</b>	-	-	<b>1,709,590</b>	<b>1,709,590</b>

	Level 1	Level 2	Level 3	Fair value as at 31 December 2017
Building	-	-	1,406,099	1,406,099
Land	-	-	143,178	143,178
<b>Total</b>	-	-	<b>1,549,277</b>	<b>1,549,277</b>

As at 31 December 2018 and 2017, included in property and equipment was fully depreciated equipment totalling RUB 38,357 thousand and RUB 36,869 thousand, respectively.

### 10. Other assets

Other assets comprise:

	31 December 2018	31 December 2017
<b>Other financial assets</b>		
Settlements under issued bank guarantees	2,242	-
Accrued income in arrears	1,407	1,571
Other financial assets	95	64
Less allowance for receivables impairment	(1,407)	-
<b>Total financial assets</b>	<b>2,337</b>	<b>1,635</b>
<b>Other non-financial assets</b>		
Precious metals	10,676	8,973
Non-currents assets classified as held for sale	8,378	6,320
Advances paid	6,992	4,224
Taxes and levies payable, other than income tax	4,969	8,316
Intangible assets	3,257	1,960
Other non-financial assets	8,227	7,447
<b>Total other assets</b>	<b>44,836</b>	<b>38,875</b>

For review of impairment of payables the Group considers its overdue status as the main factor.

### 11. Customer accounts

Customer accounts comprise:

	31 December 2018 года	31 December 2017 года
<b>Individuals:</b>		
Current/settlement accounts	897,625	1,109,204
Term deposits	1,005,483	1,014,551
<b>Legal entities:</b>		
Current/settlement accounts	1,045,147	882,551
Term deposits	-	864,486
<b>Total customer accounts</b>	<b>2,948,255</b>	<b>3,870,792</b>



## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

As at 31 December 2018 and 2017, customer accounts totalling RUB 1,730,784 thousand and RUB 2,469,051 thousand (58.7% и 63.9%), respectively, were due to five customers, which represents a significant concentration.

Analysis by sector:	31 December 2018 года	31 December 2017 года
Individuals	1,903,108	2,123,755
Finance	810,839	713,687
Development services	54,733	61,546
Trade and personal services	42,515	37,411
Construction and real estate	30,023	26,347
Transport and communication	9,895	10,868
Marketing and advertising	8,641	862
Mining	7,634	3,161
Private sector	6,597	7,172
Electric power sector	4,014	-
Chemical industry	-	874,250
Other	70,256	11,733
<b>Total customer accounts</b>	<b>2,948,255</b>	<b>3,870,792</b>

## 12. Other liabilities and derivative financial instruments

Other liabilities comprise and derivative financial instruments comprise:

	31 December 2018 года	31 December 2017
<b>Other financial liabilities</b>		
Payables to personnel on unused vacations	17,619	16,398
Deferred commission income on financial guarantees	2,795	-
Fair value of derivatives in foreign currency	1,081	5
Estimated allowance for credit liabilities	68	-
Settlements on other transactions	-	10
<i>Other financial obligations</i>	<i>21,563</i>	<i>16,413</i>
<b>Other non-financial liabilities</b>		
Taxes payable, other than income tax	60,267	75,292
Payable to the deposit insurance fund	-	3,443
Other	6,823	3,877
<b>Total other liabilities</b>	<b>88,653</b>	<b>99,025</b>

Fair value of derivative financial instruments in foreign currency:

	31 December 2018			31 December 2017		
	Nominal value	Fair value		Nominal value	Fair value	
		Asset	Liability		Asset	Liability
<b>Foreign currency transactions</b>						
Spot deals	8,030	-	(1,077)	1,361,610	13	(18)
Swap deals	1,230,536	-	(4)	-	-	-
<b>Total derivative financial instruments</b>	<b>1,238,566</b>	<b>-</b>	<b>(1,081)</b>	<b>1,361,610</b>	<b>13</b>	<b>(18)</b>

The Group performs transactions with derivative financial instruments on a net basis. Derivatives in foreign currency, which the Group enters into, are usually traded at the exchange market (PAO Moscow Stock Exchange and NKO National Clearing Center) under standard contracts. Derivative financial instruments have either potentially beneficial conditions (assets) or potentially unfavorable conditions

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

(liabilities) due to fluctuation of exchange rates or other variable factors related to these instruments. The total fair value of derivative financial instruments may significantly change in time.

### 13. Net assets attributable to the participants of the Group

Net assets attributable to the participants in the Group:

	Net assets attributable to the participants of the Group
<b>At 31 December 2016</b>	<b>2,640,603</b>
Non-repayable funds from the participants	81,600
Comprehensive loss	(279,360)
<b>At 31 December 2017</b>	<b>2,442,843</b>
Effect of IFRS 9 enactment at 1 January 2018	(4,526)
<b>Opening balance recalculated under IFRS 9</b>	<b>2,438,317</b>
Comprehensive income for 2018	106,768
<b>At 31 December 2018</b>	<b>2,545,085</b>

As at 31 December 2018 and 2017, net assets attributable to the participants in the Group included IFRS-based paid-in share capital of RUB 370,907 thousand as well as the statutory reserve fund consisting of annual contributions, the property revaluation reserve and the retained earnings attributable to the participants in the Group.

In 2016, the owners of the Bank provided the Bank with non-repayable funds of RUB 81,600 thousand.

The Group's reserves distributable among participants are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a statutory reserve fund that is created to cover financial risks, including future losses and other unforeseen risks or contingencies. The reserve fund is created in accordance with the Articles of Association of the Bank and/or the Group's participants by means of annual contributions from the net profit in accordance with RAS. As at 31 December 2018 and 2017, the reserve fund accumulated by the participants of the Group was RUB 41,449 thousand.

### 14. Interest income and expenses

	2018	2017
<b>Interest income</b>		
Financial assets recorded at amortized cost	300,100	406,039
Financial assets at fair value	23,413	21,469
<b>Total interest income</b>	<b>323,513</b>	<b>427,508</b>
Financial assets recorded at amortized cost:		
Loans to customers	236,225	375,130
Due from banks	56,905	24,301
Accounts with other banks	6,970	6,608
<b>Total interest income on financial assets recorded at amortized cost</b>	<b>300,100</b>	<b>406,039</b>
<b>Interest expenses</b>		
Interest on financial liabilities recorded at amortized cost	(46,398)	(78,766)
<b>Total interest expenses</b>	<b>(46,398)</b>	<b>(78,766)</b>

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

Financial liabilities at amortized cost:		
Customer deposits	(45,497)	(75,899)
Accounts with other banks	(901)	(1,180)
Debt securities issued	-	(1,687)
<b>Total interest expenses on financial liabilities at amortized cost</b>	<b>(46,398)</b>	<b>(78,766)</b>

<b>Net interest income</b>	<b>277,115</b>	<b>348,742</b>
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### 15. Net gain on financial assets at fair value through profit or loss

Net gain on financial assets at fair value through profit or loss includes gains and losses on financial assets held for trading and comprises:

	2018	2017
Trading, net	11,422	49,855
Dividend income received	17	26
Change in fair value	(21)	-
<b>Total net gain on financial assets at fair value through profit or loss</b>	<b>11,418</b>	<b>49,881</b>

### 16. Fee and commission income and expenses

Fee and commission income and expense comprise:

	2018	2017
<b>Fee and commission income</b>		
Settlement services	21,059	17,661
Guarantees	2,863	7,029
Trust and other fiduciary activities	582	3,818
Broker operations with securities	3,086	1,865
<b>Total fee and commission income</b>	<b>27,590</b>	<b>30,373</b>

#### Fee and commission expenses

Settlement services	(10,044)	(9,880)
Broker operations with securities	(1,110)	(1,090)
Consulting services	-	(391)
Other	(1,676)	(651)

<b>Total fee and commission expenses</b>	<b>(12,830)</b>	<b>(12,012)</b>
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### 17. Administrative and other operating expenses

Administrative and operating expenses comprise:

	2018	2017
Payroll and bonuses	162,861	169,533
Social insurance contributions	39,181	37,838
Depreciation of property and equipment	34,114	44,253
Taxes, other than income tax	30,207	31,261
Security	27,174	22,744
Operating leases	19,377	20,495
Professional services	15,667	5,478
Communication services	12,537	12,976
Payments to the Deposit Insurance Fund	11,780	13,064
Property and equipment maintenance	10,272	9,470
Stationery and other supplies	6,137	6,000

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

Data processing	5,220	4,757
Impairment of non-current assets	3,347	412
Insurance	1,526	3,843
Other reserves (Notes 10 and 19)	1,475	-
Other	10,053	11,549
<b>Total operating expenses</b>	<b>390,928</b>	<b>393,673</b>

### 18. Income tax

The Group provides for Income tax based on the tax accounts maintained and prepared in accordance with the tax regulations of the RF, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2018 and 2017 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax - book bases' differences for certain assets.

Deferred tax assets/liabilities as at 31 December 2018 and 31 December 2017 comprise:

	31 December 2018	31 December 2017
<b>Deferred tax assets/(liabilities) in relation to:</b>		
Loans to customers	34,890	25,465
Other assets	3,320	2,999
Due from banks	857	1,625
Cash and cash equivalents	208	-
Property and equipment	(306,040)	(270,073)
Customer accounts	(558)	(401)
Other liabilities	(64)	743
Deferred tax asset not recognised	-	-
<b>Net deferred tax liabilities</b>	<b>(267,387)</b>	<b>(239,642)</b>
<b>Net deferred tax liability</b>	<b>(267,387)</b>	<b>(239,642)</b>

The effective tax rates for banks and companies, except for transactions with government securities is 20% was 2018 and 2017. The tax rate for interest income on transactions with government securities was 15% in 2018 and 2017. The effective tax rate for the subsidiary's income (Cyprus) was 12.5% in 2018 and 2017.

The reconciliation of theoretical tax charges and actual tax expenses is given below:

	2018	2017
<b>(Loss)/ profit before tax:</b>	<b>(66,477)</b>	<b>77,850</b>
Theoretical tax charge at the RF statutory tax rate (20%)	<b>(13,295)</b>	<b>15,570</b>
Effect of lower tax rate	608	-
Effect of tax rate, different from the rate of 20% (a subsidiary operating in other jurisdiction at the rate of 12.5%)	2,178	1,567
Expenses not decreasing the tax base, and other	3,555	(8)

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

<b>Income tax (recovery)/expense</b>	<b>(6,954)</b>	<b>17,129</b>
Current income tax expense	2,483	6,323
Deferred tax (recovery) / expense recognised in the current year	(9,437)	10,806
<b>Income tax (recovery)/expense</b>	<b>(6,954)</b>	<b>17,129</b>
Changes in deferred income tax liabilities for 2018 and 2017 comprise:		
	<b>2018</b>	<b>2017</b>
<b>As at 1 January – deferred tax liabilities</b>	<b>239,642</b>	<b>312,607</b>
Effect of IFRS 9 enactment at 1 January 2018	(1,131)	-
<b>Opening balance recalculated under IFRS 9</b>	<b>238,511</b>	<b>-</b>
Change in deferred income tax recognized in consolidated profit or loss	(9,437)	10,806
Changes in deferred income tax recognized in other comprehensive income	38,313	(83,771)
<b>As at 31 December – deferred tax liabilities</b>	<b>267,387</b>	<b>239,642</b>

## 19. Contingent liabilities

### **Contingent liabilities and credit commitments.**

The main objective of these instruments is to confirm the Group's readiness to extend credits to its customers, if necessary. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position. The Group applies the same credit management policy in undertaking off-balance sheet commitments as it does to the balance sheet financial instruments.

As at 31 December 2018 and 2017, contingent liabilities and credit commitments comprised:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Guarantees issued to legal entities (Irrevocable)	82,626	61,594
Credit extension commitments	3,050	51,837
Guarantees issued to individuals for the benefit of American Express to secure transactions with the use of AMEX plastic cards (irrevocable)	-	68,637
<b>Credit commitments before allowance</b>	<b>85,676</b>	<b>182,068</b>
Estimated allowance for credit commitments	(68)	-
<b>Total contingent liabilities and credit commitments</b>	<b>85,608</b>	<b>182,068</b>

Commitments to extend loans actually represent the unused portion of customers' right to receive credits. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. Nevertheless, the decision to extend loans to customers as part of open credit lines depends on borrowers' financial performance, and the Group takes decisions on a case-by-case basis; thus, all open credit lines are actually revocable after such decision is taken by the Group.

The provision for credit commitments is a special provision created for potential losses on financial guarantees. As at 31 December 2018, expected losses on guarantees issued by legal entities were assessed as per IFRS 9 based on credit losses expected within 12 months following the reporting date (Stage 1).

In October 2017, the Group received a written notice on termination of the Agreement between the Bank and American Express on servicing AMEX plastic cards of 2016 because American Express changed its business practices in the Russian Federation. Bank guarantees issued to individuals for the benefit of

# Aljba Alliance Commercial Bank Ltd.

## Notes to the consolidated financial statements for 2018 (continued)

American Express to secure AMEX plastic cards (as at 31 December 2017: RUB 68,637 thousand) were returned in full by customers to the Bank in January-February 2018. The Group had no losses on the above guarantees.

**Contingent tax liabilities.** The tax legislation of the Russian Federation, which is in effect or was essentially enacted at the end of the reporting period, provides for various interpretation of provisions applicable to Group's transactions and operations. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recently, the tax authorities have been taking a more assertive stance with respect to the interpretation of the laws. As a result, previously unquestioned tax calculation methods may be challenged in the process of future tax reviews. As a rule, the tax audits may cover three years preceding the reporting year. Under certain circumstances, reviews may cover longer periods. Proceeding from its interpretation of the tax legislation, the Group's management believes that all taxes were duly assessed. However, the tax authorities may interpret the laws differently, which may have a significant effect on the financial statements.

The RF Tax Code and certain legislative acts were amended in 2018. Such amendments provide for, inter alia, the increase of the VAT base rate from 18% to 20%. 20% VAT is charged on realization of goods, work, services and property rights from 1 January 2018. As VAT is not charged on banking operations, the Management does not expect any significant influence of the Consolidated Financial Statements of the Group with the exception of the corresponding increase of the goods and services costs.

In certain cases, Russian legislation on transfer pricing provides for inclusion of retained earnings of a foreign subsidiary of the Group that is recognized as a controlled foreign company, in the tax base of the Bank for the purposes of income tax. Transfer pricing legislation also provides for adjustment of the transfer prices and establishment of additional tax liabilities for the controlled transactions (transactions between related parties) if the transaction price differs from the market price. As the transfer pricing rules continue to evolve, prices of such transactions could be challenged in the future. Impact of such scenario cannot be accessed reliably.

"Unjustified tax benefit" concept was included in the RF Tax Code in July 2017. These provisions establish the limits for qualification of taxpayers' transactions as transactions for the purposes of tax liabilities reduction. There are currently no guarantees as for the impact on the Bank of the new Russian tax legislation norms.

**Operating environment.** Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, Russian economy is particularly sensitive to the price of oil and gas on the world market.

Russia's economy is still negatively affected by international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. These developments have complicated the access of Russian businesses to international capital markets, increased inflation and resulted in other negative economic consequences.

The impact of further economic developments on the Group's future operations and financial position is difficult to determine at this stage.

The Group management undertakes all necessary measures to ensure the Group stable operations; however, it is difficult to estimate the impact of current economic and political situation on future Group's business and financial performance.

**Fiduciary activities.** In the course of its business, the Group provides depository services to its customers renders to its customers. As at 31 December 2018 and 2017, the Group had 348,385,459,781 and 617,384,418,810 customer securities, respectively, in its nominal holder accounts.

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. The management of the Group believes that no material losses will be incurred in respect of these claims; therefore, no provision was booked in these consolidated financial statements.

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

#### 20. Fair value of financial instruments

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date irrespective of the fact whether such price is observed or estimated using other methods of estimation. При оценке справедливой стоимости актива или обязательства Группа учитывает характеристики актива или обязательства, как если бы участники рынка учитывали такие характеристики при формировании цены актива или обязательства на дату оценки.

Some of the Group's financial assets and financial instruments are measured at fair value at the end of each reporting period. The carrying amount of other financial assets and liabilities is approximately equal to fair value.

Fair values of financial assets and financial liabilities are determined and classified by the level in the fair value hierarchy as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

<b>Financial assets / financial liabilities</b>	<b>Measurement method</b>	<b>Key inputs</b>
Financial assets measured at fair value through profit and loss	Use of Use of quoted bid prices in an active market	Quoted bid prices
Derivative financial assets and financial liabilities	Discounted cash flows	Contractual cash flows, money market borrowing curves
Loans to customers and customer accounts	Discounted cash flows	Estimated cash flows, discount rates

The table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>Carrying value</b>
<b>Financial assets</b>					
Financial assets measured at fair value through profit or loss	302,898	-	-	302,898	302,898

As at 31 December 2018, Level 1 of the fair value hierarchy includes debt securities, which fair value is fully determined on the basis of published price quotations in the active market. As at 31 December 2018, the share of Level 1 financial instruments in the total amount of financial assets at fair value through profit or loss was 100%.

The table below analyses financial instruments not measured at fair value at 31 December 2018, by the level in the fair value hierarchy:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>Carrying value</b>
<b>Financial assets measured at amortised cost</b>					
Cash and cash equivalents	158,107	2,239,442	-	2,397,549	2,397,549
Due from banks	-	63,110	-	63,110	63,110
Loans to customers	-	1,291,625	-	1,291,625	1,291,625

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

#### Financial liabilities measured at amortised cost

Customer accounts	-	2,948,255	-	2,948,255	2,948,255
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The table below analyses financial instruments not measured at fair value at 31 December 2017, by the level in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value	Carrying value
<b>Financial assets measured at amortised cost</b>					
Cash and cash equivalents	171,059	2,969,411	-	3,140,470	3,140,470
Due from banks	-	456,759	-	456,759	456,759
Loans to customers	-	1,392,708	-	1,392,708	1,392,708
<b>Financial liabilities measured at amortised cost</b>					
Customer accounts	-	3,870,792	-	3,870,792	3,870,792

There were no transfers between the hierarchy Levels in 2018 and 2017.

## 21. Capital management

The Group manages its capital to: a) ensure the compliance with capital requirements set by the RF Central Bank (the "CBR"), and b) that the Group will be able to continue as a going concern through the optimization of the debt balance and net assets attributable to the Group's participants. The management of the Bank performs monthly and quarterly reviews of the equity structure of the Bank and the Group. As part of reviews, management considers the value of equity and risks associated with each class of equity of the Bank and the Group.

**Capital adequacy as per the CBR requirements.** The CBR requires banks to keep their risk-weighted assets equity as calculated in the mandatory financial statements prepared on the basis of Russian bank legislation and CBR regulations at a 8-percent level.

The capital (equity) as per CBR Guidelines No. 646-P "On methods to determine equity (capital) of credit institutions ("Basel III") as at 31 December 2018 and 31 December 2017 is represented as follows:

	31 December 2018	31 December 2017
Common equity	690,257	719,138
Core equity	690,257	719,138
Additional paid-in capital	1,408,985	1,408,997
<b>Total capital</b>	<b>2,099,242</b>	<b>2,128,135</b>

Common equity and core equity consist of charter capital, reserves and retained earnings, including losses for the previous year.

Additional capital includes fixed assets revaluation.

Capital (equity) adequacy requirements calculated in accordance with CBR Guidelines No. 180-I "On mandatory bank regulations" as at 31 December 2018 and 31 December 2017 comprise:

	31 December 2018	31 December 2017
Core equity (capital) adequacy requirements N1.0 (minimum 8%)	43,4%	34,5%
Common equity adequacy requirements N1.1 (minimum 4.5%)	23,5%	16,4%
Core equity adequacy requirements N1.2 (minimum 6%)	23,5%	16,5%

Therefore, the Group met all external requirements for equity adequacy.



## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

#### 22. Risk management policies

Management of risk is fundamental to the Group's banking business. The main risks inherent in the Group's operations include:

- Credit risk;
- Liquidity risk;
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework whose main purpose is to protect the Group from risk and allow it to achieve its financial performance objectives.

For the purpose of the risk management policy, the Bank has established the Risk Management Department that is responsible for coordinating risk management processes across the risks facing the Group, monitoring exposures for each type of risk and the overall level of exposures expressed in monetary terms, providing information support for the executive bodies of the Group as regards exposure levels, analysing risk management efficiency, estimating potential losses of the Group (stress testing) and carrying out other risk management activities within its remit.

The General Meeting of participants and the Board of Directors of the Bank monitor risk exposures and the adequacy of the risk management system of the Group. For this purpose, the Board of Directors receives reports on the Group's risk management system operation and efficiency from the executive bodies of the entities in the banking group and the Risk Management Department. The Board of Directors establishes acceptable limits for certain risks and the acceptable overall maximum exposure. It is also responsible for monitoring risk levels.

The Credit Committee is responsible for decisions over loan transactions. It also defines transaction limits and approves limits for counterparties and securities issuers, including stop-loss limits for transactions with securities. The Credit Committee maintains regular control over exposure levels and carries out other risk management activities within its remit.

The executive bodies of the entities in the banking group are responsible for managing daily operations of the entities, based on the requirements of the risk and capital management system. They also establish metrics for measuring and limiting exposures and maintain regular control over the existing risk levels.

**Credit risk.** The Group is exposed to credit risk that is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a loss. The Credit Committee, the Risk Management Department and the Group's management are responsible for risk management and limit-based monitoring.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or a group of borrowers. It also analyses the allocation of credit risk by industry and geographical segment. The Credit Committee is responsible for making decisions with respect to loans, regardless of a loan amount, other transactions involving credit risks, renegotiation of terms and conditions, limits on loan transactions and taking other actions. The Board of Directors is responsible for approving credit risk exposure limits for the Bank as a whole and across business lines. The exposure to any one borrower including banks and brokers is further restricted by sub-limits that are set by the Group's management to cover on and off-balance sheet exposures. The Risk Management Department is responsible for daily monitoring actual exposures against the established limits, with monitoring data reported to the management of the Group.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate or personal guarantees.

Off-balance financial instruments represent unused credit lines and guarantees. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers

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## Notes to the consolidated financial statements for 2018 (continued)

maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity because long-term commitments generally have a greater degree of credit risk than short-term commitments.

**Maximum credit risk exposure.** The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks, inherent to specific assets, and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

	31 December 2018		31 December 2017	
	Maximum credit risk exposure	Collateral pledged	Maximum credit risk exposure	Collateral pledged
Cash and cash equivalents	2,239,442	-	2,969,411	-
Minimum reserve deposits with the CBR	29,453	-	38,607	-
Financial assets at fair value through profit or loss, <i>except for equity securities</i>	302,898	-	-	-
Due from banks	63,110	-	456,759	-
Loans to customers	1,291,625	1,119,386	1,392,708	1,002,312
Other financial assets	2,337	-	1,635	-
Guarantees issued and other commitments	82,626	-	130,231	-
Commitments on loans and unused credit lines	3,050	-	51,837	-

Collateral is determined based on its fair value. The effect of collateral and other risk mitigation techniques is shown below.

**Collateral.** The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending - mortgages over real estate properties, securities and corporate guarantees, equipment and vehicles, commodities and materials;
- For retail lending - mortgages over real estate properties, vehicles and cash.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

**Credit quality by classes of financial assets.** Financial assets other than loans to customers are graded based on the current credit rating assigned an internationally recognized rating agencies such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets lower than BBB are classed as speculative grade.

As at 31 December 2018 and 2017, the balances with the CBR were RUB 1,279,662 thousand and RUB 1,582,345 thousand, respectively. According to Standard & Poor's (S&P), the sovereign credit rating of the Russian Federation in 2017 was BBB-, the rating forecast is "stable"; in 2018 this agency increased the sovereign rating of the Russian Federation for liabilities in national currency up to the investment level BBB. The rating forecast is "stable".

The following table details the credit ratings of financial assets held by the Group:

	AAA	AA	A	BBB	<BBB	Credit rating not assigned	31
							December 2018 Total
Cash and cash equivalents	-	2,619	415,483	1,283,344	22,247	515,749	2,239,442
Minimum reserve deposits with the CBR	-	-	-	29,453	-	-	29,453
Financial assets at fair value through profit or loss, <i>except for equity securities</i>	-	-	-	302,898	-	-	302,898
Due from banks	-	-	-	-	14,315	48,795	63,110
Loans to customers	-	-	-	-	-	1,291,625	1,291,625
Other financial assets	-	-	-	-	-	2,337	2,337

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### Notes to the consolidated financial statements for 2018 (continued)

	AAA	AA	A	BBB	<BBB	Credit rating not assigned	31 December 2017 Total
Cash and cash equivalents	-	355,606	57	10,937	1,562,663	1,040,148	2,969,411
Minimum reserve deposits with the CBR	-	-	-	-	38,607	-	38,607
Due from banks	-	-	-	46,080	363,356	47,323	456,759
Loans to customers	-	-	-	-	-	1,392,708	1,392,708
Other financial assets	-	-	-	-	-	1,635	1,635

The banking industry is generally exposed to credit risk through its financial instruments and contingent liabilities. Credit risk exposure of the Group is generally concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

**Geographical concentration.** The Group's Management Board and the Credit Committee exercise control over the risk in the legislation and regulatory arena and assess its influence on the Group's activities. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

The geographical concentration of assets and liabilities is set out below:

	RF	OECD countries	OECD Non-OECD	31 December 2018 Total
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	1,551,486	839,716	6,347	2,397,549
Minimum reserve deposits with the CBR	29,453	-	-	29,453
Due from banks	44,315	18,483	312	63,110
Financial assets at fair value through profit or loss	302,898	-	-	302,898
Loans to customers	1,281,165	-	10,460	1,291,625
Other financial assets	2,297	40	-	2,337
<b>TOTAL FINANCIAL ASSETS</b>	<b>3,211,614</b>	<b>858,239</b>	<b>17,119</b>	<b>4,086,972</b>
<b>FINANCIAL LIABILITIES</b>				
Customer accounts	2,045,973	2,214	900,068	2,948,255
Other financial liabilities	21,563	-	-	21,563
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>2,067,536</b>	<b>2,214</b>	<b>900,068</b>	<b>2,969,818</b>
<b>NET POSITION</b>	<b>1,144,078</b>	<b>856,025</b>	<b>(882,949)</b>	

	RF	OECD countries	OECD Non- OECD	31 December 2017 Total
<b>FINANCIAL ASSETS</b>				
Minimum reserve deposits with the CBR	1,907,388	1,219,292	13,790	3,140,470
Due from banks	38,607	-	-	38,607
Loans to customers	393,355	62,068	1,336	456,759
Other financial assets	1,378,383	-	14,325	1,392,708
	1,595	40	-	1,635
<b>TOTAL FINANCIAL ASSETS</b>	<b>3,719,328</b>	<b>1,281,400</b>	<b>29,451</b>	<b>5,030,179</b>
<b>FINANCIAL LIABILITIES</b>				
Customer accounts	3,022,335	8,168	840,289	3,870,792
	16,413	-	-	16,413

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### Notes to the consolidated financial statements for 2018 (continued)

<b>TOTAL FINANCIAL LIABILITIES</b>	<b>3,038,748</b>	<b>8,168</b>	<b>840,289</b>	<b>3,887,205</b>
<b>NET POSITION</b>	<b>680,580</b>	<b>1,273,232</b>	<b>(810,838)</b>	

**Liquidity risk.** Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Group's management and the Bank's Management Board control these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Currency Department of the Bank, which performs operations on money market for maintaining the current liquidity level and cash flows optimization.

In order to manage liquidity risk of the Group, the Bank performs daily monitoring of future expected cash flows/payments related to clients' and banking operations, which is a part of assets/liabilities management process. The Bank establishes liquidity gap limits and monitors statutory liquidity ratios for the Bank and the Group.

Below is the analysis of liquidity risk based on the carrying amount of financial assets and liabilities as at 31 December 2018 and 2017. The terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule, in accordance to the effective laws.

	On demand - and less than 1 month	1 - 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2018 Total
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	1,120,821	-	-	-	-	-	1,120,821
Financial assets at fair value through profit or loss	-	302,898	-	-	-	-	302,898
Loans to customers	780	60,816	442,435	638,249	149,345	-	1,291,625
<b>Total interest-bearing financial assets</b>	<b>1,121,601</b>	<b>363,714</b>	<b>442,435</b>	<b>638,249</b>	<b>149,345</b>	<b>-</b>	<b>2,715,344</b>
Cash and cash equivalents	1,276,728	-	-	-	-	-	1,276,728
Minimum reserve deposits with the CBR	-	-	-	-	-	29,453	29,453
Due from banks	-	-	2,904	15,891	-	44,315	63,110
Other financial assets	-	-	2,242	-	-	95	2,337
<b>TOTAL FINANCIAL ASSETS</b>	<b>2,398,329</b>	<b>363,714</b>	<b>447,581</b>	<b>654,140</b>	<b>149,345</b>	<b>73,863</b>	<b>4,086,972</b>
<b>FINANCIAL LIABILITIES</b>							
Customer accounts	85,041	355,786	562,101	1,912	643	-	1,005,483
<b>Total interest-bearing financial liabilities</b>	<b>85,041</b>	<b>355,786</b>	<b>562,101</b>	<b>1,912</b>	<b>643</b>	<b>-</b>	<b>1,005,483</b>
Customer accounts	1,942,772	-	-	-	-	-	1,942,772
Other financial liabilities	1,406	265	18,616	1,276	-	-	21,563
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>2,029,219</b>	<b>356,051</b>	<b>580,717</b>	<b>3,188</b>	<b>643</b>	<b>-</b>	<b>2,969,818</b>
Liquidity gap	369,110	7,663	(133,136)	650,952	148,702		
Cumulative liquidity gap	369,110	376,773	243,637	894,589	1,043,291		

	On demand - and less than 1 month	1 - 3 months	3 months - 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2018 Total
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	1,976,673	-	-	-	-	-	1,976,673

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## Notes to the consolidated financial statements for 2018 (continued)

Financial assets at fair value through profit or loss	-	-	338,161	-	-	-	338,161
Loans to customers	64,287	108,686	714,539	353,201	151,995	-	1,392,708
<b>Total interest-bearing financial assets</b>	<b>2,040,960</b>	<b>108,686</b>	<b>1,052,700</b>	<b>353,201</b>	<b>151,995</b>	<b>-</b>	<b>3,707,542</b>
Cash and cash equivalents	1,163,797	-	-	-	-	-	1,163,797
Minimum reserve deposits with the CBR	-	-	-	-	-	38,607	38,607
Due from banks	661	-	49,631	13,773	-	54,533	118,598
Other financial assets	1,571	-	-	-	-	64	1,635
<b>TOTAL FINANCIAL ASSETS</b>	<b>3,206,989</b>	<b>108,686</b>	<b>1,102,331</b>	<b>366,974</b>	<b>151,995</b>	<b>93,204</b>	<b>5,030,179</b>
<b>FINANCIAL LIABILITIES</b>							
Customer accounts	70,524	1,386,202	396,113	26,198	-	-	1,879,037
<b>Total interest-bearing financial liabilities</b>	<b>70,524</b>	<b>1,386,202</b>	<b>396,113</b>	<b>26,198</b>	<b>-</b>	<b>-</b>	<b>1,879,037</b>
Customer accounts	1,991,755	-	-	-	-	-	1,991,755
Other financial liabilities	15	-	16,398	-	-	-	16,413
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>2,062,294</b>	<b>1,386,202</b>	<b>412,511</b>	<b>26,198</b>	<b>-</b>	<b>-</b>	<b>3,887,205</b>
Liquidity gap	1,144,695	(1,277,516)	689,820	340,776	151,995	-	-
Cumulative liquidity gap	1,144,695	(132,821)	556,999	897,775	1,049,770	-	-

The term for repayment of customer loans in arrears of RUB 278,131 thousand (15% of the total debt on customer loans) recognized in accounts as at 31 December 2018 does not exceed 6 months after the reporting date. In this connection, the Group will have to extend further loans. The quality of new investments may differ from the quality of loans in place at the reporting date. Group management endeavours to maintain the balance between adequate yield of new financial instruments and their quality to minimize risks. However, it is not possible now to exclude completely the risk of potential financial losses from "new" investments.

To preserve its client base and assets the Group reviews all factors that may contribute to credit risks (excessive requirements for borrowers' financial position, analysis of cash flows and forecasted gains from sales, estimation of assets pledged with consideration of their maturity).

The main strategic objective of the Group is to maintain its own assets and financial stability as well as to retain its client base with concurrent introduction of up-to-date bank technologies in the conditions of unstable financial market caused by imposed sanctions, decrease in consumer demand and enterprises' revenues, continuous tightening of regulatory requirements.

These objectives may be achieved thanks to reduction of risks and maintenance of Group's revenues at the required level through increasing the quality of assets, their diversification and improvement of services rendered to clients.

As regards its operations on money markets, the Group plans to maintain the structure of liquid assets as revised in December 2018 with keeping some balance in nostro accounts in a non-resident bank as the resource for entering into short-term REPO transactions with the Central Counterparty, maintaining short-term deposits with the Bank of Russia and having CBR bonds that will help to increase earnings in these areas in 2019.

To optimize costs the Group plans the following changes in 2019:

- Implement in 2Q 2019 the Inversion software (nowadays the Bank uses the RS complex kernel) enabling to start the development of on-line banking system for individuals;
- Optimize management costs and reduce the costs of non-core assets.

The above gives assurance that the Group will continue its business operations for at minimum 12 months following the reporting year without its liquidation or termination of its business. It will be able to implement all of its commitments and sell assets in the normal course of its operations. Nowadays it is not feasible to assess the extent of implementation and efficiency of planned actions due to external circumstances not dependent on the Group.

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

Liquidity is stress-tested to estimate potential losses from stress in financial markets. The stress-testing framework includes tests to assess performance of the Group in a changing environment, based on a relevant scenario. The basic stress-test has demonstrated that the Group passes the stress-test, with cash inflows exceeding cash outflows for each period considered. The Board reviews stress-test scenarios at least once a year.

Expected cash flows in the table analysing liquidity risk do not reflect in full expected cash flows that are estimated based on information on the outflow of deposits over the recent years, i.e. the maturity analysis does not provide historical information on balances in the current accounts, which are traditionally characterised with longer outflow periods, compared to those on demand. Thus, the Group's management believes that in spite of a substantial portion of customer accounts being up to 12 months, diversification of these deposits by number and type of depositors, and the past experience of the Group serve as an indication that these customer accounts can act as a stable long-term funding source for the Group.

The management performs regular stress tests of financial indicators of the Group and the Bank, including the analysis of statistics related to permanent balances in customers' current accounts, ensuring that they are in compliance with external covenants and all CBR regulatory requirements for capital adequacy, liquidity and risk management procedures in case of negative events in the market.

In accordance with the liquidity risk management policies, a set of measures in case of unforeseen developments includes:

- Transactions with depository instruments of the CBR;
  - Adjustments to loan plans (suspension of lending operations);
  - Plans for non-obligatory payments (reduction of intragroup costs, accumulation of accounts payable);
  - Reduction of internal investments;
  - Potential sale of securities from the portfolio held by the Bank;
  - Other methods.
- The management believes that the measures above are sufficient to ensure the Group's ability to control liquidity gap.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2017 and 2016. The tables have been drawn up based on undiscounted cash flows of the Group's financial liabilities including interests that will be paid on these liabilities based on contractual terms of maturity, except the cases when the Group expects that cash flows will occur in a different time. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	On demand and less than 1 month	1-3 months	3 months- 1 year	1- 5 years	31 December 2018 Total
<b>FINANCIAL LIABILITIES</b>					
Customer accounts	85,884	357,675	571,319	3,109	1,017,987
<b>TOTAL INTEREST-BEARING FINANCIAL LIABILITIES</b>	<b>85,884</b>	<b>357,675</b>	<b>571,319</b>	<b>3,109</b>	<b>1,017,987</b>
Customer accounts	1,942,772	-	-	-	1,942,772
Other financial liabilities	1,406	265	18,616	1,276	21,563
Liabilities on financial guarantees	29,590	1,757	4,574	46,705	82,626
Commitments on loans	3,050	-	-	-	3,050
<b>TOTAL FINANCIAL LIABILITIES AND COMMITMENTS</b>	<b>2,062,702</b>	<b>359,697</b>	<b>594,509</b>	<b>51,090</b>	<b>3,067,998</b>

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

	On demand - and less than 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	31 December 2017 Total
<b>FINANCIAL LIABILITIES</b>					
Customer accounts	72,078	1,391,238	403,926	26,660	1,893,902
<b>TOTAL INTEREST-BEARING FINANCIAL LIABILITIES</b>					
	<b>72,078</b>	<b>1,391,238</b>	<b>403,926</b>	<b>26,660</b>	<b>1,893,902</b>
Customer accounts	1,991,755	-	-	-	1,991,755
Other financial liabilities	15	-	16,398	-	16,413
Liabilities on financial guarantees	5,709	74,420	909	49,193	130,231
Commitments on loans	51,837	-	-	-	51,837
<b>TOTAL FINANCIAL LIABILITIES AND COMMITMENTS</b>					
	<b>2,121,394</b>	<b>1,465,658</b>	<b>421,233</b>	<b>75,853</b>	<b>4,084,138</b>

**Market risk.** Market risk is that the risk that the Group's earnings or net assets or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices.

Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level of volatility of market rates or prices. Market risk involves interest rate risk, currency risk, credit spreads, commodity prices and securities prices that the Group is exposed to. In 2017, the methods used for assessing and managing these risks in the Group were reviewed for more balanced assessment reflecting changes in the market.

Market risk arises from open positions on interest, currency and equity instruments that are subject to general and specific market fluctuations and changes in market rates volatility.

The Risk Management Department is responsible for analysing market risk parameters based on changes in market indicators and assessing an estimated additional decrease in the fair value of assets (including derivative financial instruments). For the purpose of an estimated additional decrease in the fair value of assets, the Board of the Bank approves ranges of threshold values for qualitative and quantitative criteria of activity and liquidity levels in the market in which a financial instrument is traded. Approvals are done at least once in six months. The Board of Directors establishes maximum market risk exposure levels for debt and equity instruments at least once a year. The Group also uses the VaR method to analyse the sensitivity of financial performance to market risk components. Maximum VaR values for stock market and currency risk are approved by the Management Board of the Bank at least once a year.

**Interest rate risk.** The Group measures interest rate risk by applying gap analysis and the analysis of net interest income's sensitivity to interest rate risk on interest bearing financial assets and liabilities. The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Management Department monitors the Group's current performance, estimates the Group's sensitivity to interest rate risk and its influence on the Group's profit and net assets attributable to its participants.

The sensitivity analysis uses possible changes in interest rate of 10% increase and 10% decrease.

The following table presents a sensitivity analysis of the Group's pre-tax profit and net assets attributable to the Group's participants to interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the Group's management. It is reported in risk reports prepared by the Risk Management Department.

Impact on pre-tax profit and net assets attributable to the Group's participants:



## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

	Interest rate +10%		Interest rate -10%	
	Impact on profit before tax	Impact on net assets attributable to the Group's participants	Impact on profit before tax	Impact on net assets attributable to the Group's participants
<b>31 December 2018</b>				
Cash	107,412	85,930	(107,412)	(85,930)
Loans to customers	21,734	17,387	(21,734)	(17,387)
Due from banks	25,242	20,193	(25,242)	(20,193)
<b>Total financial assets</b>	<b>154,388</b>	<b>123,510</b>	<b>(154,388)</b>	<b>(123,510)</b>
Customer accounts	(58,878)	(47,102)	58,878	47,102
<b>Total financial liabilities</b>	<b>(58,878)</b>	<b>(47,102)</b>	<b>58,878</b>	<b>47,102</b>
<b>Net impact</b>	<b>95,510</b>	<b>76,408</b>	<b>(95,510)</b>	<b>(76,408)</b>

	Interest rate +10%		Interest rate -10%	
	Impact on profit before tax	Impact on net assets attributable to the Group's participants	Impact on profit before tax	Impact on net assets attributable to the Group's participants
<b>31 December 2017</b>				
Cash	189,431	151,545	(189,431)	(151,545)
Loans to customers	42,013	33,611	(42,013)	(33,611)
Due from banks	12,681	10,145	(12,681)	(10,145)
<b>Total financial assets</b>	<b>244,125</b>	<b>195,301</b>	<b>(244,125)</b>	<b>(195,301)</b>
Customer accounts	(137,130)	(109,704)	137,130	109,704
<b>Total financial liabilities</b>	<b>(137,130)</b>	<b>(109,704)</b>	<b>137,130</b>	<b>109,704</b>
<b>Net impact</b>	<b>106,995</b>	<b>85,597</b>	<b>(106,995)</b>	<b>(85,597)</b>

**Currency risk.** Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group's management controls currency risk by management of the open currency position on the estimated basis of RUB devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Management Board of the Bank performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the CBR.

The Group's exposure to foreign currency exchange rate risk is presented below:

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

	RUB	USD USD 1 = RUB 69.4706	EUR EUR 1 = RUB 79.4605	Other currency	31 December 2018 Total
<b>Non-derivative financial assets</b>					
Cash and cash equivalents	1,281,927	1,005,062	101,695	8,865	2,397,549
Minimum reserve deposits with the CBR	29,453	-	-	-	29,453
Due from banks	38,960	5,205	18,945	-	63,110
Financial assets at fair value through profit or loss	302,898	-	-	-	302,898
Loans to customers	1,262,999	28,626	-	-	1,291,625
Other financial assets	2,337	-	-	-	2,337
<b>Total non-derivative financial assets</b>	<b>2,918,574</b>	<b>1,038,893</b>	<b>120,640</b>	<b>8,865</b>	<b>4,086,972</b>
<b>Non-derivative financial liabilities</b>					
Customer accounts	653,266	2,124,890	167,711	2,388	2,948,255
Other financial liabilities	21,563	-	-	-	21,563
<b>Total non-derivative financial liabilities</b>	<b>674,829</b>	<b>2,124,890</b>	<b>167,711</b>	<b>2,388</b>	<b>2,969,818</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>2,243,745</b>	<b>(1,085,997)</b>	<b>(47,071)</b>	<b>6,477</b>	<b>1,117,154</b>
<b>Derivatives</b>					
Foreign exchange swaps	(1,235,389)	1,232,369	3,020	-	-
<b>OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>(1,235,389)</b>	<b>1,232,369</b>	<b>3,020</b>	<b>-</b>	<b>-</b>
<b>OPEN POSITION</b>	<b>1,008,356</b>	<b>146,372</b>	<b>(44,051)</b>	<b>6,477</b>	<b>-</b>
<b>31 December 2017</b>					
	RUB	USD USD 1 = RUB 57.6002	EUR EUR 1 = RUB 68.8668	Other currency	Total
<b>Non-derivative financial assets</b>					
Cash and cash equivalents	1,560,594	1,369,153	198,309	12,414	3,140,470
Minimum reserve deposits with the CBR	38,607	-	-	-	38,607
Due from banks	47,734	391,933	17,092	-	456,759
Loans to customers	1,260,947	131,761	-	-	1,392,708
Other financial assets	1,633	2	-	-	1,635
<b>Total non-derivative financial assets</b>	<b>2,909,515</b>	<b>1,892,849</b>	<b>215,401</b>	<b>12,414</b>	<b>5,030,179</b>
<b>Non-derivative financial liabilities</b>					
Customer accounts	501,269	3,097,969	261,404	10,150	3,870,792
Other financial liabilities	16,402	5	-	6	16,413
<b>Total non-derivative financial liabilities</b>	<b>517,671</b>	<b>3,097,974</b>	<b>261,404</b>	<b>10,156</b>	<b>3,887,205</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>2,391,844</b>	<b>(1,205,125)</b>	<b>(46,003)</b>	<b>2,258</b>	<b>1,142,974</b>
<b>Derivatives</b>					
Foreign exchange swaps	(1,357,463)	1,352,568	-	4,895	-
<b>OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>(1,357,463)</b>	<b>1,352,568</b>	<b>-</b>	<b>4,895</b>	<b>-</b>
<b>OPEN POSITION</b>	<b>1,034,381</b>	<b>147,443</b>	<b>(46,003)</b>	<b>7,153</b>	<b>-</b>

# Aljba Alliance Commercial Bank Ltd.

## Notes to the consolidated financial statements for 2018 (continued)

**Currency risk sensitivity.** The Group uses the «value at risk» (VaR) analysis to estimate probable losses that may result from adverse changes in exchange rates related to individual foreign currencies and the open position of the Group. For VaR analysis, the Bank uses Financial Risk Manager, a software system developed by INEC. The VaR analysis below shows maximum losses (in thousands of Rubles) that, within 10 days and with 95% confidence level, will not exceed the losses expected on the open currency position provided that the current market trends continue.

VaR parameters for stock market and currency risk are approved by the Management Board of the Bank at least once a year.

Currency	Total open position 31 December 2018 RUB thousand	Currency rate volatility, %
USD	146,372	2.2959
EUR	(44,051)	2.2386
GBP	5,463	2.3561
CHF	1,014	2.3727
<b>95% 10 days VaR</b>	<b>5,130</b>	

Currency	Total open position 31 December 2017 RUB thousand.	Currency rate volatility, %
USD	147,443	1.6575
EUR	(46,003)	1.8766
GBP	4,749	2.0050
CHF	2,353	1.9067
GPY	51	2.0911
<b>95% 10 days VaR</b>	<b>6,610</b>	

**Limitations of sensitivity analysis.** The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not reflect the fact that the Group actively manages its assets and liabilities. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group’s financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio structure and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in net assets.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group’s view of possible near-term market changes that cannot be predicted with any certainty; Another limitation relates to the assumption that all interest rates move in an identical fashion.

**Operational risk.** Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

#### 23. Related party transactions

Transactions between the Bank and its subsidiary, which is a related party of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and related parties are disclosed below:

	31 December 2018		31 December 2017	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
<b>Loans to customers</b>	<b>365,773</b>	<b>1,811,176</b>	<b>212,438</b>	<b>2,072,777</b>
- entities with joint control or significant influence over the Group	-		30,100	
- entities under common control with the Group	365,398		181,938	
- key management personnel	375		400	
<b>Allowance for impairment losses on loans to customers</b>	<b>(10,386)</b>	<b>(519,551)</b>	<b>(31,637)</b>	<b>(680,069)</b>
- entities with joint control or significant influence over the Group	(10,368)		(31,591)	
- entities under common control with the Group	(18)		(46)	
<b>Customer accounts</b>	<b>174,352</b>	<b>2,948,255</b>	<b>1,041,739</b>	<b>3,870,792</b>
- entities under common control with the Group	60,715		929,781	
- entities with joint control or significant influence over the Group	57,095		68,268	
- key management personnel	1,280		6,180	
- other related parties	55,262		37,510	
<b>Guarantees issued and similar commitments of future periods</b>	<b>-</b>	<b>85,676</b>	<b>8,458</b>	<b>182,068</b>
- entities with joint control or significant influence over the Group	-		8,170	
- key management personnel	-		288	

Included in the consolidated statement of profit or loss and other comprehensive income for 2018 and 2017 are the following amounts that were recognized in transactions with related parties:

	2018		2017	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
<b>Interest income</b>	<b>65,705</b>	<b>323,513</b>	<b>33,588</b>	<b>427,508</b>
- entities with joint control over the Group	5,288		2,718	
- entities under common control with the Group	60,347		30,790	
- key management personnel	70		80	
<b>Interest expense</b>	<b>(11,950)</b>	<b>(46,398)</b>	<b>(20,058)</b>	<b>(78,766)</b>
- entities with joint control over the Group	(11,824)		(13,279)	
- entities under common control with the Group	(5)		(7)	
- key management personnel	(121)		(973)	
- other related parties	-		(5,799)	
<b>Recovery of allowance/(allowance) for impairment losses on interest bearing assets</b>	<b>21,251</b>	<b>(2,046)</b>	<b>(16,348)</b>	<b>12,948</b>

## Aljba Alliance Commercial Bank Ltd.

### Notes to the consolidated financial statements for 2018 (continued)

- entities under common control with the Group	21,223		(16,330)	
- key management personnel	28		(18)	
<b>Other income</b>	<b>23,196</b>	<b>33,286</b>	<b>18,374</b>	<b>32,747</b>
- entities under common control with the Group	23,196		18,374	
<b>Remuneration of key management personnel:</b>	<b>(31,807)</b>	<b>(202,042)</b>	<b>(29,470)</b>	<b>(207,371)</b>
Payroll and bonuses	(31,807)		(29,470)	

### 24. Subsequent events

There were no events that would require any adjustments to be made to the consolidated financial statements between the end of the reporting period and the date when these statements were approved for release.

**For the Bank:**

  
**A.S. Zarifov**  
**Acting President**

30 April 2019  
Moscow



  
**O.A. Anokhina**  
**Chief Accountant**

30 April 2019  
Moscow

ПРОШНУРОВАНО, ПРОНУМЕРОВАНО И  
СКРЕПЛЕНО ПЕЧАТЬЮ 62 ЛИСТ а

Заместитель директора  
Департамента банковского аудита

ООО «КНК»  
Ельхимова Т.В.

