

Aljba Alliance CB Ltd

Consolidated Financial Statements and
Independent Auditor's Report
for 2017

Aljba Alliance Commercial Bank Ltd.

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Aljba Alliance Commercial Bank Ltd.

Statement of management's responsibilities for the preparation and approval of the consolidated financial statement for 2017 year

Management is responsible for the 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 at 31 December 2017, and the consolidated results of its operations, cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, 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 requirements in IFRS are insufficient to enable 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.

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, and which enable them 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 such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

These consolidated financial statements for 2017 were prepared for the attention of the General Meeting of the participants in Aljba Alliance Commercial Bank Ltd. (hereinafter, the "Bank") and is available on the Group website at <http://www.alal.ru> under «Financial Indicators» sector.

For the Bank:


A.S. Zarifov
Acting President

28 March 2018
Moscow




O.I. Anokhina
Chief Accountant

28 March 2018
Moscow

INDEPENDENT AUDITOR'S REPORT

To the Participants of Commercial Bank "Aljba Alliance" (Limited Liability Company):

Opinion

We have audited the consolidated financial statements of Commercial Bank "Aljba Alliance" (Limited Liability Company) and its subsidiary (hereinafter – the Group) which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income and the consolidated statement of cash flows for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In the opinion of Limited Liability Company "Vneshaudit Consulting", the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for 2017 in accordance with International Financial Reporting Standards (hereinafter – IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter – "ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Without modification of our opinion on the presentation fairness of the consolidated financial statements, we are drawing attention to the fact that the Group's ability to perform as a going concern is sufficiently determined by successful implementation of the Group's development strategy not affected by adverse events on financial markets.

Other Information

The consolidated financial statements for the period from 1 January to 31 December 2016 inclusive were audited by ZAO "Deloitte & Touche CIS". Their qualified opinion was dated 28 April 2017 and was issued because of their inability to obtain sufficient audit evidence on related parties of the Group.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, 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 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 provide a basis for our opinion. The risk of not detecting 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 internal control.
- b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability 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 related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up 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 financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on procedures performed in accordance with the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

Management of Commercial Bank "Aljba Alliance" (Limited Liability Company) (here is responsible for the Group's compliance with the obligatory ratios established by the Bank of Russia (hereinafter – "the obligatory ratios"), as well as for compliance of the Group's internal control and risk management systems with the Bank of Russia (hereinafter – "the CBRF") requirements.

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" (the "Federal Law") in the course of our audit of the Group's annual financial statements for 2017 we performed procedures with respect to:

- the Group's compliance with the obligatory ratios as at 31 December 2017; and
- compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Group's policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. with respect to the Group's compliance with the obligatory ratios:

The obligatory ratios as at 31 December 2017 were within the limits established by the CBRF.

We have not performed any procedures with respect to the Group's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Group present fairly, in all material respects, the financial position of the Group as at 31 December 2017, its financial performance and its cash flows for 2017 in accordance with International Financial Reporting Standards.

2. with respect to compliance of the Group's internal control and risk management systems with the CBRF requirements:

Limited liability company
VNESHAUDIT CONSULTING

Prechistinka 10, Off. 15, 119034 Moscow, Russia

vneshaudit.consulting +7 (499) 766-22-77 +7 (499) 766-97-04

- (a) in accordance with the CBRF requirements and recommendations as at 31 December 2017 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors and the Bank's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;
- (b) as at 31 December 2017, the Bank had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of the Group's significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;
- (c) as at 31 December 2017, the Bank had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;
- (d) frequency and sequential order of reports prepared by the Bank's risk management and internal audit departments in 2017 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Bank's internal policies; these reports included results of monitoring by the Bank's risk management and internal audit departments of effectiveness of the Bank's respective methodologies and improvement recommendations;
- (e) as at 31 December 2017, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over the Group's compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control effectiveness and consistency of application of the Bank's risk management policies, during 2017 the Bank's Board of Directors and the Bank's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments of the Bank and have considered proposed corrective measures.

3. with respect to significant banking risks identified, we draw attention to the levels if the following risks:

The Bank is exposed to credit risk, which arises from the volume and structure of the Bank's loan portfolio. The risk level was measured as "high".

The Bank is exposed to concentration risk, which arises from related parties' receivables. The risk level was measured as "increased".

The Bank is exposed to risk of involvement into dubious operations, which arises from some unusual operations performed by the Bank's clients. The risk level was measured as "low".

The Bank is exposed to liquidity risk, which arises from low diversity of the Bank's liabilities dominated by highly volatile deposits from individuals. The risk level was measured as "low".

The Bank is exposed to market risk, which arises from claims on debt instruments and liabilities in foreign currencies. The risk level was measured as "low".

The Bank is exposed to operational risk, which arises from a possible mismatch between the scale and the type of the Bank's activity, a possible violations of regulations in force and procedures for settlement operations. The risk level was measured as "low".

We have carried out the procedures with respect to the Group's internal control and risk management systems solely to report on the findings related to compliance of the Group's internal control and risk management systems with the CBRF requirements.

General Director
LLC «Vneshaudit Consulting»



Trokhova O. V.
Qualified auditor's certificate №03-000481
dated 04.12.2012,
main record registered number: 29503007188

28 March 2018

Auditee:

Commercial Bank "Aljba Alliance" (Limited Liability Company).

Main state registered number: 1025000004787.

Address: Kremlevskaya naberezhnaya 1, building 2, 119992 Moscow, Russian Federation.

Independent Auditor:

Limited liability company "Vneshaudit Consulting".

Main state registered number: 1037739256180 dated 28 January 2003.

Address: Prechistenka street 10, office 15, 119034 Moscow, Russian Federation

Member of the Moscow Audit Chamber (record number: 3,

main registered number: 10203000816 dated 23 December 2009),

certificate dated 3 August 2016).

Aljba Alliance Commercial Bank Ltd.

Consolidated statement of financial position as at 31 December 2017 (in thousands of Russian Roubles)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	5	3,140,470	3,004,927
Mandatory cash balances with the Central Bank of the Russian Federation		38,607	45,007
Financial assets at fair value through profit or loss	6	-	167,857
Due from banks	7	456,759	102,004
Loans to customers	8, 25	1,392,708	1,997,829
Property, plant and equipment	9	1,555,752	2,019,138
Current income tax assets		29,131	37,743
Other assets	10	38,875	40,054
TOTAL ASSETS		6,652,302	7,414,559
LIABILITIES			
Customer accounts	11, 25	3,870,792	4,201,861
Debt securities issued	12	-	129,269
Deferred income tax liabilities	19	239,642	312,607
Current income tax liabilities		-	1,775
Other liabilities	13	99,025	46,844
Net assets attributable to the participants of the Group	14	2,442,843	2,722,203
TOTAL LIABILITIES		6,652,302	7,414,559

For the Bank:


A.S. Zarifov
Acting President

28 March 2018
Moscow




O.A. Anokhina
Chief Accountant

28 March 2018
Moscow

The notes on pages 12-69 form an integral part of these consolidated financial statements.

Aljba Alliance Commercial Bank Ltd.

Consolidated statement of profit or loss and other comprehensive income for 2017 (in thousands of Russian Roubles)

	Notes	2017	2016
Continuing operations:			
Interest income	15, 25	427,508	715,962
Interest expense	15, 25	(78,766)	(178,729)
NET INTEREST INCOME BEFORE IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		348,742	537,233
Impairment loss (allowance)/recovery on interest bearing assets	8, 25	12,941	(22,083)
Net interest income		361,683	515,150
Net gain on financial assets at fair value through profit or loss	16	49,881	83,270
(Loss) on foreign exchange transactions		(7,208)	(160,881)
Gain on foreign exchange translation		16,059	212,683
Fee and commission income	17	30,373	48,864
Fee and commission expenses	17	(12,012)	(29,310)
Other income		32,747	26,701
Net non-interest income		109,840	181,327
Operating income		471,523	696,477
Operating expenses	18,25	(393,673)	(533,501)
Profit before income tax		77,850	162,976
Income tax expense	19	(17,129)	(17,510)
Profit from continuing operations for the period		60,721	145,466
Discontinued operations			
Profit from discontinued operations	20,25	-	61,544
Net profit for the year		60,721	207,010
OTHER COMPREHENSIVE INCOME			
Items that will not be subsequently reclassified to profit or loss:			
Loss on revaluation of property	9	(418,853)	(278,637)
Decrease of deferred tax liability	19	83,771	55,727
Total items that will not be reclassified subsequently to profit or loss		(335,082)	(222,910)

Aljba Alliance Commercial Bank Ltd.

Consolidated statement of profit or loss and other comprehensive income (continued) for 2017 (in thousands of Russian Roubles)

	Notes	2017	2016
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translating the foreign operations		(4,999)	(32,213)
Total items that may be reclassified subsequently to profit or loss		(4,999)	(32,213)
TOTAL OTHER COMPREHENSIVE LOSS		(340,081)	(255,123)
TOTAL COMPREHENSIVE LOSS	14	(279,360)	(48,113)

For the Bank:


A.S. Zarifov
Acting President
28 March 2018
Moscow




O.A. Anokhin
Chief Accountant
28 March 2018
Moscow

The notes on pages 12-69 form an integral part of these consolidated financial statements.

Aljba Alliance Commercial Bank Ltd.

Consolidated statement of cash flows for 2017 (in thousands of Russian Roubles)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		77,850	162,976
Adjustments for non-monetary items:			
Impairment loss (allowance)/recovery on interest bearing assets	8	(12,941)	22,083
Depreciation of property and equipment	9,18	44,253	50,966
Net change in accrued interest income and expenses		6,533	(83,532)
Net change in fair value of financial assets at fair value through profit or loss	16	-	(76,414)
Foreign exchange differences on foreign exchange transactions		(16,059)	(212,686)
Foreign exchange differences on precious metals transactions		(525)	903
Other income/expense		3,001	758
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		102,112	(134,946)
Changes in operating assets and liabilities			
Net decrease /(increase) in the minimum deposit reserves with the Central Bank of the Russian Federation		6,400	(118)
Net (increase)/decrease in due from banks		(358,550)	185,511
Net decrease in financial assets at fair value through profit or loss		129,426	977,219
Net decrease in loans to customers		583,701	2,117,661
Net (increase)/decrease in other assets		(3,989)	32,764
Net decrease in deposits from the Central Bank of the Russian Federation		-	(387,804)
Net decrease in customer accounts		(167,658)	(1,062,577)
Net decrease in debt securities issued		(118,668)	(373,228)
Net increase in other liabilities		52,873	29,375
Net cash flows from/(used in) operating activities before tax		225,647	1,383,857
Income tax paid		-	-
Net cash from/(used in) operating activities		225,647	1,383,857

Aljba Alliance Commercial Bank Ltd.

Consolidated statement of cash flows (continued) for 2017 (in thousands of Russian Roubles)

	Notes	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9	(142)	(2,701)
Disposal of subsidiary	20	-	2,963
Net cash from/(used in) investing activities		(142)	262
CASH FLOWS FROM FINANCING ACTIVITIES			
Non-repayable funds from the participants of the Bank	14	-	81,600
Net cash from financing activities		-	81,600
Effect of exchange rate changes on the balance of cash held in foreign currencies		(89,962)	(284,323)
NET INCREASE IN CASH AND CASH EQUIVALENTS		135,543	1,181,396
CASH AND CASH EQUIVALENTS, beginning of the year	5	3,004,927	1,823,531
CASH AND CASH EQUIVALENTS, end of the year	5	3,140,470	3,004,927

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

Interest paid and received during 2016 was RUB 248,294 thousand and RUB 701,995 thousand, respectively.

For the Bank:


A.S. Zarifov
Acting President

28 March 2018
Moscow




O.A. Anokhina
Chief Accountant

28 March 2018
Moscow

The notes on pages 12-69 form an integral part of these consolidated financial statements.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements for 2017

1. Organization

Aljba Alliance Commercial Bank Ltd. (the "Bank") is a limited liability company incorporated in the Russian Federation (the "RF") in 1993. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business 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, trading in securities, foreign currencies and derivative instruments, originating loans and guarantees, settlements on customer export/import operations, broker operations, securities management, agency and other services to Russian debt and equity securities market players.

The registered office of the Bank is located at: 1 Kremlevskaya naberezhnaya, bld. 2, 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, %		Type of activity
		31 December 2017	31 December 2016	
OOO CB Aljba Alliance	RF	Parent	Parent	Banking
S.L. Capital Services Limited	Cyprus	100%	100%	Investments, brokerage, securities management, agency and other services to Russian securities market players

As at 31 December 2017 and 2016, 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
Total	100.0

2. Significant accounting policies

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

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future.

These financial statements are presented in *thousands of Russian Roubles* ("RUB thousand"), unless otherwise indicated.

These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. In these consolidated financial statements, fair value measurements and/or fair value disclosures are made on the basis above, except for measurements that have some similarities to fair value but are not fair value (e.g. net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*).

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented (see Note 24).

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the parent company of the Group (Bank) is the Russian Rouble ("RUB"). The Bank's foreign subsidiary incorporated in the Republic of Cyprus has the US Dollar as its functional currency and its financial statements are measured in US Dollars. The Russian Rouble is the presentational currency of the consolidated financial statements of the Group. All values are rounded to the nearest thousand Roubles, except where otherwise indicated.

2. Significant accounting policies (continued)

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated statement of profit or loss and other comprehensive income unless so required or permitted by any accounting standard or interpretation, with such offsets particularly addressed in the accounting policies of the Group.

The principal accounting policies are set out below.

Basis of consolidation. These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiary). Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that 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. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of the subsidiaries 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.

Income recognition

Recognition of interest income and expenses. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on 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 debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

2. Significant accounting policies (continued)

Interest earned on assets at fair value is classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements. Gain/loss on the sale of the above instruments is recognised as interest income or expense in the statement of profit or loss and other comprehensive income based on the difference between the repurchase price accrued to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognised using the effective interest method.

Recognition of fee and commission income. Loan origination fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognised as services are rendered.

Recognition of dividend income. Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Recognition of rental income. The Group's policy for recognition of income as a lessor is set out in the section "Leases" of this Note.

Financial instruments. The Group recognises financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in 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.

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.

2. Significant accounting policies (continued)

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.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized 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 22.

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 and securities lending transactions. 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"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

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.

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.

2. Significant accounting policies (continued)

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
- The 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. financial asset's original effective interest rate.

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.

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.

2. Significant accounting policies (continued)

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.

i. Financial liabilities and equity instruments

Classification as debt or equity. Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

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.

2. Significant accounting policies (continued)

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 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.

Derivatives

Forwards and futures. 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 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.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest.

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 24.

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

2. Significant accounting policies (continued)

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor. Income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs, if any, incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Cash and cash equivalents. 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.

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.

Reposessed assets. In certain circumstances, assets are reposessed 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.

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 are 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. The revaluation was carried out as at 31 December 2016 and 2015.

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.

Depreciation on the revalued building is 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.

Freehold land is not depreciated.

Furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost or valuation of assets other than the land plot, less their residual values 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 on a prospective basis at the following annual rates:

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

2. Significant accounting policies (continued)

Building and other real estate	2%-10%
Furniture and equipment	5%-33%
Motor vehicles	14%-20%

Expenses related to repairs and renewals are recognized as operating expenses in the consolidated statement of profit or loss and other comprehensive income when incurred unless they qualify for capitalization.

An item of property and equipment is derecognized upon disposal 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.

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

Current 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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 by the end of the reporting period.

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.

2. Significant accounting policies (continued)

Operating taxes. The Russian Federation and the Republic of Cyprus have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Provisions. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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.

Foreign currencies. In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are recognized at historical cost denominated in a foreign currency are not translated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from net assets to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Russian Roubles using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in net assets attributable to the Group's participants.

On the disposal of foreign subdivisions (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary), all of the exchange differences accumulated in net assets attributable to the Group's participants are reclassified to profit or loss.

Where a partial disposal of a subsidiary that includes a foreign operation does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

2. Significant accounting policies (continued)

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

	31 December 2017	31 December 2016
RUB/USD	57.6002	60.6569
RUB/EUR	68.8668	63.8111

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:

- 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.

Non-currents assets classified as held for sale. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction 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. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables. The Group regularly reviews its loans and receivables to assess them for impairment. The Group's loan impairment allowances are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to the allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record allowance which could have a material impact on its financial statements in future periods.

The Group uses management's judgments to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment that are similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowance for impairment of financial assets in the consolidated financial statements has been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at 31 December 2017 and 2016, loans to customers totalled RUB 2,072,777 thousand and RUB 2,690,846 thousand, respectively, with an impairment allowance of RUB 680,069 thousand and RUB 693,017 thousand, respectively (Note 8).

Property and equipment carried at revalued amounts. The building and land owned by the Bank have been stated at revalued cost since 2015. The fair value was initially measured as at 31 December 2015 and then at 31 December 2016. As at 31 December 2017 and 2016, the carrying value of the assets revalued was RUB 1,549,277 thousand and RUB 2,008,690 thousand, respectively. Details of the valuation techniques used are set out in Note 9.

4. Amendments to IFRSs affecting amounts reported in the financial statements

4.1 Standards affecting the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted without affecting the amounts reported in these financial statements.

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*;
- Annual Improvements to IFRSs 2014-2016 Cycle.

Amendments to IAS 7 *Disclosure Initiative*. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are prospectively effective for annual periods beginning on or after 1 January 2017. Application of these amendments does not have a significant effect on the consolidated financial statements of the Group.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*. The amendments clarify that:

- A decrease in the carrying amount below the cost of fixed-rate debt instruments at fair value whose tax base is cost gives rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount by selling or using the debt instrument or whether the receipt of all the contractual cash flows from the instrument issuer is probable;
- When estimating the availability of taxable profit against which to utilise the deductible temporary difference and where tax law restricts the utilisation of sources with taxable profit that may be used for deductions (e.g. capital losses may only be offset against capital profits), an entity would assess a deferred tax difference in combination with other deferred tax differences of the same type without including deductible temporary differences of other types;
- The estimate of probable future taxable profit may involve the recovery of certain assets at an amount exceeding the carrying value of these assets provided that the entity can obtain sufficient evidence for the probability of this profit;
- When evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with the future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017. The application of these amendments does not have a significant effect on the consolidated financial statements of the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle. These annual improvements have made amendments, inter alia, to IFRS 12 to be retrospectively applied for annual periods beginning on or after 1 January 2017.

Amendments to IFRS 12 clarify that the exemption from general disclosure requirements in the standard only applies to summarized financial information for an entity's interests in subsidiaries, associates and joint ventures that are classified as held for sale or included in the disposal group classified as held for sale.

Application of these amendments does not have a significant effect on the consolidated financial statements of the Group.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

These annual improvements have made amendments to two more standards:

- The amendments to IFRS 1 delete the short-term exemptions in IFRS 1 that relate to disclosures about financial instruments, employee benefits and investment entities due to the fact that reporting periods to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments apply for annual periods beginning on or after 1 January 2018.
- IAS 28 provides that a venture capital organisation or other similar entities may elect to measure investments in associates and joint ventures at FVTPL. In addition, when applying the equity method, an entity that is not an investment entity (IE) but that holds an interest in an associate or a joint venture that is an investment entity may retain the fair value measurement applied by its associates and joint ventures. The amendments to IAS 28 clarify that this election is made for each IE associate or IE joint venture at their initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018.

The application of these amendments has no significant effect on the Group's consolidated financial statements.

4.2 New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*¹;
- IFRS 15 *Revenue from Contracts with Customers* (and amendments to IFRS 15)¹;
- IFRS 16 *Leases*²;
- Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*¹;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*¹;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*¹;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*¹;
- IAS 40 *Transfers of Investment Property*¹;

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

IFRS 9 Financial Instruments. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for their derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014, the IASB issued a finalized version of IFRS 9. The principal changes cover a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt and equity instruments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new hedge accounting requirements retain the three types of hedging relationship as defined in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Group has performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

- Loans to customers are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Therefore, with the adoption of IFRS 9, these financial assets will be recognised at amortised cost.
- Bonds classified as available-for-sale investments carried at fair value: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the notes in the open market, and the notes' contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, these corporate bonds will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when these bonds are derecognised or reclassified.
- Non-trading shares designated as available-for-sale investments: an entity may elect to designate these as instruments measured at FVTOCI under IFRS 9; however, the fair value gains or losses accumulated in the investment revaluation reserve will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. It will have an impact on gains or losses and other comprehensive income of the Group while not affecting comprehensive income.
- All other financial assets and financial liabilities will continue to be recognised under IFRS 9 the same as under IAS 39.

Impairment. Financial assets measured at amortised cost, corporate bonds that will be carried at FVTOCI under IFRS 9, loans to customers, other financial assets and financial guarantee contracts will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for other financial assets. As regards certain corporate bonds and Eurobonds of the Russian Ministry of Finance, the management of the Group estimates related credit risk as low given stable external credit rating and hence expects to recognise 12-month expected credit losses for these assets. As regards loans to customers and financial guarantee contracts, expected credit losses will be recognised over the lifetime or a 12-month period, depending on whether there has been a significant increase in credit risk of these items from initial recognition to the date of initial application of IFRS 9.

As the management believes that the application of the expected credit loss model under IFRS 9 could result in earlier recognition of credit losses, it is in the process of assessing a potential impact that the application may have on consolidated financial statements of the Group.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

IFRS 15 Revenue from Contracts with Customers. IFRS 15 issued in May 2014 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will replace all existing revenue standards, including IAS 18 *Revenue*, IAS 11 *Construction contracts* and respective interpretations.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The management is still in the process of assessing a potential impact of the application of IFRS 15 on the Group's consolidated financial statements. The management does not plan an early adoption of the standard and intends to apply it retrospectively during the first adoption of the standard. The management of the Group does not expect that the application of IFRS 15 will have a material effect on financial statements.

IFRS 16 Leases. IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. 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 have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or as a finance lease.

In addition, IFRS 16 requires much more extensive disclosures.

As at 31 December 2017, the Group had no commitments under non-cancellable operating leases and finance leases under which the Group is a lessor or a lessee. It is not expected that the new requirement under IFRS 16 (i.e. recognition of right-of-use assets and the respective lease liability) will significantly affect the amounts recognised in the Group's consolidated financial statements.

The management of the Group does not expect that the application of IFRS 16 will have a material effect on financial statements.

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. The amendments provide the following clarifications:

1. When measuring the fair value of cash-settled share-based payment transactions, vesting and non-vesting conditions are accounted for in the same manner as for equity-settled share-based payment transactions.
2. Where a tax law or a regulation requires an entity to withhold on behalf of their employees a specified number of equity instruments in an amount equal to the employee's tax liability which is then remitted to the tax authority (i.e. the share-based payment arrangement includes a net settlement feature), such an arrangement should be classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification to the terms and conditions of a share-based payment transaction that changes the transaction from cash-settled to equity-settled should be accounted for in the following manner:
 - The previous liability is derecognised;
 - The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date;
 - Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Special transition requirements apply.

The management of the Group does not expect that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

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 apply to a sale or a contribution of assets between an investor and its associate or a joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The management of the Group anticipates that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transactions for the purpose of determining the exchange rate to use on initial recognition of the related assets, expense or income is the date of the advance consideration, i.e. when the prepayment or income received in advance liability was recognised. If there is more than one advance payment, or receipt, the entity must determine a date of the transaction for each payment or receipt of advance consideration.

This Interpretation applies for annual periods beginning on or after 1 January 2018, with earlier application permitted. Entities may apply it retrospectively or prospectively. The management of the Group does not expect that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach prescribed in IFRIC 22.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

4. Amendments to IFRSs affecting amounts reported in the financial statements (continued)

Amendments to IAS 40 Transfers of Investment Property. These amendments clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments also emphasise that a change management's intentions alone would not be enough to support a transfer of property. The Standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive. However, the amendments make it clear that they are only examples.

The amendments apply for annual periods beginning on or after 1 January 2018, with earlier application permitted. Entities can apply these amendments retrospectively (but only if this is possible without the use of hindsight), or prospectively. The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

5. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand	171,059	64,243
Correspondent accounts with the Central Bank of the Russian Federation	143,067	470,141
Deposit with the Central Bank of the Russian Federation with maturity up to 30 days	1,400,671	
Correspondent accounts and term deposits with original maturities up to 30 days	1,425,673	2,470,543
Total cash and cash equivalent	3,140,470	3,004,927

As at 31 December 2017 and 2016, correspondent accounts included current accounts of RUB 216,215 thousand and RUB 257,952 thousand, respectively, held in the settlement accounts with the Russian exchanges of MICEX-RTS (ZAO JSCB National Clearing Center and NCO ZAO National Settlement Depository) and international exchanges.

As at 31 December 2017, there were correspondent accounts of RUB 821,104 thousand with VTB Bank (Europe) SE (legal successor of VTB Bank (Deutschland) AG) (31 December 2016: VTB Bank (Deutschland) AG – RUB 2,106,910 thousand), which represents a significant concentration.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

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 2017	31 December 2016
Debt securities	-	158,660
Equity securities	-	9,197
Total financial assets at fair value through profit or loss	-	167,857

	Interest rate to nominal, %	31 December 2017	Interest rate to nominal, %	31 December 2016
Corporate Eurobonds	-	-	10.5	158,660
Total debt securities		-		158,660

	31 December 2017	31 December 2016
Shares/American depository receipts of non-residents	-	6,164
Shares of Russian companies	-	3,033
Total equity securities	-	9,197

7. Due from banks

Due from banks comprise:

	31 December 2017	31 December 2016
Term deposits	89,853	79,287
Correspondent accounts with other banks	30,031	23,996
Promissory note issued by a credit institution	338,161	-
Due from banks before allowance for impairment losses	458,045	103,283
Less allowance for impairment losses	(1,286)	(1,279)
Total due from banks	456,759	102,004

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Notes to the consolidated financial statements (continued) for 2017

7. Due from banks (continued)

As at 31 December 2017 and 2016, in due from banks there were included restricted amounts of RUB 59,853 thousand and RUB 61,287 thousand, respectively, in correspondent accounts with banks, including guarantee deposits placed by the Group to collateralise its operations with plastic cards, and contributions of RUB 30,000 thousand and RUB 18,000 thousand, respectively, into insurance funds with ZAO JSCB National Clearing Center.

As at 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".

Movements in the allowances for impairment losses comprise:

	Total
31 December 2015	1,279
Provisions/(recovery of provisions)	-
31 December 2016	1,279
Provisions	7
31 December 2017	1,286

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 2017	31 December 2016
Loans to medium-sized enterprises	1,468,786	2,003,532
Loans to individuals	603,991	687,314
Loans to customers before allowance for impairment losses	2,072,777	2,690,846
Less allowance for impairment losses	(680,069)	(693,017)
Total loans to customers	1,392,708	1,997,829

As at 31 December 2017, the Group had loans of RUB 594,842 thousand issued to two borrowers/groups of related borrowers, whose debt individually exceeding 10% of net assets, attributable to the participants in the Group. As at 31 December 2016, the Group had no borrower or a group of related borrowers with debt exceeding 10% of net assets attributable to the participants in the Group.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

8. Loans to customers (continued)

Below is the analysis by credit quality of loans to medium-sized enterprises outstanding as at 31 December 2017:

Medium-sized enterprises at 31 December 2017	Gross loans	Allowance for impairment	Net loans	Allowance for impairment losses to gross loans (%)
Collectively assessed				
Not past due	49,271	(3,697)	45,574	7.50
Total collectively assessed loans	49,271	(3,697)	45,574	7.50
Assessed on an individual basis				
Not past due	1,392,398	(422,496)	969,902	30.34
Overdue from 1 day to 30 days	7,841	(7,841)	-	100.00
Overdue more than 180 days	19,276	(19,276)	-	100.00
Total loans assessed on an individual basis	1,419,515	(449,613)	969,902	31.67
Total medium-sized enterprises	1,468,786	(453,310)	1,015,476	30.86

Analysis by credit quality of loans to medium-sized enterprises, outstanding as at 31 December 2016 was as follows:

Medium-sized enterprises at 31 December 2016	Gross loans	Allowance for impairment	Net loans	Allowance for impairment losses to gross loans (%)
Collectively assessed				
Not past due	139,617	(16,025)	123,592	11.48
Total collectively assessed loans	139,617	(16,025)	123,592	11.48
Assessed on an individual basis				
Not past due	1,587,369	(189,673)	1,397,696	11.95
Overdue from 1 day to 30 days	1,440	(1,440)	-	100.00
Overdue more than 180 days	275,106	(275,106)	-	100.00
Total loans assessed on an individual basis	1,863,915	(466,219)	1,397,696	25.01
Total medium-sized enterprises	2,003,532	(482,244)	1,521,288	24.07

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

8. Loans to customers (continued)

Credit quality of loans to individuals, outstanding as at 31 December 2017 was as follows:

Individuals: as at 31 December 2017	Gross loans	Allowance for impairment	Net loans	Allowance for impairment losses to gross loans (%)
Collectively assessed				
Not past due	37,891	(14,829)	23,062	39.14
Total collectively assessed loans	37,891	(14,829)	23,062	39.14
Assessed on an individual basis				
Not past due	357,845	(3,675)	354,170	1.03
Overdue more than 180 days	208,255	(208,255)	-	100.00
Total loans assessed on an individual basis	566,100	(211,930)	354,170	37.44
Total loans to individuals	603,991	(226,759)	377,232	37.54

Credit quality of loans to individuals outstanding as at 31 December 2016 was as follows:

Loans to individuals as at 31 December 2016	Gross loans	Allowance for impairment	Net loans	Allowance for impairment losses to gross loans (%)
Collectively assessed				
Not past due	74,277	(12,775)	61,502	17.20
Overdue from 1 day to 30 days	6,372	(6,372)	-	100.00
Overdue from 121 day to 150 days	2,230	(2,230)	-	100.00
Overdue more than 180 days	9,206	(9,206)	-	100.00
Total collectively assessed loans	92,085	(30,583)	61,502	33.21
Assessed on an individual basis				
Not past due	434,609	(19,571)	415,038	4.50
Overdue from 61 day to 90 days	160,620	(160,620)	-	100.00
Total loans assessed on an individual basis	595,229	(180,191)	415,038	30.27
Total loans to individuals	687,314	(210,774)	476,540	30.67

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

8. Loans to customers (continued)

Loans to individuals comprise:

	31 December 2017	31 December 2016
Investment loans	332,444	389,566
Consumer loans	246,460	210,734
Housing loans	25,087	87,014
Total loans to individuals before allowance for impairment losses	603,991	687,314
Less allowance for impairment losses	(226,759)	(210,774)
Total loans to individuals	377,232	476,540

The table below summarises loans to customers by type of impairment:

	31 December 2017			31 December 2016		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	1,377,011	(661,543)	715,468	1,953,757	(646,409)	1,307,348
Loans to customers collectively determined to be impaired	76,794	(18,526)	58,268	231,702	(46,608)	185,094
Unimpaired loans	618,972	-	618,972	505,387	-	505,387
Total	2,072,777	(680,069)	1,392,708	2,690,846	(693,017)	1,997,829

As at 31 December 2017 and 2016, loans totalling RUB 1,377,011 thousand and RUB 1,953,757 thousand, respectively, that were individually determined to be impaired were collateralized by pledge of securities, real estate, equipment, inventories with a fair value totalling RUB 462,607 thousand and RUB 571,137 thousand, respectively. For the purposes of estimating impairment of individual loans, the Group analyses the financial position, debt service, credit history and collateral.

As at 31 December 2017 and 2016, there were no past due, but unimpaired loans.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

8. Loans to customers (continued)

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2017 and 2016 comprise:

	Medium-sized enterprises	Individuals	Total
31 December 2015	549,289	252,106	801,395
Allowance/(recovery of allowance)	63,416	(41,333)	22,083
Allowance written off as a result of the sale of loans	(130,461)	-	(130,461)
31 December 2016	482,244	210,773	693,017
(Recovery of allowance)/allowance	(28,934)	15,986	(12,948)
31 December 2017	453,310	226,759	680,069

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Group:

	31 December 2017	31 December 2016
Loans collateralised by pledge of real estate or rights thereto	391,201	386,649
Loans collateralized by pledge of securities	195,373	265,701
Loans collateralised by pledge of inventories	191,596	357,631
Loans collateralized by pledge of equipment	78,679	26,263
Loans collateralized by other collateral	145,464	1,742
Unsecured loans	1,070,464	1,652,860
Total loans to customers before allowance for impairment losses	2,072,777	2,690,846
Less allowance for impairment losses	(680,069)	(693,017)
Total loans to customers	1,392,708	1,997,829

As at 31 December 2017 and 31 December 2016, non-collateralised loans totalled RUB 1,070,464 thousand and RUB 1,652,860 thousand, respectively, which accounts for 51.6% и 61.4% of the total loan portfolio of the Group, representing a significant concentration of credit risk.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

8. Loans to customers (continued)

	31 December 2017	31 December 2016
Analysis by sector:		
Individuals	603,992	687,314
Commerce	558,398	852,678
Construction	237,034	60,134
Insurance	173,360	217,708
Real property	119,450	233,820
Services	110,038	301,516
Agriculture	105,000	-
Food	99,200	15,000
Transport and communication	38,609	185,437
Finance	26,988	136,585
Other	708	654
Total loans to customers before allowance for impairment losses	2,072,777	2,690,846
Less allowance for impairment losses	(680,069)	(693,017)
Total loans to customers	1,392,708	1,997,829

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

9. Property and equipment

Property and equipment comprise:

	Land, buildings and structures	Furniture and equipment	Motor vehicles	Total
Value				
31 December 2015	2,333,343	70,637	13,552	2,417,532
Additions	152	2,549	-	2,701
Revaluation	(324,805)	-	-	(324,805)
Disposals	-	(11,277)	-	(11,277)
Foreign exchange differences	-	(2,397)	(1,154)	(3,551)
31 December 2016	2,008,690	59,512	12,398	2,080,600
Additions	-	142	-	142
Impairment losses	(418,853)	-	-	(418,853)
Disposals	-	(723)	(975)	(1,698)
Foreign exchange differences	-	(708)	(183)	(891)
31 December 2017	1,589,837	58,223	11,240	1,659,300
Accumulated depreciation				
31 December 2015	-	60,582	9,698	70,280
Charge for the year	46,168	3,899	899	50,966
Revaluation	(46,168)	-	-	(46,168)
Eliminated on disposal	-	(10,827)	-	(10,827)
Foreign exchange differences	-	(1,339)	(1,450)	(2,789)
31 December 2016	-	52,315	9,147	61,462
Charge for the year	40,560	3,005	688	44,253
Revaluation	-	(722)	(717)	(1,439)
Eliminated on disposal	-	(566)	(162)	(728)
31 December 2017	40,560	54,032	8,956	103,548
Net book value				
31 December 2017	1,549,277	4,191	2,284	1,555,752
31 December 2016	2,008,690	7,197	3,251	2,019,138

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. The office building is located on a land plot of 1,262 sq. m. owned by the Group.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

9. Property and equipment (continued)

As at 31 December 2016, the office building and the related land plot were recognised at a revalued amount representing a fair value at the revaluation date. The fair value of the office building and the land plot was determined by a professional appraiser using two approaches to value measurement, namely: the comparative approach reflecting recent transaction prices for similar property, and the income approach, which allowed to arrive at an aligned opinion as regards the value of these two assets in both qualitative and quantitative terms.

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.

Details of fair value of the Group's real estate as at 31 December 2017 (adjusted for the impairment losses and accumulated depreciation for 2017) and 31 December 2016 as well as information about the fair value hierarchy are as follows:

	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
Total	-	-	1,549,277	1,549,277

	Level 1	Level 2	Level 3	Fair value as at 31 December 2016
Building	-	-	1,865,512	1,865,512
Land	-	-	143,178	143,178
Total	-	-	2,008,690	2,008,690

As at 31 December 2017 and 2016, included in property and equipment was fully depreciated equipment totalling RUB 36,869 thousand and RUB 35,960 thousand, respectively.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

10. Other assets

Other assets comprise:

	31 December 2017	31 December 2016
Other financial assets		
Accounts payable	1,571	1,167
Other financial assets	64	60
<i>Less provision for impairment</i>	-	-
	1,635	1,227
Other non-financial assets		
Precious metals	8,973	8,448
Non-currents assets classified as held for sale	8,316	8,723
Advances paid	6,320	7,659
Taxes and levies payable, other than income tax	4,224	2,143
Intangible assets	1,960	2,568
Other non-financial assets	7,447	9,286
Total other assets	38,875	40,054

11. Customer accounts

Customer accounts comprise:

	31 December 2017	31 December 2016
Individuals:		
Current/settlement accounts	1,109,204	1,588,795
Term deposits	1,014,551	1,329,480
Legal entities:		
Current/settlement accounts	882,551	1,028,719
Term deposits	864,486	254,867
Total customer accounts	3,870,792	4,201,861

As at 31 December 2017 and 2016, customer accounts totalling RUB 2,469,051 thousand and RUB 1,715,394 thousand (63.9% and 40.8%), respectively, were due to five customers, which represents a significant concentration.

	31 December 2017	31 December 2016
Analysis by sector:		
Individuals	2,123,755	2,918,275
Chemical industry	874,250	348,530
Finance	713,687	672,792
Development services	61,546	52,673
Trade and personal services	37,411	40,537
Construction and real estate	26,347	121,430
Transport and communication	10,868	23,425
Private sector	7,172	2,332
Mining	3,161	-
Marketing and advertising	862	6,144
Other	11,733	15,723
Total customer accounts	3,870,792	4,201,861

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Notes to the consolidated financial statements (continued) for 2017

12. Debt securities issued

Debt securities issued comprise:

	31 December 2017			31 December 2016		
	Maturity date	Annual interest rate %	Amount	Maturity date	Annual interest rate %	Amount
Interest bearing promissory notes	-	-	-	January-March 2017	2.0-6.3	129,269
Total debt securities issued			-			129,269

13. Other liabilities

Other liabilities comprise:

	31 December 2017	31 December 2016
Other financial liabilities		
Payables to personnel on unused vacations	16,398	20,653
Accrued commission expenses	10	1,320
Spot financial instruments	5	48
Settlements on other transactions	-	6,914
	16,413	28,935
Other non-financial liabilities		
Taxes payable, other than income tax	75,292	13,435
Payable to the deposit insurance fund	3,443	3,205
Other	3,877	1,269
Total other liabilities	99,025	46,844

	31 December 2017			31 December 2016		
	Nominal value	Fair value Asset	Liability	Nominal value	Fair value Asset	Liability
Foreign currency transactions						
Spot deals	1,361,610	13	(18)	114,673	28	(76)
Total derivative financial instruments and spot deals	1,361,610	13	(18)	114,673	28	(76)

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

14. 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
At 31 December 2015	2,688,716
Non-repayable funds from the participants	81,600
Comprehensive loss	(48,113)
At 31 December 2016	2,722,203
Comprehensive loss	(279,360)
At 31 December 2017	2,442,843

As at 31 December 2017 and 2016, net assets attributable to the participants in the Group included IFRS-based paid-in share capital of RUB 370,907 thousand of the Bank, a parent company of the Group, 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 2017 and 2016, the reserve fund accumulated by the participants of the Group was RUB 41,449 thousand.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

15. Net interest income

	2017	2016
Interest income		
Financial assets recorded at amortized cost:		
- impaired financial assets	263,109	533,646
- unimpaired financial assets	141,880	126,563
Financial assets at fair value	22,519	55,753
Total interest income	427,508	715,962
Financial assets recorded at amortized cost:		
Loans to customers	375,130	657,051
Due from banks	29,859	3,158
Total interest income on financial assets recorded at amortized cost	404,989	660,209
Interest expense		
Interest on financial liabilities recorded at amortized cost	(78,766)	(178,729)
Total interest expense	(78,766)	(178,729)
Financial liabilities at amortized cost		
Customer deposits	(75,899)	(149,773)
Debt securities issued	(1,687)	(20,272)
Accounts with other banks	(1,180)	(235)
Depository instruments from the CBR	-	(8,449)
Total interest expense on financial liabilities at amortized cost	(78,766)	(178,729)
Net interest income before impairment losses on interest bearing assets	348,742	537,233

16. 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:

	2017	2016
Net gain on financial assets held for trading comprises:		
Trading, net	49,855	2,308
Dividend income received	26	4,548
Change in fair value	-	76,414
Total net gain on financial assets at fair value through profit or loss	49,881	83,270

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

17. Fee and commission income and expense

Fee and commission income and expense comprise:

	2017	2016
Fee and commission income		
Settlement services	17,661	32,571
Guarantees	7,029	7,895
Trust and other fiduciary activities	3,818	3,423
Broker operations with securities	1,865	4,908
Other	-	67
Total fee and commission income	30,373	48,864
Fee and commission expense		
Settlement services	(9,880)	(17,049)
Broker operations with securities	(1,090)	(3,640)
Consulting services	(391)	(6,822)
Other	(651)	(1,799)
Total fee and commission expenses	(12,012)	(29,310)

18. Operating expenses

Operating expenses comprise:

	2017	2016
Payroll and bonuses	169,533	235,184
Social insurance contributions	37,838	52,645
Depreciation of property and equipment	44,253	50,966
Taxes, other than income tax	31,261	31,788
Security	22,744	17,719
Operating leases	20,495	25,971
Payments to the Deposit Insurance Fund	13,064	13,527
Telecommunication services	12,976	15,064
Property and equipment maintenance	9,470	13,816
Stationery and other supplies	6,000	9,887
Professional services	5,478	10,465
Data processing	4,757	6,035
Insurance	3,843	5,102
Travel expenses	1,576	1,421
Impairment of non-current assets	412	1,340
Bad debt written off	83	24,452
Advertising	-	6,582
Other expenses	9,890	11,537
Total operating expenses	393,673	533,501

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

19. Income tax expense

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 2017 and 2016 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.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

Deferred tax assets/liabilities as at 31 December 2017 and 31 December 2016 comprise:

	31 December 2017	31 December 2016
Deferred tax assets/(liabilities) in relation to:		
Loans to customers	25,465	39,222
Other assets	2,999	2,699
Due from banks	1,625	738
Other liabilities	743	2,084
Property and equipment	(270,073)	(361,246)
Customer accounts	(401)	(482)
Debt securities issued	-	(2,033)
Financial assets at fair value through profit or loss	-	6,411
Deferred tax asset not recognised:	-	-
Net deferred tax liabilities	(239,642)	(312,607)
Net deferred tax liability	(239,642)	(312,607)

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

19. Income tax expense (continued)

The effective tax rate reconciliation is as follows for the years ended 31 December 2017 and 2016:

	2017	2016
Profit before income tax	77,850	162,976
Tax charge at the statutory tax rate (20%)	15,570	32,595
Effect of tax rate, different from the rate of 20% (a subsidiary operating in other jurisdiction)	1,567	2,859
Tax effect of permanent differences	(8)	(6,985)
Effect of tax rate, different from the rate of 20%	-	418
Change in deferred tax asset not recognised	-	(11,377)
Income tax expense	17,129	17,510
Current income tax expense	6,323	13,633
Deferred tax expense recognised in the current year	10,806	3,877
Income tax expense	17,129	17,510

Changes in deferred income tax liabilities for 2017 and 2016 comprise:

	2017	2016
As at 1 January – deferred tax liabilities	312,607	364,457
Change in deferred income tax recognized in consolidated profit or loss	10,806	3,877
Changes in deferred income tax recognized in other comprehensive income	(83,771)	(55,727)
As at 31 December – deferred tax liabilities	239,642	312,607

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

20. Discontinued operations

In January 2016, the Group sold the 100-percent stake held by the Bank in OOO SOVLINK to the parties related to the participants in the Group for the purpose of optimising investments in the subsidiaries. Please see Note 25.

Consideration received

	31 December 2017
Consideration in cash and cash equivalents	103,000
Total	103,000

Disposed assets and liabilities of the entity sold

	31 December 2017
ASSETS	
Cash and cash equivalents	100,037
Financial assets at fair value through profit or loss	29,721
Property and equipment	423
Other assets	10,794
Total assets	140,975
LIABILITIES	
Customer accounts	(93,252)
Other liabilities	(6,267)
Total liabilities	(99,519)
Disposed net assets	41,456

Gain on disposal of the subsidiary

	2016
Consideration received	103,000
Disposed net assets	(41,456)
Gain on disposal	61,544

Gain on disposal is recognised in the consolidated statement of profit or loss and other comprehensive income.

Net cash flows from the disposal of the subsidiary

	2016
Consideration in cash and cash equivalents	103,000
Less: cash and cash equivalent balances disposed of	(100,037)
Total	2,963

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

21. Commitments and contingencies

In the normal course of business, the Group becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group applies the same credit control and management policy in undertaking off-balance sheet commitments as it does to the balance sheet financial instruments.

Commitments and contingencies. As at 31 December 2017 and 2016, contingent liabilities comprised:

	31 December 2017	31 December 2016
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments of future periods	130,231	363,640
Commitments on loans and unused credit lines	51,837	47,276
Total contingent liabilities and credit commitments	182,068	410,916

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2017 and 2016, commitments under unused credit lines were RUB 51,837 thousand and RUB 47,276 thousand, respectively.

Fiduciary activities – In the normal course of its business, the Group enters into agreements with limited rights on decision making with clients for asset management in accordance with specific criteria established by clients. The Group may be liable for losses due to gross negligence or wilful misconduct by the Group only until such funds or securities are returned to the client. The maximum potential financial risk of the Group at any time is equal to customer accounts plus/minus any unrealized income/loss on the customer's position. As at 31 December 2017 and 2016, the maximum potential financial risk on assets managed by the Group on behalf of its clients did not exceed RUB 24 thousand and RUB 68 thousand, respectively. This amount represents clients' balances managed by the Group as at 31 December 2017 and 2016, including managed securities of RUB 46 thousand in safekeeping accounts as at 31 December 2016.

The Group also provides depositary services to its customers. As at 31 December 2017 and 2016, the Group had 617,384,418,810 and 322,900,920,175 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.

Taxes – The Russian laws and regulations affecting business continue to change rapidly. 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.

21. Commitments and contingencies (continued)

In 2015, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, in certain cases, the undistributed profits of the Group's foreign subsidiary recognized as a controlled foreign company should be included in the tax base of the controlling Bank for the income tax purposes. Management does not anticipate that the application of these changes will have a material impact on the Group's financial statements.

Operating environment. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and 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.

Starting from 2014, sanctions have been 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.

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

22. 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.

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.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of non-derivative of financial assets and liabilities at fair value through profit or loss is based on bid prices quoted in an active market (Level 1 of the fair value hierarchy);
- The fair value of other financial assets available for sale is based on bid prices quoted in an active market (Level 1 of the fair value hierarchy);
- The fair value of derivative of financial assets and liabilities at fair value through profit or loss is determined using a valuation technique based on discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties (Level 2 of the fair value hierarchy);
- The fair value of unquoted shares available for sale is determined using a valuation technique based on discounted cash flows, including significant unobservable inputs and their impact on fair value (Level 3 of the fair value hierarchy);
- The fair value of other financial assets and financial liabilities not quoted in an active market (excluding derivative instruments) can be determined using generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments (Level 3 of the fair value hierarchy);
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

22. Fair value of financial instruments (continued)

Analysis of financial instruments recognized at fair value in the consolidated statement of financial position. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value based on the fair value hierarchy. The levels correspond to the possibility of directly identifying fair value based on market data:

- 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 table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Carrying value
Financial assets					
Financial assets at fair value through profit or loss	167,857	-	-	167,857	167,857

As at 31 December 2016, Level 1 of the fair value hierarchy includes financial assets at fair value through profit or loss (equity and debt securities) of which the fair value is fully determined on the basis of published price quotations in the active market. As at 31 December 2016, the share of Level 1 financial instruments in the total amount of financial assets at fair value through profit or loss is 100%.

The management of the Group believes that the carrying amounts of all other financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values as at 31 December 2017 and 2016.

The table below analyses financial instruments not measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Carrying value
Financial assets					
Due from banks	-	456,759	-	456,759	456,759
Loans to customers	-	1,392,708	-	1,392,708	1,392,708
Other financial assets	-	1,635	-	1,635	1,635
Financial liabilities					
Customer accounts	-	3,870,792	-	3,870,792	3,870,792
Other financial liabilities	-	16,413	-	16,413	16,413

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Notes to the consolidated financial statements (continued) for 2017

22. Fair value of financial instruments (continued)

The table below analyses financial instruments not measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Carrying value
Financial assets					
Due from banks	-	102,004	-	102,004	102,004
Loans to customers	-	1,997,829	-	1,997,829	1,997,829
Other financial assets	-	1,227	-	1,227	1,227
Financial liabilities					
Customer accounts	-	4,201,861	-	4,201,861	4,201,861
Debt securities issued	-	129,269	-	129,269	129,269
Other financial liabilities	-	28,935	-	28,935	28,935

There were no transfers between the hierarchy Levels in 2017 and 2016.

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).

Financial assets/ financial liabilities	Valuation technique	Key inputs
Financial assets at fair value through profit or loss	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

23. Capital management

The Group manages its capital to ensure that the entities in 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.

The Group's overall capital risk management policy remains unchanged from 2016.

The CBR requires banks comply with the capital adequacy ratio as calculated on the basis of the Russian Accounting Standards. The equity of the Bank and the Group is monitored for adequacy, using the ratios established by the CBR. The Bank is required to keep the equity to total risk-weighted assets ratio (the statutory capital adequacy ratio) above a required 10-percent level.

In 2017 and 2016, the Group and the Bank were in full compliance with the external requirements for equity (capital).

24. 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 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.

Commitments to extend credit represent unused portions of credit in the form of loans 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.

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Notes to the consolidated financial statements (continued) for 2017

24. Risk management policies (continued)

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 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.

	31 December 2017		31 December 2016	
	Maximum credit risk exposure	Collateral pledged	Maximum credit risk exposure	Collateral pledged
Cash and cash equivalents	2,969,411	-	2,940,684	-
Minimum reserve deposits with the CBR	38,607	-	45,007	-
Financial assets at fair value through profit or loss, except for equity securities	-	-	158,660	-
Due from banks	456,759	-	102,004	-
Loans to customers	1,392,708	1,002,312	1,997,829	770,656
Other financial assets	1,635	-	1,227	-
Guarantees issued and other commitments	130,231	-	363,640	-
Commitments on loans and unused credit lines	51,837	-	47,276	-

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, charges over real estate properties, securities and corporate guarantees, equipment and vehicles;
- 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.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

24. Risk management policies (continued)

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 2017 and 2016, the balances with the CBR were RUB 1,582,345 thousand and RUB 515,148 thousand, respectively. According to Standard & Poor's (S&P), the sovereign credit rating of the Russian Federation in 2017 was BB+, which has been increased to BBB- with a stable outlook since 18 February 2017.

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

	AAA	AA	A	BBB	BBB	Not rated	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

	AAA	AA	A	BBB	BBB	Not rated	31 December 2016 Total
Cash and cash equivalents	-	2,349	25	1,945	2,597,508	338,857	2,940,684
Minimum reserve deposits with the CBR	-	-	-	-	45,007	-	45,007
Financial assets at fair value through profit or loss, except for equity securities	-	-	-	-	-	158,660	158,660
Due from banks	-	-	-	34,015	-	67,989	102,004
Loans to customers	-	-	-	-	-	1,997,829	1,997,829
Other financial assets	-	-	-	-	-	1,227	1,227

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies.

The Group has in place a weight-based scoring system to assess the financial position of borrowers and counterparties. Standard parameters are used to analyse each type of economic agents (legal entities, individuals, non-resident credit or financial institutions and resident credit institutions), with related scores assigned. An aggregated estimate is applied to define a level of credit risk exposure and a related allowance. The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

The following table provides an analysis of unimpaired loans to customers that are classified into three categories according to internal ratings assigned to borrowers/(debtors):

- The "Top performing" category with low credit risk includes loans (assets) with no past due status that are granted to borrowers (debtors) that have unexceptionable credit history with the Group and other creditors; that proved to be profitable and well performing businesses with no signs of decline of their financial sustainability;
- The "Moderately performing" category with temperate credit risk includes loans (assets) with no past due status that are granted to borrowers (debtors) with good credit history with the Group and other creditors with minor exceptions in the past; that proved to be well performing businesses in the past but average financial performance at the moment;
- The "Other" category includes loans (assets) that are not overdue and are granted to borrowers (debtors) that do not fall within the two categories described above.

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Notes to the consolidated financial statements (continued) for 2017

24. Risk management policies (continued)

	31 December 2017	31 December 2016
Unimpaired loans to corporate borrowers not rated by international rating agencies		
Top performing loans	353,360	72,788
Moderately performing loans	95,850	239,250
Other unimpaired loans	-	546
Total	449,210	312,584
Unimpaired loans to individuals		
Top performing loans	169,762	192,803
Total	169,762	192,803
Total unimpaired loans to borrowers not rated by international rating agencies	618,972	505,387
Unimpaired balances with banks and other financial institutions not rated by international rating agencies		
Top performing assets	47,323	67,989
Total unimpaired balances with banks not rated by international rating agencies	47,323	67,989

There were no past due but not impaired financial assets.

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.

Renegotiated loans and advances. As at 31 December 2017 and 2016 loans to customers included loans totalling RUB 198,175 thousand and RUB 569,061 thousand, respectively, whose terms were renegotiated. Without renegotiation, these loans would have become past due or impaired.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

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.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

24. Risk management policies (continued)

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

	RF	OECD countries	OECD Non-OECD	31 December 2017 Total
FINANCIAL ASSETS				
Cash and cash equivalents	1,907,388	1,219,292	13,790	3,140,470
Minimum reserve deposits with the CBR	38,607	-	-	38,607
Due from banks	393,355	62,068	1,336	456,759
Loans to customers	1,378,383	-	14,325	1,392,708
Other financial assets	1,595	40	-	1,635
TOTAL FINANCIAL ASSETS	3,719,328	1,281,400	29,451	5,030,179
FINANCIAL LIABILITIES				
Customer accounts	3,022,335	8,168	840,289	3,870,792
Other financial liabilities	16,413	-	-	16,413
TOTAL FINANCIAL LIABILITIES	3,038,748	8,168	840,289	3,887,205
NET POSITION	680,580	1,273,232	(810,838)	

	RF	OECD countries	OECD Non-OECD	December 31, 2016 Total
FINANCIAL ASSETS				
Cash and cash equivalents	793,207	2,211,599	121	3,004,927
Minimum reserve deposits with the CBR	45,007	-	-	45,007
Financial assets at fair value through profit or loss	161,744	6,113	-	167,857
Due from banks	39,252	61,290	1,462	102,004
Loans to customers	1,979,141	-	18,688	1,997,829
Other financial assets	1,194	33	-	1,227
TOTAL FINANCIAL ASSETS	3,019,545	2,279,035	20,271	5,318,851
FINANCIAL LIABILITIES				
Customer accounts	3,989,959	1,903	209,999	4,201,861
Debt securities issued	-	-	129,269	129,269
Other financial liabilities	28,076	-	859	28,935
TOTAL FINANCIAL LIABILITIES	4,018,035	1,903	340,127	4,360,065
NET POSITION	(998,490)	2,277,132	(319,856)	

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.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

24. Risk management policies (continued)

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 2017 and 2016. 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 2017 Total
FINANCIAL ASSETS							
Cash and cash equivalents	1,976,673	-	-	-	-	-	1,976,673
Due from banks	-	-	338,161	-	-	-	338,161
Loans to customers	64,287	108,686	714,539	353,201	151,995	-	1,392,708
Total interest-bearing financial assets	2,040,960	108,686	1,052,700	353,201	151,995	-	3,707,542
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
TOTAL FINANCIAL ASSETS	3,206,989	108,686	1,102,331	366,974	151,995	93,204	5,030,179
FINANCIAL LIABILITIES							
Customer accounts	70,524	1,386,202	396,113	26,198	-	-	1,879,037
Total interest-bearing financial liabilities	70,524	1,386,202	396,113	26,198	-	-	1,879,037
Customer accounts	1,991,755	-	-	-	-	-	1,991,755
Other financial liabilities	15	-	16,398	-	-	-	16,413
TOTAL FINANCIAL LIABILITIES	2,062,294	1,386,202	412,511	26,198	-	-	3,887,205
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	-	-

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

24. Risk management policies (continued)

	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 2016 Total
FINANCIAL ASSETS							
Cash and cash equivalents	906,643	-	-	-	-	-	906,643
Financial assets at fair value through profit or loss	158,660	-	-	-	-	-	158,660
Loans to customers	87,289	349,305	933,871	318,862	308,502	-	1,997,829
Total interest-bearing financial assets	1,152,592	349,305	933,871	318,862	308,502	-	3,063,132
Cash and cash equivalents	2,098,284	-	-	-	-	-	2,098,284
Minimum reserve deposits with the CBR	-	-	-	-	-	45,007	45,007
Financial assets at fair value through profit or loss	9,197	-	-	-	-	-	9,197
Due from banks	2	-	49,988	21,252	-	30,762	102,004
Other financial assets	1,194	-	-	-	-	33	1,227
TOTAL FINANCIAL ASSETS	3,261,269	349,305	983,859	340,114	308,502	75,802	5,318,851
FINANCIAL LIABILITIES							
Customer accounts	286,513	198,251	1,067,273	32,310	-	-	1,584,347
Debt securities issued	45,196	84,073	-	-	-	-	129,269
Total interest-bearing financial liabilities	331,709	282,324	1,067,273	32,310	-	-	1,713,616
Customer accounts	2,617,514	-	-	-	-	-	2,617,514
Other financial liabilities	7,423	859	20,653	-	-	-	28,935
TOTAL FINANCIAL LIABILITIES	2,956,646	283,183	1,087,926	32,310	-	-	4,360,065
Liquidity gap	304,623	66,122	(104,067)	307,804	308,502	-	-
Cumulative liquidity gap	304,623	370,745	266,678	574,482	882,984	-	-

24. Risk management policies (continued)

No liquidity gap is observed for each of the maturity periods. Liquidity gap limits established by the Board are within the required range.

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.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued)
for 2017

24. Risk management policies (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
FINANCIAL LIABILITIES					
Customer accounts	72,078	1,391,238	403,926	26,660	1,893,902
TOTAL INTEREST-BEARING FINANCIAL LIABILITIES	72,078	1,391,238	403,926	26,660	1,893,902
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 and unused credit lines	51,837	-	-	-	51,837
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	2,121,394	1,465,658	421,233	75,853	4,084,138

	On demand - and less than 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	31 December 2016 Total
FINANCIAL LIABILITIES					
Customer accounts	575,864	202,265	1,094,503	33,068	1,905,700
Debt securities issued	45,196	84,432	-	-	129,628
TOTAL INTEREST-BEARING FINANCIAL LIABILITIES	621,060	286,697	1,094,503	33,068	2,035,328
Customer accounts	2,617,514	-	-	-	2,617,514
Other financial liabilities	7,423	859	20,653	-	28,935
Liabilities on financial guarantees	172,720	190,920	-	-	363,640
Commitments on loans and unused credit lines	47,276	-	-	-	47,276
TOTAL FINANCIAL LIABILITIES AND COMMITMENTS	3,465,993	478,476	1,115,156	33,068	5,092,693

24. Risk management policies (continued)

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 2016, 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.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued)
for 2017

24. Risk management policies (continued)

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

	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
31 December 2017				
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)
Total financial assets	244,125	195,301	(244,125)	(195,301)
Customer accounts	(137,130)	(109,704)	137,130	109,704
Total financial liabilities	(137,130)	(109,704)	137,130	109,704
Net impact	106,995	85,597	(106,995)	(85,597)

	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
31 December 2016				
Cash	28,757	23,006	(28,757)	(23,006)
Loans to customers	72,494	57,995	(72,494)	(57,995)
Financial assets at fair value through profit or loss	15,205	12,164	(15,205)	(12,164)
Total financial assets	116,456	93,165	(116,456)	(93,165)
Customer accounts	(84,001)	(67,201)	84,001	67,201
Debt securities issued	(11,337)	(9,070)	11,337	9,070
Total financial liabilities	(95,338)	(76,271)	95,338	76,271
Net impact	21,118	16,894	(21,118)	(16,894)

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

24. Risk management policies (continued)

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:

	RUB	USD USD 1 = RUB 57.6002	EUR EUR 1 = RUB 68.8668	Other currency	31 December 2017 Total
Non-derivative financial assets					
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
Total non-derivative financial assets	2,909,515	1,892,849	215,401	12,414	5,030,179
Non-derivative financial liabilities					
Customer accounts	501,269	3,097,969	261,404	10,150	3,870,792
Other financial liabilities	16,402	5	-	6	16,413
Total non-derivative financial liabilities	517,671	3,097,974	261,404	10,156	3,887,205
OPEN BALANCE SHEET POSITION	2,391,844	(1,205,125)	(46,003)	2,258	1,142,974
Derivatives					
Net settled:					
- foreign exchange spot contracts	(1,357,463)	1,352,568	-	4,895	
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	(1,357,463)	1,352,568	-	4,895	
OPEN POSITION	1,034,381	147,443	(46,003)	7,153	

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

24. Risk management policies (continued)

	RUB	USD USD 1 = RUB 60.6569	EUR EUR 1 = RUB 63.8111	Other currency	31 December 2016 Total
Non-derivative financial assets					
Cash and cash equivalents	493,808	2,150,419	232,177	128,523	3,004,927
Minimum reserve deposits with the CBR	45,007	-	-	-	45,007
Financial assets at fair value through profit or loss	-	161,744	-	6,113	167,857
Due from banks	34,538	52,942	14,524	-	102,004
Loans to customers	1,423,797	563,034	10,998	-	1,997,829
Other financial assets	1,190	35	2	-	1,227
Total non-derivative financial assets	1,998,340	2,928,174	257,701	134,636	5,318,851
Non-derivative financial liabilities					
Customer accounts	993,409	2,781,913	306,572	119,967	4,201,861
Debt securities issued	-	129,269	-	-	129,269
Other financial liabilities	27,814	190	931	-	28,935
Total non-derivative financial liabilities	1,021,223	2,911,372	307,503	119,967	4,360,065
OPEN BALANCE SHEET POSITION	977,117	16,802	(49,802)	14,669	958,786
Derivatives					
Net settled:					
- foreign exchange spot contracts	(106,208)	97,927	8,281	-	-
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	(106,208)	97,927	8,281	-	-
OPEN POSITION	870,909	114,729	(41,521)	14,669	-

Currency risk sensitivity. The Group uses the 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 Roubles) 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.

Aljba Alliance Commercial Bank Ltd.

Notes to the consolidated financial statements (continued) for 2017

24. Risk management policies (continued)

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
95% 10 days VaR	6,610	

Currency	Total open position 31 December 2016 RUB thousand	Currency rate volatility, %
USD	114,729	3.3139
EUR	(41,521)	3.4319
CAD	6,113	2.6552
GBP	2,720	3.3742
CHF	5,811	3.4227
GPY	25	4.1440
95% 10 days VaR	5,291	

Other price risks. The Group is exposed to price risks arising from equity investments. The Group purchases equity securities mainly for trading purposes.

The table below presents the amount of loss from publicly traded equity and debt security portfolios of the Group, which, with a 95% confidence, will not be exceeded within 1 day and 10 days provided that the current pricing trends continue.

	VaR (1 day, 0.95) (RUB'000)	VaR (1 day, 0.95) %	VaR (10 days, 0.95) (RUB'000)	VaR (10 days, 0.95) %
31 December 2017				
Shares	-	-	-	-
Bonds	-	-	-	-
At 31 December 2016				
Shares	499	5.43	1,464	15.92
Bonds	4,588	3.03	13,274	8.76

Taking into consideration the volatility in stock markets, the Group used the method of stochastic modelling (Monte Carlo) to assess changes in retrospective risk factors.

The Monte Carlo method uses scenarios for changes in retrospective risk factors. Scenarios are generated by a random-number generator based on the use of calculated projected risk factors and their volatility with consideration of their statistical correlations. Such approach ensures more adequate measurement of the Group's probable losses within a given time horizon both for individual financial instruments and the trading portfolio as a whole.

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.

24. Risk management policies (continued)

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 (continued) for 2017

25. 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 2017		31 December 2016	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Loans to customers	212,438	2,072,777	255,117	2,690,846
- entities with joint control or significant influence over the Group	30,100			
- entities under common control with the Group	181,938		254,717	
- key management personnel	400		400	
Allowance for impairment losses on loans to customers	(31,637)	(680,069)	(15,289)	(693,017)
- entities with joint control or significant influence over the Group			(15,261)	
- entities under common control with the Group	(31,591)			
- key management personnel	(46)		(28)	
Customer accounts	1,041,739	3,870,792	691,507	4,201,861
- entities under common control with the Group	929,781		227,288	
- entities with joint control or significant influence over the Group	68,268		97,319	
- key management personnel	6,180		44,627	
- other related parties	37,510		322,273	
Guarantees issued and similar commitments of future periods	8,458	130,231	11,155	363,640
- entities with joint control or significant influence over the Group	8,170		10,852	
- key management personnel	288		303	

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Notes to the consolidated financial statements (continued) for 2017

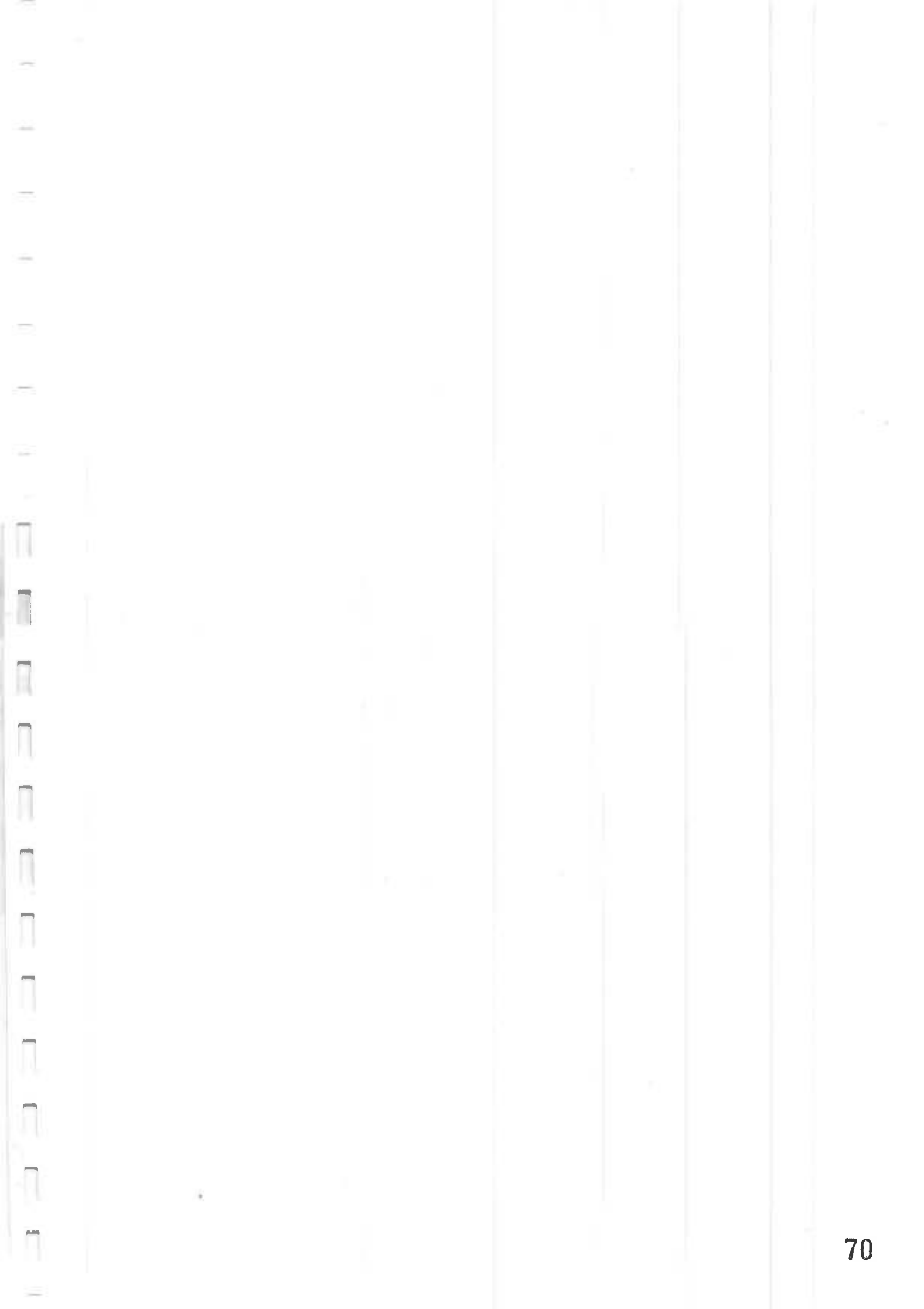
25. Related party transactions (continued)

Included in the consolidated statement of profit or loss and other comprehensive income for 2017 and 2016 are the following amounts that were recognized in transactions with related parties:

	2017		2016	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income	33,588	427,508	5,017	715,962
- entities with joint control over the Group	2,718		180	
- entities under common control with the Group	30,790		4,374	
- key management personnel	80		463	
Interest expense	(20,058)	(78,766)	(25,134)	(178,729)
- entities under common control with the Group	(13,279)			
- entities with joint control or significant influence over the Group	(7)		(36)	
- key management personnel	(973)		(2,603)	
- other related parties	(5,799)		(22,495)	
Recovery of allowance/(allowance) for impairment losses on interest bearing assets	(16,348)	12,948	1,911	(22,083)
- entities under common control with the Group	(16,330)		(15,261)	
- key management personnel	(18)		17,172	
Other income	18,374	32,747	9,416	26,701
- entities under common control with the Group	18,374		9,416	
Gain on disposal of subsidiary	-	-	61,544	61,544
- entities with joint control or significant influence over the Group	-		61,544	
Remuneration of key management personnel:	(29,470)	(207,371)	(47,654)	(287,829)
Payroll and bonuses	(29,470)		(47,654)	

26. 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.



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Trokhova O.V.