

Commercial Bank “Solidarnost” (Joint-Stock Company)

# **IFRS Consolidated Financial Statements and Independent Auditor’s Report**

for the year ended 31 December 2018

**Moscow | 2019**





Group Commercial Bank "Solidarnost" (Joint-Stock Company)

# IFRS Consolidated Financial Statements and Independent Auditor's Report

For the year ended 31 December 2018

2019



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# Independent Auditor's Report [Translation from Russian original]

To the shareholders of Joint-Stock Company  
Commercial Bank "Solidarnost" and other parties

## Report on the audit of the annual consolidated financial statements

### Opinion

We have audited the accompanying annual consolidated financial statements of Joint-Stock Company Commercial Bank "Solidarnost" (hereinafter – JSC CB "Solidarnost", the Bank) and its subsidiaries (hereinafter – the Group), which comprise the consolidated statement of financial position as of 31 December 2018 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the annual consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying annual consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Independence Rules for Auditors and Audit Firms and The Code of Professional Ethics of the Auditors, that correspond to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, 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.

### Emphasis of Matter

We draw attention to Note 1 of the annual consolidated financial statements of the Group for the year ended 31 December 2018, which comprises the information about the fact that the Bank has been operating under the Participation Plan of the State Corporation "Deposit Insurance Agency" aimed at taking financial recovery measures of JSC CB "Solidarnost" and a new version of the Financial Rescue Plan (the FRP), being its integral part, approved by the Board of Directors of the Bank of Russia on 10 November 2017 (Minutes No. 29).

Our opinion is not modified in respect of this matter.

## Other Information

Management is responsible for the other information. The other information comprises the information in the report titled "Information on Accepted Risks, Procedures of Their Assessment, Risk and Capital Management" of JSC CB "Solidarnost" for 2018, but does not include the annual consolidated financial statements of the Group for the year ended 31 December 2018 and our auditor's report thereon. The report "Information on Accepted Risks, Procedures of Their Assessment, Risk and Capital Management" for 2018 is expected to be made available to us after the date of this auditor's report.

Our opinion on the annual consolidated financial statements of the Group for the year ended 31 December 2018 does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual consolidated financial statements of the Group for the year ended 31 December 2018, our responsibility is to read the other information stated above when it is made available to us and, in doing so, consider whether the other information is materially inconsistent with the annual consolidated financial statements of the Group for the year ended 31 December 2018 or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the report titled "Information on Accepted Risks, Procedures of Their Assessment, Risk and Capital Management" of JSC CB "Solidarnost" for 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of Management and Those Charged with Governance of the Audited Entity for the Annual Consolidated Financial Statements

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

In preparing the annual 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 Annual Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual consolidated financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- a) identify and assess the risks of material misstatement of the annual 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 audited entity's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the audited entity;
- 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 audited entity'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 annual 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 audited entity to cease to continue as a going concern;
- e) evaluate the overall presentation, structure and content of the annual consolidated financial statements, including the disclosures, and whether the annual consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 audit according to the requirements of Federal Law No. 395-I dated 2 December 1990 "On banks and banking activities"

Management of the Bank is responsible for compliance by the Group with the mandatory requirements set by the Bank of Russia as well as for internal control and organization of risk management systems of the Group to meet the requirements set by the Bank of Russia to the systems like this.

According to Article 42 of Federal Law No. 395-I dated 2 December 1990 "On banks and banking activities" during the audit of the annual consolidated financial statements of the Group for the period ended 31 December 2018 we verified whether:

- the Group was in compliance with the mandatory requirements set by the Bank of Russia as at 1 January 2019;

- internal control and organization of risk management systems of the Group were in compliance with the requirements set by the Bank of Russia to the systems like this.

The said audit was limited to such procedures selected based on our judgement as requests, analysis, document examination, comparison of requirements, order and methodologies approved by the Group with the ones set by the Bank of Russia as well as restatement and comparison of amounts and other information.

The audit has established the following:

1) as for meeting the mandatory requirements set by the Bank of Russia by the Group:

- in course of audit procedures conducted by us to verify compliance of the Group, with the Bank being its parent credit organization, with mandatory ratios set by the Bank of Russia, we established that as at 1 January 2019 mandatory ratios of JSC CB "Solidarnost" were within the limits set by the Bank of Russia, except for maximum exposure per one borrower or a group of related borrowers (N6). The N6 ratio calculated for OJSC JSCB "Probusinessbank" will not be within the required limits during the turnaround phase of the Bank due to the fact that the previous turnaround manager is the biggest borrower of JSC CB "Solidarnost". This violation will be eliminated after the financial rehabilitation of the Bank, when outstanding loans are written off through the established allowance for possible loan losses, as provided for in the Financial Rescue Plan approved by the Board of Directors of the Bank of Russia on 10 November 2017 (Minutes No. 29).

We did not conduct any procedures as to accounting records of the Group other than procedures we believed were necessary for the purpose of expressing our opinion on whether the Group's annual consolidated financial statements presented fairly, in all material respects, its financial position as of 1 January 2019, financial performance and cash flows for the year ended 31 December 2018 in accordance with International Financial Reporting Standards;

2) as for compliance of internal control and organization of risk management systems of the Group with the requirements set by the Bank of Russia to the systems like this:

a) in accordance with the requirements and recommendations of the Bank of Russia as at 1 January 2019 the internal audit service of the Bank reported to the Bank's Board of Directors, the risk management departments of the Bank did not report to the departments assuming the respective risks, the chiefs of the internal audit service and the risk management departments of the Bank meet the qualifications set by the Bank of Russia;

b) as at 1 January 2019 the effective internal documents of the Bank indicating the methodologies for identification and management of credit, operational, market, interest rate, legal, liquidity and goodwill risks relevant for the Group, methodologies for stress-testing were approved by the empowered bodies of the Bank in accordance with the requirements and recommendations of the Bank of Russia;


c) as at 1 January 2019 the Bank had the reporting system for credit, operational, market, interest rate, legal, liquidity and goodwill risks relevant for the Group as well as for the equity of the Group;

d) frequency and order of reports prepared by the risk management departments of the Bank and the internal audit service of the Bank during 2018 as to management of credit, operational, market, interest rate, legal, liquidity and goodwill risks of the Group were in compliance with the Bank's internal documents; the said reports comprised the results of observation of efficiency measurement of the Group's respective methodologies conducted by the Bank's risk management departments and the Bank's internal audit service as well as recommendations to improve them;


e) as at 1 January 2019 the powers of the Board of Directors of the Bank and its executive bodies comprised control over the Group's compliance with risk limits and capital adequacy set by the Bank's internal documents. For the purpose of control over efficiency of risk management procedures applied in the Group and order of their application during 2018 the Board of the Directors of the Bank and its executive bodies discussed on a regular basis reports prepared by the risk management departments and the internal audit service, and dealt with the offered measures to remove defects.

The procedures in respect of internal control and organization of risk management systems of the Group have been conducted only to verify whether internal control and organization of risk management systems of the Group are in compliance with the requirements set by the Bank of Russia to the systems like this.

President of FBK, LLC

  
S.M. Shapiguzov  
on the basis of Charter  
audit qualification certificate 01-001230, primary  
registration number of entry 21606043397

Engagement partner

  
N.P. Mushkarina  
audit qualification certificate 01-000988 dated  
19 November 2012, primary registration number of  
entry 21606041880

Date of Independent Auditor's Report:  
27 May 2019



**Audited entity****Name:**

JSC CB "Solidarnost"

**Place of business:**

90, Kuibisheva street, Samara, 443099, Russian Federation.

**Official registration:**

State Registration Certificate No. 1026300001848 issued by the Department of the Ministry of Taxes and Levies of Russia for Samara Region on 7 August 2002.

General License of the Bank of Russia No. 554 dated 14 July 2017.

**Auditor****Name:**

FBK, LLC

**Place of business:**

44/1, 2AB, Myasnitskaya St, Moscow, 101990, Russian Federation.

**Official registration:**

State Registration Certificate series IO3 3 No. 484.583 ПП issued by Moscow Registration Chamber on 15 November 1993. The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number (OGRN) 1027700058286.

**Membership in self-regulatory organization of auditors:**

Self-regulatory organization of auditors Association "Sodruzhestvo".

**Number in the register of self-regulatory organization of auditors:**

Certificate of membership in the self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, number in the register – 11506030481.

**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)**

Notes to the IFRS Consolidated Financial Statements for 2018  
(in thousands of Russian Roubles)

**Consolidated Statement of Financial Position  
as at 31 December 2018**

<i>in thousands of Russian Roubles</i>	<i>Notes</i>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>			
Cash and cash equivalents	14	5,658,202	2,861,593
Mandatory reserve balances with the Bank of Russia		212,708	146,762
Due from financial institutions	15	269,832	240,643
Loans and advances to customers	16	6,366,526	4,785,013
Financial assets held for income or sale	17	8,896,564	8,926,809
Financial assets at fair value through profit or loss	18	1,695,599	4,887
Investment property	19	909,438	1,168,586
Assets of disposal groups, classified as "held for sale"		3,535	4,449
Premises and equipment	20	773,977	830,666
Intangible assets	21	71,330	99,277
Other assets	22	271,282	184,019
<b>Total assets</b>		<b>25,128,993</b>	<b>19,252,704</b>
<b>LIABILITIES</b>			
Financial liabilities at fair value through profit or loss		-	8,890
Due to financial institutions	23	238,980	783,775
Customer accounts	24	18,382,316	11,259,092
Debt liabilities issued		3,460	-
Other liabilities and provisions	25	104,870	122,007
Subordinated debt		-	661,672
<b>Total liabilities</b>		<b>18,729,626</b>	<b>12,835,436</b>
<b>EQUITY</b>			
Share Capital	27	10,110,001	10,110,001
Additional paid-in capital	26	4,011,960	3,350,288
Fair value revaluation reserve for financial assets through other comprehensive income, held for income or sale		(10,852)	650,723
Revaluation reserve for premises and equipment	16	192,628	214,734
Accumulated loss		(7,904,370)	(7,908,478)
<b>Total equity</b>		<b>6,399,367</b>	<b>6,417,268</b>
<b>Total liabilities and equity</b>		<b>25,128,993</b>	<b>19,252,704</b>

Signed on 27 May 2019

Acting Chairman of the Management Board



V. P. Arbuzov

Acting Chief Accountant



Stamp



Yu. V. Malysheva

Notes on pages 14 to 71 form an integral part of these financial statements.



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)**Notes to the IFRS Consolidated Financial Statements for 2018  
(in thousands of Russian Roubles)**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2018**

<i>in thousands of Russian Roubles</i>	Notes	2018	2017
Interest income	5	1,690,529	1,533,951
Interest expense	5	(1,197,357)	(1,030,921)
<b>Net interest income</b>		<b>493,172</b>	<b>503,030</b>
Change in allowance for expected credit losses on interest-bearing assets	6, 16	417,963	783,085
<b>Net interest income after change in allowance for expected credit losses</b>		<b>911,135</b>	<b>1,286,115</b>
<b>Operating income</b>		<b>846,894</b>	<b>686,064</b>
Net realized gains / (losses) from securities held for income or sale		380,431	(8,496)
Net gain from operations with foreign currency and foreign exchange translation differences	7	128,671	76,821
Fee and commission income	8	63,226	108,419
Fee and commission expense	8	(15,798)	(12,934)
Change in allowance for expected credit losses on financial assets held for income or sale	6, 17	(16,870)	(72)
Change in other provisions and estimated liabilities	6	(1,161)	(9,388)
Revaluation gain and gain from operations with investment property	19	154,365	194,600
Other operating income	9	154,030	337,114
<b>Operating expenses</b>	10	<b>(1,549,811)</b>	<b>(1,474,117)</b>
<b>Profit before tax</b>		<b>208,218</b>	<b>498,062</b>
Current income tax expense	11	(33,330)	(33,648)
Change in deferred tax due to origination and reversal of temporary differences	11	(170,780)	136,902
<b>NET PROFIT</b>		<b>4,108</b>	<b>601,316</b>
<b>Other components of the comprehensive income</b>			
Fair value revaluation of financial assets held for income or sale, net of deferred income tax		(661,575)	(31,597)
Revaluation of intangible assets and premises and equipment, net of deferred income tax	16	(22,106)	23,458
<b>Total other components of the comprehensive income, net of tax</b>		<b>(683,681)</b>	<b>(8,139)</b>
<b>COMPREHENSIVE (LOSS)/INCOME</b>		<b>(679,573)</b>	<b>593,177</b>

Signed on 27 May 2019

Acting Chairman of the Management Board



Acting Chief Accountant

V. P. Arbuzov

Yu. V. Malysheva

Notes on pages 14 to 71 form an integral part of these financial statements.



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)**

Notes to the IFRS Consolidated Financial Statements for 2018  
(in thousands of Russian Roubles)

**Consolidated Statement of Changes in Equity  
for the Year Ended 31 December 2018**

<i>in thousands of Russian Roubles</i>	Share capital	Additional paid-in capital	Fair value revaluation reserve for financial assets at fair value through other comprehensive income held for income or sale	Revaluation reserve for premises and equipment	Accumulated loss	Total equity
<b>Balance as at 1 January 2017</b>	<b>10,000</b>	<b>6,808,004</b>	<b>682,320</b>	<b>191,276</b>	<b>(8,509,794)</b>	<b>(818,194)</b>
Total comprehensive income for the year ended 31 December 2017, net of tax	-	-	(31,597)	-	601,316	569,719
Revaluation of premises and equipment, net of deferred income tax	-	-	-	23,458	-	23,458
Increase in the share capital	10,100,001	-	-	-	-	10,100,001
Change in the subordinated debt	-	(3,457,716)	-	-	-	(3,457,716)
<b>Balance as at 1 January 2018</b>	<b>10,110,001</b>	<b>3,350,288</b>	<b>650,723</b>	<b>214,734</b>	<b>(7,908,478)</b>	<b>6,417,268</b>
Total comprehensive loss for the year ended 31 December 2018, net of tax	-	-	(661,575)	-	4,108	(657,467)
Revaluation of premises and equipment, net of deferred tax	-	-	-	(21,549)	-	(21,549)
Disposal of premises and equipment	-	-	-	(557)	-	(557)
Change of the carrying amount of the subordinated debt	-	661,672	-	-	-	661,672
<b>Balance as at 31 December 2018</b>	<b>10,110,001</b>	<b>4,011,960</b>	<b>(10,852)</b>	<b>192,628</b>	<b>(7,904,370)</b>	<b>6,399,367</b>

Signed on 27 May 2019

Acting Chairman of the Management Board

Acting Chief Accountant



*[Signature]*  
*[Signature]*

V. P. Arbuzov

Yu. V. Malysheva

Notes on pages 14 to 71 form an integral part of these financial statements.





**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)**  
**Notes to the IFRS Consolidated Financial Statements for 2018**  
**(in thousands of Russian Roubles)**

**Consolidated Statement of Cash Flows**  
**for the Year Ended 31 December 2018**

<i>in thousands of Russian Roubles</i>	Note	2018	2017
<i>Cash Flows from Operating Activities:</i>			
<b>Profit before tax</b>		<b>208,218</b>	<b>498,062</b>
<i>Adjustments:</i>			
Net interest income		7,827	101,186
Provision for impairment		(399,932)	(773,625)
Depreciation/amortization of premises, equipment and intangible assets		79,435	72,898
Loss / (gain) on disposal of premises and equipment, and intangible assets		629	-
Net change in other accruals		242,256	(202,416)
Unrealized loss / (gain) on operations with foreign currency		311,168	(107,299)
<b>Cash inflows / (outflows) from operating activities before changes in operating assets and liabilities</b>		<b>449,601</b>	<b>(411,194)</b>
Net (increase) in Mandatory reserve deposits with the Bank of Russia		(65,946)	(24,202)
Net decrease in Due from financial institutions		164,829	167,072
Net (increase) / decrease in Loans and advances to customers		(1,465,941)	(578,994)
Net (increase) / decrease in Reverse REPO transactions		(350,025)	122,300
Net (increase) / decrease in Other assets		(886)	6,760
Net (decrease) / increase in Due to financial institutions		(527,728)	776,965
Net increase in Customer accounts		7,279,216	1,165,024
Net (decrease) / increase in Other liabilities		(16,800)	83,397
Income tax (paid) / recovered		(33,479)	103,254
<b>Net cash inflows from operating activities</b>		<b>5,432,841</b>	<b>1,410,382</b>

**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)**

Notes to the IFRS Consolidated Financial Statements for 2018  
(in thousands of Russian Roubles)

**Consolidated Statement of Cash Flows**  
**for the Year Ended 31 December 2018 (continued)**

<i>in thousands of Russian Roubles</i>	Note	2018	2017
<i>Cash Flows from Investing Activities:</i>			
Net investments / (disposals) of financial assets held for income or sale		(4,126,054)	(532,766)
Income from sale of financial assets held for income or sale		1,530,575	-
Purchase of property, equipment and intangible assets		(40,014)	(114,690)
Proceeds from disposal of property, equipment and intangible assets		16,682	676
Purchase of investment property		-	(613,272)
<b>Net cash outflows from investing activities</b>		<b>(2,618,811)</b>	<b>(1,260,052)</b>
<i>Cash Flows from Financing Activities:</i>			
Ordinary shares issued		-	10,100,001
Change in Subordinated debt		-	(10,480,383)
Proceeds from issue of Debt securities		3,460	-
<b>Net cash inflows / (outflows) from financing activities</b>		<b>3,460</b>	<b>(380,382)</b>
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		(20,881)	(872)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>2,796,609</b>	<b>(230,924)</b>
Cash and cash equivalents at the beginning of the year		2,861,593	3,092,517
<b>Cash and cash equivalents at the end of the year</b>		<b>5,658,202</b>	<b>2,861,593</b>

Signed on 27 May 2019

Acting Chairman of the Management Board



*[Handwritten signature of V. P. Arbuzov]*

V. P. Arbuzov

Acting Chief Accountant

*[Handwritten signature of Yu. V. Malysheva]*

Yu. V. Malysheva

Notes on pages 14 to 71 form an integral part of these financial statements.



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018****(in thousands of Russian Roubles)****Notes to the Consolidated Financial Statements****1. Principal activities**

The financial statements of Joint-Stock Company Commercial Bank "Solidarnost" (hereinafter, "the Bank") and its subsidiaries (jointly referred as the Group) were prepared in accordance with International Financial Reporting Standards.

JSC CB "Solidarnost" is the parent company of the Group. The Bank was established on 23 October 1990 as Limited Liability Company according to the legislation of the Russian Federation and was reorganized into Open Joint-Stock Company on 5 June 2000. The parent company of the Group operates under the general license for banking activities No.554 issued by the Central Bank of the Russian Federation (hereinafter, "the Bank of Russia") on 14 July 2017. Additionally, the parent company of the Group has licenses required for securities-related activities, as follows:

- License of a professional participant of the securities market for carrying out broker activities, series 04 No. 006216, No. 163-02782-100000 dated 16 November 2000, issued by the Federal Commission for the Securities Market without limitation as to validity period;
- License of a professional participant of the securities market for carrying out dealer activities, series 04 No. 006264, No. 163-02825-010000 dated 16 November 2000, issued by the Federal Commission for the Securities Market without limitation as to validity period; and
- License of a professional participant of the securities market for carrying out depositary activities, series 04 No. 006469, No. 163-03749-000100 dated 15 December 2000, issued by the Federal Commission for the Securities Market without limitation as to validity period.

Principal activities of the parent company of the Group comprise taking corporate and household deposits (demand and term deposits), placing the attracted funds of legal entities and individuals on its behalf and for its own account, opening and keeping bank accounts of its customers, performing settlements on behalf of individuals and legal entities (including corresponding banks) through their bank accounts, providing cash-desk services to its customers, conducting sale/purchase foreign exchange transactions in cash and through bank, issuing bank guarantees, making money transfers on behalf of individuals without opening bank current accounts (except for money orders) and conducting professional activities on the securities market.

The registered office of the parent company of the Group is: building 90, Kuibisheva street, Samara, 443099, Russia.

As at 31 December 2018, the office network of the Group comprises 28 structural units (as at 31 December 2017: 27 structural units).

**Regional network as at 31 December 2018**

Region	Number of offices
Moscow and Moscow region	4 structural units: a branch and 3 supplementary offices
Irkutsk	2 structural units: a branch and a supplementary office
St. Petersburg	1 structural unit: a branch
Ekaterinburg	2 structural units: a branch and a stand-alone cash desk outside the main cash-desk area (henceforth, stand-alone cash-desk)
Samara region	19 structural units: 18 supplementary offices and a stand-alone cash desk

In 2018, the Bank's regional network kept on growing and streamlining its qualitative aspects, which related to broadening geographic presence of the Bank, improvements in quality servicing of its customers, and the Bank's resource management.

In the first quarter of 2018, the Group launched the Supplementary office "Angara" of Irkutsk Branch of JSC CB "Solidarnost". This office is registered at the following address: building 14/1, Nizhnyaya Naberezhnaya Street, Irkutsk, 664011, Russia. In the second quarter of 2018, in Ekaterinburg, a stand-alone cash desk was launched at the following address: building 1, Bakhchivangi square, Passenger Terminal of International Flights (line 3, Liter E





**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018  
(in thousands of Russian Roubles)**

(Local Routs), ground floor, office 117. In the fourth quarter of 2018, the Bank launched a branch outside of the Samara region. This is Branch "Uralsky" of JSC CB "Solidarnost", registered at the following address: building 41, Krasnoarmejskaya Street, Ekaterinburg, Sverdlovsk Region, 620026, Russia.

The Group does not have business units abroad and operates in the Russian Federation.

As at 31 December 2018, the total headcount in the Bank, including part-time employees, was 498 (as at 31 December 2017: 484).

Since 2013, the parent company of the Group has been operating under the Participation Plan of the State Corporation "Deposit Insurance Agency" (hereinafter, the SC "DIA") aimed at taking financial recovery measures on the Bank (hereinafter, the Participation Plan), approved by the Board of Directors of the Bank of Russia on 29 November 2013 (Minutes No. 26). The approved Financial Rehabilitation Plan (hereinafter, the FRP) forms an integral part of the Participation Plan of the SC "DIA". The FRP is a financial model of the Bank's development for 2014-2025. The model meets the main requirements for the Bank's stability and development in the future.

Since November 2016, JSC "Zarubezhenergoprojekt" has been the only shareholder of the parent company of the Group. Ownership (shareholder) structure of the Bank as at the reporting dates is shown in the table below.

Owner / shareholder name	2018	2017
Joint-Stock Company "Zarubezhenergoprojekt"	100.0%	100.0%
Total	100.0%	100.0%

According to the decision of the SC "DIA", JSC "Zarubezhenergoprojekt", being the only shareholder of the parent company of the Group, is also its management company appointed to achieve the financial rehabilitation of the Bank. For financial rehabilitation of the parent company of the Group, the shareholder developed and agreed with the Bank of Russia a new version of the FRP, approved on 10 November 2017 by the Board of Directors of the Bank of Russia (Minutes No.29). The FRP is to bring results by September 2025. In 2017, under the FRP of the parent company of the Group, JSC "Zarubezhenergoprojekt" purchased the additional share issue to increase the share capital of the Bank and also, provided a subordinated loan to increase the Bank's capital. The SC "DIA" financed those investments under conditions provided for in the FRP.

The aims of financial recovery of the parent company of the Group are:

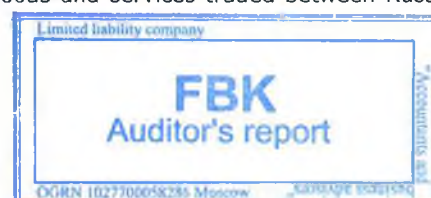
- to solve liquidity problem at the parent company of the Group and restore its full solvency;
- to recover financial stability of the parent company of the Group, to strengthen its activities and to meet all prudential requirements of the Bank of Russia;
- to ensure effective functioning of the parent company of the Group, its reorganization by means of acquisition of JSCB "Kranbank" (CJSC) (by 30 September 2025); and
- to keep developing and to evolve from this basis into a modern credit institution able to timely provide quality banking services in demand on the market.

As a result of the financial rehabilitation, the parent company of the Group is to evolve into a financial institution capable to confront destructive market fluctuations, offering the whole range of banking operations, being guided by principles of adequate liquidity, sound solvency and profitability of the Group.

The activities on financial rehabilitation of the parent company of the Group are to result in its restored indices of financial standing to the values set by the federal laws and regulations of the Bank of Russia and also are to meet the financial targets set in the FRP.

The Development Strategy of JSC CB "Solidarnost", that is, the FRP approved on 10 November 2017 by the Board of Directors of the Bank of Russia (Minutes No.29), provides for establishment of a base Bank to service trade and financial ties between the Russian Federation, the People's Republic of China and the Socialist Republic of Vietnam. The principal areas of cooperation assume:

- servicing Chinese and Vietnamese investments in the Russian Federation;
- organization of settlements in national currencies for goods and services traded between Russia, China and Vietnam; and





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- organization of a cross-border money transfer system between the three countries by using payment systems.

These activities are to be implemented in the period to 2025. As at the reporting date the Bank opened two direct correspondent accounts in Chinese banks (Harbin Bank, Harbin, China and HeiHe Rural Commercial Bank Co., LTD HeiHe, China) and a correspondent account with TECHCOMBANK, Vietnam. The Bank has joined the payment system "SENDY". During 2018, in course of participation in this payment system, the Bank started offering acquiring services with regard to payments WeChat Pay to trading and service companies. Chinese company Tenpay Payment Technology Co., Ltd. is the partner of the payment system "SENDY" in providing this service.

The Group has been working on the regional market of banking services for over 25 years and has competitive advantages required for its further robust development. Services offered by banks in the cities of presence of the parent company of the Group are generally similar and meet current needs of large-scale, medium-size and small businesses as well as of individuals.

As at 31 December 2018, JSC CB "Solidarnost" is the parent organization of the banking group comprising the following entities:

Subsidiaries	Type of business	% of voting shares	% in share capital	Country of registration
JSC "Privolzhskoye Credit Bureau"	Conducts no business	-	27.9%	Russia
Closed-End Investment Fund "Residential property 01.10"		-	100%	Russia
Closed-End Investment Fund combined "Business property 01.10"		-	100%	Russia
Closed-End Investment Fund combined "Business-South"		-	100%	Russia

The property owned by the Closed-End Investment Funds is annually evaluated by an independent appraiser as at 31 December of each reporting year. Profit or loss from revaluation is recognized in the Statement of profit or loss as a part of expenses on revaluation of investment property.

The parent company of the Group participates in the state deposit insurance scheme (Certificate No.8 dated 21 September 2004). The insurance arrangement guarantees the Group's liabilities regarding deposits of individuals in the amount up to RUB 1,400 thousand per each individual in case of withdrawal of the license to carry out banking activities by the Bank of Russia or introduction of a moratorium on payments.

On 2 February 2018, due to expiration of the contract, the rating agency RAEX (Expert RA) withdrew its credit rating of the Bank without confirmation.

According to the FRP, JSC CB "Solidarnost" plans to obtain a credit rating from the Analytical Credit Rating Agency (ACRA) in 2019 (see Note 34).

## 2. Operating environment of the Group

The Group operates primarily in the Russian Federation. The economy of the Russian Federation displays certain characteristics of an emerging market. The economy of the country is particularly sensitive to changes in oil and gas prices. Legal, tax and administrative framework is subject to frequent changes and varying interpretations.

In 2018, Russian economy showed a moderate economic growth, with sustained positive developments in industrial sectors. The period from September to November demonstrated some slow-down of economic growth, both in developed and developing countries, caused by changes in trade agreements, risks of looming export duties and also, worsening economic expectations. Nevertheless, based on 2018 results, the Russian economy growth in annual terms was 2.3%, up from 1.5% in 2017.

In the first half of the year, the inflation scored close to a historic low, but in the third quarter, started accelerating and reached 4.3% by the year end. Inflationary pressure on prices was due to the prior year low base effect and also, to devaluation of Rouble. Additionally, the planned increase of VAT from 18% to 20% from 1 January 2019 has resulted in higher inflationary expectations.

In the first half of 2018, the Bank of Russia started a gradual transition from a "moderately tight" to a "neutral" monetary policy by reducing its key rate from 7.75%, following 2017 results, to 7.25% in June 2018. However, in the second half of the year, the policy started tightening.



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In the second half of the year, the Bank of Russia had to choose a course of a more rigid monetary policy, given the crisis in the emerging markets, more assertive monetary policy followed by the Federal Reserve in the USA and the central banks in developing countries, along with growing inflationary risks related to VAT rate increase in 2019 and Rouble devaluation. The key rate was increased twice, at the meetings of the Bank of Russia in September and December 2018, and reached 7.75%.

US sanctions imposed in April 2018 in respect of certain Russian companies and individuals sent foreign investments in Russian assets down, which led to capital outflows on the financial account of the balance of payments and a weaker Rouble. However, a counterbalancing effect on demand was observed from local market players, which helped sustain prices on the Federal Bonds (OFZ) market. Further US sanctions imposed after the incident in Salisbury triggered the next round of Rouble devaluation. A general trend of lessening interest in assets in developing countries put additional pressure on the national currency exchange rate in Russia.

For all that time, the Ministry of Finance of the Russian Federation (the Minfin) has been an important player on the foreign currency market. To reduce dependence of the budget revenues on changes in oil prices, the Minfin has established a specific fiscal rule, which requires that the Bank of Russia buy foreign currency to the benefit of the Minfin in the volume of extra oil and gas revenue of the Federal Budget, if URALS oil price per barrel exceeds 40.8 US dollars per barrel. However, due to a quick strengthening of Rouble against US dollar, in August, the Bank of Russia postponed foreign currency purchases till the end of 2018, which helped stabilize the market situation. This said, by applying the fiscal rule, the Bank of Russia was giving to the Minfin foreign currency from its reserves, therefore, reducing Rouble liquidity surplus.

Local financial markets stabilized after a significant volatility growth in August - first half of September. In 2018, US dollar rate fluctuated in the range of 55.7-70.6 Rouble/US dollar, with an average URALS oil price being 70.1 US dollar per barrel. Driven by the oil price growth, the MOEX Russia Index has increased in 2018 by 12.3%, whereas the RTS index has declined by 7.4% due to a weakening Rouble.

The banking sector has started growing, with an overall stability in the economy sustained.

In 2018, assets of the banking sector (as at 1 January 2019 RUB 94.1 trillion) grew by RUB 9.4 trillion in absolute terms, with Rouble assets up in 2018 by RUB 7.2 trillion, or by 11.0%. Banking assets in foreign currency continued to decline, with their volume for the year reduced by US dollar 24.9 bn, or by 7.6%. However, given dynamics of the exchange rate, the share of currency-denominated assets in the total volume of assets has hardly changed (as at 1 January 2019: 22.4%).

The banking sector's profit for 2018 was RUB 1 345 bn, 1.7 times higher than for 2017. Financial performance of the sector was again under impact of the results achieved by the banks in a financial rehabilitation stage, financed by the Banking Sector Consolidation Fund. These banks excluded from calculations, the banking sector's profit for 2018 was RUB 1.9 trillion.

### 3. Basis of preparation

#### Statement of compliance

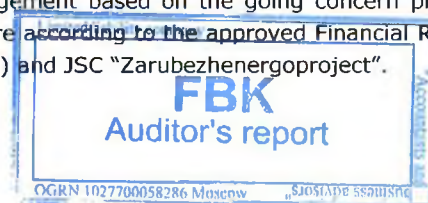
The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs), including all previously issued IFRSs and Interpretations of the International Accounting Standards Board (IASB) and Interpretations of the International Financial Reporting Committee (IFRIC).

The Bank and its subsidiaries and associates keep books and prepare financial statements in accordance with the requirements of the legislation applicable in countries of their registration. These consolidated financial statements are prepared on the basis of such accounting entries, adjusted as necessary to bring them in compliance with all material aspects of IFRSs. Principles of the accounting policies applied in preparation of these consolidated financial statements are set out below. The principles were consistently applied to all the periods presented in these financial statements, unless stated otherwise.

The Bank keeps its books in the currency of the Russian Federation and makes accounting entries according to requirements of the Russian banking legislation. These consolidated financial statements are prepared on the basis of such accounting entries, adjusted as necessary to bring them in compliance with all material aspects of IFRSs.

#### Going concern principle

These financial statements have been prepared by the management based on the going concern principle, on assumption that the Group will operate in the foreseeable future according to the approved Financial Rescue Plan supported by the SC "Deposit Insurance Agency" (the SC "DIA") and JSC "Zarubezhenergoimport".



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By making this judgment, the management has taken into account the existing intentions, profitability of operations, available financial resources and an impact of the current economic environment on the Bank's business.

The Bank makes judgments and assumptions that have impact on recognition of assets and liabilities during a financial year. The estimates and associated assumptions are based on historical experience and other factors, including expected future events that are considered to be relevant under the circumstances.

**Functional and presentation currency**

Functional currency of each consolidated entity of the Group is the currency prevailing in the economic environment where that entity operates. The Bank's functional currency and the reporting currency of the Group is the national currency of the Russian Federation, Russian Rouble (RUB). If not stated otherwise, the numbers in these financial statements are presented in thousands of Russian Roubles.

The official exchange rate of the Bank of Russia used for translation of currency-denominated assets and liabilities was as follows:

	31 December 2018	31 December 2017
US dollar	69.4706	57.6002
Euro	79.4605	68.8668
Chinese Yuan	10.0997	8.8450

**Other critical accounting judgments and key sources of estimation uncertainty**

Management has assessed allowance for loan impairment by applying the "expected credit loss" model (ECL), as required by appropriate accounting standards. From 1 January 2018, the Group recognizes allowance for ECLs for all loans and other debt financial assets not measured at fair value through profit or loss, and also on credit-related commitments and financial guarantee contracts (jointly referred to as "financial instruments" in this section).

Below are new and revised standards and interpretations that have been issued but not yet effective.

The standards, interpretations and amendments listed below have not yet entered into force and have not been early adopted for these financial statements. However, they will or may have an impact on the financial statements of the Group in the future.

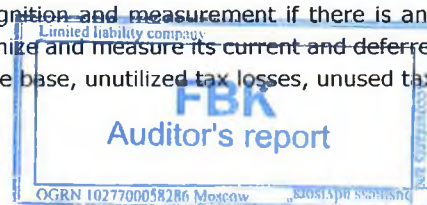
IFRS 16 Leases (effective for the annual reporting periods beginning on or after 1 January 2019). This standard was issued in January 2016. The standard provides a single accounting model for the Lessee, which excludes division between operational and financial lease for the Lessee. All agreements that qualify for the lease definition, except for a short-term lease and a lease of low-value items that give a right to the Lessee not to adopt IFRS 16 regarding measurement and classification, will recognize a "right of use" of an asset and a corresponding liability in the Statement of financial position. The asset subsequently is to be recognized as a Property and equipment item or as an investment property and the liability is to be written-off by using an imputed interest rate from the lease agreement.

Lessor accounting remains substantially the same as in the preceding requirements of IAS 17 *Leases*. The Group believes that adoption of IFRS 16 will not have an impact on the financial statements of the Group.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for the reporting periods beginning on or after 1 January 2020). The amendments clarify that profit or loss are recognized in full if assets contributed to an associate or a joint venture constitute a business, as defined in IFRS 3 *Business Combinations*. Profit or loss on sale or contribution of assets that do not constitute a business are recognized to the extent of the share in the associate or a joint venture not owned by the investor.

The Group believes that adoption of the amendments will not have a material effect on its financial statements.

Interpretation of IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual reporting periods beginning on or after 1 January 2019). Uncertainty over tax treatments may have an impact on the entity's accounting for its current or deferred tax assets or liabilities. The Interpretation adds guidance on how to apply the requirements of IAS 12 *Income Taxes* in respect of the recognition and measurement if there is an uncertainty over income tax treatments. In this case the entity shall recognize and measure its current and deferred tax assets or liabilities on the basis of the taxable profit (tax loss), taxable base, unutilized tax losses, unused tax allowances





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and tax rates defined in accordance with this Interpretation. The Group believes that adoption of the amendments will not have a material effect on its financial statements.

**4. Significant accounting policies**

Accounting policies and computation methods applied in preparation of the consolidated financial statements are consistent with those applied to the annual consolidated financial statements for the year ended 31 December 2017, except for certain new standards, interpretations and amendments to the existing standards listed as obligatory from 1 January 2018 in the consolidated financial statements of the Group.

Except for IFRS 9 *Financial Instruments*, with the effect of transition to the standard being disclosed in these financial statements, the new standards did not have any material impact on these consolidated financial statements of the Group. As allowed in the transitional provision of IFRS 9, the Group does not recalculate the comparative period data. The relevant comparative information is presented in accordance with the accounting policies as disclosed in the consolidated financial statements of the Group for 2017. Adjustments to carrying balances of financial assets and liabilities as at 1 January 2018 were recognized through retained earnings and other components of equity in the current period.

**4.1. Consolidated financial statements**

Subsidiaries are those entities, including Special purpose entities (SPEs), which the Group has invested in and controls. The Group has powers to control an investee's activity, which has a significant effect on returns of the latter, runs the risk of potential losses or has rights to variable returns from its involvement with the investee and has the ability to affect the investor's returns through its power over the investee. Existence and effect of material rights, including independent potential voting right, are considered when deciding on the Group's powers to control another entity. The right is material if the investor is able in practice to use it at the time of decision-making to manage an investee's activities. The Group may have powers to control the investee even when it does not have a majority voting in this entity. In this case, to determine the actual power to manage the investee, the Group evaluates its share of voting rights and compares it with sizes and distribution of voting share packages of other investors. Protective rights of other investors, such as those regarding principal changes in the investees' activities or those used under exceptional circumstances, do not preclude the Group's control of the investee.

Subsidiaries are accounted for by using the acquisition method. They are consolidated in the financial statements from the date on which control over the investees is actually transferred to the Group and are removed from consolidation from the date when the control ceases. On the date of acquisition (i.e. control transfer) the acquirer recognizes the acquiree's identifiable assets, other than goodwill, assumed liabilities and non-controlling interests in the acquiree. Share in the subsidiary's capital that is not owned by the parent organization, directly or indirectly, represents its non-controlling interest. Subsidiary acquisition costs incurred are expensed through profit or loss. The non-controlling interests in the acquiree are accounted for as a separate component in equity.

The acquirer measures identifiable assets received and liabilities assumed and, if the business combination is achieved in stages, also the acquirer's previously held equity interest in the acquiree, at fair value as at the acquisition date (i.e. control transfer). The consideration transferred on acquisition to the acquirer is measured at fair value, which is the aggregate of the assets at fair values as at the acquisition date (control transfer date) transferred by the acquirer, liabilities assumed by it from the previous owners of the acquiree, and share in the equity issued by the acquirer.

Any notional consideration to be transferred by the acquirer in exchange for the acquiree, comprises assets or liabilities arising in accordance with the agreement on notional consideration. If there is a difference between the consideration transferred and the carrying amount of the non-controlling interest acquired, it is recognized as a capital transaction within equity directly. The Group recognizes the difference between the consideration received and the carrying amount of the non-controlling interest sold as a capital transaction in the Statement of changes in equity.

Changes in the ownership interest of a subsidiary, without loss of control by the parent, is recognized as an equity transaction in the Consolidated statement of changes in equity. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Bank and its subsidiaries apply the same accounting policies, which are consistent with those adopted by the Group in preparation of these consolidated financial statements.





**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018****(in thousands of Russian Roubles)****4.2. Key measurement criteria**

When accounting for financial instruments, the Bank applies the following measurement methods:

- fair value, and
- amortized cost.

The 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.

Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability. Fair value represents a current offer price for financial assets, a current bid price for financial liabilities and average current bid and offer prices when the Group holds both, a short- and a long-term position in a financial instrument. A financial instrument is treated as quoted on the active market if its quotes are regularly made available at any time by the Exchange or another appropriate authority, with such prices representing actual and continuously recurring market transactions. For certain financial instruments with no information about prices on external markets available, fair value is determined by using specific measurement methods.

These measurement methods include discounted cash flow models, prevailing option pricing models, models based on recent transactions between arm's length market players, or a financial analysis of investment objects. Measurement methods may require professional judgement, which is not supported by observable market data.

Additional information on fair value and its measurement is presented in these consolidated financial statements.

Amortized cost is the amount at which a financial instrument has been measured at initial recognition, less any principal repayments, plus interest accrued and, in case of financial assets, adjusted for allowance for ECLs. Interest accrual includes amortization of transaction costs deferred at initial recognition, and also any premium or discount to the redemption amount, by applying the effective interest rate method. In the consolidated statement of financial position, accrued interest income and expenses (including accruals of coupon interest, discount amortization and premium, and also payments deferred at the inception of a transaction, if any) are not disclosed separately and are included into carrying amounts of corresponding assets or liabilities.

Gross carrying amount of a financial asset represents its amortized cost before adjustment for allowance for ECLs.

Transaction costs are additional expenditures directly attributable to a financial instrument acquisition, issuance or disposal. Additional expenditures represent costs that would not have been incurred, if a transaction did not occur. Transaction costs comprise remunerations, fees and commissions to agents (also employees acting as sales agents), consultants, brokers and dealers as well as charges by regulating authorities and exchanges, taxes and duties paid at the time of ownership transfer. Transaction costs exclude premiums and discounts on debt liabilities, financial expenses or internal administrative expenses.

The effective interest rate method represents a method of allocation of interest income or expense for the relevant period in order to ensure a constant interest rate (the effective interest rate) on the current value of an instrument for that period. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts (except for ECLs) through the expected life of the financial instrument to amortized cost of the financial liability.

To compute the effective interest rate on financial instruments, other than impaired financial assets, the Group estimates future contractual cash flows of a financial instrument, with no consideration given to ECL. In case of impaired financial assets, the effective interest rate is adjusted for credit risk and considers ECLs for estimated future cash flows. An integral part of the effective interest rate computation are transaction costs and fees, and commissions paid or received. Transaction costs also include additional expenditures directly related to acquisition or issuance of a financial asset or financial liability.

**4.3. Initial recognition and classification of financial instruments**

A financial asset or financial liability is initially measured at fair value. If a financial instrument is not measured at fair value through profit or loss, transaction costs directly attributable to the instrument acquisition or issuance are added. A transaction price is the best evidence of fair value at initial recognition. Gain or loss at initial recognition is recognized only if there is a difference between fair value and transaction price, which is observable from the data on other current market transactions with the same instrument, or measurement methods using only observable market data inputs.



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All financial asset acquisitions and disposals with delivery within the period generally set by regulation or convention in the marketplace (purchases and sales) are recognized on a transaction date, which is the date when the Group has assumed its liability to deliver the financial instrument. All other acquisitions and disposals are recognized when the entity becomes contractually liable regarding a financial instrument.

From 1 January 2018, financial assets can be put in three categories at initial recognition. These are: financial assets at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) or financial assets at fair value through profit or loss (FVTPL).

Financial assets are measured at amortized cost if they meet the following two criteria and do not fall into the category of assets at fair value through profit or loss:

- the asset is held under a business model with the objective to collect contractual income cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments are measured at fair value through other comprehensive income only if they meet the following two criteria and do not fall into the category of instruments at fair value through profit or loss:

- the asset is held under a business model with the objective to collect contractual income cash flows or sell the asset;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets are not subject to reclassification, except for the period when the business model for managing the financial assets is changed. This said, at initial recognition, the Group may permanently designate a financial asset as measured at FVTPL, if that would remove or significantly reduce accounting inconsistency inevitably occurring otherwise, if measured at amortized cost or FVOCI.

The Group evaluates objective of a business model under which an asset is held at a portfolio level, taking into consideration all relevant evidence of activities that the Group intends to carry out to achieve targets for the portfolio as at the date of the assessment.

#### **4.4. Impairment of financial assets**

For objective recognition of the assumed risks in the financial statements, the Bank establishes allowances for all types of financial assets, except for those measured at fair value through profit or loss, deferred tax assets and assets arising from employee remunerations.

Entry into effect of IFRS 9 changes the Group's approach to accounting for loan impairment. The IAS 39 "incurred loss" rule is replaced by a new forward-looking approach requiring recognition of expected credit losses (ECL). Starting from 1 January 2018, the Group recognizes allowances for ECL on all loans and other debt financial assets not measured at fair value through profit or loss, and also on commitments to lend money and financial guarantee contracts (in this section jointly referred to as "financial instruments"). IFRS 9 requirements regarding impairment do not apply to equity financial instruments.

Based on forecasts, the Group assesses ECLs on debt financial assets at amortized cost and those at fair value through other comprehensive income, as well as risks arising due to commitments to lend money and financial guarantee contracts. The Group performs assessment of ECLs and books allowance for ECLs as at each reporting date. Assessment of ECLs is done in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value for money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Debt financial assets at amortized cost are reported net of allowance for ECLs in the consolidated statement of financial position. With regard to credit-related commitments and financial guarantee contracts (if these components are separable from the loan), a separate allowance for ECLs is established, which is reported together with liabilities in the consolidated statement of financial position. Allowance for ECLs on debt instruments at fair value through other comprehensive income is recognized within profit or loss and has an impact on gains or losses

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caused by changes in fair value, recognized in other comprehensive income, rather than on the carrying amounts of these instruments.

The impairment model used by the Group for accounting purposes, as prescribed by IFRS 9, is based on credit quality changes since initial recognition of an asset, as follows:

- a financial asset, not impaired at initial recognition, with no significant increase in the credit risk on it in the reporting period since initial recognition; and also, an asset put at the reporting date into a low-risk portfolio, is classified as the financial asset of Stage 1.

For financial assets at Stage 1, ECLs are assessed in the amount equal to a portion of lifetime expected credit losses that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date (12-month ECLs).

- If the Group's assessment determines that there has been a significant increase in the credit risk for the asset since its initial recognition the asset is reclassified to Stage 2 and ECLs thereon are recognized in the amount equal to the lifetime ECLs.
- If the Group determines that a financial asset has a credit impaired status, i.e. the borrower is in the default category with its loan being at the same time a troubled asset, the financial asset is transferred to Stage 3 and ECLs thereon are the lifetime ECLs.

Credit products impaired at disbursement or those purchased with impairment signs include:

- loans purchased by the Bank at a significant discount. A discount of 15% from the purchased loan nominal value and higher is considered as significant.
- certain types of restructured deals, when they are at Stages 2 and 3, treated as being impaired at disbursement.

In case of purchased or originated impaired financial assets, ECLs are always assessed as the lifetime ECLs.

To identify significant increase in credit risk since a financial asset's initial recognition, the Group performs assessment as at each reporting date. To measure ECLs the following components are used:

**PD** – The Probability of Default is determined on the basis of a risk segment and internal rating (or a days overdue group) for a corresponding period (12 months or lifetime of an instrument (Lifetime PD)). Values are established by applying internally generated statistics and models as well as by using migration matrices (Markov chain). Lifetime PD is determined with due consideration given to forecasts. These address current and expected changes in the macroeconomic environment, for instance, a real GDP growth, capital outflow, growth of real disposable household income, etc. The main segmentation principle for computation of probability of default (PD), which underlies provisioning, says that debt financial instruments with similar risk profiles shall be grouped in one portfolio with a similar risk level. Risk segment is designated based on specifics of a counterparty/issuer activities, country of incorporation, business model and size.

**LGD** – The Loss Given Default represents a share of the loss in the credit exposure at a given time of default. Values are established by applying the models, based on internally generated statistics.

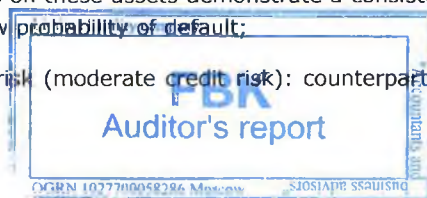
**EAD** – The Exposure at Default is the credit exposure under risk of default. Values are established by applying the models based on internally generated statistics.

If a counterparty has a current credit outstanding on the balance sheet, assessment of allowance for credit losses on credit-related commitments is performed on the basis of approaches taken to provisioning of balance sheet credits of this counterparty using credit conversion factor (CCF), as calculated with help of statistical data and values consistent with the Basel Accord.

If a counterparty has credit-related commitments only, assessment of allowance for credit losses is performed depending on the commitments volume, subject to CCF, on an individual or collective basis.

Classification of financial assets into three groups of credit risk represents the aggregate of credit quality information on these assets within the scope of IFRS 9. Below are summarized relationships between probabilities of default based on internal ratings and credit risk levels assessed by the Group:

- quality assets (minimum credit risk): counterparties on these assets demonstrate a consistent ability to timely discharge their financial obligations with a low probability of default;
- assets with identified significant increase in credit risk (moderate credit risk): counterparties on these





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assets have a moderate probability of default and show an average ability to meet their financial obligations on time; they require more scrutiny at the monitoring stage;

- credit-impaired assets (high credit risk): counterparties on these assets have a high probability of default and require particular scrutiny at the monitoring stage; or are those, given the existing impairment signs, meeting the default definition.

Macroeconomic indicators are as follows:

- real GDP
- unemployment level
- growth in purchasing prices
- yield on 10-year treasury bonds.

**4.5. Derecognition of financial assets**

The Bank derecognizes a financial asset if at least one of the following conditions is met:

- contractual rights to collect the cash flows on the financial asset have expired;
- the Bank has transferred the financial asset, with such a transfer meeting derecognition criteria.

A financial asset is treated as transferred by the Bank, if at least one of the following conditions is met:

- the Bank has transferred its contractual rights to receive the cash flows from the financial asset;
- the Bank has retained its contractual rights to receive the cash flows from the financial asset but simultaneously assumed a contractual obligation to pass those cash flows to one or several recipients, and also subject to other set conditions.

When the Bank transfers a financial asset, it evaluates extent to which all risks and rewards pertaining to the ownership of this asset are retained. If the Bank:

- has transferred substantially all risks and rewards of the financial asset ownership, this asset is derecognized. Rights and obligations arising or retained during the financial asset transfer are recognized separately as assets and liabilities;
- has retained substantially all risks and rewards of the financial asset ownership, this asset's recognition continues;
- has neither transferred nor retained substantially all the risks and rewards of the financial asset ownership, it is verified if the control over this asset is still present. If the control has not been retained, the Bank ceases recognition of the financial asset transferred. Rights and obligations arising or retained during the financial asset transfer are recognized separately as assets and liabilities. If the control over the asset has been retained, the Bank keeps recognizing the financial asset transferred to the extent to which the Bank has a continued involvement in the asset.

If assets are renegotiated with substantial modification of terms and conditions, recognition of the previously existing asset ceases and the newly revised asset is recognized on the balance sheet as a new asset.

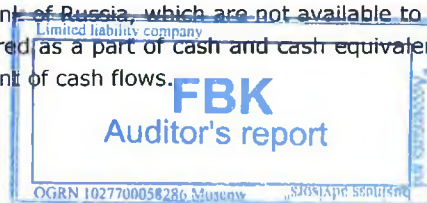
If assets are renegotiated without substantial modification of terms and conditions, recognition of the newly revised asset occurs in the amount equal to the balance sheet value of the previously recorded financial asset.

**4.6. Cash and cash equivalents**

Line Cash and cash equivalents includes cash on hand and the Bank's nostro accounts with other banks as well as cash equivalents representing short-term, highly liquid placements that are easily convertible to a known cash amount, and those with insignificant risk of change in value. All short-term interbank placements, except for "overnight" balances, are reported within Due from other banks category. Amounts that are subject to restrictions on their availability are excluded from Cash and cash equivalents.

**4.7. Mandatory reserve deposits with the Bank of Russia (Central Banks)**

Mandatory reserve deposits represent funds placed with the Bank of Russia, which are not available to finance the Bank's day-to-day operations. Therefore, they are not considered as a part of cash and cash equivalents and are excluded thereof for the purpose of preparation of the Statement of cash flows.





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**4.8. Financial assets measured at fair value through profit or loss**

At initial recognition, all financial assets not meeting the SPPI criterion "solely payments of principal and interest on the principal amount outstanding", are classified as financial assets at fair value through profit or loss. According to this criterion, debt instruments not meeting the definition of the "base credit agreement", for instance, instruments with an embedded conversion option, or non-recourse credits, are measured at fair value through profit or loss. Securities at fair value through consolidated profit or loss under IAS 39, were classified within debt securities at fair value through profit or loss and accounted for at fair value through profit or loss, as they are not held with the objective to collect contractual cash flows and for sale.

Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability. Fair value represents a current offer price for financial assets, current bid price for financial liabilities and average current bid and offer prices when the Group holds both, a short- and a long-term position in a financial instrument. A financial instrument is treated as quoted on the active market if its quotes are regularly made available at any time by the Exchange or another appropriate authority, with such prices representing actual and continuously recurring market transactions. For certain financial instruments with no information about prices on external markets available, fair value is determined by using specific measurement methods.

Realized and unrealized income and expenses on operations with financial assets at fair value through profit or loss are reported in the statement of profit or loss for the period when they occurred, within net gain/loss on operations with financial assets at fair value through profit or loss.

Interest income on financial assets at fair value through profit or loss are reported in the Statement of profit or loss as interest income on financial assets at fair value through profit or loss. Dividends received are reported in Other operating income of the statement of profit or loss, when the credit organization has an established right to receive the dividends and such a receipt is probable.

Purchases and sales of financial assets at fair value through profit or loss, with delivery within the period set in relevant legislation or in convention for a particular market (purchases and sales under "standard contracts"), are recognized on the date of a deal conclusion, that is, on the date when the Bank commits to buy or sell the said asset.

The Bank puts financial assets at fair value through profit or loss in the appropriate category at the time of asset purchase. Once in this group, the financial assets are not reclassified, subject to exceptions, when the Bank changes the business model for managing the financial assets.

**4.9. Agreements to sell (purchase) trading securities with obligation to purchase (sell) them back**

Agreements to sell trading securities with obligation to purchase them back ("repo") are regarded as secured operations to get financing against collateral of securities. Trading securities received under repo agreements are reported in Investments at amortized cost, Investments at fair value through other comprehensive income or Investments at fair value through profit or loss depending on the financial instrument category on the date of sale.

Agreements to purchase trading securities with obligation to sell them back ("reverse repos") are treated as lending operations collateralized by securities.

Reverse repo transactions are not reported on the balance sheet. Relevant credit exposures to the lending transactions are presented in the categories Due from financial institutions or Loans and advances to customers.

The difference between a trading security purchase and resale prices is accounted for as interest income and is accrued over the whole term of the repo agreement using the effective interest rate method.

Trading securities, offered by the Bank to counterparties on the deals in form of a loan, are reported as trading securities in the Bank's financial statements.

Securities received in a form of loans are not reported in the financial statements. If these securities are sold to third parties, the financial result on their purchase and sale is reported in the statement of profit or loss within the category Net gain/loss on operations with trading securities.

The liability to return these securities is reported at fair value, as for securities intended for trading, in the category Investments at fair value through profit or loss.



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Due from banks comprises financial assets, other than financial derivatives, with established payments, not quoted in the active market, offered by the Bank to its counterparty banks (including the Bank of Russia), with the following exceptions:

a) "overnight" placements;

b) the assets for which the Bank has intentions to sell immediately or in the near future, and which shall be classified as held for sale, and those that after initial recognition are designated by the Bank as the assets at fair value through profit or loss;

c) the assets that after initial recognition are designated as held for income or sale;

d) the assets that shall be classified as held for income and sale, and regarding which the owner will not be able to recover the total amount of its initial investment for reasons other than lower creditworthiness.

The Bank reports issued loans and deposits placed with other credit organizations and financial institutions as well as nostro account balances of the Bank, not qualifying for cash and cash equivalents, in the category Due from other financial institutions of the Statement of financial position.

Due from other financial institutions is measured at amortized cost. Amortized cost represents the amount at which a financial instrument has been measured at initial recognition, less any principal payments, plus interest accrued and, for financial assets, as adjusted for allowance for ECLs.

The difference between fair and nominal values of a loan (deposit) arising due to issuance of loans/deposit placements at interest rates above/below the market is reported at the time of the loans issuance/deposit placements in the category Income (expense) on assets at the rates above/below the market of the consolidated statement of profit or loss. Subsequently, as the carrying amount of these loans/deposits is being adjusted with due consideration of the said income/expense amortization, interest income is recognized in the Statement of profit or loss using the effective interest method.

Determination of impairment of financial assets is covered in section 4.4 Impairment of financial assets.

**4.11. Loans and advances to customers**

Loans and advances to customers, those that pass SPPI test, are held with the objective to collect contractual cash flows and are measured at amortized cost. Credit impairment of loans at amortized cost or at fair value through other comprehensive income, is determined by using the appropriate forecasting model of ECLs. The Group makes available the information about data input, assumptions and calculation methods used for assessment of ECLs, including its guidance on how forecast information is employed in the ECL model.

SPPI assumes that the cash flows on a financial asset represent principal and interest payments only. For instance, loans with the yield depending on the entity's profit, will not pass the SPPI test and shall be measured at fair value. For the SPPI test all loans are divided into three stages, as follows:

Stage 1. Groups of assets, for which passing the SPPI test can be clearly observed from general contractual terms and conditions;

Stage 2. Subgroup of homogenous assets, for which a collective analysis is possible;

Stage 3. Assets analyzed on an individual basis.

The difference between fair and nominal values of a loan is recognized in the statement of profit or loss as Income from assets placed at rates above the market, or as Expense on assets placed at rates below the market. Subsequently, as the carrying amount of these loans is being adjusted with due consideration of the loan income/expense amortization, a corresponding interest income is recognized in the Statement of profit or loss using the effective interest method.

The impairment model used by the Group is based on credit quality changes since initial recognition of an asset:

- a financial asset, not impaired at initial recognition, with no significant increase in the credit risk in the reporting period against the initial recognition; and also, an asset put at the reporting date into a low-risk portfolio, is classified as the financial asset of Stage 1. For financial assets at Stage 1, ECLs are assessed in the amount equal to a portion of lifetime expected credit losses, representing the ECLs that result from defaults on the financial instruments that may occur within 12 months after the reporting date (12-month ECLs).



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- if the Group determines that there has been a significant increase in the credit risk for the asset since its initial recognition the asset is reclassified to Stage 2 and ECLs thereon are recognized in the amount equal to the lifetime ECLs.
- if the Group identifies that a financial asset has a credit-impaired status, i.e. the borrower is in the default category with its loan being at the same time a troubled asset, the financial asset is transferred to Stage 3 and ECLs thereon are recognized in the amount equal to the lifetime ECLs.

The carrying amount of loans and advances is reduced by the amount of allowance for ECLs. After identification of objective signs of impairment on an individual basis, and if there are none, the loans are put in a group of financial assets with similar credit risk characteristics for their further assessment of impairment on a collective basis.

**4.12. Promissory notes purchased**

Depending on objectives of acquisition, promissory notes purchased are classified into the categories of financial assets, such as investments at fair value through profit or loss, investments held for income, loan and advances and investments held for income or sale. Subsequently, they are accounted for according to the accounting policies provided for the appropriate asset category in these notes.

**4.13. Financial assets held for income or sale**

This group includes non-derivative financial assets, designated as held for income or sale, or those not qualifying for the category loans and advances, and also, investments held for income and financial assets at fair value through profit or loss. The Bank classifies financial assets in the appropriate category at the time of their acquisition.

At initial recognition, financial assets held for income or sale are measured at fair value through other comprehensive income. As a rule, the fair value is the price of a financial asset acquisition transaction. Subsequent measurement of financial assets held for income or sale is done at the fair value, based on quoted prices for the financial assets purchased.

Certain investments held for income or sale, with no independent quotations available, are measured by the Bank at fair value through other comprehensive income, which is based on the results of recent sales of similar equity securities to arm's length third parties, and also, on the analysis of other information, such as discounted cash flows and financial data on an investee, and on other measurements methods.

Depending on circumstances, measurement methods may differ. Investments in equity instruments, with no quoted market prices, are measured at fair value through other comprehensive income.

Unrealized income and expenses arising due to changes in the fair value of financial assets held for income or sale, are recognized in the statement of changes in equity.

On disposal of financial assets held for income or sale, corresponding accrued unrealized income and expenses are reported in the statement of profit or loss in line Income less expenses on operations with financial assets held for income or sale. Impairment and impairment reversal on financial assets held for income or sale is recognized in other comprehensive income.

Value of financial assets held for income or sale is reduced if the carrying amount exceeds an estimated recoverable amount. The recoverable amount of an asset is determined as the present value of expected future cash flows discounted at current market interest rates for a similar financial asset.

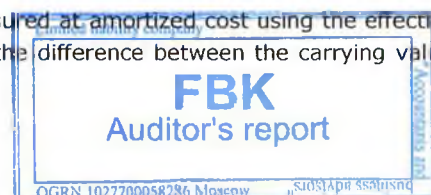
Given standard settlement terms, purchase and sale of financial assets held for income or sale is recorded on the date when the deal is concluded, that is, on the date when the Bank commits itself to buy or sell the said asset. Alternatively, the Bank may choose to use the settlement date method for accounting for such transactions.

All other purchases and sales are recorded as forward transactions until a deal settlement date.

**4.14. Financial assets held for income**

This category includes financial assets with a fixed term to repayment/redemption, when the Bank has intention and the ability to hold them till maturity. The Bank classifies financial assets in the appropriate category at the time of their acquisition. The Bank evaluates its intentions and abilities to keep the financial assets, classified by it as those held for income, till maturity. This evaluation is performed as at each reporting date and not only at initial recognition of these financial assets.

At initial recognition, financial assets held for income are measured at amortized cost using the effective interest rate method, less allowance for ECLs, which is calculated as the difference between the carrying value and the





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present value of expected future cash flows discounted at the original effective interest rate.

Interest income on financial assets held for income is reported in the statement of profit or loss in the line Interest income on financial assets held for income.

Given standard settlement terms, purchase and sale of financial assets held for income is recorded on the date when the deal is concluded, that is, on the date when the Bank commits itself to buy or sell the said asset. All other purchases and sales are recorded as forward transactions until the deal settlement date.

**4.15. Property and equipment**

Property and equipment acquired before 1 January, 2003 are carried at acquisition cost restated to the purchasing power equivalent of the Russian Federation's currency as at 1 January 2003, or else, at revalued amounts, as mentioned below, less accumulated depreciation and recognized impairment loss (if any).

If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying balance of the asset is reduced to its recoverable amount, with the difference recognized in the statement of profit or loss. The estimated recoverable amount is determined as the higher of the fair value of the asset less its costs to sell, and the asset's value in use.

The Bank's regular valuations of property and equipment items are performed annually. Property and equipment revaluation reserve forms a part of the Bank's equity. It is recognized directly in retained earnings (accumulated loss) after revaluation gain has been realized, that is, at the time of an asset write-off or disposal, or in course of the asset use by the Bank. In the latter case the amount of realized revaluation gain represents the difference between depreciation of the revalued carrying amount of the asset and depreciation based on the asset's initial cost.

If a stand-alone asset is revalued, the whole property and equipment group where the asset belongs is also subject to revaluation.

A group of property and equipment items is revalued at the same time, to avoid any selective approach to valuations of assets as well as inconsistency of balances in the financial statements, which would be the aggregates of property and equipment items measured at actual cost and those at revalued amounts at different dates. However, a group of property and equipment assets may be revalued following a flexible schedule, if the whole exercise is performed within a short period of time and its results are regularly revised.

Construction-in-progress assets, the objects incomplete by 1 January 2003, are measured at initial cost restated to the purchasing power equivalent of the Russian Federation's currency as at 1 January 2003, less allowance for impairment.

Once construction stage has been over, the assets are transferred to appropriate categories of property and equipment or to investment property, and are measured at their carrying amounts at the moment of the transfer. Construction-in-progress assets are not depreciated until the asset's commissioning.

The Bank identifies any signs of impairment of property and equipment assets at each reporting date. If there is an indication to impairment, the Bank estimates the recoverable amount of an asset, which is the higher of the net sale price of a property and equipment item and the asset's value in use.

If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying balance of the asset is reduced to its recoverable amount, with the difference recognized in the statement of profit or loss as property and equipment impairment loss, unless the revaluation has been performed before. In the latter case, a revaluation surplus is offset by the previous revaluation loss and any additional loss is recognized through the profit or loss account. Impairment losses on property and equipment recognized in previous years are reversed, if there have been changes in estimates used to calculate the recoverable amounts of property and equipment items.

Gain or loss on property and equipment disposals are determined on the basis of their carrying amounts and are taken into account in calculation of profit or loss amount. Maintenance and repairs expenses are recognized in profit or loss as incurred.

**4.16. Investment property**

Investment property is property that is not used in the principal activities of the Group and held either to earn rental income or for capital appreciation.

Investment property is measured at fair value. Revaluations of investment property are performed at each reporting date and recognized in the consolidated statement of profit or loss as other net operating income. Rental income



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earned is reported in other net operating income of the consolidated statement of profit or loss.

Subsequent costs are subject to capitalization only when they can be reliably measured and it is probable, that the Group will receive future economic benefits thereon. All other maintenance and repairs expenses are recognized in profit or loss as incurred.

If the Group starts using investment property in its principal business activities, the property is reclassified into an appropriate category of property and equipment at a carrying amount on the date of reclassification and is accounted for as normally required for assets of that particular category.

**4.17. Non-current assets (disposal groups) classified as "assets held for sale"**

Non-current assets (or disposal groups) are reported separately in the statement of financial position, if their carrying amounts will be recovered through a sale transaction within 12 months after the reporting period rather than through continuing use.

Reclassification of the assets is allowed if all below criteria are met:

- assets are available for immediate sale in their present condition;
- management of the Group has approved an active program to locate a buyer and has started its implementation;
- active marketing for a sale at price reasonable in relation to its current fair value;
- the sale is expected to be completed within one year;
- no expectations of significant changes in the sale plan or its cancellation.

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

Property and equipment held for sale, investment property and intangible assets are not subject to depreciation/amortization.

**4.18. Depreciation**

Depreciation of property and equipment is charged on a straight-line basis, with the initial or revalued amount of an asset being gradually reduced to its residual value within estimated useful life of the asset.

Groups of property and equipment	Useful lives
Buildings	50 years
Equipment	3 - 5 years
Fixture and fittings	4 - 5 years
Motor vehicles	4 - 5 years

The residual value of an asset is an estimated amount, which the Group would receive at present in case of the asset disposal, less expected costs to sell, if the asset condition and age were comparable to those, which the asset would have at the end of its useful life. The residual value of an asset is zero, if the Group has intention to use the asset till the end of its physical life. Residual values of assets and their useful lives are revised and, if appropriate, adjusted at each reporting date.

Depreciation of an asset starts when the asset becomes available for use, that is, when its location and condition ensure the asset's use in line with the Bank's intentions. Depreciation ceases when the asset is derecognized.

**4.19. Intangible assets**

The Group's intangible assets, except for its goodwill, have limited useful lives and mainly comprise capitalized software costs. Purchased and accepted for accounting intangible assets comprise capitalized costs incurred during acquisition and implementation of these assets. After initial recognition, intangible assets are measured at acquisition cost, less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis and are assessed for impairment, subject to existence of impairment signs.



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Groups of intangible assets	Useful lives
Licenses	5 - 10 years
Purchased and developed software	2 - 5 years

**4.20. Operating leases**

If the Group is the lessee, it recognizes operating lease payments in the statement of profit or loss on a straight-line basis over the lease term. If the operating lease ceases before maturity, any lease payment due to the lessor as a penalty is expensed in the period when the operating lease was terminated.

**4.21. Finance leases**

In finance lease all risks and rewards related to an asset ownership are transferred. If the Group is the lessor, it accounts for lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables. Net investments in the finance lease are reported within loans and advances to customers.

**4.22. Borrowings**

Borrowings comprise customer accounts, amounts due to financial institutions (including the Bank of Russia), subordinated deposits (loans) and other borrowings.

Borrowings are measured at amortized cost, with the difference between amounts received and cost of repayments being recognized in the statement of profit or loss in the borrowing period, using the effective interest rate method.

**4.23. Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss comprise derivative instruments, including FOREX contracts. All derivative financial instruments are carried as assets, if their fair value is positive, and as liabilities, when it is negative. Changes in fair value of financial derivatives are recognized in income/expenses. The Bank does not apply hedging accounting.

**4.24. Debt securities issued**

Debt securities issued comprise promissory notes, certificates of deposit and bonds issued by the Bank. Debt securities issued are measured at amortized cost.

If the Bank purchases back its own debt securities issued, they are removed from the balance sheet, with the difference between the liability carrying amount and the amount paid being recognized within income/(expense) from (early) debt settlement.

**4.25. Settlements with suppliers and other accounts payable**

Accounts payable are recognized by the Bank when its counterparty has discharged its obligations, and are measured at amortized cost.

**4.26. Credit-related commitments**

The Bank issues credit-related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable obligations to make payments in case of non-performance by a customer with regard to third parties. They are subject to the same credit risk as loans.

Credit-related commitments that meet the SPPI test are held with the objective to collect contractual cash flows and are measured at amortized cost. Impairment of credit commitments measured at amortized cost or at fair value through other comprehensive income is determined by applying a conversion factor (CCF) used to assess probability of an off-balance sheet to balance sheet transformation, that is, a probability of a guarantee / letter of credit becoming payable, or to assess an expected level of a credit line drawdown by a borrower by the time of its default.

**4.27. Share capital and share premium**

Share capital comprises the nominal amount of the Group's shares **fully paid by the shareholders.**

Share premium is the excess of the share capital paid over the nominal value of the shares issued.





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**4.28. Dividends**

Dividends declared after the reporting date (if any) are disclosed in the note on the events after the reporting date. Payments of dividends and other profit distributions are made based on the net profit of the reporting year calculated in accordance with rules and regulations of the Russian Federation for financial reporting and accounting.

If dividends attributable to equity instrument holders are declared after the reporting date, they are not recognized as liabilities as at the reporting date.

Subject to approval by the General shareholders meeting (General participants meeting), dividends are disclosed in the financial statements as distribution of profit.

**4.29. Income and expense recognition**

Interest income and expenses are calculated using the effective interest rate method. Interest income and expenses on debt instruments at amortized cost or at FVOCI are recognized on the accrual basis, using the effective interest rate method. According to this method, all payments and receipts between the parties of a transaction are accounted for as a part of interest income or expense and are an integral part of the effective interest rate, transaction costs, premiums or discounts.

Payments integral to the effective interest rate include commission fees received from or paid to the entity, which are related to origination or purchase of a financial asset or issue of a financial liability, such as the fees regarding creditworthiness assessment, assessment and registration of guarantees or collaterals, negotiations on an instrument terms and conditions and transaction document processing. Fees and commissions received by the Group with respect to loan issues at the market interest rates, are integral to the effective interest rate if it is probable, that the Group will enter into a specified credit agreement, rather than seek to sell the loan received soon after its origination. The Group does not designate its commitments to lend money as financial liabilities at FVTPL.

In case of purchased or originated credit-impaired financial assets, the effective interest rate is the rate that discounts expected future cash flows (including initial ECLs) to fair value at initial recognition (normally, is a purchase price). As a result, the effective interest rate is adjusted with due consideration given to a counterparty's creditworthiness.

Interest income is calculated applying the effective interest rate to gross carrying amounts of financial assets, except for the following:

- financial assets, such as credit-impaired loans (Stage 3), for which interest income is calculated applying the effective interest rate to their amortized cost, i.e. net of allowance for expected credit losses (ECL);
- financial assets that are purchased or issued already impaired, for which applies the actual interest rate adjusted for creditworthiness and used with the amortized cost.

Other interest income and expenses are those recognized for debt instruments at FVTPL. They are accounted for on the accrual basis, using the nominal interest rate.

Commission fee income and expenses. All other fees, commissions and other income and expense items are accrued, as a rule, by using the straight-line method over the period when the services are provided to customers, who receive and, at the same time, consume the benefits provided by the Group.

Commissions and fees that are recognized on completion of an underlying transaction and are earned at the time when the Group discharges its obligation to deliver a service, are those arising from negotiating or participating in negotiation of a transaction for a third party, such as acquisition of loans, shares or other securities, or sale of businesses. Management, advisory and service fees are recognized on the basis of the appropriate service contracts, as a rule, by using the straight-line method, over the period when such services were provided to customers, who receive and, at the same time, consume the benefits provided by the Group. Payment to investment funds for asset management is recognized over the period when the services are provided, normally, using the straight-line method, as a customer receives and, at the same time, consumes the benefits of the Group's performance. The same principle is applied to capital management, financial planning and custody services, which are constantly provided over a long period of time.

**4.30. Income tax**

The financial statements disclose income tax expense calculated in accordance with legislation of the Russian Federation.



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Income tax expense (recovery) in the statement of profit or loss for the year comprises current income tax and changes in deferred income tax. Current tax expense is calculated on the basis of the expected taxable income for the year, using tax rates enacted at the reporting date. Tax expense, other than income tax expense, is recognized in administrative and other operating expenses.

Deferred tax is calculated by using the balance sheet asset and liability method for temporary differences between the carrying amounts of assets and liabilities used for taxation purposes and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are established using the tax rates that, as it is assumed, will apply in the period when such assets are disposed of and liabilities settled, based on the tax rates enacted in this period or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

Deferred tax arising on fair value revaluation of financial assets held for sale, with such revaluation posted to the equity increase or decrease, is also recognized directly in the equity. When such financial assets are disposed of, the corresponding deferred tax amounts are recognized in the statement of profit or loss.

A deferred tax asset carrying balance is reviewed at the end of each reporting period and is reduced to the extent, that it is no longer probable that a taxable income will be sufficient to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are reviewed at the end of each reporting period and are recognized to the extent, that it becomes probable that a taxable income will be sufficient to utilize the deferred tax assets. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority.

**4.31. Foreign currency translation**

Items in the financial statements of the Bank are reported in the currency operational in the business environment where it operates (functional currency).

These financial statements are presented and prepared in the currency of the Russian Federation, which is the functional and presentation currency of the Group.

Transactions in foreign currencies are recorded in the functional currency converted at the official rate of exchange of the Bank of Russia ruling at the date of the transaction. Foreign currency translation differences arising as a result of settlements in foreign currency are included in the statement of profit or loss at the official exchange rate of the Bank of Russia on the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the official exchange rate of the Bank of Russia ruling at the reporting date.

Foreign currency translation differences related to debt securities and other monetary financial assets measured at fair value, are reported within gains/losses from translation of foreign currencies

Foreign currency translation differences related to non-monetary items, such as equity securities of the category financial assets at fair value through profit or loss, are recognized as a part of fair value revaluation income or expenses.

Foreign currency translation differences regarding non-monetary financial assets held for income or sale are recognized in the equity through the fair value revaluation reserve for financial assets held for income or sale.

**4.32. Derivative financial instruments**

At initial recognition, derivative financial instruments, including foreign currency forward contracts, interest rate futures, forward rate agreements, foreign currency and interest rate swaps and options and other financial derivatives, are recorded on the balance sheet at fair value through profit or loss. In this case the fair value, as a rule, represents the acquisition value, including transaction costs.

The fair value is estimated on the basis of quoted market prices, discounted cash flow models, option pricing models or spot rates at the year end, depending on transaction type. All derivatives are recognized as assets, when their fair value is positive, and as liabilities, when their fair value is negative.

Derivative financial instruments are recorded in the balance sheet line Financial assets at fair value through profit or loss, if the fair value of a derivative is positive, or in the balance sheet line Financial liabilities at fair value through profit or loss, if the fair value of a derivative is negative.



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Changes in fair value of derivatives are recognized in net gain/loss on operations with foreign currency, net gains/loss on operations with financial assets at fair value through profit or loss, and net gain/loss on operations with precious metals, depending on transaction type.

Certain derivatives are embedded in other financial instruments, such as a conversion option embedded into a convertible bond. Embedded derivatives are separated from the host contract if their risks and economic features are not closely correlated with those of the host contract and this contract is not accounted for at fair value, with unrealized income and expenses recognized in the statement of profit or loss.

*Offsetting*

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

*4.33. Estimated liabilities*

Estimated liabilities are recognized if the Bank has liabilities (legal or those occurring due to business custom), that has arisen before the reporting date. Also, for recognition, there is a high probability of the Bank's resource outflows to discharge these liabilities, and the liability amount can be reliably measured.

*4.34. Remuneration of personnel and related social contributions*

Expenses related to salaries, premiums, vacation leaves, social insurance to the state extra-budgetary funds are recorded over the period when corresponding work is performed by the Bank's employees. Expenses related to accruals of temporary disability benefits, child-care leaves and benefits in kind are recorded as incurred.

The Bank assumes liabilities for payments regarding unused vacation leaves of its employees. These liabilities are reported in the statement of financial position in line Other liabilities, with simultaneous recognition in the statement of profit or loss, with regard to vacations due for the reporting year, and in retained earnings, for vacations due in the periods before the reporting period.

*4.35. Related party transactions*

The Bank carries out operations with related parties. Parties are considered to be related if, among other things, one party has the ability to control the other party or, along with the other party be under common control, or be under common control of the other party and a third party, or can exercise significant influence over the other party in making financial or operational decisions.

In considering each possible related party relationship, the Bank pays attention to the economic substance of the relationship, not merely the legal form.

*4.36. Transition to new or revised standards and interpretations**IFRS 9 Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The Standard makes significant changes in previous requirements for classification and measurement of financial assets and introduces a model of expected credit losses (ECLs) to manage impairment of financial assets. The principal changes in the Group's accounting policy regarding adoption of IFRS 9 are as follows:

- financial assets are classified into three measurement categories: those at amortized cost, at fair value through other comprehensive income and those at fair value through profit or loss;
- debt instrument classification depends on a business model used to hold and manage the entity's financial assets and on whether the contractual cash flows represent solely payments of principal and interest on the principal outstanding (SPPI). If a debt instrument meets the SPPI rule and is held with objective to collect contractual cash flows, it can be measured at amortized cost. The debt instruments meeting the SPPI rule and held in a portfolio with objective to collect contractual cash flows and also to sell the assets, are put into the category of the assets at fair value through other comprehensive income. Those financial assets that do not give rise to cash flows meeting the SPPI rule, are measured at fair value through profit or loss (e.g. derivative instruments). Embedded derivative instruments are not separated from the corresponding host contracts of the financial assets but are included and jointly analyzed for meeting the SPPI criteria;
- classification and measurement of financial liabilities in IFRS 9 mainly remain unchanged in comparison with the previous requirements of IAS 39. The principal difference is the requirement for an entity to disclose in



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other comprehensive income the effect of changes in own credit risk of financial liabilities at fair value through profit or loss;

- IFRS 9 replaces the model for assessment of allowance for credit losses incurred by the model of expected credit losses (ECLs). The new model provides for a "three-stage" approach based on changes in credit quality of financial assets from their initial recognition. In practice, these new rules mean that, at initial recognition of not credit-impaired financial assets, the Group should book allowances equal to ECLs for 12 months (or lifetime ECLs, in case of trade receivables). In cases when there has been a significant credit risk increase, impairment of a loan is assessed by using lifetime ECLs. The new impairment model is also applied to certain credit commitments and financial guarantee contracts;

- hedging accounting requirements are adjusted to provide a closer link with risk management. The Standard allows an entity to choose its policy between hedge accounting under IFRS 9 or continued application of IAS 39, as at present, IFRS 9 does not cover macro hedge accounting. The Group decided to continue applying hedge accounting rules under IAS 39.

Changes in the accounting policy due to adoption of IFRS 9 were applied retrospectively, except for the following:

- the comparative period data was not restated. Differences in the carrying amounts of financial assets and financial liabilities arising due to transition to IFRS 9, are recognized in retained earnings and equity as at 1 January 2018. Therefore, the data for the first half of 2018 and as at 31 December 2017 is not in compliance with IFRS 9 requirements and, thus, is not comparable with the data for 2017 in accordance with IFRS 9;

- the below estimates and judgments were made based on facts and circumstances existing at the initial application date:

- ✓ determination of a business model in which a financial asset is held and managed;
- ✓ classification and cancellation of previous classifications of certain financial assets and financial liabilities at fair value through profit or loss (FVTPL);
- ✓ classification of certain investments in equity instruments not held for sale, as those at fair value through other comprehensive income (FVOCI);
- ✓ for financial liabilities at FVTPL, determination if changes in the credit risk of a financial liability recognized in other comprehensive income, create accounting inconsistency in the statement of profit or loss;

- if the Group assumes that for debt securities with low credit risk at the date of the initial application of IFRS 9, the credit risk on the asset has not significantly increased since its initial recognition. A financial instrument has a low default risk, if a borrower has the ability to discharge its contractual cash flow obligations in the short run, and adverse changes of economic and business environment in the long run may, but not necessarily, reduce the borrower's ability to meet its contractual obligations.



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The Group has assessed effects of transition to IFRS 9, with changes in the carrying amounts of assets as at 1 January 2018 presented in the table below.

	Value as per IAS 39	Reclassification	Remeasurement	IFRS 9		
Financial assets	Amount			Financial assets	Amount	Category
<b>ASSETS</b>				<b>ASSETS</b>		
Cash and cash equivalents	2,861,593	-	-	Cash and cash equivalents	2,861,593	Amortized cost
Mandatory reserve deposits with the Bank of Russia	146,762	-	-	Mandatory reserve deposits with the Bank of Russia	146,762	Amortized cost
Due from financial institutions	240,643	-	-	Due from financial institutions	240,643	Amortized cost
Loans and advances to customers	4,785,013	-	(129,262)	Loans and advances to customers	4,655,751	Amortized cost
Financial assets held for sale	8,926,809	(898,206)	-	Financial assets held for income or sale	8,028,603	Fair value through other comprehensive income
Financial assets at fair value through profit or loss	4,887	898,206	-	Financial assets at fair value through profit or loss	903,093	Fair value through profit or loss
Investment property	1,168,586	-	-	Investment property	1,168,586	Amortized cost
Assets of the disposal group classified as "held for sale"	4,449	-	-	Assets of the disposal group classified as "held for sale"	4,449	Amortized cost
Property and equipment	830,666	-	-	Property and equipment	830,666	Amortized cost
Intangible assets	99,277	-	-	Intangible assets	99,277	Amortized cost
Other assets	184,019	-	-	Other assets	184,019	Amortized cost
<b>EQUITY</b>				<b>EQUITY</b>		
Accumulated loss	(7,908,478)	-	(129,262)	Accumulated loss	(8,037,740)	

The Group does not recognize deferred tax related to the adjustments (see Note 11).

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15, issued in May 2014 and amended in April 2016 provides a single five-step model to be applied to all contract revenue with customers. According to the Standard, revenue is to be recognized in the amount of consideration to which an entity expects to be entitled in exchange for goods or services transferred to customers. The Standard does not cover revenue on financial instruments and leases. Therefore, IFRS 15 does not have any impact on the largest part of the Group's income, including interest income, gains/(losses) on operations with securities and income on leases, which are regulated by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. Consequently, adoption of the Standard will not have an impact on the largest part of the Group's income.

Prior to adoption of IFRS 15, an assessment of variable consideration based on historic data was made. According to the Standard, revenue is recognized to the extent that it is highly unlikely that the revenue significantly declines after removal of uncertainty related to variable consideration. The Group has applied this requirement in assessing variable consideration and concluded, that the impact on its consolidated financial statements is insignificant.

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**5. Interest income and expenses**

	2018	2017
<i>Interest income on assets at amortized cost</i>		
Due from financial institutions	228,130	195,957
Loans and advances to legal entities	572,766	318,928
Loans and advances to individuals	229,160	351,660
<b>Total interest income on financial assets at amortized cost</b>	<b>1,030,056</b>	<b>866,545</b>
<i>Interest income on assets at fair value through other comprehensive income</i>		
Financial assets held for income or sale	660,473	667,406
<b>Total interest income on financial assets at fair value through other comprehensive income</b>	<b>660,473</b>	<b>667,406</b>
<b>Total interest income</b>	<b>1,690,529</b>	<b>1,533,951</b>
<i>Interest expense on liabilities at amortized cost</i>		
Due to financial institutions	(16,947)	(22,647)
Customer accounts and deposits, legal entities	(31,082)	(18,798)
Customer accounts and deposits, individuals	(1,012,882)	(856,547)
Subordinated debt	(136,407)	(132,928)
Securities issued	(39)	-
<b>Total interest expense on financial liabilities at amortized cost</b>	<b>(1,197,357)</b>	<b>(1,030,921)</b>
<b>Total interest expense</b>	<b>(1,197,357)</b>	<b>(1,030,921)</b>
<b>Net interest income</b>	<b>493,172</b>	<b>503,030</b>

**6. Allowance for expected credit losses and other provisions**

Allowance for expected credit losses (ECLs) recognized in profit or loss account includes the charges made in 2018 to establish the allowance based on the ECL model, as required by IFRS 9. Movement in the allowance for ECLs in 2018 was as shown below:

	Balance as at 31 December 2017	Written off through the allowance account	Charge / (recovery) of allowance for ECLs	Balance as at 31 December 2018
<b>Movement in allowance for ECLs on interest-bearing financial assets</b>				
<i>Measured at amortized cost:</i>				
Due from financial institutions	5,005,276	-	(243,874)	<b>4,761,402</b>
Loans and advances to customers	6,843,099	(39,817)	(173,548)	<b>6,629,734</b>
<i>Measured at fair value through other comprehensive income:</i>				
Change in allowance for ECLs on financial assets held for income	14,440	-	16,870	<b>31,310</b>
<b>Total change in allowance for ECLs on interest-bearing financial assets</b>	<b>11,862,815</b>	<b>(39,817)</b>	<b>(400,552)</b>	<b>11,422,446</b>
<b>Change in allowance for ECLs on other assets and other provisions</b>				
<i>Other</i>				
Change in other provisions and estimated liabilities	17,108	-	620	<b>17,728</b>
<b>Total change in allowance for ECLs on other assets and other provisions</b>	<b>17,108</b>	<b>-</b>	<b>620</b>	<b>17,728</b>
<b>Total change in allowance for ECLs and other provisions</b>	<b>11,879,923</b>	<b>(39,817)</b>	<b>(399,932)</b>	<b>11,440,174</b>



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Movement in the allowance for ECLs in 2017 was as shown below:

	Balance as at 31 December 2016	Written off through the allowance account	Charge / (recovery) of allowance for ECLs	Balance as at 31 December 2017
<b>Movement in allowance for ECLs on interest-bearing financial assets</b>				
<i>Measured at amortized cost:</i>				
Due from financial institutions	5,233,229	-	(227,953)	<b>5,005,276</b>
Loans and advances to customers	7,404,781	(6,550)	(555,132)	<b>6,843,099</b>
<i>Measured at fair value through other comprehensive income:</i>				
Change in allowance for ECLs on financial assets held for income	14,440	-	-	<b>14,440</b>
<b>Total change in allowance for ECLs on interest-bearing financial assets</b>	<b>12,652,450</b>	<b>(6,550)</b>	<b>(783,085)</b>	<b>11,862,815</b>
<b>Change in allowance for ECLs on other assets and other provisions</b>				
<i>Measured at amortized cost:</i>				
Change in other provisions and estimated liabilities	9,664	(2,016)	9,460	<b>17,108</b>
<b>Total change in allowance for ECLs on other assets and other provisions</b>	<b>9,664</b>	<b>(2,016)</b>	<b>9,460</b>	<b>17,108</b>
<b>Total change in allowance for ECLs and other provisions</b>	<b>12,662,114</b>	<b>(8,566)</b>	<b>(773,625)</b>	<b>11,879,923</b>

**7. Net gain from operations with foreign currency and foreign exchange translation differences**

	2018	2017
Net gain / (loss) from foreign exchange translation	311,168	(107,299)
Net (loss) / gain from operations with foreign currency	(179,248)	184,703
Loss from operations with derivative financial instruments	(3,249)	(583)
<b>Total net gain from operations with foreign currency and foreign exchange translation differences</b>	<b>128,671</b>	<b>76,821</b>

Net gain from foreign exchange translation corresponds to revaluation of the long open balance sheet position in foreign currency, primarily, in US dollars (see Note 29). Over 2018, US dollar notably appreciated against Russian Rouble (in 2017, a significant depreciation), which explains a variety of trends in this indicator over the reporting and comparative periods.

The Bank manages its foreign currency exposure by concluding foreign currency swap transactions on the Moscow Exchange with its counterparty, Joint-Stock Company NKO NKTs. The Bank minimizes foreign currency exposure to its acceptable level of the assumed currency risk. Operations of the Bank with foreign currency swap instruments as well as additional yield thereon are recognized within gains from operations with foreign currency, and partially offset the impact of currency revaluation of the open balance sheet currency position on the Bank's financial results.

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Fee and commission income and expense are detailed below:

	2018	2017
<i>Fee and commission income</i>		
Settlement fees	36,744	27,050
Cash operations fees	6,614	28,841
Bank card fees	4,463	6,954
Foreign currency control fees	4,353	-
Banking guarantee issuance fees	3,977	12,283
Foreign exchange operations fees	3,476	1,009
Agency agreement fees	1,840	1,903
Documentary operations fees	1,725	1,664
Brokerage fees	18	1,906
Bank-customer service fees	6	22,348
Other	10	4,461
<b>Total fee and commission income</b>	<b>63,226</b>	<b>108,419</b>
<i>Fee and commission expense</i>		
Settlement fees	9,635	4,812
Bank card fees	4,775	4,082
Brokerage fees	727	2,855
Cash operations fees	-	602
Other	661	583
<b>Total fee and commission expense</b>	<b>15,798</b>	<b>12,934</b>
<b>Total fee and commission income and expense</b>	<b>79,024</b>	<b>121,353</b>

**9. Other operating income**

Other operating income is detailed as follows:

	2018	2017
<i>Other operating income</i>		
Dividends received	56,165	61,969
Accounts payable written off	46,000	428
Income on property lease	31,833	27,308
Gains on interest expense bearing liabilities	11,017	9,189
Insurance contracts income	2,092	98
Sale proceeds on property and equipment disposal	418	-
Fines / penalties received	13	62
Income on taxes and levies of past periods	-	2,861
Gains from restatement of impairment loss on property and equipment	-	219,612
Other	6,492	15,587
<b>Total other operating income</b>	<b>154,030</b>	<b>337,114</b>



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**10. Administrative and other operating expenses**

Administrative and other operating expenses are detailed below, as follows:

	2018	2017
<i>Personnel expenses</i>	485,104	447,224
Salaries and bonuses	385,669	354,498
Mandatory social insurance contributions to the extra-budgetary funds	95,974	85,111
Other personnel costs	3,461	7,615
<i>Other administrative expenses</i>	1,064,707	1,026,893
Loan disposals under cession arrangements	236,619	456,321
Professional services	101,043	77,648
Depreciation and amortization of premises, equipment and intangible assets	97,636	99,493
Occupancy costs	95,136	73,879
Advertising expenses	83,349	42,479
Technical maintenance of property and equipment	66,969	57,896
Deposit insurance system contributions	59,619	31,696
Taxes other than income tax	54,492	56,593
Telecommunication expenses	46,797	44,883
Impairment of property and equipment	35,786	-
Security	32,158	21,729
Insurance	27,542	2,027
Software acquisition and support	27,289	19,384
Business trip expenses	22,546	10,429
Materials and office supplies	19,435	19,794
Loss on disposal of property, equipment and intangible assets	8,804	236
Furniture and equipment	7,795	5,164
Entertainment costs	4,939	499
Fines paid	1,180	1,946
Maintenance of computer equipment	1,024	1,250
Other	34,549	3,547
<b>Total administrative and other operating expenses</b>	<b>1,549,811</b>	<b>1,474,117</b>

**11. Income tax**

Income tax includes the following components:

	2018	2017
Current income tax (expense) / credit	(33,330)	(33,648)
Change in deferred tax due to origination and reversal of temporary differences	(170,780)	136,902
<b>Income tax (expense) / credit</b>	<b>(204,110)</b>	<b>103,254</b>

The current tax rate of 20% is applicable to the largest part of the Bank's profit for 2018 (2017: 20%). In 2018, the rate of 15% applies to coupon income on debt instruments (bonds) of the Russian Federation and constituent territories of Russia as well as those of other Russian entities, issued after 1 January 2017 (2017: 15%).



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The table below details taxable temporary differences disclosed through profit or loss and those disclosed directly in equity.

	2017	Change disclosed in profit or loss	Change disclosed in equity	2018
<i>Tax effect of temporary differences reducing the taxable base</i>				
Allowance for ECLs of the loan portfolio	1,574,491	21,202	-	1,595,693
Allowance for ECLs and fair value revaluation of financial assets held for income or sale	165,569	(165,408)	-	161
Property and equipment: depreciation and revaluation	49,967	(10,371)	-	39,596
Other	1,268	(10)	-	1,258
<b>Total deferred tax asset</b>	<b>1,791,295</b>	<b>(154,587)</b>	<b>-</b>	<b>1,636,708</b>
Unrecognized deferred tax assets	625,573	58,235	-	683,808
<b>Net deferred tax asset</b>	<b>2,416,868</b>	<b>(96,352)</b>	<b>-</b>	<b>2,320,516</b>
<i>Tax effect of temporary differences increasing the taxable base</i>				
Allowance for ECLs and fair value revaluation of financial assets held for income or sale	(162,681)	-	165,394	2,713
Property and equipment: depreciation and revaluation	(53,683)	-	5,526	(48,157)
<b>Deferred tax liability through capital</b>	<b>(216,364)</b>	<b>-</b>	<b>170,920</b>	<b>(45,444)</b>
Investment property	(93,415)	6,106	-	(87,309)
Other	(30,915)	5,989	-	(24,926)
<b>Total deferred tax liability</b>	<b>(340,694)</b>	<b>12,095</b>	<b>170,920</b>	<b>(157,679)</b>
<b>Total net deferred tax asset (liability)</b>	<b>2,076,174</b>	<b>(84,257)</b>	<b>170,920</b>	<b>2,162,837</b>

Net deferred tax asset represents the tax amount that can be utilized against future income tax charges, and is reported in the statement of financial position as deferred tax asset. The Group recognizes the deferred tax asset arisen as a carry-forward of tax losses to future periods, only to the extent, that it is probable that a corresponding tax benefit will realize. As at 31 December 2018 and 31 December 2017 the deferred tax asset is not recognized.

## 12. Earnings per share

Basic earnings / loss per share is calculated by dividing the net profit or loss attributable to ordinary shares by the weighted average number of ordinary shares over the year, less average number of ordinary shares purchased back by the Bank from its shareholders.

The parent entity of the Group (the Bank) has neither issued preference shares, nor the ordinary shares that may potentially dilute earnings /loss per share. Therefore, diluted earnings per share equal to basic earnings per share.

	2018	2017
Profit attributable to ordinary shareholders of the Bank	4,108	601,316
<b>Profit for the year</b>	<b>4,108</b>	<b>601,316</b>
Weighted average number of ordinary shares issued (thousands)	101,100	3,144
Basic earnings per ordinary share (Roubles per share)	0.04	191.27



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### 13. Dividends

Size of dividends, that may be paid by the parent entity of the Group, is limited to its retained profit, as determined in accordance with legislation of the Russian Federation.

Management of the Group does not plan distribute dividends for 2018 and will use the retained profit for business development (in 2017 no dividends were accrued or paid). Non-distributable reserves comprise the reserve fund, which is set up as required by the legislation to cover general banking risks, including future losses and other unforeseen risks and contingencies. The reserve fund has been created in accordance with the Charter of the parent entity of the Group, which provides for a reserve set-up for these purposes of not less than 15% of the share capital reported in the statutory books under Russian accounting standards.

### 14. Cash and cash equivalents

	2018	2017
Cash on hand	585,191	431,498
Correspondent account with the Bank of Russia (excluding mandatory reserve deposits)	1,894,426	879,694
NOSTRO accounts and "overnight" placements with Russian resident banks	3,090,558	1,518,813
NOSTRO accounts and "overnight" placements with non-resident banks	88,431	31,588
<b>Total cash in financial institutions before allowance for ECLs</b>	<b>5,658,606</b>	<b>2,861,593</b>
Allowance for ECLs	(404)	-
<b>Total cash and cash equivalents</b>	<b>5,658,202</b>	<b>2,861,593</b>

Cash balances with banks are not secured by any collateral. The allowance for expected credit losses is established on deposits, including "overnight" placements, with counterparty banks, except for the Bank of Russia.

Analysis of cash and cash equivalents by currency structure and maturity as well as interest rate analysis are provided in Note 28.

As at 31 December 2018 the Group had cash balances with JSC "ALFA BANK", "BANK VTB" (PJSC) and "SBERBANK" (PJSC) (in 2017 cash balances were held with JSC "ALFA BANK" and "BANK VTB" (PJSC)). The aggregate amount of such balances as at 31 December 2018 was RUB 3,020,000 thousand (31 December 2017: RUB 1,470,000 thousand).

### 15. Due from financial institutions

Due from financial institutions comprise loans (deposits) placed by the Bank with its counterparty banks, including the Bank of Russia.

	2018	2017
Contributions to the payment system guarantee fund	33,669	26,867
Balances with clearing organizations	22,719	126,339
Settlements with currency and stock exchanges	206,661	73,981
Other placements with credit organizations	6,783	13,456
Interbank loans and placements past due	4,760,998	5,005,276
<b>Total due from financial institutions before allowance for ECLs</b>	<b>5,030,830</b>	<b>5,245,919</b>
Allowance for ECLs	(4,760,998)	(5,005,276)
<b>Total due from financial institutions</b>	<b>269,832</b>	<b>240,643</b>

The line "Interbank loans and placements past due" represents amounts placed with OJSC JSCB "PROBUSINESSBANK", the previous owner and turnaround manager of the Bank. As the license from OJSC JSCB "PROBUSINESSBANK" was revoked, the Bank established a 100% allowance for its placement with this bank, which at 31 December 2018 was RUB 4,760,998 thousand (as at 31 December 2017: RUB 5,005,276 thousand). The change in the allowance was due to recovery in 2018 of RUB 244,278 thousand (2017: RUB 227,953 thousand).



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Claims regarding the placements with OJSC JSCB "PROBUSINESSBANK" were on the Bank's balance sheet before the start of the financial rehabilitation by the present Bank's owner. They are documented in the Financial Rehabilitation Plan as non-performing assets (see Note 1). From 2016 onwards, the total amount recovered under the claims has reached RUB 1,264,321 thousand.

**16. Loans and advances to customers**

	2018	2017
Loans and advances to individuals	4,761,070	4,907,562
Loans and advances to legal entities	8,235,190	6,720,550
<b>Total loans and advances to customers before allowance for ECLs</b>	<b>12,996,260</b>	<b>11,628,112</b>
Allowance for ECLs	(6,629,734)	(6,843,099)
<b>Total loans and advances to customers</b>	<b>6,366,526</b>	<b>4,785,013</b>

Analysis of loans and advances by industry is detailed below.

	2018		2017	
	Amount	%	Amount	%
Commerce and services	684,557	5.3%	720,572	6.2%
Oil & gas and chemicals	1,020,775	7.9%	-	-
Energy production	98,647	0.8%	175,722	1.5%
Construction	1,362,792	10.5%	936,109	8.1%
Finance and investments	829,854	6.4%	785,873	6.8%
Transport	1,202,145	9.2%	657,366	5.7%
Food and agriculture	1,506,801	11.6%	1,343,756	11.6%
Individuals	4,761,070	36.6%	4,907,562	42.2%
Other	341,782	2.6%	964,322	8.3%
Leasing	685,079	5.3%	594,022	5.1%
Manufacturing	502,758	3.9%	542,808	4.7%
<b>Total loans and advances to customers before allowance for ECLs</b>	<b>12,996,260</b>	<b>100.0%</b>	<b>11,628,112</b>	<b>100.0%</b>
Allowance for ECLs	(6,629,734)		(6,843,099)	
<b>Total loans and advances to customers</b>	<b>6,366,526</b>		<b>4,785,013</b>	

Below is a concentration analysis of loans issued by the Group to its ten largest borrowers, non-related parties, as at the reporting dates of 2018 and 2017.

	2018	2017
Gross loans and advances	4,956,013	3,380,256
<i>Share in the loan portfolio</i>	<i>38.1%</i>	<i>29.1%</i>
Allowance established	(2,726,576)	(2,336,629)





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Credit quality of loans and advances to customers analyzed by credit impairment stage, as required by IFRS 9, is disclosed below.

	31 December 2018			1 January 2018		
	Gross carrying amount	Allowance for ECLs	Net carrying amount	Gross carrying amount	Allowance for ECLs	Net carrying amount
<b>Quality loans</b>	<b>5,922,884</b>	<b>(237,153)</b>	<b>5,685,731</b>	<b>3,661,173</b>	<b>(255,362)</b>	<b>3,405,811</b>
including:						
Non-overdue high-quality loans	5,895,976	(236,933)	5,659,043	3,635,369	(254,915)	3,380,454
Average quality loans overdue less than 30 days	26,908	(220)	26,688	25,804	(447)	25,357
<b>Loans with a high increase in credit risk</b>	<b>6,615</b>	<b>(2,641)</b>	<b>3,974</b>	<b>30,163</b>	<b>(12,045)</b>	<b>18,118</b>
including:						
Non-overdue loans	-	-	-	-	-	-
Loans overdue less than 90 days	6,615	(2,641)	3,974	30,163	(12,045)	18,118
<b>Credit-impaired loans</b>	<b>7,066,761</b>	<b>(6,389,940)</b>	<b>676,821</b>	<b>7,936,776</b>	<b>(6,704,954)</b>	<b>1,231,822</b>
including:						
Non-overdue loans	138,344	(33,430)	104,914	193,690	(97,888)	95,802
Loans overdue less than 90 days	5,300	(2,734)	2,566	-	-	-
Loans overdue 90 or more days	6,923,117	(6,353,776)	569,341	7,743,086	(6,607,066)	1,136,020
<b>TOTAL</b>	<b>12,996,260</b>	<b>(6,629,734)</b>	<b>6,366,526</b>	<b>11,628,112</b>	<b>(6,972,361)</b>	<b>4,655,751</b>

A collateral analysis is presented below.

	2018		2017	
	Total loans and advances to customers	Share in the loan portfolio, %	Total loans and advances to customers	Share in the loan portfolio, %
Unsecured loans and advances	3,378,335	26.0%	4,542,905	39.1%
<i>Loans secured by:</i>				
Liquid securities	599,355	4.6%	191,237	1.6%
Guarantees and sureties	4,232,238	32.6%	-	0.0%
Real estate	3,119,499	24.0%	3,730,457	32.1%
Inventories	646,183	5.0%	-	0.0%
Transport vehicles	-	0.0%	351,909	3.0%
Securities issued by the Bank	-	0.0%	56,059	0.5%
Other	1,020,650	7.9%	2,755,545	23.7%
<b>Total loans and advances to customers before allowance for ECLs</b>	<b>12,996,260</b>	<b>100.0%</b>	<b>11,628,112</b>	<b>100.0%</b>

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Days overdue analysis of loans and advances at amortized cost and corresponding allowances for ECLs, as at 31 December 2018, are disclosed below.

	Loans and advances to individuals	Loans and advances to legal entities	Loans and advances to sole proprietors	Total
<i>Amortized cost</i>				
Non-overdue loans	1,658,963	4,229,425	145,933	<b>6,034,321</b>
<i>Allowance for ECLs</i>	(19,316)	(218,069)	(20,343)	<b>(257,728)</b>
Loans overdue 1-30 days	26,908	-	-	<b>26,908</b>
<i>Allowance for ECLs</i>	(220)	-	-	<b>(220)</b>
Loans overdue 30-60 days	6,355	13,085	-	<b>19,440</b>
<i>Allowance for ECLs</i>	(2,615)	-	-	<b>(2,615)</b>
Loans overdue 60-90 days	5,560	-	-	<b>5,560</b>
<i>Allowance for ECLs</i>	(2,760)	-	-	<b>(2,760)</b>
Loans overdue more than 90 days	3,063,284	3,826,274	20,472	<b>6,910,030</b>
<i>Allowance for ECLs</i>	(2,903,908)	(3,442,146)	(20,356)	<b>(6,366,410)</b>
<b>Total amortized cost</b>	<b>1,832,251</b>	<b>4,408,569</b>	<b>125,706</b>	<b>6,366,526</b>

Days overdue analysis of loans and advances at amortized cost and corresponding allowances for ECLs, as at 31 December 2017, are disclosed below.

	Loans and advances to individuals	Loans and advances to legal entities	Loans and advances to sole proprietors	Total
<i>Amortized cost</i>				
Non-overdue loans	1,491,703	2,332,442	13,075	<b>3,837,220</b>
<i>Allowance for ECLs</i>	(116,993)	(164,412)	-	<b>(281,405)</b>
Loans overdue 1-30 days	27,594	-	-	<b>27,594</b>
<i>Allowance for ECLs</i>	(1,602)	-	-	<b>(1,602)</b>
Loans overdue 30-60 days	23,893	-	-	<b>23,893</b>
<i>Allowance for ECLs</i>	(3,987)	-	-	<b>(3,987)</b>
Loans overdue 60-90 days	6,289	-	-	<b>6,289</b>
<i>Allowance for ECLs</i>	(1,192)	-	-	<b>(1,192)</b>
Loans overdue more than 90 days	3,358,083	4,354,607	20,426	<b>7,733,116</b>
<i>Allowance for ECLs</i>	(3,160,634)	(3,373,853)	(20,426)	<b>(6,554,913)</b>
<b>Total amortized cost</b>	<b>1,623,154</b>	<b>3,148,784</b>	<b>13,075</b>	<b>4,785,013</b>

**Renegotiated loans**

A loan is considered to be renegotiated if terms and conditions of the original loan agreement were revised in a new agreement. Renegotiated loans are those, regarding which, forced changes in contractual terms have occurred and they meet the following criteria:

- the changes in the credit agreement bring more advantages to the borrower, who does not have the ability



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to discharge its obligations on the original terms, with the borrower being classified as a low or average credit risk. Amendment of credit terms is seen as more positive for a borrower if, for instance, the revised terms provide for less frequent payments, the interest rate reduction, a longer maturity or a larger credit limit, reduction in the total loan amount payable or revision of payment time to later dates;

- they represent a refinancing of a loan agreement as the borrower does not have the ability to discharge its obligations under the agreement, with the borrower being classified as a high or average credit risk.

An analysis of renegotiated loans with revised terms measured at amortized cost, as at 31 December 2018, is disclosed below.

	Loans and advances to individuals	Loans and advances to legal entities	Loans and advances to sole proprietors	Total
<i>Amortized cost</i>				
Non-overdue loans	66,161	614,358	139,933	<b>820,452</b>
Allowance for impairment	(2,199)	(102,185)	(20,080)	<b>(124,464)</b>
Loans overdue 1-30 days	392	-	-	<b>392</b>
Allowance for impairment	(11)	-	-	<b>(11)</b>
Loans overdue 30-60 days	198	13,085	-	<b>13,283</b>
Allowance for impairment	(127)	-	-	<b>(127)</b>
Loans overdue 60-90 days	235	-	-	<b>235</b>
Allowance for impairment	(7)	-	-	<b>(7)</b>
Loans overdue more than 90 days	81,021	1,074,206	2,979	<b>1,158,206</b>
Allowance for impairment	(64,466)	(851,922)	(2,979)	<b>(919,367)</b>
<b>Total renegotiated loans at amortized cost as at 31 December 2018</b>	<b>81,197</b>	<b>747,542</b>	<b>119,853</b>	<b>948,592</b>

An analysis of renegotiated loans with revised terms measured at amortized cost, as at 31 December 2017, is disclosed below.

	Loans and advances to individuals	Loans and advances to legal entities	Loans and advances to sole proprietors	Total
<i>Amortized cost</i>				
Non-overdue loans	10,911	371,065	-	<b>381,976</b>
Allowance for impairment	(471)	(57,574)	-	<b>(58,045)</b>
Loans overdue more than 90 days	54,549	1,207,691	2,979	<b>1,265,219</b>
Allowance for impairment	(38,590)	(996,443)	(2,979)	<b>(1,038,012)</b>
<b>Total renegotiated loans at amortized cost as at 31 December 2017</b>	<b>26,399</b>	<b>524,739</b>	<b>-</b>	<b>551,138</b>

The outstanding loans disclosed below appeared on the Bank's balance sheet under the previous ownership, prior to the Bank's financial rehabilitation by its present owner. These loan balances are documented in the Bank's Financial Rehabilitation Plan (the FRP) as non-performing assets (see Note 1).



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	2018			2017		
	Gross carrying amount	Allowance for ECLs	Net carrying amount	Gross carrying amount	Allowance for ECLs	Net carrying amount
Loans to legal entities	3,306,643	(2,820,294)	<b>486,349</b>	3,306,643	(3,031,694)	<b>274,949</b>
Loans to individuals	2,575,377	(2,346,781)	<b>228,596</b>	2,575,377	(2,346,781)	<b>228,596</b>
<b>TOTAL</b>	<b>5,882,020</b>	<b>(5,167,075)</b>	<b>714, 945</b>	<b>5,882,020</b>	<b>(5,378,475)</b>	<b>503,545</b>

The net carrying amounts, documented in the FRP as non-performing assets, represent the Group's estimates of the cash flows that it expects to collect from realization of these loans, subject to the time value of money as at the reporting dates. From 2016 to the end of 2018, the Group collected RUB 682,923 thousand from realization of these non-performing loans.

**17. Financial assets held for income or sale**

	2018	2017
<i>Equity financial assets at fair value through other comprehensive income</i>		
Shares	519,811	268,367
Stakes in share capital of Russian resident entities	-	898,206
<b>Total equity financial assets at fair value through other comprehensive income</b>	<b>519,811</b>	<b>1,166,573</b>
<i>Debt financial assets at fair value through other comprehensive income</i>		
Bond issues of the Russian Federation	1,034,950	2,451,870
Subfederal and municipal bonds	3,321,387	2,721,689
Corporate Eurobonds	1,876,765	1,502,146
Corporate bonds	1,618,423	659,220
Bonds issued by constituent territories of Russia	539,668	439,751
<b>Total debt financial assets at fair value through other comprehensive income</b>	<b>8,391,193</b>	<b>7,774,676</b>
<b>Total financial assets held for income or sale, before allowance for impairment</b>	<b>8, 911,004</b>	<b>8, 941,249</b>
Allowance for impairment	(14,440)	(14,440)
<b>Total financial assets held for income or sale</b>	<b>8,896,564</b>	<b>8,926,809</b>

As at 31 December 2018, the bonds of the Russian Federation have maturities in the period from January 2020 to February 2027, with the interest rate range from 7.0% to 8.15% for Roubles and 8.0% for US dollars.

Bonds of credit organizations comprise securities with maturities in the period from May 2019 to July 2026, with the interest rate range from 0.01% to 14.25%.

Bonds issued by constituent territories of the Russian Federation have maturities in the period from June 2022 to September 2025, with the interest rate range from 6.0% to 7.95%.

Eurobonds have maturities in the period from April 2019 to May 2023, with the interest rate range from 4.42% to 7.75%.

Corporate bonds comprise securities of Russian issuers. The interest rate range for these bonds is from 6.95% to 11.50%. Maturities range in the period from April 2019 to March 2033.

Debt securities include those not redeemed when due. These are bonds of OJSC JSCB "PROBANK" in the



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amount of RUB 14,440 thousand, with a 100% provision as at 31 December 2018 (31 December 2017: 100%). As to other debt financial instruments, as at 31 December 2018, the Bank established allowances for 12-month ECLs to the amount of RUB 16,870 thousand (31 December 2017: RUB 0 thousand). These allowances are recognized in the fair value revaluation reserve of financial assets held for income or sale, measured through other comprehensive income, without changes in the carrying amounts of these debt financial instruments.

The table below shows a quality analysis of debt financial assets held for income or sale, as at 31 December 2018.

	Bond issues of the Russian Federation	Subfederal and municipal bonds	Corporate Eurobonds	Corporate bonds	Total debt financial assets at fair value through other comprehensive income
<i>Unimpaired</i>					
- rated from BBB- to BBB+ (Baa3 to Baa1)	308,273	-	621,629	722,631	<b>1,652,533</b>
- rated from BB- to BB+ (Ba3 to Ba1)	726,677	539,668	1,255,136	3,647,348	<b>6,168,829</b>
- rated from B- to B+ (B3 to B1)	-	-	-	555,391	<b>555,391</b>
<b>Total unimpaired</b>	<b>1,034,950</b>	<b>539,668</b>	<b>1,876,765</b>	<b>4,925,370</b>	<b>8,376,753</b>
<i>Impaired, including those overdue</i>					
more than 360 дней	-	-	-	14,440	<b>14,440</b>
<b>Total impaired, including those overdue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,440</b>	<b>14,440</b>
<b>Total financial assets held for income or sale before allowance for impairment</b>	<b>1,034,950</b>	<b>539,668</b>	<b>1,876,765</b>	<b>4,939,810</b>	<b>8,391,193</b>
Allowance for impairment	-	-	-	(14,440)	<b>(14,440)</b>
<b>Total financial assets held for income or sale</b>	<b>1,034,950</b>	<b>539,668</b>	<b>1,876,765</b>	<b>4,925,370</b>	<b>8,376,753</b>

The table below shows a quality analysis of debt financial assets held for income or sale, as at 31 December 2017.

	Bond issues of the Russian Federation	Subfederal and municipal bonds	Corporate Eurobonds	Corporate bonds	Total debt financial assets at fair value through other comprehensive income
<i>Unimpaired</i>					
- rated from BBB- to BBB+ (Baa3 to Baa1)	35,496	-	175,535	212,856	<b>423,887</b>
- rated from BB- to BB+ (Ba3 to Ba1)	2,416,374	439,751	1,326,611	2,748,712	<b>6,931,448</b>
- rated from B- to B+ (B3 to B1)	-	-	-	404,901	<b>404,901</b>
<b>Total unimpaired</b>	<b>2,451,870</b>	<b>439,751</b>	<b>1,502,146</b>	<b>3,366,469</b>	<b>7,760,236</b>
<i>Impaired, including those overdue</i>					
more than 360 дней	-	-	-	14,440	<b>14,440</b>
<b>Total impaired, including those overdue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,440</b>	<b>14,440</b>
<b>Total financial assets held for income or sale before allowance for impairment</b>	<b>2,451,870</b>	<b>439,751</b>	<b>1,502,146</b>	<b>3,380,909</b>	<b>7,774,676</b>
Allowance for impairment	-	-	-	(14,440)	<b>(14,440)</b>
<b>Total financial assets held for income or sale</b>	<b>2,451,870</b>	<b>439,751</b>	<b>1,502,146</b>	<b>3,366,469</b>	<b>7,760,236</b>

Over 2018, the Bank did not invest into financial assets held for income or sale at the rates below the market.



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As at 31 December 2018, the fair value of securities pledged as collateral to the SC "Deposit Insurance Agency" was RUB 7,087,724 thousand (31 December 2017: RUB 7,258,081 thousand).

**18. Financial assets at fair value through profit or loss**

	2018	2017
<i>Equity financial assets at fair value through other comprehensive income</i>		
Stakes in share capital of Russian resident entities	1,695,599	-
<i>Other financial assets at fair value through profit or loss</i>		
Derivative financial instruments	-	4,887
<b>Total financial assets held for income or sale</b>	<b>1,695,599</b>	<b>4,887</b>

The Group makes investments into share capital of Russian entities, organized in the form of limited liability companies, that carry out investment projects to generate profit or revaluation surplus on their equity fair value. The Group does not exercise any operational control or a significant influence on the investees' activities.

**19. Investment property**

	2018	2017
<b>Carrying amount as at 1 January</b>	<b>1,168,586</b>	<b>555,314</b>
<i>Fair value</i>		
Balance as at 1 January	1,168,586	555,314
Additions	177,900	925,921
Disposals	(591,413)	(507,249)
Revaluation gain and gain from operations with investment property	154,365	194,600
<b>Carrying amount as at 31 December</b>	<b>909,438</b>	<b>1,168,586</b>

**20. Property and equipment**

Information on property and equipment value in 2018 is shown below.

	Land, buildings and premises	Office and computer equipment	Transport vehicles and other equipment	Capital investments	Total property and equipment
<b>Carrying amount as at 1 January 2018</b>	<b>748,653</b>	<b>78,333</b>	<b>3,145</b>	<b>535</b>	<b>830,666</b>
<i>Cost (or value)</i>					
Cost (or value) as at 1 January 2018	748,653	362,100	18,196	535	1,129,484
Additions	-	14,000	-	3,908	17,908
Disposals	(11,459)	(14,939)	(2,260)	-	(28,658)
Revaluation	(27,405)	-	-	-	(27,405)
<b>Cost (or value) as at 31 December 2018</b>	<b>709,789</b>	<b>361,161</b>	<b>15,936</b>	<b>4,443</b>	<b>1,091,329</b>
<i>Accumulated depreciation</i>					
Accumulated depreciation as at 1 January 2018	-	283,767	15,051	-	298,818
Depreciation charge	13,996	34,440	971	-	49,407
Accumulated depreciation written off on revaluation of assets	(13,030)	-	-	-	(13,030)
Disposals	(966)	(14,906)	(1,971)	-	(17,843)
<b>Accumulated depreciation as at 31 December 2018</b>	<b>-</b>	<b>303,301</b>	<b>14,051</b>	<b>-</b>	<b>317,352</b>
<b>Carrying amount as at 31 December 2018</b>	<b>709,789</b>	<b>57,860</b>	<b>1,885</b>	<b>4,443</b>	<b>773,977</b>



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Information on property and equipment value in 2017 is shown below.

	Land, buildings and premises	Office and computer equipment	Transport vehicles and other equipment	Capital investments	Total property and equipment
<b>Carrying amount as at 1 January 2017</b>	<b>735,420</b>	<b>80,970</b>	<b>2,336</b>	<b>680</b>	<b>819,406</b>
<i>Cost (or value)</i>					
Cost (or value) as at 1 January 2017	735,420	330,945	22,522	680	<b>1,089,567</b>
Additions	-	38,778	3,752	-	<b>42,530</b>
Disposals	-	(7,623)	(8,078)	(145)	<b>(15,846)</b>
Revaluation	27,306	-	-	-	<b>27,306</b>
Impairment	(14,073)	-	-	-	<b>(14,073)</b>
<b>Cost (or value) as at 31 December 2017</b>	<b>748,653</b>	<b>362,100</b>	<b>18,196</b>	<b>535</b>	<b>1,129,484</b>
<i>Accumulated depreciation</i>					
Accumulated depreciation as at 1 January 2017	-	249,975	20,186	-	<b>270,161</b>
Depreciation charge	14,073	41,165	2,151	-	<b>57,389</b>
Accumulated depreciation written off on revaluation of assets	(14,073)	-	-	-	<b>(14,073)</b>
Disposals	-	(7,373)	(7,286)	-	<b>(14,659)</b>
<b>Accumulated depreciation as at 31 December 2017</b>	<b>-</b>	<b>283,767</b>	<b>15,051</b>	<b>-</b>	<b>298,818</b>
<b>Carrying amount as at 31 December 2017</b>	<b>748,653</b>	<b>78,333</b>	<b>3,145</b>	<b>535</b>	<b>830,666</b>

As at 31 December 2018, the valuation of the Bank's property was performed by independent appraisers (LLC "Center for independent property appraisal" and LLC "RIGAL Consulting"), approved by the SC "Deposit Insurance Agency". The valuation resulted in reduction in value of the asset group "Land, buildings and premises" by RUB 26,916 thousand. As at 31 December 2017, the Group used valuation results of LLC "Center for independent property appraisal" for accounting for the assets in the group "Land, buildings and premises".

## 21. Intangible assets

Information on intangible assets value in 2018 is shown below.

	Intangible assets
<b>Carrying amount as at 1 January 2018</b>	<b>99,277</b>
<i>Cost (or value)</i>	
Cost (or value) as at 1 January 2018	149,309
Additions	20,282
Disposals	(38,368)
<b>Cost (or value) as at 31 December 2018</b>	<b>131,223</b>
<i>Accumulated amortization</i>	
Accumulated amortization as at 1 January 2018	50,032
Amortization charge	48,229
Disposals	(38,368)
<b>Accumulated amortization as at 31 December 2018</b>	<b>59,893</b>
<b>Carrying amount as at 31 December 2018</b>	<b>71,330</b>



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Information on intangible assets value in 2017 is shown below.

	<b>Intangible assets</b>
<b>Carrying amount as at 1 January 2017</b>	<b>47,981</b>
<i>Cost (or value)</i>	
Cost (or value) as at 1 January 2017	74,898
Additions	105,523
Disposals	(31,112)
<b>Cost (or value) as at 31 December 2017</b>	<b>149,309</b>
<i>Accumulated amortization</i>	
Accumulated amortization as at 1 January 2017	26,917
Amortization charge	42,104
Disposals	(18,989)
<b>Accumulated amortization as at 31 December 2017</b>	<b>50,032</b>
<b>Carrying amount as at 31 December 2017</b>	<b>99,277</b>

Intangible assets comprise licenses for computer software.

**22. Other assets**

	<b>2018</b>	<b>2017</b>
Prepayments	270,778	115,824
Other accounts receivable	4,242	72,936
Advances on operational taxes	3,577	2,875
Settlements on salaries	-	543
Other	3,071	1,487
Allowance for ECLs	(10,386)	(9,646)
<b>Total other assets</b>	<b>271,282</b>	<b>184,019</b>

**23. Due to financial institutions**

	<b>2018</b>	<b>2017</b>
Correspondent accounts and "overnight" placements of other banks	238,980	783,775
<b>Total due to financial institutions</b>	<b>238,980</b>	<b>783,775</b>

**24. Customer accounts**

	<b>2018</b>	<b>2017</b>
<i>Accounts of state and community-based organizations</i>		
Current and settlement accounts	377	4,541
<b>Total accounts of state and public organizations</b>	<b>377</b>	<b>4,541</b>
<i>Accounts of privately-owned legal entities</i>		
Current and settlement accounts	723,697	362,606
Term deposits	507,429	158,875
<b>Total accounts of privately-owned legal entities</b>	<b>1,231,126</b>	<b>521,481</b>



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018  
(in thousands of Russian Roubles)***Accounts of individuals*

Current accounts and accounts on demand	701,366	701,603
Term deposits	16,449,447	10,031,467
<b>Total accounts of individuals</b>	<b>17,150,813</b>	<b>10,733,070</b>
<b>Total customer accounts</b>	<b>18,382,316</b>	<b>11,259,092</b>

The state and public organizations do not include state-controlled commercial entities.

Over the whole period of the Bank's operations, its client base has been fairly stable, mostly represented by individuals.

As at 31 December 2018 and 31 December 2017, the Bank did not have any counterparty with the debt exceeding 10% of the aggregate amount of balances on current accounts and deposits from customers.

During 2018 and 2017 the Bank did not attract funds from customers at the rates substantially above or below market.

Industry analysis of customer accounts is shown below.

	2018		2017	
	Amount	%	Amount	%
Commerce and services	243,068	1.32%	181,437	1.61%
Production	28,201	0.15%	1,541	0.01%
State and municipal organizations	375	0.00%	3,037	0.03%
Oil & gas and chemicals	1,416	0.01%	1,191	0.01%
Energy production	683	0.00%	9,334	0.08%
Construction	51,180	0.28%	61,858	0.55%
Telecommunications	71,316	0.39%	16,318	0.14%
Insurance	35,075	0.19%	35,238	0.31%
Finance and investments	275,567	1.50%	17,320	0.15%
Transport	304,576	1.66%	116,332	1.03%
Timber and woodworking industry	76	0.00%	2,600	0.02%
Food and agriculture	28,728	0.16%	11,518	0.10%
Individuals	17,150,813	93.30%	10,733,070	95.33%
Other	168,198	0.91%	41,681	0.37%
Leasing	13,320	0.07%	1,298	0.01%
Manufacturing	9,724	0.05%	25,319	0.22%
<b>Total customer accounts</b>	<b>18,382,316</b>	<b>100%</b>	<b>11,259,092</b>	<b>100%</b>

**25. Other liabilities**

	2018	2017
Accounts payable to suppliers	47,440	65,260
Payables to personnel	32,656	23,785
Taxes payable	15,845	12,616
Due to SC "Deposit Insurance Agency"	-	12,845
Provisions on guarantees issued	6,292	6,340
Other liabilities	2,637	1,161
<b>Total other liabilities</b>	<b>104,870</b>	<b>122,007</b>





# GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)

Notes to the IFRS Consolidated Financial Statements for 2018  
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## 26. Subordinated debt

To increase the Group's capital under the Financial Rehabilitation Plan (the FRP) of the parent company of the Group, in the end of 2017, JSC "Zarubezhenergoprojekt" provided a subordinated loan of RUB 4,011,960 thousand. The interest rate on this loan is 3.40% p.a.

Given the economic substance of the total purpose financing under the FRP, the Bank classifies this subordinated debt, issued by its only shareholder, as an element of the equity in the statement of financial position. The amount, along with the effect of discounting, is recorded in the line "Additional paid-in capital" at RUB 4,011,960 thousand at amortized cost, using a market interest rate as the effective interest rate.

In accordance with the subordinated loan agreement, in case of bankruptcy or liquidation of the Group the debt shall be repaid after discharging other liabilities of the Group to all other creditors.

## 27. Share capital

On 17 February 2014 temporary administration of OJSC CB "Solidarnost" took a decision on additional issue of securities. The way of placement was private offering to the following entity: Limited Liability Company "ALIVIKT".

On 21 February 2014 the Department for Licensing of Activities and Financial Rehabilitation of Credit Organizations of the Bank of Russia registered the decision on the additional issue of securities. On 26 February 2014, the report on the results of the additional issue of shares in the amount of RUB 2,200,000,000 was registered. The share of the placed securities in this additional issue was 100%.

After the additional issue of shares, the size of the share capital of JSC CB "Solidarnost" equaled to RUB 2,200,000,001. The share of the shareholder LLC "ALIVIKT" in the share capital of JSC CB "Solidarnost" was 99.99%.

In August 2015, as the license from OJSC JSCB "PROBUSINESSBANK" had been withdrawn, a temporary administration was introduced in the Bank, represented by the SC "Deposit Insurance Agency" (the SC "DIA") members. In October 2015, certain activities were carried out to reconcile the share capital of the Bank to RUB 1.

On 5 November 2015, the Bank of Russia approved changes in the Participation Plan of the SC "DIA" in taking measures on financial rehabilitation of JSC CB "Solidarnost".

In December 2015, the Bank of Russia registered the Report on results of the 9<sup>th</sup> issue of shares of OJSC CB "Solidarnost" in the amount of RUB 10,000,000.

In 2016, shares of JSC "Zarubezhenergoprojekt" were purchased back from minority shareholders. Since 25 November 2016 JSC "Zarubezhenergoprojekt" has been the only shareholder of JSC CB "Solidarnost".

In 2017, under the Financial Rehabilitation Plan, JSC "Zarubezhenergoprojekt" purchased the additional issue of shares to increase the share capital of the Bank, and also issued a subordinated loan (see Note 26) to increase the Bank's capital. The source of funding is the SC "DIA", on terms provided for in the FRP. As at 31 December 2018, the share capital of the Bank comprised 101,100,000 ordinary shares to the total of RUB 10,110,001,011 (as at 31 December 2017: RUB 10,110,001,011 and 101,100,000 ordinary shares).

## 28. Segment analysis

The Group does not disclose information under IFRS 8 *Operating Segments* as its equity and debt securities are not in free circulation on money markets and the Group is not issuing such financial instruments to the open market of securities.

## 29. Risk management

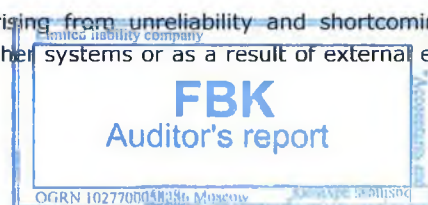
Risk management in the Group is performed in respect of the following risks, regarded as significant:

**Credit risk** is the risk of financial loss to the Group occurring as a result of default by a borrower or of its untimely or incomplete discharge of contractual financial obligations to the Group.

**Market risk** is the risk of financial losses to the Group occurring as a result of unfavorable movements in market prices of financial instruments and foreign exchange rates.

Market risk comprises equity risk, interest rate risk (of the trading portfolio), currency risk and commodity risk.

**Operational risk** is the risk of losses to the Group arising from unreliability and shortcomings of internal management procedures of the Group, failure of IT and other systems or as a result of external events affecting



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)**

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the Group's activities.

Operational risk includes a legal risk.

**Liquidity risk** is the risk that the Group will incur losses due to failure of the parent company of the Group to fully discharge its liabilities. Liquidity risk arises when the maturities of financial assets and financial liabilities of the Group do not match (also due to untimely discharge of financial liabilities by one or several counterparties of the Group) and/ or unforeseen necessity arises for the Group to immediately and simultaneously honor its financial obligations.

**Interest rate risk of the banking books** is the risk of worsening of the Group's financial position due to decrease in capital, income and asset values, arising as a result of adverse changes in the market interest rates.

**Concentration risk** is the risk occurring due to the Group's exposure to large risks that may realize and lead to material losses threatening the Group's solvency and ability to continue as a going concern.

**Regulatory risk** is the risk of losses to the Group as a result of non-compliance with federal laws and other legislation of the Russian Federation, internal regulatory documents of the Group, standards of self-regulated organizations (if such standards and rules are mandatory for the Group), as well as because of imposed sanctions and/ or other enforcement actions of supervisory authorities.

**Reputation risk** is a risk of losses occurring due to a negative perception of the Group by its stakeholders, counterparties, supervisory bodies and other interested parties, which may affect the Bank's ability to keep the existing and/or establish new business relationships and benefit from continued access to sources of funding.

There are developed and approved individual internal policies and procedures on risk management and minimization for each significant risk type.

The main objective of risk management is risk assessment and minimization, also by setting risk limits and subsequent observance of them. Assessment of the assumed level of risk is the basis for an optimal capital allocation that considers risks, pricing of transactions and performance results.

The priority is to ensure the maximum safeguards of assets and capital based on minimization of risks that may lead to unexpected losses. All risks that may have a negative impact on the Group's achievement of the set goals, are recognized and assessed in a regular manner.

As a part of risk and capital management, the Group ensures organization of the following procedures:

- 1) approval of the key principles of risk management and assessment of conformity by the Group's organization structure to these principles; and
- 2) control over activities of the Group's executive bodies with regard to risk management, identification of weaknesses in risk management and taking appropriate measures.

To reduce risks in the Group a system of limits and caps is in place, which ensures the targeted risk appetite level.

The system of limits has the following multi-layer structure:

- general limits that are set in conformity with the risk appetite defined in the Risk and capital management strategy of the parent company of the Group;
- limits by material risk type;
- limits by volume of concluded transactions per one counterparty or a group of related counterparties, by volume of operations with financial instruments, etc.;
- limits for particular financial instruments; and
- other limits.

The Group gives consideration to the following main types of limitations:

- capital adequacy to cover assumed risks; and
- mandatory capital adequacy ratios prescribed by the Bank of Russia.

For the purposes of risk reduction, the following methods are used:

- a) *Risk avoidance* is the method prescribing implementation of measures that fully or partially eliminate/minimize a particular risk type (e.g. a deliberate decision not to carry out operations/transactions with unacceptably high risk).
- b) Hedging is a system of measures enabling conclusion of term contracts and deals that take into account possible future movements in currency exchange rates and aim to exclude unfavorable impact of such



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movements.

- c) *Diversification* is a process of capital allocation between different capital investments that are not directly related to each other.
- d) *Risk insurance* is the Group's property insurance with particular insurance companies (insurers) when an insured event occurs (a loss occurrence). Compensations are paid out from the money accumulated by the insurers by collecting insurance premiums from policy holders.
- e) *Use of additional collateral*.

Risk Management Service of the Group is a division of the parent company of the Group that makes assessment of the assumed risks. It is independent from other structural units of the Group performing risk-bearing operations, as well as from the Internal Audit.

Risk Management Service of the parent company of the Group performs the following functions:

- develops and defines procedures and principles of risk management;
- organizes risk management process;
- assesses and sets the Aggregate risk value;
- monitors risk level;
- identifies inherent risks for the Group's activities and potential risks;
- highlights material risks and performs their assessment;
- aggregates quantitative assessments of material risks and controls their exposures;
- ensures compliance with the mandatory ratios established by the Bank of Russia;
- establishes limits in the risk management system;
- prepares reports under ICAAP;
- works out stress-test procedures;
- organizes stress-tests exercises;
- informs the Sole Executive Body about identified shortcomings in the risk management and assessment methodology, as well as about threshold values reached and instances of limit excesses and actions taken for their remedy.

Risk Management Service regularly prepares management reports that supply the empowered bodies of the Group with information necessary for decision-making.

Risk Management Service regularly prepares management reports that supply the empowered bodies of the Group with information necessary for decision-making.

The Group performs risk management and assessment of the said material risks on a constant basis.

### **Credit risk**

Lending to legal entities and individuals is done by the parent company of the Group in accordance with the Credit Policy.

The Group assumes certain level of credit risk, such as the risk that a counterparty will not pay in full its loan when due. The Group controls its credit risk by setting limits per one borrower or groups of related borrowers, and also limits by geographic area and industry segment. The Group regularly monitors credit risk and reviews the set limits at least annually. Actual observance of limits of the assumed risk is controlled on a constant basis.

Credit risk management process includes the following:

- credit risk identification;
- quantitative and qualitative assessment of credit risk;
- taking measures to limit and reduce credit risk (including set-up of limits, getting collateral, establishing allowances for potential losses);
- regular monitoring and control over credit risk level (including control of the set limits) regarding individual counterparties (borrowers) and the credit portfolio of the Group in general;
- streamlining of approaches and methods of credit risk assessment, improvement of internal documentation with guidance on credit risk management;
- internal control procedures regarding credit risk management.

The Group closely controls concentration of large credit exposures, compliance with prudential requirements of the Bank of Russia and carefully analyzes and forecasts credit risk levels.

The credit risk level of the Group is assessed as high.

#### **i. Credit risk management structure**

- Decisions about disbursements and lending terms are made by the Credit Committee and the Sub-





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Committee for Retail Lending (integral to the Credit Committee) of the parent company of the Group;

- The Credit Committee decisions are obligatory for all structural units of the Group. All lending terms and conditions approved by the Committee are reflected in a credit agreement concluded by the Group with a customer;
- The Credit Committee also approves credit limits for borrowers (legal entities, sole proprietors and individuals);
- Limits on operations with credit organizations and for securities are set at the Finance and Budget Committee of the parent company of the Group;
- The Group issues short- and long-term loans, overdrafts to borrowers organized in various legal forms;
- Borrowers are legal entities, individuals and sole proprietors;
- The purpose of lending may be construction-in-progress, purchase of property, transport vehicles and equipment, production (facility) extension /expansion, launch of new technologies, purchases of raw materials, financing a working capital deficit/ liquidity deficit, purchases of real estate assets, consumer needs, etc.;
- Credit limit per one borrower is determined with consideration given to the following: the maximum allowed limits, the borrower's credit history, size of its monthly account turnover and average settlement account balances, collateral level, importance of the borrower for the Group as a client, financial standing, business development forecasts and other available information on the borrower;
- Lending decisions in favor of insiders and other related parties of the Group are made without participation of these interested parties in the decision-making process;
- Decisions about credit risk bearing transactions (regardless of their size) with the Group's related parties, that is, the interested parties with regards to such decisions, are made only by the Board of Directors of the parent company of the Group;
- Lending to the Group's related parties (and also assuming credit-related commitments) on non-arm's length terms (e.g. those regarding maturity of payments, interest rates, collateral requirements) in comparison with the loans (and credit-related commitments) to non-related parties of the Group, is not allowed;
- Only the Credit Committee makes decisions on prolongation of loan agreements.

## **ii. Credit risk management**

The aim of the credit risk management is minimization of potential losses by the Group, arising due to failure of borrowers to meet their obligations, and maximization of the Group's returns, subject to credit risk.

Credit risk management objectives are:

- credit risk analysis and assessment
- determination of the risk exposure
- credit risk management
- control over effectiveness of credit risk management.

Credit assessment criteria are:

- borrower's financial standing
- borrower's debt service quality
- collateral.

In managing credit risk, credit limits and investing limits are introduced, such as:

- lending to legal entities and individuals
- interbank lending and forex operations on the interbank market
- investing in securities.

The Group has approved the following limit types:

- risk limits for counterparty banks on interbank operations (interbank lending and currency conversion operations)
- limits for securities' issuers (state securities, promissory notes, corporate bonds and shares).

In lending to legal entities and individuals the Credit Committee makes a decision regarding possibility to lend and the maximum loan (credit line) exposure. The decision is made on the basis of an expert lending advice from the Credit Department or Division of Retail Business, and other available information.

Disbursement limits for corporate customers are set up based on the analysis of the ownership structure, business reputation, credit history, financial standing, financial forecasts, position in industry and other criteria.

Disbursement limits for counterparty banks are set up based on the analysis of their financial standing, ratings, capital structure, concentration of banking operations, credit history and business reputation.



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018****(in thousands of Russian Roubles)**

Loan size to an individual is limited by its solvency, which is calculated individually for each customer.

For monitoring of credit risk, employees of credit departments prepare regular reports based on a structured analysis of business and financial performance of customers. All information about material risks, regarding customers with weakening creditworthiness, is communicated to the Credit Committee and the empowered bodies of the Group for analysis.

The Group uses a formal internal methodology, based on calculation of a cumulative score, characterizing a borrower's financial standing and creditworthiness for the purpose of a quantitative assessment and credit risk monitoring. The assessment of financial standing is underpinned by analysis of the borrower's financial statements and other information received by the Group.

Credit divisions of the Group analyze loans by maturity and perform ex-post control of balances overdue.

In assessing a credit portfolio, the focus is on risk concentration in the portfolio. Concentration may take various forms and occurs when a large number of loans have similar characteristics. The Group takes into consideration the portfolio diversification by maturity, industry, geographic area.

As to credit-related commitments, the Group applies the same credit policy as for its balance-sheet financial instruments, which is based on particular procedures of transaction approvals, risk limit use and monitoring procedures.

**iii. Main stages of credit work**

- Credit application processing, analysis of a borrower's financial standing, economic justification of a loan disbursement decision, legal processing and documentation of the loan.
- Control over observance of contractual loan terms and conditions with regard to the credit deal, monitoring of the borrower's and its surety's financial standing, control over existence and condition of the collateralized assets, etc. The Group performs a constant monitoring of credit risks. Limits on operations with counterparty banks are regularly reviewed. Given threatening risks, the limits can be revised. For the purpose of credit risk monitoring, employees of credit departments regularly assess customers' financial indicators, check payment discipline and perform maturity analysis. In addition, the Group monitors the loan balances overdue.
- Loan repayment. The Group takes measures for a loan recovery, if there are delays in repayments of the funds disbursed. If the measures do not bring any result, the Legal Department prepares documents to satisfy the debt by foreclosing on the property or for court proceedings. Decision to recognize a loan as a loss is made by the Board of the parent credit organization after an expert opinion about impossible loan collection.

**iv. Taking collateral and other methods of credit quality improvement**

Credit risk management is also achieved by taking collateral in a form of real estate, securities, assets or other, including guarantees and sureties of legal entities and individuals, as well as by monitoring of such collaterals.

Despite the fact that collateral is an important instrument of credit risk reduction, the Group's policy establishes that the loan repayment by the borrower has a higher priority than the collateral sale.

Under certain circumstances, depending on the borrower's financial standing and a credit product type, the transaction may be unsecured.

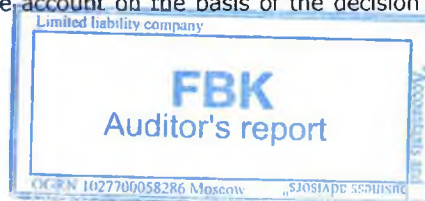
The group has approved "Methodology on operations with collateral in commercial lending and providing documentary operations (services)".

**v. Allowance for expected credit losses**

The Group establishes an allowance for expected credit losses (ECLs), which reflects an assessment of losses in the credit portfolio.

The Group writes off a loan (and a corresponding allowance for the loan) when it is classified as uncollectible and all necessary procedures on the loan collection have been completed. This sort of decision is made after consideration of information on significant changes in the borrower's financial standing (e.g. no possibility to make loan repayments), and also when collateral sale proceeds are insufficient to fully repay the loan.

Uncollectible loans are written off through the ECL allowance account on the basis of the decision made by the Board of Directors of the parent company of the Group.



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**vi. Maximum credit risk exposure**

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

The Group monitors credit risk concentration by industry. The credit risk concentration analysis for loans and advances is provided in Note 16.

**Liquidity risk**

Liquidity risk management in the Group is regulated by the "Policy on Liquidity Risk Management".

The main aim of liquidity risk management is to ensure the Group's ability timely and fully discharge its monetary and other liabilities.

In liquidity risk management the Group is guided by the following principles:

- liquidity is managed daily and on an ongoing basis;
- methods and instruments of liquidity risk assessment applied are not to be contrary to regulatory documents of the Bank of Russia and the policy on risk management;
- the Group clearly differentiates authority and responsibility for liquidity management between management bodies and subdivisions;
- limits are set to ensure acceptable liquidity and at the same time to correspond to the size, the nature of business and the financial standing of the Group;
- conclusion of large transactions is preliminary analyzed for compliance with the current liquidity status and limits set;
- planning of liquidity needs.

The liquidity ratios are mandatory and are controlled and kept within the set limits by the Treasury.

In case of a "conflict of interest" between liquidity and returns (e.g. due to low returns on liquid assets and high cost of borrowings), all decisions are made only on a collective basis, at the Finance and Budget Committee.

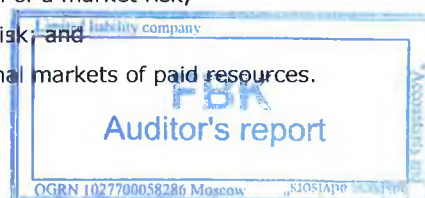
Control over liquidity risk management is exercised by the Board of Directors, the Management Board, the Chairman of the Board, Risk Management Department and Internal Control in line with the Risk and Capital Management Strategy.

Methods of liquidity analysis include:

- liquidity status analysis (analysis of the actual and forecast values of the ratios for the instant, current and long-term liquidity);
- analysis of assets (claims) and liabilities (obligations) structure of the Group;
- taking decisions on the basis of the analysis;
- liquidity forecasts;
- on-hand liquidity management of the Group with due consideration given to matching of assets and liabilities by maturity and amount;
- financial instruments portfolio management in line with the requirements to ensure and maintain liquidity;
- implementation of the decisions made and current control over liquidity management;
- information support of the liquidity management procedures; and
- performance of liquidity adequacy stress-tests and sustainability of buffer funds sufficient to fully and timely honor all liabilities to customers and counterparties, as well as to ensure normal operations of the Group on the set time horizon.

Factors affecting liquidity risk occurrence:

- mismatch of assets and liabilities by volume and maturity;
- outflow of attracted funds related to an unexpected increase in outgoing payments and/or a decrease in incoming payments on customers' accounts;
- failure to deliver or return an asset due to realization of a market risk;
- liquidity risk driven by realization of an operational risk; and
- liquidity risk related to closure for the Bank of external markets of paid resources.





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To control liquidity status of the Group in accordance with the Methodology of liquidity risk analysis and for the purpose of stress-testing, liquidity indicators are calculated (groups of daily and monthly indicators) and liquidity gap analysis is performed on a monthly basis. In addition, in compliance with the requirements of the Bank of Russia, ratios of instant, current and long-term liquidity are calculated and daily controlled.

When analyzing liquidity, a particular attention is paid to credit risk concentration. Also, account is taken of concentration of deposits or loans received by the Group and risk of such concentration is measured.

The Group daily calculates liquidity ratios set by the Bank of Russia. Key ratios in liquidity risk analysis are those calculated for the parent company of the Group:

- ratio of instant liquidity (N2). At 31 December 2018 this ratio was 57.9% (31 December 2017: 40.4%).
- ratio of current liquidity (N3). At 31 December 2018 this ratio was 90.1% (31 December 2017: 66.7%).
- ratio of long-term liquidity (N4). At 31 December 2018 this ratio made 29.2% (31 December 2017: 19.1%).

Carrying amounts of financial instruments by expected maturity as at 31 December 2018 are shown in the table below.

	On demand and up to 1 month	1 to 6 months	6 to 12 months	1 year to 3 years	Over 3 years	Overdue/ maturity not defined	Total
<b>ASSETS</b>							
Cash and cash equivalents	5,658,202	-	-	-	-	-	5,658,202
Mandatory reserve deposits with the Bank of Russia	-	-	-	-	-	212,708	212,708
Due from financial institutions	269,832	-	-	-	-	-	269,832
Loans and advances to customers	34,209	674,725	960,629	2,451,053	1,650,512	595,398	6,366,526
Financial assets held for income or sale	56,456	1,020,993	-	3,439,304	3,879,227	500,584	8,896,564
Financial assets at fair value through profit or loss	-	-	-	-	-	1,695,599	1,695,599
Investment property	-	-	-	-	-	909,438	909,438
Assets included in the disposal groups, classified as "held for sale"	-	-	-	-	-	3,535	3,535
Property and equipment	-	-	-	-	-	773,977	773,977
Intangible assets	-	-	-	-	-	71,330	71,330
Other assets	271,282	-	-	-	-	-	271,282
<b>Total assets</b>	<b>6,289,981</b>	<b>1,695,718</b>	<b>960,629</b>	<b>5,890,357</b>	<b>5,529,739</b>	<b>4,762,569</b>	<b>25,128,993</b>
<b>LIABILITIES</b>							
Due to financial institutions	238,980	-	-	-	-	-	238,980
Customer accounts	5,412,752	6,492,082	3,787,985	2,689,414	83	-	18,382,316
Debt liabilities issued	1,500	1,960	-	-	-	-	3,460
Other liabilities and provisions	102,248	2,622	-	-	-	-	104,870
<b>Total liabilities</b>	<b>5,755,480</b>	<b>6,496,664</b>	<b>3,787,985</b>	<b>2,689,414</b>	<b>83</b>	<b>-</b>	<b>18,729,626</b>
<b>Net balance sheet position for 2018</b>	<b>534,501</b>	<b>(4,800,946)</b>	<b>(2,827,356)</b>	<b>3,200,943</b>	<b>5,529,656</b>	<b>4,762,569</b>	<b>6,399,367</b>
<b>Cumulative net balance sheet position for 2018</b>	<b>534,501</b>	<b>(4,266,445)</b>	<b>(7,093,801)</b>	<b>(3,892,858)</b>	<b>1,636,798</b>	<b>6,399,367</b>	



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Carrying amounts of financial instruments by expected maturity as at 31 December 2017 are shown in the table below:

	On demand and up to 1 month	1 to 6 months	6 to 12 months	1 year to 3 years	Over 3 years	Overdue/ maturity not defined	Total
<b>ASSETS</b>							
Cash and cash equivalents	2,861,593	-	-	-	-	-	<b>2,861,593</b>
Mandatory reserve deposits with the Bank of Russia	-	-	-	-	-	146,762	<b>146,762</b>
Financial assets at fair value through profit or loss	4,887	-	-	-	-	-	<b>4,887</b>
Due from financial institutions	240,643	-	-	-	-	-	<b>240,643</b>
Loans and advances to customers	988	316,581	255,693	1,967,594	1,014,961	1,229,196	<b>4,785,013</b>
Financial assets held for income or sale	-	18,402	931	569,446	6,277,545	2,060,485	<b>8,926,809</b>
Investment property	-	-	-	-	-	1,168,586	<b>1,168,586</b>
Assets included in the disposal groups, classified as "held for sale"	-	-	-	-	-	4,449	<b>4,449</b>
Property and equipment	-	-	-	-	-	830,666	<b>830,666</b>
Intangible assets	-	-	-	-	-	99,277	<b>99,277</b>
Other assets	184,019	-	-	-	-	-	<b>184,019</b>
<b>Total assets</b>	<b>3,292,130</b>	<b>334,983</b>	<b>256,624</b>	<b>2,537,040</b>	<b>7,292,506</b>	<b>5,539,421</b>	<b>19,252,704</b>
<b>LIABILITIES</b>							
Financial liabilities at fair value through profit or loss	8,890	-	-	-	-	-	<b>8,890</b>
Due to financial institutions	333,775	450,000	-	-	-	-	<b>783,775</b>
Customer accounts	2,407,501	4,433,101	4,202,222	215,208	1,060	-	<b>11,259,092</b>
Other liabilities and provisions	116,914	5,093	-	-	-	-	<b>122,007</b>
Subordinated loans	-	-	-	-	661,672	-	<b>661,672</b>
<b>Total liabilities</b>	<b>2,867,080</b>	<b>4,888,194</b>	<b>4,202,222</b>	<b>215,208</b>	<b>662,732</b>	<b>-</b>	<b>12,835,436</b>
<b>Net balance sheet position for 2017</b>	<b>425,050</b>	<b>(4,553,211)</b>	<b>(3,945,598)</b>	<b>2,321,832</b>	<b>6,629,774</b>	<b>5,539,421</b>	<b>6,417,268</b>
<b>Cumulative net balance sheet position for 2017</b>	<b>425,050</b>	<b>(4,128,161)</b>	<b>(8,073,759)</b>	<b>(5,751,927)</b>	<b>877,847</b>	<b>6,417,268</b>	

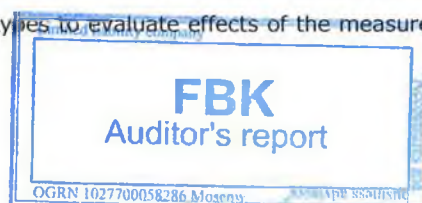
**Market risk**

Market risk management in the Group is performed in accordance with the Policy on Market Risk Management of JSC CB "Solidarnost".

The aim of market risk management is to ensure a set of measures to reduce market risk level and to optimize structure of the Group's investments into financial instruments by diversification of assets from the point of view of risk and return.

This aim is achieved by a consistent and comprehensive approach that assumes that the following objectives are to be met:

- identification and analysis of market risk arising at the Group in course of its business activity;
- qualitative and quantitative assessment (measurement) of market risk;
- set up of the market risk management system to identify negative trends at early stages, as well as implementation of a system of rapid and adequate adjustments aimed at prevention of market risk build-up;
- verification of interrelation between particular risk types to evaluate effects of the measures planned for a specific risk reduction on increase/decrease of other risks.



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Market risk management provides for a choice of one course of actions, such as: risk acceptance, giving-up operations leading to higher risk or implementation of risk reduction measures, based on preliminary risk level assessment.

The market risk management system of the Group comprises the following elements:

- organizational system and market risk management process;
- market risk minimization procedures;
- a system of limits curbing market risk;
- financial instruments management;
- open currency position management; and
- internal control.

The market risk management process includes:

- market risk identification;
- qualitative evaluation and quantitative measurement of market risk, that is, computation and analysis of actual and forecast values of market risk in accordance with Regulation of the Bank of Russia No.511-П and with frequency established by Instruction of the Bank of Russia No.180-И of 28 June 2017 "On Statutory Ratios for Banks" (used for calculation of the capital adequacy ratio of the Group), as well as by using VaR assessment (used for internal assessment procedures of the Group's capital adequacy);
- taking measures on limiting and reducing the market risk (including setting up limits, hedging, diversification, forecasting, managing financial instruments that bear market risk, etc.);
- regular monitoring and control of the market risk level in relation to the total risk and also, to its constituent elements, such as the interest rate risk of trading portfolio, equity risk, currency risk and commodity risk;
- improvement of approaches and assessment methods of the market risk, perfection of internal documents that regulate the market risk management in the Group;
- activities with regard to internal controls over the market risk management.

To minimize market risk the Group takes the following measures:

- diversification of market risk, by allocating the Group's resources by assets and instruments;
- hedging (insurance), by concluding transaction to protect the Group from adverse changes in the markets of shares, commodities, foreign currency and interest rates;
- limits set-up for positions and transactions of the Group, which assumes restrictions of risk exposures and subsequent control over them: limits for operations by counterparty, limits by financial instrument type and open currency position limit;
- revaluation of the Group's financial instruments at current (fair) value to ascertain their fair worthiness.

To compute the indicator of comprehensive market risk exposure, the Group assesses interest rate, equity and currency risks. Commodity risk is not assessed due to non-existence of the corresponding financial instruments at the Group as at 31 December 2018 and 31 December 2017.

The market risk exposure is computed by the Group by applying the method of quantitative evaluation prescribed by Regulation of the Bank of Russia No.511-П dated 3 December 2015 "On computation of market risk exposure by credit organizations".

	2018	2017
<b>Interest rate risk (IR)</b>	<b>696,660</b>	<b>656,577</b>
- general interest rate risk (GIR)	148,788	182,106
- specific interest rate risk (SIR)	547,872	474,471
<b>Equity risk (ER)</b>	<b>67,134</b>	<b>165,570</b>
- general equity risk (GER)	33,567	82,785
- specific equity risk (SER)	33,567	82,785
<b>Currency risk (CR)</b>	-	-
<b>Commodity risk (CR)</b>	-	-
<b>Market risk (MR)</b>	<b>9,547,431</b>	<b>10,276,852</b>

Interest rate risk (of the trading portfolio) is defined as the market risk exposure on securities and derivative financial instruments sensitive to changes in interest rates. To compute interest rate risk the Group measures general and specific interest rate risks. The interest rate risk exposure represents the sum of these two risks.

Equity risk is defined as the market risk exposure on securities and derivative financial instruments sensitive to





**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018  
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changes in fair value of equity securities. The equity risk exposure represents the sum of the general and specific equity risks.

Currency risk is defined as the market risk exposure on open positions of the Group in foreign currencies and gold.

Commodity risk is defined as the market risk exposure on commodities, including precious metals (except for gold), and derivative financial instruments sensitive to price changes for such commodities.

Additionally, to determine potential effect of negative factors on the market risk level, the Group performs stress-tests using the methodology set out in its internal document, Regulation on Stress-Testing.

**Equity risk and interest rate risk of the trading portfolio**

Sensitivity analysis of the Group's equity and profit or loss to changes in the fair value (quotations) of securities, prepared on the basis of positions existing as at 31 December 2018 and 31 December 2017, was made for three possible scenarios of the price fluctuation range: 5%, 10% and 20%. 5% fluctuation scenario is the most optimistic, whereas fluctuations of 20% represent the most stressful scenario for the market of financial instruments. This scenario assumes that, given negative developments on the market of financial instruments, the capital (equity) of the Group will decrease by no more than 20%.

	2018	2017
	Effect on the Group's equity	Effect on the Group's equity
<b>Increase</b>		
5% increase in quotations	440,778	401,645
10% increase in quotations	881,557	803,290
20% increase in quotations	1,763,114	1,606,579
<b>Decrease</b>		
5% decrease in quotations	(440,778)	(401,645)
10% decrease in quotations	(881,557)	(803,290)
20% decrease in quotations	(1,763,114)	(1,606,579)

To limit equity risk and interest rate risk of the trading portfolio, the Group works with a list of selected issuers, in which securities investments are allowed, also, it sets up limits to the aggregate volume of investments in securities.

**Currency risk**

A sensitivity analysis of profit or loss for the year and capital to currency risk, prepared on the basis of a simplified scenario of a parallel shift of the yield curves by 100, 200 or 400 bps to decrease / increase interest rates and existing positions on interest-bearing assets and liabilities as at 31 December 2018 and 31 December 2017, can be shown as follows:

	2018		2017	
	Profit or loss	Capital	Profit or loss	Capital
<b>Rise</b>				
100 bps	11,258	137,448	(2,125)	135,745
200 bps	22,516	164,938	(4,250)	162,894
400 bps	45,003	192,428	(8,500)	190,043
<b>Fall</b>				
100 bps	(11,258)	(137,448)	2,125	(135,745)
200 bps	(22,516)	(164,938)	4,250	(162,894)
400 bps	(45,003)	(192,428)	8,500	(190,043)

The Group sets up limits with regard to the level of assumed risk by currency and in total, at the end of each day but also, during one day. The Group daily controls observance of the limits.



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The Bank's general exposure to foreign currency risk as at 31 December 2018 is provided in the table below.

	Rouble	US dollar	Euro	Other currencies	Total
<b>ASSETS</b>					
Cash and cash equivalents	5,421,832	113,491	120,236	2,643	5,658,202
Mandatory reserve deposits with the Bank of Russia	212,708	-	-	-	212,708
Due from financial institutions	30,091	37,823	201,918	-	269,832
Loans and advances to customers	6,288,116	16,927	61,483	-	6,366,526
Financial assets held for income or sale	7,196,049	1,542,034	158,481	-	8,896,564
Financial assets at fair value through profit or loss	1,695,599	-	-	-	1,695,599
Investment property	909,438	-	-	-	909,438
Assets included in the disposal groups, classified as "held for sale"	3,535	-	-	-	3,535
Property and equipment	773,977	-	-	-	773,977
Intangible assets	71,330	-	-	-	71,330
Other assets	237,451	33,794	37	-	271,282
<b>Total assets</b>	<b>22,840,126</b>	<b>1,744,069</b>	<b>542,155</b>	<b>2,643</b>	<b>25,128,993</b>
<b>LIABILITIES</b>					
Due to financial institutions	4,528	28,955	205,161	336	238,980
Customer accounts, except for accounts of individuals	1,052,225	119,033	60,244	1	1,231,503
- current accounts and accounts on demand	647,484	20,330	56,259	1	724,074
- term deposits	404,741	98,703	3,985	-	507,429
Customer accounts - individuals	16,652,374	314,415	183,904	120	17,150,813
- current accounts and accounts on demand	658,403	18,066	24,894	3	701,366
- term deposits	15,993,971	296,349	159,010	117	16,449,447
Debt liabilities issued	3,460	-	-	-	3,460
Other liabilities and provisions	104,843	26	1	-	104,870
<b>Total liabilities</b>	<b>17,817,430</b>	<b>462,429</b>	<b>449,310</b>	<b>457</b>	<b>18,729,626</b>
<b>Net balance sheet position</b>	<b>5,022,696</b>	<b>1,281,640</b>	<b>92,845</b>	<b>2,186</b>	<b>6,399,367</b>

The Bank's general exposure to foreign currency risk as at 31 December 2017 is provided in the table below.

	Rouble	US dollar	Euro	Other currencies	Total
<b>ASSETS</b>					
Cash and cash equivalents	2,652,633	63,715	144,405	840	2,861,593
Mandatory reserve deposits with the Bank of Russia	146,762	-	-	-	146,762
Financial assets at fair value through profit or loss	4,887	-	-	-	4,887
Due from financial institutions	207,356	33,278	9	-	240,643
Loans and advances to customers	4,724,180	34,412	26,421	-	4,785,013
Financial assets held for income or sale	7,289,985	1,636,824	-	-	8,926,809
Investment property	1,168,586	-	-	-	1,168,586
Assets included in the disposal groups, classified as "held for sale"	4,449	-	-	-	4,449
Property and equipment	830,666	-	-	-	830,666
Intangible assets	99,277	-	-	-	99,277
Other assets	182,060	1,167	792	-	184,019
<b>Total assets</b>	<b>17,310,841</b>	<b>1,769,396</b>	<b>171,627</b>	<b>840</b>	<b>19,252,704</b>

**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018  
(in thousands of Russian Roubles)****LIABILITIES**

Financial liabilities at fair value through profit or loss	8,890	-	-	-	<b>8,890</b>
Due to financial institutions	783,745	30	-	-	<b>783,775</b>
Customer accounts, except for accounts of individuals	518,276	6,728	1,018	-	<b>526,022</b>
- current accounts and accounts on demand	359,401	6,728	1,018	-	<b>367,147</b>
- term deposits	158,875	-	-	-	<b>158,875</b>
Customer accounts - individuals	10,157,335	409,796	165,938	1	<b>10,733,070</b>
- current accounts and accounts on demand	663,716	20,188	17,699	-	<b>701,603</b>
- term deposits	9,493,619	389,608	148,239	1	<b>10,031,467</b>
Other liabilities and provisions	121,944	63	-	-	<b>122,007</b>
Subordinated loans	661,672	-	-	-	<b>661,672</b>
<b>Total liabilities</b>	<b>12,251,862</b>	<b>416,617</b>	<b>166,956</b>	<b>1</b>	<b>12,835,436</b>
<b>Net balance sheet position</b>	<b>5,058,979</b>	<b>1,352,779</b>	<b>4,671</b>	<b>839</b>	<b>6,417,268</b>

When entering into speculative FOREX transactions, the Treasury's dealers perform analyses for identification and measurement of currency risks related to instruments in foreign currency. Speculative trading operations in foreign currency are restricted by various limits.

Currency risk management is performed on the basis of current value of the open currency position and expected change in the position currency exchange rate against Rouble.

The Group analyzes foreign currency sensitivity risk by doing stress-tests under two scenarios. Scenario 1: a 15% change in currency exchange rates on open currency positions in foreign currencies. Scenario 2: a 30% change in currency exchange rates on open currency positions in foreign currencies. The testing of how changes in foreign currency rates against Rouble influence the Group's capital (equity) is done quarterly. The testing results as at 31 December 2018 and 31 December 2017 demonstrated no significant impact of exchange rate changes against Rouble.

**Interest rate risk of the banking book**

Management of interest rate risk of the banking book in the Group is regulated by provisions of the Interest Rate Policy, Deposit Policy, Credit Policy and Regulation on Interest Rate Risk of the Banking Books. These internal documents have been drafted with the objective to establish a system of internal indicators limiting the interest rate risk of the banking book and losses from changes in the market interest rates to acceptable levels.

The Group assumes the risk of the market interest rate fluctuations and its impact on the financial position and cash flows. These fluctuations may lead to higher interest rate margins, however, in case of any unexpected change in the interest rates the margin may fall or turn into a loss as well.

Interest rate risk is inherent to the Group's activity of lending money at fixed interest rates in the amounts and with maturities other than those of the attracted funds at fixed rates.

Managing interest rate risk of the banking books is aimed at lower impact of changes in interest rates on the net interest income. To this end, the Finance and Budget Committee sets the maximum interest rates, or their ranges, for attracted funds and the minimum interest rates for funds placements.

Assessment of interest rate risk of the banking book is performed on the basis of the gap-analysis, using a standard approach, analysis of yield curves and net interest margins as well as by using stress-test in accordance with Regulation on arrangement of stress-testing, underpinned by international approaches set out in Letter of the Bank of Russia No.15-1-3-6/3995, dated 2 October 2007.

The interest rate risk analysis of the Group as at 31 December 2018 is provided below. The table shows assets and liabilities with interest rate risk of the banking book, grouped by different time interval, depending on the contractual dates of interest rate reviews.





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	On demand and up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	Maturity undefined / no interest rate risk	Total
<b>ASSETS</b>						
Cash and cash equivalents	4,420,000	-	-	-	-	<b>4,420,000</b>
Loans and advances to customers	34,209	674,725	960,629	4,101,565	-	<b>5,771,128</b>
Financial assets held for income or sale	275,129	802,296	-	7,283,455	-	<b>8,360,880</b>
<b>Total assets</b>	<b>4,729,338</b>	<b>1,477,021</b>	<b>960,629</b>	<b>11,385,020</b>	<b>-</b>	<b>18,552,008</b>
<b>Total assets, cumulative basis</b>	<b>4,729,338</b>	<b>6,206,359</b>	<b>7,166,988</b>	<b>18,552,008</b>	<b>18,552,008</b>	
<b>LIABILITIES</b>						
Customer accounts	3,987,312	6,492,082	3,787,985	2,689,497	-	<b>16,956,876</b>
<b>Total liabilities</b>	<b>3,987,312</b>	<b>6,492,082</b>	<b>3,787,985</b>	<b>2,689,497</b>	<b>-</b>	<b>16,956,876</b>
<b>Total liabilities, cumulative basis</b>	<b>3,987,312</b>	<b>10,479,394</b>	<b>14,267,379</b>	<b>16,956,876</b>	<b>16,956,876</b>	
Absolute gap	742,026	(5,015,061)	(2,827,356)	8,695,523	-	<b>1,595,132</b>
<b>Cumulative relative gap</b>	<b>742,026</b>	<b>(4,273,035)</b>	<b>(7,100,391)</b>	<b>1,595,132</b>	<b>1,595,132</b>	
Interest rate risk sensitivity gap	7,420	(50,151)	(28,274)	86,956	-	<b>15,951</b>

Interest rate sensitivity represents an effect on the net interest income for one year of the parallel shift of all yield curves by 100 bps.

The Group's interest rate risk analysis as at 31 December 2017 is shown below.

	On demand and up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	Maturity undefined / no interest rate risk	Total
<b>ASSETS</b>						
Cash and cash equivalents	1,470,000	-	-	-	-	<b>1,470,000</b>
Loans and advances to customers	988	316,581	255,693	2,982,555	-	<b>3,555,817</b>
Financial assets held for income or sale	-	18,402	931	6,846,991	-	<b>6,866,324</b>
<b>Total assets</b>	<b>1,470,988</b>	<b>334,983</b>	<b>256,624</b>	<b>9,829,546</b>	<b>-</b>	<b>11,892,141</b>
<b>Total assets, cumulative basis</b>	<b>1,470,988</b>	<b>1,805,971</b>	<b>2,062,595</b>	<b>11,892,141</b>	<b>11,892,141</b>	
<b>LIABILITIES</b>						
Due to financial institutions	-	450,000	-	-	-	<b>450,000</b>
Customer accounts	1,338,751	4,433,101	4,202,222	216,268	-	<b>10,190,342</b>
<b>Total liabilities</b>	<b>1,338,751</b>	<b>4,883,101</b>	<b>4,202,222</b>	<b>216,268</b>	<b>-</b>	<b>10,640,342</b>
<b>Total liabilities, cumulative basis</b>	<b>1,338,751</b>	<b>6,221,852</b>	<b>10,424,074</b>	<b>10,640,342</b>	<b>10,640,342</b>	
Absolute gap	132,237	(4,548,118)	(3,945,598)	9,613,278	-	<b>1,251,799</b>
<b>Cumulative relative gap</b>	<b>132,237</b>	<b>(4,415,881)</b>	<b>(8,361,479)</b>	<b>1,251,799</b>	<b>1,251,799</b>	
Interest rate risk sensitivity gap	1,322	(45,481)	(39,456)	96,133	-	<b>12,518</b>



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018****(in thousands of Russian Roubles)****Concentration risk**

Main principles of concentration risk management in the Group, including procedures of the risk assessment and its minimization methods, are set out in the Concentration Risk Policy and the Regulation on Concentration Risk Management.

In managing concentration risk, the Group aims to limit adverse consequences of this risk realization, which may lead to material losses threatening the Group's solvency and its ability to continue as a going concern.

Lower concentration risk is achieved by the following:

- setting up limits to lower concentration risks with regard to large separate borrowers (e.g. groups of related parties), and also, regarding the borrowers with the same business activities;
- restrictions on operations / deals with large creditors, depositors or a group of creditors / depositors.

The Group controls and discloses information on the credit risk concentration based on the reports that provide the data on the borrowers with the total credit exposure exceeding 10% of the capital.

**Operational risk**

**Operational risk management** is done in the Group according to the "Policy on Operational Risk Management in the Group" and the "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputation Risks".

The Head of the Risk Management Service of the parent company of the Group is responsible for collection, arrangement and presentation of information on operational risk level. This subdivision is independent from other subdivisions of the Group that carry out operations bearing risks of losses.

Collection and registration of the data is effectuated on the basis of reports prepared by structural subdivisions on the registered facts, as well as on other facts that did not lead to direct losses. Each incident of an operational loss or a consolidated entry for several incidents of losses is put in a particular category by operational loss type and business activity type.

The Group has defined procedures for review and approval of new products, including credit products. New products are subject to approval by the Technological Committee of the parent company of the Group in a form of an approved product/service sheet describing the main product/service delivery features and terms.

Calculation of capital required to cover operational risk in the Group is carried out by applying the base method (provided for by the "Regulation on Calculation Procedures of Operational Risk" No.652-П, approved by the Bank of Russia on 3 September 2018) based on computation of a positive average annual gross income for the last 3 years multiplied by a fixed factor of 15%.

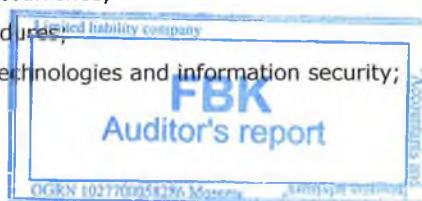
The Group capital requirement with regard to the operational risk, calculated using the base indicative approach, was RUB 165,188 thousand as at 31 December 2018 and RUB 174,590 thousand as at 31 December 2017.

For the purpose of the ICAAP and calculation of the economic capital of the Group (definitions of capital requirements), the operational risk is assessed in accordance with the Standardized Approach, as recommended by the Basel Committee on Banking Supervision.

Appropriateness of the operational risk level for the Group is verified by assessing the operational risk impact on the capital adequacy ratio of the Group (N1) as at the reporting date.

To minimize (limit) operational risk, the Group works out a set of measures directed at reduction of probability of events or circumstances leading to losses as a result of the operational risk realization and/or at reduction (minimization) of size of such losses. The main measures comprise:

- division of responsibility for identification of operational risk;
- continuous maintenance and update of an analytical database of losses incurred as a result of realization of operational risk. The database contains information on loss types and sizes, dates of occurrence, and on all material events that have led to such losses, including circumstances of their occurrence (identification);
- drafting internal regulatory documentation for procedures used in conducting banking operations and other transactions, for division of authority and accountability for conducted banking operations and other transactions, which is to exclude (limit) possibility of the operational loss occurrence;
- control over compliance with the implemented procedures;
- enhancement of systems of automation of banking technologies and information security;



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- insurance, including property insurance: property insurance of buildings, other possessions, including currency valuables and securities, from loss, damages, shortages, also as a result of actions of third parties; and personal insurance of the Group employees against accidents and injuries to health;

- training and re-training of personnel;
- implementation of a system of limits;

- outsourcing is a transfer on a contractual basis of non-core functions to other organizations that specialize in a specific area and possess the corresponding expertise, knowledge and equipment. Outsourcing is one of the ways of risk transfer.

The Group has developed measures to ensure business continuity and/or recovery of business activities, including action plans in case of occurrence of unexpected circumstances (business continuity action plans and/or recovery of business activities). These plans comprise the following elements: identification of the internal processes to be protected; the degree of the required protection (keeping normal operations within a certain time period); procedures for transition to the emergency mode and manner of functioning in this mode; appropriate resources; redistribution of functions, authority and duties among subdivisions and employees; procedures for restoring performance of interrupted work processes and systems and return to normal operation; and additional procedures of normal operation.

**Legal risk**

Legal risk in the Group is managed within the operational risk management framework according to "Policy on operational risk management" and "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputation Risks".

The legal risk management process comprises the following stages: identification and assessment of legal risk; set-up of acceptable level of legal risk (a system of limits); a system of division of authority and decision-making; control over legal risk when developing and implementing new technologies and conditions for banking operations and other transactions; legal risk minimization; and monitoring and control.

The Risk Management Service is responsible for assessment of an acceptable legal risk level. This subdivision is independent from other subdivisions of the Group that perform operations bearing risks of losses. Verification and assessment of legal risk level is continuously performed by the Group. Collection and registration of the data is effectuated on the basis of reports periodically prepared by structural subdivisions on the registered facts of losses.

The Group has developed "Regulation on Internal Documentation Management". In development of internal regulatory documents, the following subdivisions must participate: the Legal Department, heads of the Group's structural subdivisions whose activities are affected by the documents being worked out, the Internal Control Service and the Risk Management Service.

Subsequent to its approval an internal regulatory document is subject to a mandatory posting in the Directory of regulatory documents. The Directory is in continuous open access to all employees of the parent company of the Group.

For the legal risk reduction, the Group develops standard contract templates for work with its counterparties.

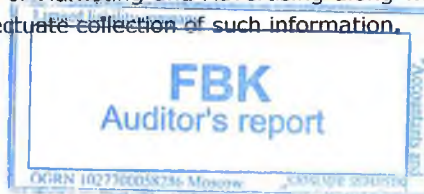
The Legal Department of the parent company of the Group and heads of structural subdivisions perform a constant monitoring of the legislation. To this end, they use legislation databases on the web sites "Consultant Plus" and "Garant".

**Reputation risk**

The key principles of reputation risk management, including its assessment procedures and methods of minimization, are established in "Policy on management of the risk of business reputation loss (reputation risk)" in the Group, "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputation Risks" and in "Rules and Procedures for Processing and Accepting Claims".

As reputation risk the Group has defined the risk connected with loss occurrence to the Group as a result of reduction in the number of customers (counterparties) due to negative public perception about the financial sustainability of the Group, quality of services offered or the nature of its activities.

The main verification of reputation risk by the Group is made on the basis of information analysis in the media and customers' feedback about the Group's activities. The Department of Marketing and Advertising along with the General Affairs Department of the parent company of the Group effectuate collection of such information.





**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018****(in thousands of Russian Roubles)****Regulatory risk**

The key principles of regulatory risk management, including its assessment procedures and methods of minimization, are established in the "Policy on management of the regulatory risk", the "Regulation on management of the regulatory risk" and in the "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputation Risks".

The Internal Control Service of the Group identifies regulatory risk, keeps records of the regulatory risk events and performs the risk monitoring.

To minimize occurrence of the regulatory risk, the Group informs its employees when:

- there are changes in legislation of the Russian Federation and legal acts of the Bank of Russia,
- there are changes in internal documents of the Group.

Over 2018, the Bank has been in compliance with all mandatory ratios established by the Bank of Russia, except for N6 ratio.

The N6 ratio calculated for OJSC JSCB "Probusinessbank" will not be within the required limits during the financial rehabilitation phase of the Bank due to the fact that the previous managing company is the biggest borrower of JSC CB "Solidarnost". This violation will be eliminated after the financial rehabilitation of the Bank, when outstanding loans are written off through the established allowance for possible loan losses.

**30. Capital management**

Daily control over observance of the capital adequacy ratio set by the Bank of Russia is exercised by the parent company of the Group. On a monthly basis, the Bank sends information regarding capital adequacy ratio calculations to the Bank of Russia, which is verified and approved by the Chairman of the Management Board and the Chief Accountant of the parent company of the Group. Other goals of capital management are evaluated annually.

The only items of the balance sheet defined by the Bank as elements of the total capital are those designated in the statutory legislation of the Russian Federation regarding calculation of the capital for credit institutions. The Group calculates its capital according to the Regulation of the Bank of Russia No. 395-P "On methodology to determine the amount of the capital in credit institutions (Basel III)" of 28 December 2012.

Minimum capital adequacy ratios as at 31 December 2018 and 31 December 2017 are as follows:

	2018	2017
Base capital adequacy ratio (N 1.1), %	4.50	4.50
Core capital adequacy (N 1.2), %	6.00	6.00
Capital adequacy ratio (N 1.0), %	8.00	8.00

Calculation of the capital adequacy ratio of the Bank as at 31 December 2018 and 31 December 2017, according to the requirements of the Bank of Russia, was based on the following:

	2018	2017
Core capital	10,179,767	10,178,995
Additional capital	4,235,947	4,794,989
Items decreasing the amount of the core capital	(936,164)	(799,948)
<b>Total capital calculated as per requirements of the Bank of Russia</b>	<b>13,479,550</b>	<b>14,174,036</b>
Risk assumed by the Bank, calculated as per requirements of the Bank of Russia (includes risk-weighted assets, risk of off-balance sheet estimated liabilities, risk on forward deals, market risk)	33,124,792	31,043,020
<i>Capital adequacy ratios calculated in line with requirements of the Bank of Russia</i>		
Base capital adequacy ratio (N 1.1)	28.14%	30.49%
Core capital adequacy ratio (N 1.2)	28.14%	30.49%
<b>Total capital adequacy ratio (N 1.0)</b>	<b>40.69%</b>	<b>45.66%</b>

Over the periods ended 31 December 2018 and 31 December 2017, the Bank has been observing the capital adequacy ratio requirements set by the Bank of Russia.



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)**

**Notes to the IFRS Consolidated Financial Statements for 2018**  
**(in thousands of Russian Roubles)**

**31. Contingencies****Legal proceedings**

From time to time and in the normal course of business, claims against the Bank are received. The Bank management's judgment as well as opinions of internal and external professional advisers is, that no material losses for the Bank will be incurred as a result of legal proceedings regarding such claims. Therefore, no provision has been made in these consolidated financial statements.

**Taxation**

Major part of the Group's business activity is carried out in the Russian Federation. Tax legislation of the Russian Federation (including the changes effective from the end of the reporting period) may allow for more than one interpretation regarding the Group's operations and business, and is subject to frequent changes.

Consequently, the Group's judgement in respect of tax treatments and its corresponding official documents supporting this tax position may be challenged by the appropriate tax authorities. The Russian tax authorities take a more assertive position and there is a risk of tax reviews being conducted for operations without clear commercial objectives or for operations with counterparties breaching the tax law. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year of review. Under certain circumstances, tax reviews may cover longer periods.

Russian tax legislation does not contain a full guidance on all tax issues thus, the tax authorities may challenge the interpretations of tax treatments made by the Group. Despite the fact that the management believes that it has necessary supportive evidence and documentation to justify its tax position and interpretations, a risk of potential outflow of resources exists, if the management's tax interpretations are challenged by the appropriate tax authorities. It is hardly possible to assess potential consequences of a tax challenge reliably. However, they may be quite significant for the financial position and/or the Group's business in general.

Apart from the risks mentioned above, in the Group's opinion, it has no other contingent tax liabilities as at 31 December 2018 and 31 December 2017. The above risks represent estimates, that arise due to uncertainties of interpretations in the actual tax legislation and corresponding requirements to documentation. If challenged by the tax authorities, management of the Group will defend its position and tax treatment interpretations used for calculations of the tax reported in these consolidated financial statements.

**Capital commitments**

As at 31 December 2018, the Bank had contractual capital commitments regarding reconstruction of buildings and purchase of equipment in the total amount of RUB 1,089 thousand (31 December 2017: RUB 1,745 thousand). As at the reporting date, its contractual capital commitments in respect of computer software and other intangible assets were RUB 53,285 thousand (31 December 2017: RUB 2,860 thousand).

As at 31 December 2018 and 31 December 2017 there were no any contractual capital commitments related to acquisition, construction or development of investment property.

The Bank has already allocated necessary resources to meet the above commitments. The Bank believes that the level of its net income in the future as well as the financing volume will be sufficient to meet these or similar commitments.

**Credit-related commitments**

The primary objective of these instruments is to provide financing to customers as required. Guarantees are irrevocable commitments of the Bank to execute payments in case of a client's failure to meet its obligations to third parties. They bear the same level of credit risk as loans. A documentary letter of credit represents the Bank's written obligation to make payments on behalf of its client within the agreed limit, subject to certain conditions met. Documentary letters of credit are secured by corresponding deliveries of goods or cash deposits and, therefore, bear lesser credit risk than direct lending transactions. Commitments to lend at a specified interest rate within a set period of time are recorded as derivative financial instruments, except for cases when their maturities do not meet the standard loan terms.



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018****(in thousands of Russian Roubles)**

Credit-related commitments of the Bank were as follows:

	2018	2017
Undrawn credit lines and unused overdraft limits	239,671	469,493
Guarantees issued	200,513	237,413
Allowance for ECLs	(6,292)	(6,340)
<b>Total credit-related commitments</b>	<b>433,892</b>	<b>700,566</b>

**32. Fair value of financial instruments**

Fair value is the compensatory amount at transaction with an asset or liability between well-informed, independent and willing parties. A quoted market price is the best approximation of a fair value of a financial instrument.

The Bank estimated fair value of financial instruments on the basis of market information available, if any, and appropriate valuation methods. However, professional judgements are required to interpret this information and determine the fair value. Despite the fact that the Russian Federation has investment grade ratings, its economy continues showing certain patterns inherent to emerging countries, and the existing economic environment still limits activity volumes on financial markets. Market quotations may be outdated or show sales at low prices thus, they may fail to properly approximate fair values of financial instruments. Management uses all available market information to determine fair values of financial instruments.

**Financial instruments at fair value**

Trading and other securities, loans and advances to customers, securities treated as "accounts receivable on REPO transactions", derivative financial instruments and financial assets held for income or sale, for which changes in fair value is recognized through the Statement of profit or loss, are reported at fair value in the Statement of financial position.

In determining a current (fair) value of financial instruments the Group applies the principles of IFRS 13 *Fair Value Measurement* (with due consideration to the terminology used), that establish a three-level hierarchy of input data affecting reliability of current (fair) value measurements of securities.

A current (fair) value of a security is the price used to sell the security on the valuation date in a transaction between willing parties on the securities market.

Depending on the type of input data used for current (fair) value measurements of securities, the Group applies the following fair value hierarchy:

Level 1 inputs: quoted prices (unadjusted) in active markets for the financial instrument measured. An active market quoted price is the most reliable approximation to the fair value and is used without adjustments. The following sources of the input data are used: PJSC "Moscow Exchange", the information system Reuters, fixing of the SRO National Finance Association (MIRP) and the information system Cbonds.

Level 2 inputs: data inputs other than quoted market prices in active markets that are observable, either directly or indirectly. In particular, these are prices (prices, quotations) in markets that are not active for the financial instrument, and also, market data for identical or similar financial instruments.

Level 3 inputs: unobservable inputs for the asset or liability. Measurements are based on common measurement methods for financial instruments using unobservable data and assumptions, which the market participants would use when pricing the asset or liability.

If no active market exists, a fair value measurement of financial instruments is done using Level 2 inputs or lower. The Bank applies the following methods for a reliable fair value measurement of securities:

- the method based on adjustments to market prices or the method employing observable market data inputs. If there are observable prices but no active market criteria, the Bank applies adjusting factors to the observable prices of the inactive market to determine the fair value of financial instruments traded on the established market. The adjusting factors depend on how inactive the market is. For the instruments traded on the established market, given no active market criteria and arm's length market transactions for the period over 30 calendar days, and also for the instruments of the over-the-counter market with no active market criteria, the Bank uses the data from the information system Reuters. To determine fair value of debt and equity securities, an average quotation for the last 60 calendar days is used.



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018****(in thousands of Russian Roubles)**

- the methods using observable inputs for similar instruments, that is, fair value determination of equity and debt securities on the basis of comparable securities. Comparable financial instruments are those that have identical or comparable key characteristics, such as:

- maturity and/ or put term
- their issuers are from the same industry
- currency of payment
- have at least one similar credit rating of long-term debt under the international grading scale applied by such rating agencies as Standard&Poors, Fitch Ratings or Moody's Investors Service, or under the Russian scale of such rating agencies as ACRA and Expert RA.

- the methods employing unobservable inputs. A discounted cash flows (DCF) method is used if there is no active market and no possibility to determine fair value of a financial instrument on the basis of the previous fair value methods. This method is used for equity securities, except for investment fund units. The DCF method is based on the assumption that a company's value equals to the present value of the future economic income.

**Cash and cash equivalents and Due from financial institutions measured at amortized cost**

Cash and cash equivalents are measured at amortized cost, which approximates to their current fair value.

Management has assumed that fair value of the amounts due from financial institutions does not significantly differ from their carrying amounts. This is justified by the existing practice of interest rate reviews to accommodate them to market conditions. Therefore, major part of these funds is placed under interest rates that approximate to the market.

**Loans and advances to customers at amortized cost**

Normally, fair values of instruments with floating interest rates equal their carrying amounts. As to loans and advances to customers and Due from other banks placed at fixed interest rates, the Bank can revise the terms if the market conditions substantially change. Consequently, interest rates on loans issued before the reporting date do not significantly differ from the current rates offered by the lending market for new instruments with similar credit risk and maturities. If the Bank estimates that the interest rates on the previously issued loans significantly differ from those effective at the reporting date for similar instruments, the fair value of such loans is measured.

A fair value measurement is based on the DCF method using actual interest rates on the lending market for new instruments with similar credit risk and maturities. The discounting rates used depend on currency, maturity of an instrument and a counterparty's credit risk.

**Financial assets held for income**

Amortized cost of financial assets held for income is calculated on the basis of market quotations / prices.

Due to a short-term nature of the assets, the Bank measures fair value of other financial assets, including trade accounts receivable and receivables on general administrative transactions, at their carrying amounts.

**Liabilities at amortized cost**

Fair value of these liabilities is based on market prices, if available. A fair value assessment of instruments with fixed interest rates, established maturities and no market prices available, is based on the cash flows, discounted using interest rates for new instruments with a similar credit risk and maturity. Fair value of liabilities payable on demand or subject to prior notification ("liabilities payable on demand"), is calculated as the amount payable on demand, discounted from the first date of a potential notification to discharge the obligation.

Fair value of issued bonds and subordinated liabilities is based on market quotations. If no such quotations are available, fair value is calculated by discounting the expected cash flows using market interest rates for similar securities or funds quoted on the market.

**Derivative financial instruments**

All derivative financial instruments are measured at fair value and accounted for as assets, if the fair value of these instruments is positive, and they are accounted as liabilities, if their fair value is negative.

Fair value of financial instruments is shown below.



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018****(in thousands of Russian Roubles)**

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>Financial assets at fair value</i>				
Financial assets at fair value through profit or loss	1,695,599	1,695,599	4,887	4,887
<i>Financial assets at fair value through other comprehensive income</i>				
Financial assets held for income or sale	8,896,564	8,896,564	8,926,809	8,926,809
<i>Financial assets at amortized cost</i>				
Cash and cash equivalents	5,658,202	5,658,202	2,861,593	2,861,593
Due from financial institutions	269,832	269,832	240,643	240,643
Loans and advances to customers	6,366,526	6,533,418	4,785,013	4,871,731
<i>Financial liabilities at fair value</i>				
Financial liabilities at fair value through profit or loss	-	-	8,890	8,890
<i>Financial liabilities at amortized cost</i>				
Due to financial institutions	238,980	238,980	783,775	783,775
Customer accounts	18,382,316	18,382,316	11,259,092	11,259,092
Debt liabilities issued	3,460	3,460	-	-
Other liabilities and provisions	104,870	104,870	122,007	122,007

**33. Related party transactions**

The largest related parties of the Group, by volume of transactions, are its main shareholders and key management personnel. Other related parties include subsidiaries, associates of the Group as well as persons with significant control or influence on activities of the parent organization of the Group.

Related parties include:

- JSC "Zarubezhenergoprojekt"
- JSC Insurance Company "Solidarnost"
- JSC "Privolzhskoye Credit Bureau".

Related-party balances are grouped below by category adopted in the statement of financial position and by type of contingent liabilities as at 31 December 2018 as well as by income and expense categories for 2018:

	Main shareholders	Key management personnel	Other related parties
Loans and advances to customers	543,129	16,185	787
Customer accounts, except for accounts of individuals	11,634	-	-
Customer accounts, individuals	-	25,342	38,701
Subordinated debt	4,011,960	-	-
Undrawn credit lines and unused overdraft limits	28,502	552	176
Guarantees issued	106,288	-	-
	Main shareholders	Key management personnel	Other related parties
Interest income	78,299	284	33
Interest expense	136,551	524	2,236
Fee and commission income	293	-	579
Income (expense) on derivative financial instruments	-	-	-



**GROUP COMMERCIAL BANK "SOLIDARNOST" (Joint-Stock Company)****Notes to the IFRS Consolidated Financial Statements for 2018****(in thousands of Russian Roubles)**

Related-party balances are grouped below by category adopted in the statement of financial position and by type of contingent liabilities as at 31 December 2017 as well as by income and expense categories for 2017:

	Main shareholders	Key management personnel	Other related parties
Loans and advances to customers	230,186	1,004	9,124
Other assets	-	500	48
Customer accounts, except for accounts of individuals	45,739	-	-
Customer accounts, individuals	-	3,552	-
Subordinated debt	4,011,960	-	-
Undrawn credit lines and unused overdraft limits	-	13,496	3,404
Guarantees issued	118,062	-	-

	Main shareholders	Key management personnel	Other related parties
Interest income	47,643	184	484
Interest expense	22,677	346	-
Change in allowance for ECLs on interest-bearing assets	66,121	8	9
Income (expense) on derivative financial instruments	1,393	-	-

Key management personnel of the Group comprise the members of the Board of Directors and the Management Board of the Bank. Remunerations to key management personnel for 2018 and 2017, included in the line Personnel expenses, is provided below:

	2018	2017
Salaries	81,706	92,271
Severance allowances	2,547	4,798

**34. Events after the reporting date**

On 7 February 2019 the Bank launched the following structural units:

- Operating office "Morskoy Terminal" of the branch "Moskovsky" in Vladivostok, Russia and
- Stand-alone cash desk outside of the main cash-desk area, "Lotte", of the branch "Moskovsky" in Vladivostok, Russia.

On 15 May 2019, the Bank registered a new branch "Dalnevostochny" in Blagoveschensk, Russia.

Starting 1 February 2019, the Bank's Chairman of the Management Board was replaced by the newly-appointed acting Chairman of the Management Board. From 18 March 2019, the Bank changed its Chief Accountant and appointed the acting Chief Accountant.

On 22 May 2019, the Analytical Credit Rating Agency (ACRA) assigned to the Bank the credit rating B(RU) with the stable outlook.

Signed on 27 May 2019

Acting Chairman of the Management Board

Acting Chief Accountant



V. P. Arbuzov

Yu. V. Malysheva







Numbered and stitched  
up in total 77

pages

Severina  
President of «PIK», LLC

Severina  
Engagement partner

