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Commercial Bank "Solidarnost" (Joint-Stock Company)

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

for the period ended 31 December 2017

**Moscow | 2018**



# Group JSC CB “Solidarnost”

Consolidated Financial Statements  
for 2017



# Group JSC CB “Solidarnost”

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

Group JSC CB "Solidarnost"  
 To the shareholders of Joint-Stock Company  
 Commercial Bank "Solidarnost"

## 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 2017 and the consolidated statement of profit or loss and other 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 2017 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 "Principal activities" of the consolidated financial statements of the Group for the period ended 31 December 2017, which comprises the following information:

- the parent company of the Group (JSC CB "Solidarnost") 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, being its integral part, approved by the Board of Directors of the Bank of Russia on 10 November 2017 (Minutes No. 29);
- the share capital of the parent company of the Group (JSC CB "Solidarnost") was increased by purchasing an additional issue of JSC CB "Solidarnost" shares by JSC "Zarubezhenergoprojekt", the Bank's shareholder.

Our opinion is not modified in respect of this matter.

## Other Information

Management of the Group is responsible for the other information. The other information comprises the report titled "Information on Accepted Risks, Procedures of Their Assessment, Risk and Capital Management" of the parent company of the Group (JSC CB "Solidarnost"), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the annual consolidated financial statements 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, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. If, based on the work we have performed on the report titled "Information on Accepted Risks, Procedures of Their Assessment, Risk and Capital Management" we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

Management of the Group 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 of the Group 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 of the Group 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 of the Group 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 its ability 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;

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.

We also provide those charged with governance of the audited entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## 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 Group 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 for the period ended 31 December 2017 we verified whether:

- the Group was in compliance with the mandatory requirements set by the Bank of Russia as at 1 January 2018;
- 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:

- As at 1 January 2018 the Group's mandatory ratios set by the Bank of Russia 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 parent company of the Group 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.

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 2018, financial performance and cash flows for the year ended 31 December 2017 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 2018 the internal audit service of the Group reported to the Group's Board of Directors, the risk management departments of the Group did not report to the departments assuming the respective risks, the chiefs of the internal audit service and the risk management departments of the Group meet the qualifications set by the Bank of Russia;

b) as at 1 January 2018 the effective internal documents of the Group 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 Group in accordance with the requirements and recommendations of the Bank of the Russia;



c) as at 1 January 2018 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 Group and the internal audit service of the Group during 2017 as to management of credit, operational, market, interest rate, legal, liquidity and goodwill risks of the Group were in compliance with the Group's internal documents; the said reports comprised the results of observation of efficiency measurement of the Group's respective methodologies conducted by the Group's risk management departments and the Group's internal audit service as well as recommendations to improve them;

e) as at 1 January 2018 the powers of the Board of Directors of the Group and its executive bodies comprised control over the Group's compliance with risk limits and capital adequacy set by the Group's internal documents. For the purpose of control over efficiency of risk management procedures applied in the Group and order of their application during 2017 the Board of the Directors of the Group 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 Bank 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:  
28 March 2018



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

Group OJSC 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 JSC CB "Solidarnost"

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2017

	Note	31.12.2017 RUB'000	31.12.2016 RUB'000
Interest income	5	1,533,951	1,654,717
Interest expense	5	(1,030,921)	(1,035,601)
<b>Net interest income</b>		<b>503,030</b>	<b>619,116</b>
Fee and commission income	6	108,419	76,236
Fee and commission expense	7	(12,934)	(14,562)
<b>Net fee and commission income</b>		<b>95,485</b>	<b>61,674</b>
Net realized (loss)/profit on securities available for sale		(8,496)	4,165
Net income on foreign currency transactions	8	76,821	78,075
Other operating income	9	337,114	25,878
<b>Operating income before charges to provisions for impairment</b>		<b>1,003,954</b>	<b>788,908</b>
Provision for impairment	10	773,625	(1,129,085)
Revaluation of investments in real estate		194,600	59,652
General administrative expenses	11	(1,474,117)	(776,575)
<b>(Loss)/profit before tax</b>		<b>498,062</b>	<b>(1,057,100)</b>
Income tax expense	12	103,254	(33,757)
<b>(Loss)/Profit for the year</b>		<b>601,316</b>	<b>(1,090,857)</b>
<b>Other comprehensive income</b>			
<b>Items which will not be subsequently reclassified in profit or loss:</b>			
Revaluation of premises and equipment less deferred income tax		23,458	9,540
Net (loss)/income on financial assets available for sale		(31,597)	682,320
<b>Other comprehensive income less income tax</b>		<b>(8,139)</b>	<b>691,860</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>593,177</b>	<b>(398,997)</b>

V. Yu. Belov  
Chairman of the Management Board  
of JSC CB "Solidarnost"

26 February 2018

E. Yu. Panfilova  
Chief accountant of JSC CB "Solidarnost"

Notes set out on pages 14-78 form an integral part of these financial statements



# Group JSC CB "Solidarnost"

UNOFFICIAL TRANSLATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE PERIOD ENDED 31 DECEMBER 2017

	Note	31.12.2017 RUB'000	31.12.2016 RUB'000
<b>ASSETS</b>			
Cash	29	431,498	404,792
Cash with the Central Bank of the Russian Federation	29	879,694	277,609
Mandatory cash balances with the Central Bank of the Russian Federation		146,762	122,560
Due from banks and other financial institutions	13	1,791,044	2,585,835
Loans to customers	14	4,609,939	3,615,396
Investments in securities available for sale	15	8,926,809	8,716,582
Investments in securities at fair value through profit or loss		4,887	198
Reverse REPO transactions		175,074	244,980
Premises, equipment and intangible assets	16	929,943	867,387
Investment property		1,168,586	555,314
Current income tax asset		-	-
Assets intended for sale		4,449	3,781
Other assets	17	184,019	124,172
<b>Total assets</b>		<b>19,252,704</b>	<b>17,518,606</b>
<b>LIABILITIES</b>			
Deposits and due to banks and other financial institutions		783,775	2,316
Current accounts and deposits from customers	18	11,259,092	10,537,192
Subordinated loans	20	661,672	-
Other borrowed funds	19	-	7,684,966
Deferred tax liability	12	-	47,819
Financial liabilities at fair value through profit or loss		8,890	-
Current income tax liability		5,093	-
Other liabilities	21	116,914	64,507
<b>Total liabilities</b>		<b>12,835,436</b>	<b>18,336,800</b>
<b>EQUITY</b>			
Share capital	22	10,110,001	10,000
Additional paid-in capital		3,350,288	6,808,004
Revaluation reserve for premises and equipment	16	214,734	191,276
Revaluation of securities		650,723	682,320
(Accumulated deficit)/Retained earnings		(7,908,478)	(8,509,794)
<b>Total equity</b>		<b>6,417,268</b>	<b>(818,194)</b>
<b>Total liabilities and equity</b>		<b>19,252,704</b>	<b>17,518,606</b>

V.Yu.Belov  
Chairman of the Management Board  
of JSC CB "Solidarnost"

26 February 2018

E.Yu.Panfilova  
Chief accountant of JSC CB "Solidarnost"

Notes set out on pages 14-78 form an integral part of these financial statements



## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2017

	Note	31.12.2017 RUB'000	31.12.2016 RUB'000
<b>CASH FLOWS</b>			
<b>FROM OPERATING ACTIVITIES:</b>			
(Loss)/profit before tax		498,062	(1,057,100)
<b>Adjustments:</b>			
Net interest income	5	(503,030)	(619,116)
Provision for impairment	10	(773,625)	1,129,085
Depreciation of premises, equipment and intangible assets		72,898	48,847
Net change in other accruals		(202,416)	(402,606)
Unrealized (profit)/loss on foreign currency transactions	8	(107,299)	539,320
<b>Net cash outflow from operating activities before change in operating assets and liabilities and before interests received and paid</b>		<b>(1,015,410)</b>	<b>(361,570)</b>
<b>Change in operating assets and liabilities</b>			
<b>(Increase)/decrease in operating assets:</b>			
Mandatory cash balances with the Central Bank of the Russian Federation		(24,202)	(39,153)
Due from banks and other financial institutions		1,112,236	2,588,294
Loans to customers	14	(578,994)	(391,984)
Financial assets carried at fair value through profit or loss		-	418,827
Reverse REPO agreements		122,300	30,000
Other assets	17	6,760	253,369
<b>Increase/(decrease) in operating liabilities:</b>			
Deposits and accounts of banks and other financial institutions		776,965	2,293
REPO agreements		-	-
Current accounts and deposits from customers	18	1,165,024	2,469,228
Other liabilities	21	83,397	(31,122)
<b>Cash outflow from operating activities before taxes and interest paid</b>		<b>1,648,076</b>	<b>4,938,182</b>
Interest received	5	1,648,076	1,709,172
Interest paid	5	(1,043,860)	(1,011,307)
Income tax paid	12	103,254	(33,757)
<b>Net cash outflow from operating activities</b>		<b>2,355,546</b>	<b>5,602,290</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of premises, equipment and intangible assets	16	(114,690)	(110,003)
Proceeds from sale of premises, equipment and intangible assets	16	676	758
Acquisition of securities available for sale	15	(532,766)	(7,648,258)
Acquisition of real estate investments		(613,272)	(410,000)
<b>Net cash inflow from investing activities</b>		<b>(1,260,052)</b>	<b>(8,167,503)</b>

Notes set out on pages 14-78 form an integral part of these financial statements



# Group JSC CB "Solidarnost"

UNOFFICIAL TRANSLATION

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2017 (CONTINUED)

	Note	31.12.2017 RUB'000	31.12.2016 RUB'000
<b>CASH FLOWS</b>			
<b>FROM FINANCING ACTIVITIES:</b>			
Proceeds from equity instruments issued		10,100,001	-
Change in additional paid-in capital		(3,457,716)	-
Receipts/(repayment) of subordinated debt	20	661,672	-
Proceeds/(repayment) of other borrowed funds	19	(7,684,339)	(1,107,066)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(380,382)</b>	<b>(1,107,066)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>715,112</b>	<b>(3,672,279)</b>
Effect of exchange rate changes on cash and cash equivalents		(872)	(539,321)
Cash and cash equivalents at the beginning of the year	29	916,988	5,128,588
<b>Cash and cash equivalents at the end of the year</b>	29	<b>1,631,228</b>	<b>916,988</b>

  
  
 V. Yu. Belov  
 Chairman of the Management Board  
 of JSC CB "Solidarnost"  
 26 February 2018

  
 E. Yu. Panfilova  
 Chief accountant of JSC CB "Solidarnost"

Notes set out on pages 14-78 form an integral part of these financial statements



# Group JSC CB "Solidarnost"

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2017

	Share capital RUB'000	Additional paid-in capital RUB'000	Revaluation reserve for premises and equipment RUB'000	Revaluation reserve for securities available for sale RUB'000	Retained earnings/ Accumulated deficit RUB'000	Total RUB'000
Balance as at 31 December 2015	10,000	7,642,418	181,736	-	(7,484,355)	349,799
Loss for the year	-	-	-	-	(1,090,857)	(1,090,857)
Other comprehensive income	-	-	9,540	-	-	9,540
Revaluation of premises and equipment less deferred income tax	-	-	9,540	682,320	-	682,320
Net income on financial assets available for sale	-	-	9,540	682,320	(1,090,857)	(398,997)
<b>Total comprehensive (loss)/income</b>	-	-	9,540	682,320	(1,090,857)	(398,997)
Increase in capital	-	(1,768)	-	-	1,768	-
Discounting of other borrowings	-	(768,996)	-	-	-	(768,996)
Write-off of share premium	-	(63,650)	-	-	63,650	-
Balance as at 31 December 2016	10,000	6,808,004	191,276	682,320	(8,509,794)	(818,194)
Profit for the year	-	-	-	-	601,316	601,316
Other comprehensive income	-	-	-	(31,597)	-	(31,597)
Net income on financial assets available for sale	-	-	-	(31,597)	-	(31,597)
<b>Total comprehensive (loss)/income</b>	-	-	-	(31,597)	-	(31,597)
Increase in capital	10,100,001	-	-	-	-	10,100,001
Receipt of subordinated deposit	-	(3,457,716)	-	-	-	(3,457,716)
Revaluation of premises and equipment less deferred income	-	-	23,458	-	-	23,458
Balance as at 31 December 2017	10,110,001	3,350,288	214,734	650,723	(7,908,478)	6,417,268

E.Yu.Panflova  
Chief accountant of JSC CB "Solidarnost"



## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
ENDED 31 DECEMBER 2017

### 1. BACKGROUND

#### Principal activities

The financial statements of JSC CB "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 based on the general license for banking activities issued by the Central Bank of the Russian Federation (hereinafter, "the Bank of Russia") on 3 September 2014. Besides, the parent company of the Group has licenses required for securities-related activities and depositary activities issued by the Federal Financial Markets Service on 16 November 2000 and 15 December 2000, respectively.

The parent company of the Group takes household deposits, issues loans and transfers money on the territory of the Russian Federation and abroad, conducts foreign exchange transactions as well as provides other banking services to legal entities and individuals who are customers of the Bank. The head office of the Bank is in Samara.

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

As at 31 December 2017 the office network comprises 27 units (as at 31 December 2016 – 24 units).

#### Regional network as at 31 December 2017

Region	Number of offices
Samara region	21 (Supplementary offices - 19; operational offices - 2)
Irkutsk	Irkutsk branch of JSC CB "Solidarnost"
Moscow	Moscow branch of JSC CB "Solidarnost"
Moscow	Supplementary offices - 3
St.Petersburg	St.Petersburg branch of JSC CB "Solidarnost"

In 2017 the parent company of the Group opened a branch outside of the territory of the Samara region. This is St.Petersburg branch of JSC CB "Solidarnost", registered on 7 September 2017 at the following address: office 7-N, bld.4a litera A, Efimova street, St.Petersburg, 190031, Russia.

The Bank does not have business units abroad and operates on the territory of the Russian Federation.

The total number of employees of the parent company of the Group, including part-time employees, as at 31 December 2017 and 31 December 2016 was 484 and 531, respectively.

Since 2014 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 of the parent company of the Group (hereinafter, the Participation Plan), approved by the Board of Directors of the Bank of Russia on 29 November 2013 (Minutes No. 26).

Since November 2016 JSC "Zarubezhenergoproject" has been the only shareholder of the parent company of the Group. According to the decision of the SC "DIA", JSC "Zarubezhenergoproject", being the only shareholder of the parent company of the Group, is also its turnaround manager. For financial rehabilitation of the parent company of the Group the shareholder developed and agreed with the Bank of Russia a new "Financial Rescue Plan" (hereinafter, the FRP).

## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

In 2017 under the FRP of the parent company of the Group, JSC "Zarubezhenergoprojekt" purchased an additional share issue to increase the share capital of the Bank, as well as provided a subordinated loan to increase the Bank's equity. Under conditions provided in the FRP, the SC "DIA" financed those investments.

The approved FRP forms an integral part of the Participation Plan of the SC "DIA". On 10 November 2017 a new version of the FRP with implementation period till September 2025 was approved by the Board of Directors of the Bank of Russia.

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 efficient functioning of the parent company of the Group, its reorganization in a form of a merger with JSCB "Kranbank" (CJSC); 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" provides for establishment of a base Bank to service trade and finance ties between the Russian Federation, the People's Republic of China and the Socialist Republic of Vietnam. The Strategy is based on a comprehensive cooperation with financial institutions from these countries. The key areas of the cooperation assume:

- servicing Chinese and Vietnamese investments in the Russian Federation;
- organization of settlements in national currencies for goods and services traded between the RF, China and Vietnam; and
- organization of cross border money transfer system between the three countries by using payment systems.

For the period from the start of the financial rehabilitation measures at the parent company of the Group the work with bad assets resulted in a decrease of bad debts by RUB 3,721.9 mln or by 47%. The reduction was achieved due to:

- repayment of bad assets in the amount of RUB 1,417.6 mln;
- write-off of bad assets at the expense of provisions in the amount of RUB 1,000.4 mln; and
- sale and restructuring of bad assets in the amount of RUB 1,137.4 mln.

The Group has been working for over 25 years on the regional market of banking services 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 business, as well as of individuals.

Beginning from 21 September 2004 the parent company of the Group has been participating in the state deposit insurance scheme. This scheme operates on the basis of federal laws and regulations and is managed by the State Corporation "Deposit Insurance Agency" (hereinafter, the SC "DIA"). The DIA's insurance guarantees the Group's liabilities regarding deposits of individuals in the amount up to RUB 1,400 thousand per each individual in case of termination of business or withdrawal by the Bank of Russia of the license to carry out banking activities.



## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

As at 31 December 2017 JSC CB "Solidarnost" was the parent organization of the banking group owning a 27.9% share in JSC "Privolzhskoye Credit Bureau" and a 100% share in Closed-End Investment Fund (CEIF) "Residential property 01.10", CEIF combined "Business property 01.10" and CEIF "Business-South".

The property owned by the CEIFs is annually evaluated by an independent appraiser as at 31 December of the reporting year. Profit or loss from revaluation was included in the Statement of profit or loss as a part of expenses on revaluation of investment property.

#### 2. OPERATING ENVIRONMENT OF THE GROUP

The Group operates 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.

During 2017 the Russian economy has stabilized and inflationary pressure subsided. The annual inflation for 2017 was 2.5% and the annual GDP growth was 1.5%. Growth of investments into capital goods has slowed down, with a negative effect on performance in production and real economy on the whole.

The banking sector in Russia demonstrated profit for 2017. Assets of the banking system have grown by 5.9% due to higher lending to non-financial organizations and individuals. Growth rate for household deposits with banks in general corresponded to income trends in the economy. That said, short-term rouble deposits have been showing the fastest growth, underpinned by convergence of interest rates for short- and long-term deposits and lower key rate of the Bank of Russia.

International rating agencies improved their sovereign credit rating Outlook for the Russian Federation. In March 2017 Standard&Poor's changed the rating Outlook from "Stable" to "Positive", with the rating remaining at BB+. In September Fitch Ratings confirmed the rating at BBB- but changed the Outlook from "Stable" to "Positive".

Management of the Group regularly monitors expert assessments of economic developments in Russia and takes measures to confront substantial impact of negative factors on the Group's performance. Bearing in mind all specific aspects of the economic development, management of the Group timely plans operational processes with due regard for available forecasts.

#### 3. BASIS OF PREPARATION

##### Statement of compliance

The financial statements have been prepared in accordance with Federal Law No.208-FZ of 27 July 2011 "On Consolidated Financial Reporting", International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Committee (IFRIC).

The Group keeps its books in the currency of the Russian Federation and makes accounting entries according to requirements of the Russian 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.

##### Other basis of presentation criteria

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

## Group JSC CB "Solidarnost"

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Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realizable value or value in use.

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

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

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

#### **Functional and presentation currency**

The national currency of the Russian Federation is the Russian rouble ("RUB"). Management has determined the Group's functional currency to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group in the best manner.

The RUB is also the Group's presentation currency for the purposes of these financial statements.

Financial information presented in RUB has been rounded to the nearest thousand.

#### **Critical accounting judgments and key sources of estimation uncertainty**

These financial statements have been prepared based on the assumption that the Group will operate in the foreseeable future according to the approved Financial Rescue Plan supported by the SC "DIA" and JSC "Zarubezhenergoproject".

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

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

#### ***Critical judgments in applying accounting policies***

The following are the critical judgments, including those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

#### ***Key sources of estimation uncertainty***

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

#### Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of

**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
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loans and receivables. The Group considers accounting estimates related to the allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

As at 31 December 2017 and 31 December 2016, the gross loans and receivables totaled RUB 11,436,084 thousand and RUB 10,955,057 thousand, respectively, and allowance for impairment losses amounted to RUB 6,826,143 thousand and RUB 7,339,660 thousand, respectively.

Valuation of financial instruments

Note 30 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property and equipment carried at revalued amounts.

The Group accounts for premises and equipment (buildings, facilities and land) at revalued amounts. Measurement is carried out on a yearly basis as at 31 December. The last measurement was made by LLC "Center of independent examination of property" as at 31 December 2017.

Valuer: Pleshkin Andrey Mikhailovich, a member of the self-regulated organization "Regional association of valuers" (SRO RAV). The address of the SRO RAV is 350062, Krasnodarskiy krai, Krasnodar, Atarbekova street, 5/1. Number of the valuer in the register is 00484 of 28 October 2014.

Valuer: Marchenkova Svetlana Vladimirovna. Name of the self-regulated organization where the valuer is a member and the address of this organization: "Regional association of valuers" (SRO RAV). The address of the SRO RAV is 350062, Krasnodarskiy krai, Krasnodar, Atarbekova street, 5/1. Number of the valuer in the register is 00413 of 4 March 2014.

Valuer: Kuzina Yulia Mikhailovna. Name of the self-regulated organization where the valuer is a member and the address of this organization: "Regional association of valuers" (SRO RAV). The address of the SRO RAV is 350062, Krasnodarskiy krai, Krasnodar, Atarbekova street, 5/1. Number of the valuer in the register is 00414 of 4 March 2014.

As at 31 December 2017 the carrying amount of premises and equipment was RUB 1,129,484 thousand including revalued items to the amount of RUB 746,785 thousand.



## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies of the Group have been applied in the preparation of the financial statements. The accounting policies have been consistently applied. Changes in accounting policies are described at the end of this Note.

##### Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. As at 31 December 2017, the official Central Bank of the Russian Federation's foreign exchange rates used for translation of balances in foreign currencies were 57.60 RUB/USD and 68.87 RUB/EUR (31 December 2016: 60.66 RUB/USD and 63.81 RUB/EUR).

##### Cash and cash equivalents

Cash and cash equivalents include cash and nostro accounts with the Central Bank of the Russian Federation (the CBRF), nostro accounts with other banks, as well as placements with banks with original maturity of less than 30 days, except for security deposits for operations with bank cards, and the government securities. For the purposes of the Statement of cash flows, the minimum mandatory cash balances deposited with the CBRF are not considered to be cash equivalents due to restrictions on their withdrawal.

##### Mandatory cash balances with the Central Bank of the Russian Federation ("the CBRF")

Mandatory cash balances with the CBRF represent the minimum amount of obligatory reserves deposited with the CBRF in accordance with requirements established by the CBRF. Mandatory cash balances with the CBRF are subject to restrictions on their availability, therefore for purposes of determining cash flows, the minimum reserve deposit required by the CBRF is not included as a cash equivalent. The parent company of the Group is required to maintain the minimum reserve deposit with the CBRF on a constant basis.

##### Financial instruments

The Group recognizes financial assets and liabilities in the Statement of financial position when the Group becomes a party to the contractual obligations of the instrument. Regular purchases and sales of financial assets and liabilities are recognized by using a settlement date accounting.

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

##### Financial assets

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

## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

#### Classification

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- Acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- Upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

*Available-for-sale financial assets* are those financial assets that are designated as available-for-sale and are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of the fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold such assets for the foreseeable future or until maturity. Other financial instruments may be reclassified out of the fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

#### Financial liabilities and equity instruments issued

##### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument

##### Equity Instruments

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

## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

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

#### **Financial liabilities**

Financial liabilities are classified as either financial liabilities at fair value through profit or loss (hereinafter, 'at FVTPL') or 'other financial liabilities'.

Other financial liabilities, including depository instruments with the CBRF, deposits by banks and customers, debt securities issued, other borrowed funds and other liabilities, are initially measured at fair value, net of transaction costs.

Subsequently, financial liabilities are measured at amortized cost. Interest expense is calculated by using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### **Measurement**

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments which are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and which are measured at cost, less impairment.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognized immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognized over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

#### **Fair value measurement principles**

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

#### **Gains and losses on subsequent measurement**

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

- a gain or loss on a financial instrument classified as measured at fair value through profit or loss is recognized in profit or loss;
- a gain or loss on an available-for-sale securities is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest income in relation to available-for-sale asset is recognized as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

#### **Derecognition**

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition is recognized as a separate asset or liability in the Statement of financial position. On derecognition of a financial asset the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (I) the consideration received (including any new asset obtained less any new liability assumed) and (II) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Group enters into transactions whereby it transfers assets recognized on its Statement of financial position, but retains either all or a portion of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset the Group continues to recognize the asset to the extent of its continuing involvement determined by the extent to which the Group is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### **Repurchase and reverse repurchase agreements**

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities kept recognized in the Statement of financial position and the counterparty liability included in amounts payable under repo transactions and recorded in accounts and deposits to banks or current accounts and deposits from customers as appropriate.

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The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions and accounted for in accounts and deposits with banks or loans to customers as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

#### **Offsetting**

Financial assets and liabilities are offset and the net amount 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 realize the asset and settle the liability simultaneously.

#### **Property and equipment**

##### **Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings and plots of land which are stated at revalued amounts as described below.

##### **Recognition and measurement**

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as a part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognized within other income/expense in profit or loss.

##### **Subsequent costs**

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

##### **Leased assets**

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment items acquired by way of finance lease are stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

##### **Revaluation**

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land and buildings being revalued. A revaluation increase of a building in the category "Land and buildings" is recognized as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognized in profit or loss. In this case the revaluation result is recognized in profit or loss. A revaluation decrease of a building in the category "Land and buildings" is recognized in profit or loss



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except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized directly in equity.

**Depreciation**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives of property and equipment items are as follows:

Buildings	50 years
Equipment	3 to 5 years
Fixtures and fittings	4 to 5 years
Motor vehicles	4 to 5 years

Depreciation methods, useful lives and residual values are revised at each financial year end and adjusted if appropriate.

**Intangible assets**

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Licences	5 to 10 years
Purchased and developed software	2 to 5 years

Amortization methods, useful lives and residual values are revised at each financial year end and adjusted if appropriate.

**Investment property**

Investment property is property held either to earn rental income and/or for capital appreciation or for both, but not for sale in the normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognized in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment its fair value at the date of reclassification becomes its cost for subsequent accounting.

**Impairment****Financial assets**

At each reporting date the Group assesses whether there is objective evidence that financial assets not recognized at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other

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observable data relating to a group of assets such as adverse changes in the payment status of borrowers in a group, or economic conditions that correlate with defaults in this group.

#### **Financial assets carried at amortized cost**

Financial assets carried at amortized cost consist principally of loans and other receivables (hereinafter, "loans and receivables"). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflects current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

#### **Collective impairment**

In assessing collective impairment the Group uses statistical models of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Loans (and any related allowances for loan losses) are written off when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

#### **Financial assets carried at cost**

Financial assets carried at cost include unquoted equity instruments included in available-for-sale securities that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
ENDED 31 DECEMBER 2017*****Available-for-sale securities***

Impairment losses on available-for-sale securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to the time value of money are reflected as a component of interest income.

For an investment in an available-for-sale equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

***Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest groups of assets that generate cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets (the "cash generating unit" or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

***Renegotiated loans***

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment calculated using the loan's original effective interest rate.



**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
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***Write off of loans and advances***

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

***Provisions***

A provision is recognized in the Statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

***Credit related commitments***

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

***Share capital***

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

***Dividends***

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

***Taxation (income tax)***

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated by using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not considered for deferred tax calculation: differences related to the reporting of goodwill in the financial statements and not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
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The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities by the Group, using tax rates enacted or substantially enacted at the reporting date.

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 on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**Taxes (other than income tax)**

The Russian Federation also has various other taxes not based on income, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the Statement of comprehensive income.

**Recognition of income and expenses*****Recognition of interest income and expenses***

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the present amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received by counterparties and that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis; and
- fair value changes in qualifying derivatives.

Interest income and expense on all trading assets and liabilities are recognized in net interest income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net gain on financial assets and liabilities at fair value through profit or loss in the Statement of comprehensive income.

***Recognition of fees and commissions***

Net fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

#### ***Net income from other financial instruments at fair value through profit or loss***

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss, and includes all realized and unrealized gains and losses that arise due to the fair value changes, and dividends.

#### ***Dividends***

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income from other financial instruments at fair value through profit or loss or other operating income based on the underlying classification of the equity investment.

#### ***Lease payments***

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

#### ***Contingencies***

Contingent liabilities are not recognized in the Statement of financial position but are disclosed in the financial statement unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

#### ***New and revised IFRSs***

These consolidated financial statements were prepared by applying the same principles of accounting, presentation and methods of calculation as those used for preparation of the Group's financial statements for the year ended 31 December 2016.

The Group did not early adopt any other standards, interpretations or amendments that had been issued but not yet in force.

#### ***New standards, interpretations and amendments issued but not yet in force***

New 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 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018). IFRS 15 is a single standard for revenue recognition. The standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and appropriate interpretations.

The aim of IFRS 15 is to clarify the principles of revenue recognition. This means elimination of discrepancies and revealed shortcomings, as well as improvement of revenue recognition consistency among entities, industries and capital markets. To this end IFRS 15 provides a single model of revenue recognition. The main principle of the model is that the revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for transfer of promised goods or services to customers. This core principle of IFRS 15 is delivered in a five-step framework:

1. identify the contract(s) with a customer
2. identify the performance obligations in the contract

## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

3. determine the transaction price
4. allocate the transaction price to the performance obligations in the contract
5. recognize revenue when (or as) the entity satisfies a performance obligation.

Additionally, the standard substantially increased the requirements regarding quantitative and qualitative information disclosures of revenue. The main goal is to provide a sufficient disclosure on the nature, amount, timing of recognition and uncertainties of revenue and cash flows arising from contracts with customers. To achieve the disclosure objective IFRS 15 introduces particular disclosure requirements regarding contracts with customers and material judgments made.

The Group intends to adopt the new standard on the date of its entry into force.

As at the date of issue of these financial statements the Group has assessed implications of IFRS 15. The adoption of the standard will not have an effect on the Group's financial results and equity.

IFRS 9 *Financial Instruments* (effective for annual reporting periods beginning on or after 1 January 2018). The final version of IFRS 9 replaces most of the guidance of IFRS 39 and all preceding versions of IFRS 9. The standard comprises the final requirements for all three phases of the IASB project, such as classification and measurement, impairment and hedge accounting.

IFRS 9 determines three main categories of financial assets, those to be measured at amortized cost, those to be measured at fair value through other comprehensive income and those at fair value through profit or loss. The classification is driven by the entity's business model for managing the financial assets and characteristics of the contractual cash flows of the financial assets.

Investments in equity instruments are to be measured at fair value through profit or loss. However, management can make an irrevocable election (at an inception) to present changes in fair value in other comprehensive income. A significant change that shall have an impact on all entities is introduction in IFRS 9 of a new expected loss impairment model which is to replace the model based on "incurred losses" in IAS 39.

According to IFRS 9 the impairment model is more focused on future events, as there is no requirement for a credit event to occur (or for an impairment indicator) to recognize credit losses.

Most of the requirements regarding financial liabilities were carried forward unchanged. The key difference is that an entity will be required to recognize the effects of changes in the fair value of financial liabilities measured at fair value through profit or loss and related to changes in own credit risks of the organization, directly in other comprehensive income.

New hedge accounting requirements are mostly principles-based, are less complex and demonstrate a closer reconciliation with risk management and treasury operations of the entity than IAS 39 requirements.

The Group intends to adopt the new standard on the date of its entry into force.

As at the date of issue of these financial statements the testing of IFRS 9 implications by the Group was not completed. The Group believes that the adoption of the standard will not have a material effect on its financial results.

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*.

At present the Group has analyzed the effect of IFRS 16 adoption and believes that it will not have an impact on financial results and equity of the Group.

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### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

IFRS 17 Insurance Contracts (effective for the annual reporting periods beginning on or after 1 January 2021).

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 *Insurance Contracts*. The standard provides for an application of the general model modified in accordance with insurance contracts with direct investment components, described as agreements with a variable insurance compensation. The general model is simplified, subject to the defined criteria, by means of measurement of the liability for remaining coverage using the Premium Allocation Approach. The general model shall employ current assumptions to estimate amounts, timing and uncertainties of future cash flows, as well as measure separately values of such uncertainties. The model is to apply market interest rates and factor in options and guarantees of the policyholders. Profit on sale of insurance contracts is deferred to future periods in a separate liability component on the 1<sup>st</sup> day and aggregated by groups of insurance contracts; later it is consistently recognized in the Statement of profit or loss for the period when an insurance cover is received from insurers, subject to adjustments due to changed assumptions regarding the future insurance cover amounts. The standard is applied retrospectively, except when impossible in practice, in which case a modified retrospective approach or a fair value approach are used.

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

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (effective for annual reporting periods beginning on or after 1 January 2018).

The amendments add guidance that introduces accounting requirements, related and unrelated to vesting conditions for cash-settled share-based payments, that shall follow a similar approach as used for equity-settled share-based payments.

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

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 the adoption of the amendments will not have a material effect on its financial statements.

Interpretation of IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual reporting periods beginning on or after 1 January 2018). IFRIC specified the definition of "a date of transaction" for the purpose of an exchange rate determination at the initial recognition of the relevant asset, expense or income item. The Interpretation addresses foreign currency transactions or parts of transactions where the entity recognizes a non-monetary asset or a non-monetary liability in respect of the received or paid consideration, in advance of the recognition of the related asset, expense or income (or its portion). The Group believes that the 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 and tax rates defined in accordance with this Interpretation. The Group believes that the adoption of the amendments will not have a material effect on its financial statements.





## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
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## 9. OTHER OPERATING INCOME

	31.12.2017 RUB'000	31.12.2016 RUB'000
Gains from restatement of impairment loss on premises and equipment	219,612	758
Dividends received	61,969	-
Income on lease operations	27,308	14,993
Gains from interest expense bearing liabilities	9,189	5,354
Income on taxes and levies of past periods	2,861	-
Accounts payable written-off	428	747
Insurance contracts income	98	1,329
Fines/penalties received	62	404
Gains in foreign currency	-	961
Other	15,587	1,332
	<u>337,114</u>	<u>25,878</u>

## 10. PROVISION FOR IMPAIRMENT

Provisions for impairment accounted for at profit and loss accounts include charges which have been made in the current year for establishing provisions for impairment according to international standards.

Change in provisions in 2017 was as follows:

	<i>Balance as at 31 December 2016</i>	<i>Write-off at the expense of the provision</i>	<i>(Gains) from recovery of provisions for impairment less additional charges to provisions for impairment</i>	<i>Balance as at 31 December 2017</i>
<i>Change in provision for impairment of interest earning assets:</i>				
- due from financial institutions	5,233,229	-	(227,953)	5,005,276
- loans to customers	7,339,660	(6,549)	(506,968)	6,826,143
- reverse REPO	65,121	-	(48,165)	16,956
<b>Total change in provision for impairment of interest earning assets</b>	<b>12,638,010</b>	<b>(6,549)</b>	<b>(783,086)</b>	<b>11,848,375</b>
<i>Change in provision for impairment of other assets and other provisions:</i>				
Change in provision for impairment of financial assets available for sale	14,440	-	72	14,512
Change in provision for impairment of accounts receivable and other assets	4 621	-	5 025	9 646
Change in provision of credit related contingencies	3,993	-	2,347	6,340
Change in estimated liabilities	363,774	-	2,017	365,791
Change in provision for impairment of investments in associates	1,050	-	-	1,050
<b>Total change in provision for impairment of other assets and other provisions</b>	<b>387,878</b>	<b>-</b>	<b>9,461</b>	<b>397,339</b>
<b>Total change in provision for impairment</b>	<b>13,025,888</b>	<b>(6,549)</b>		<b>12,245,714</b>

## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
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	<i>Balance as at 31 December 2015</i>	Write-off at the expense of the provision	(Gains) from recovery of provisions for impairment less additional charges to provisions for impairment	Balance as at 31 December 2016
<i>Change in provision for impairment of interest earning assets:</i>				
- due from financial institutions	4,818,120	-	415,109	5,233,229
- loans to customers	6,779,361	(57,993)	618,292	7,339,660
- reverse REPO	-	-	65,121	65,121
<b>Total change in provision for impairment of interest earning assets</b>	<b>11,597,481</b>	<b>(57,993)</b>	<b>1,098,522</b>	<b>12,638,010</b>
<i>Change in provision for impairment of other assets and other provisions:</i>				
Change in provision for impairment of financial assets available for sale	14,440	-	-	14,440
Change in provision for impairment of accounts receivable and other assets	13,887	-	(9,266)	4,621
Change in provision of credit related contingencies	-	-	-	-
Change in estimated liabilities	328,988	-	34,786	363,774
Change in provision for impairment of investments in associates	-	-	-	-
<b>Total change in provision for impairment of other assets and other provisions</b>	<b>357,315</b>	<b>-</b>	<b>30,563</b>	<b>387,878</b>
<b>Total change in provision for impairment</b>	<b>11,954,796</b>	<b>(57,993)</b>	<b>1,129,085</b>	<b>13,025,888</b>

	31.12.2017 RUB'000	31.12.2016 RUB'000
<b>Accrual of provision for impairment</b>		
Loans to customers	(156,398)	(683,413)
Loans to banks	227,953	(415,109)
REPO transactions	(45,984)	-
Other assets	(7,946)	5,273
Premises, equipment and intangible assets	-	(34,786)
Debt financial assets available for sale	(72)	(1,050)
	<b>17,553</b>	<b>(1,129,085)</b>
<b>Net provision for impairment</b>		

## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
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## 11. OTHER OPERATING EXPENSES

	31.12.2017 RUB'000	31.12.2016 RUB'000
Cession result	456,321	-
Salary and bonuses	354,498	292,090
Depreciation and amortization of premises, equipment and intangible assets	85,420	48,847
Payroll-related taxes and contributions	85,111	69,897
Professional services	77,648	19,018
Occupancy costs	73,879	41,141
Premises and equipment maintenance	57,896	66,105
Taxes other than income tax	56,593	45,456
Telecommunication expenses	44,883	27,720
Advertising expenses	42,479	4,500
Software acquisition and support	19,384	21,804
Deposit insurance system payments	31,696	40,074
Security	21,729	24,131
Materials and office supplies	19,794	18,506
Business trip expenses	10,429	5,150
Other personnel costs	7,615	5,204
Furniture and equipment	5,164	-
Insurance	2,027	13,066
Fines paid	1,946	529
Maintenance of computer equipment	1,250	-
Entertainment costs	499	514
Loss from disposal of premises, equipment and intangible assets	236	5
Other	17,620	32,818
	<u>1,414,117</u>	<u>776,575</u>

## 12. INCOME TAX EXPENSE

	31.12.2017 RUB'000	31.12.2016 RUB'000
<b>Current tax expense</b>		
Current year	(33,647)	(33,757)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	136,901	-
<b>Total income tax credit/(expense)</b>	<u>103,254</u>	<u>(33,757)</u>

The applicable tax rate for current tax is 20% (2016: 20%). For deferred tax the Group applied 20% rate (2016: 20%).

The table below shows taxable temporary differences disclosed through profit or loss and disclosed directly in capital:







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## 13. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2017 RUB'000	31.12.2016 RUB'000
<b>NOSTRO accounts</b>		
Banks of the OECD countries	28,956	930
Other Russian banks	264,831	233,657
Other foreign banks	26,249	-
<b>Total NOSTRO accounts</b>	<b>320,036</b>	<b>234,587</b>
<b>Loans and deposits</b>		
Other Russian banks	6,476,284	7,584,477
Provision	(5,005,276)	(5,233,229)
<b>Total loans and deposits</b>	<b>1,471,008</b>	<b>2,351,248</b>
<b>Total due from banks</b>	<b>1,791,044</b>	<b>2,585,835</b>

## Concentration of placements with banks

As at 31 December 2017 the Group provided funds to JSC "Alfa-Bank" and PJSC VTB Bank (in 2016 funds were provided to Bank "Rossiysky Capital" (PJSC)). The aggregate amount of these balances as at 31 December 2017 was RUB 1,470,000 thousand (as at 31 December 2016 RUB 2,350,000 thousand). The interest rate on loans to banks was from 7% to 7.30%. The provision of 100% was established for funds placed in OJSC JSCB "Probusinessbank" due to the license withdrawal from this bank. The amount of the provision was RUB 5,005,276 thousand (as at 31 December 2016 the provision was RUB 5,233,229 thousand).

## 14. LOANS TO CUSTOMERS

	31.12.2017 RUB'000	31.12.2016 RUB'000
<b>Loans to legal entities</b>		
Loans to large-sized companies	4,283,710	2,953,293
Loans to small- and medium-sized companies	2,244,810	2,422,237
<b>Total loans to legal entities</b>	<b>6,528,520</b>	<b>5,375,530</b>
<b>Loans to individuals</b>		
Consumer loans	3,894,178	5,044,818
Mortgage loans	1,010,361	496,602
Car loans	3,023	38,106
<b>Total loans to individuals</b>	<b>4,907,562</b>	<b>5,579,526</b>
<b>Loans to customers before provision for impairment</b>	<b>11,436,082</b>	<b>10,955,056</b>
Provision for impairment	(6,826,143)	(7,339,660)
<b>Loans to customers, net</b>	<b>4,609,939</b>	<b>3,615,396</b>



## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
ENDED 31 DECEMBER 2017

	2017 RUB'000	2016 RUB'000
Current loans	3,645,190	2,568,975
Provision for current loans	(264,447)	(563,085)
Loans overdue	7,790,891	6,464,317
Provision for loans overdue	(6,561,695)	(4,854,811)
	<b>4,609,939</b>	<b>3,615,396</b>
Including:		
Renegotiated loans	1,647,195	1,850,209
Provision for renegotiated loans	(1,096,057)	(1,694,425)

As at 31 December  
2017

	Less than 1 month	From 1 to 3 months	From 3 to 6 months	from 6 months to 1 year	From 1 year to 3 years	More than 3 years	Total
Loans overdue	27,594	30,163	36,923	73,301	2,734,697	4,888,213	7,790,891
Provision for loans overdue	(1,602)	(5,175)	(11,309)	(36,071)	(1,803,283)	(4,704,255)	(6,561,695)
Current loans	9,149	130,230	281,684	87,982	2,112,478	1,023,667	3,645,190
Provision for current loans	(8,161)	(51,220)	(44,113)	(7,363)	(144,884)	(8,706)	(264,447)

As at 31 December  
2016

	Less than 1 month	From 1 to 3 months	From 3 to 6 months	from 6 months to 1 year	From 1 year to 3 years	More than 3 years	Total
Loans overdue	91,576	214,908	80,797	222,846	4,472,771	1,381,419	6,464,317
Provision for loans overdue	(33,480)	(31,380)	(31,067)	(143,255)	(3,246,378)	(1,369,251)	(4,854,811)
Current loans	7,130	172,991	82,812	211,100	811,115	1,283,826	2,568,975
Provision for current loans	(6,360)	(68,038)	(12,969)	(17,666)	(55,630)	(402,421)	(563,085)

The table below provides information on movements in the provision for impairment of loans for the years ended 31 December 2017 and 31 December 2016:

For the year ended 31 December 2017 interest accrued on impaired loans was RUB 487,576 thousand (for the year ended 31 December 2016: RUB 442,707 thousand).

Provisions for impairment of loans for the years ended 31 December 2017 and 2016 by classes are as follows:

	31.12.2017 RUB'000	31.12.2016 RUB'000
Balance at the beginning of the year	7,339,660	6,779,361
Net charges to/(recovery of) provision for impairment during the year	(506,968)	618,297
Loans written off as uncollectible	(6,549)	(57,998)

Balance at the end of the year

**6,826,143**

**7,339,660**

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## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

#### Collateral and other instruments decreasing credit risk

The size and type of collateral required by the Group depend on counterparty credit risk assessment. Principles have been determined for acceptability of collateral types and assessment parameters.

Below are the main types of collateral:

- commercial lending – pledged land and real estate, equipment and inventories;
- lending to individuals – pledged residential property.

Management of the Group monitors market value of collateral, requests additional collateral according to the base agreement and also observes market value of the accepted collateral in the course of verification of adequacy of the provision for impairment losses.

#### Analysis of collateral

The table below analyzes the portfolio of loans issued to legal entities and loans issued to individuals (before provision for impairment) by types of collateral as at 31 December 2017 and 31 December 2016:

	2017 RUB'000	% of loan portfolio RUB'000	2016 RUB'000	% of loan portfolio RUB'000
Other collateral	2,563,505	22.4%	911,935	8.3%
Motor vehicles	351,909	3.1%	186,536	1.7%
Real estate	3,730,457	32.6%	3,163,030	28.9%
Traded securities	191,237	1.7%	928,405	8.5%
Debt securities	56,069	0.5%	-	-
No collateral	4,542,905	39.7%	5,765,150	52.6%
<b>Total</b>	<b>11,436,082</b>	<b>100%</b>	<b>10,955,056</b>	<b>100%</b>

#### Industry analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	2017 RUB'000	2016 RUB'000
Individuals	4,907,562	5,579,527
Investment and finance	785,873	1,753,403
Manufacturing	1,427,438	1,470,557
Trade enterprises	720,572	892,810
Transport and communication	657,366	393,540
Construction	936,109	292,982
Agriculture	459,126	346,384
Other	1,542,036	225,853
	<b>11,436,082</b>	<b>10,955,056</b>
Provision for impairment	(6,826,143)	(7,339,660)
	<b>4,609,939</b>	<b>3,615,396</b>

## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD  
ENDED 31 DECEMBER 2017**Concentration of loans to customers**

As at 31 December 2017 concentration of loans issued by the Group to ten largest borrowers not related to the Group was RUB 3,380,256 thousand (29.5% of the comprehensive loan portfolio) (2016 – RUB 4,560,192 thousand (41.6% of the comprehensive loan portfolio). Provision was established for these loans in the amount of RUB 2,336,629 thousand (2016 – RUB 4,091,769 thousand).

The Group works on reduction of overdue loans, also by means of assignments of rights for loans. Amounts of loans assigned and financial results are presented in the table below.

**Assignment of rights**

	As at 31.12.2017 RUB'000	As at 31.12.2016 RUB'000
Loans to customers	(543,631)	(112,487)
Cash received on the correspondent account	87,310	31,000
Interest income	-	(57,424)
Other operating expenses	456,321	24,063

**15. INVESTMENTS IN SECURITIES AVAILABLE FOR SALE**

Securities available for sale comprise:

	As at 31.12.2017 RUB'000	As at 31.12.2016 RUB'000
Bonds of the RF's Ministry of Finance	2,451,870	2,587,988
Bonds of credit institutions	659,220	513,569
Bonds of the RF's constituent territories	439,751	426,693
Eurobonds	1,502,146	1,404,326
Corporate bonds	2,707,249	2,385,273
Corporate shares	1,166,573	1,398,733
	<b>8,926,809</b>	<b>8,716,582</b>

As at 31 December 2017 Bonds of the RF's Ministry of Finance have maturities from January 2019 to January 2028, with the interest rate range from 7.0 % to 10.43% in Roubles and from 3.5 % to 4.88% in US dollars.

Bonds of credit institutions have maturities in the period from April 2020 to October 2025, with the interest rate range from 10.10% to 14.25%.

Bonds of the RF's constituent territories have maturities in the period from June 2022 to June 2023, with the interest rate range from 6.0 % to 9.9%.

Eurobonds have maturities in the period from January 2019 to February 2028, with the interest rate range from 4.42% to 8.3%.

Corporate bonds represent bonds of Russian issuers, with the interest rate range from 0.10% to 14.75%. Their maturities are in the period from April 2018 to March 2028.

The portfolio of securities includes debt liabilities not discharged when due. They represent bonds of JSCB "Probusinessbank" (OJSC) in the amount of RUB 14,440 thousand, 100% provisioned in the accounts.

In December 2017 the Bank fully repaid the loans from the State Corporation "Deposit Insurance Agency" (the SC "DIA"). As at 31 December 2017 restriction on the right of ownership of the available-for-sale securities imposed by the SC "DIA" holds. The fair value of these securities as at 31 December 2017 was RUB 7,258,081 thousand.

Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

16. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

RUB'000	Land and buildings	Equipment	Motor vehicles	Intangible assets	Construction in progress	Total
<b>Cost/revalued amount</b>						
As at 31 December 2016	735,420	330,945	22,522	74,898	680	1,164,465
Additions		33,778	3,752	105,523		148,053
Disposals		(7,623)	(8,078)	(31,112)	(145)	(46,958)
Revaluation	27,306					27,306
Elimination of accumulated depreciation of revalued assets	(14,073)					(14,073)
As at 31 December 2017	748,653	362,100	18,196	149,309	535	1,278,793
<b>Depreciation and amortisation of premises, equipment and intangible assets</b>						
As at 31 December 2016	-	249,975	20,186	26,917	-	297,078
Depreciation and amortisation charge	14,073	41,165	2,151	42,104		99,493
Elimination of accumulated depreciation of revalued assets	(14,073)					(14,073)
Disposals	-	(7,373)	(7,286)	(18,989)		(33,648)
As at 31 December 2017	-	283,767	15,051	50,032	-	348,850
<b>Carrying amount</b>						
As at 31 December 2017	748,653	78,333	3,145	99,277	535	929,943

RUB'000	Land and buildings	Equipment	Motor vehicles	Intangible assets	Construction in progress	Total
<b>Cost/revalued amount</b>						
As at 1 January 2016	773,181	267,904	29,794	47,460	207	1,118,546
Additions		65,663	40	50,750	680	117,133
Disposals		(2,622)	(7,312)	(23,312)	(207)	(33,453)
Revaluation	(22,860)					(22,860)
Elimination of accumulated depreciation of revalued assets	(14,901)					(14,901)
As at 31 December 2016	735,420	330,945	22,522	74,898	680	1,164,465
<b>Depreciation and amortisation of premises, equipment and intangible assets</b>						
As at 1 January 2016	-	225,118	21,985	39,210	-	286,313
Depreciation and amortisation charge	14,901	27,460	5,492	11,019		58,872
Disposals		(2,603)	(7,291)	(23,312)		(33,206)
Elimination of accumulated depreciation of revalued assets	(14,901)					(14,901)
As at 31 December 2016	-	249,975	20,186	26,917	-	297,078
<b>Carrying amount</b>						
As at 31 December 2016	735,420	80,970	2,336	47,981	680	867,387

## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2017**Revaluation of assets**

As at 31 December 2017 management revalued the buildings and land based on the results of assessment conducted by an independent valuation company.

Revaluation of assets was carried out based on assessment reports prepared by the independent professional valuer according to International Valuation Standards (IVS). Information about valuers is presented in Note 3 "Basis of preparation".

As at 31 December 2017 the Group's land and buildings had restricted ownership. Their fair value as at 31 December 2017 was RUB 746,785 thousand.

In December 2017 the Bank fully repaid the loans from the State Corporation "Deposit Insurance Agency" (the SC "DIA"). As at 31 December 2017 restriction on the right of ownership of the non-residential buildings of the Bank imposed by the SC "DIA" holds.

**Analysis of movements in provision for impairment**

	31.12.2017 RUB'000	31.12.2016 RUB'000
Balance at the beginning of the year	7,339,660	6,779,361
Charge to/(recovery of) the provision for impairment during the year	(506,968)	618,297
Loans written off as uncollectible	(6,549)	(57,998)
<b>Balance at the end of the year</b>	<b>6,826,143</b>	<b>7,339,660</b>

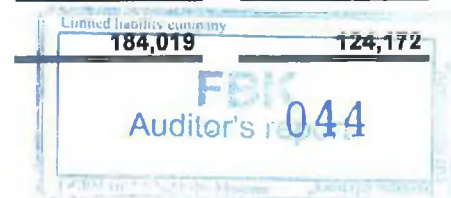
Details of the Group's buildings and information about the fair value hierarchy as at 31 December 2017 are given below:

	Level 1	Level 2	Level 3	Fair value as at 31 December 2017
Buildings in the following regions:				
- Samara	-	569,462	-	569,462
- Tolyatti	-	54,636	-	54,636
- Syzran	-	36,975	-	36,975
- Novokuibyshevsk	-	23,054	-	23,054
- s. Kinel-Cherkassy	-	20,825	-	20,825
- Other	-	6,313	-	6,313
<b>Total</b>	<b>-</b>	<b>711,264</b>	<b>-</b>	<b>711,264</b>

There were no transfers between Level 1 and Level 2 during the year.

**17. OTHER ASSETS**

	As at 31 December 2017 RUB'000	As at 31 December 2016 RUB'000
Prepayments	115,824	65,118
Other accounts receivable	72,936	1,624
Prepaid operating taxes	2,875	714
Payroll settlements	543	60,702
Other	1,487	635
Provision for impairment	(9,646)	(4,621)
<b>Total other assets</b>	<b>184,019</b>	<b>124,172</b>



## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2017

The table below provides information on movements in provision for impairment of other assets for the years ended 31 December 2017 and 31 December 2016.

	31.12.2017 RUB'000	31.12.2016 RUB'000
Balance at the beginning of the year	4,621	13,887
Net charge to/(recovery of) provision for impairment during the year	5,025	(9,266)
<b>Balance at the end of the year</b>	<b>9,646</b>	<b>4,621</b>

## 18. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	As at 31 December 2017 RUB'000	As at 31 December 2016 RUB'000
<b>Current accounts and demand deposits</b>		
- Individuals	701,603	679,243
- Corporate clients	367,147	395,796
<b>Term deposits</b>		
- Individuals	10,031,467	9,265,486
- Corporate clients	158,875	196,667
	<b>11,259,092</b>	<b>10,537,192</b>

As at 31 December 2017 the Bank did not have any counterparties with the debt exceeding 10% of the aggregate amount of balances on current accounts and deposits from customers (2016 - nil).

## 19. OTHER BORROWED FUNDS

Due to the capital increase, also as a result of subordinated loans received, in December 2017 the parent company of the Group repaid 4 loans to the total amount of RUB 14,111,961 thousand that had been issued in December 2013 and in November 2015 by the SC "DIA". These loans were provided under the arrangements of the financial rehabilitation project.

Creditor	Original currency	Maturity date	2016	
			Interest rate contractual/ effective, %	RUB'000
State Corporation "Deposit Insurance Agency"	RUB	2025	0.51%/10.09%	3,023,188
State Corporation "Deposit Insurance Agency"	RUB	2021	6.01%/10.09%	952,842
State Corporation "Deposit Insurance Agency"	RUB	2023	0.51%/9.29%	2,159,677
State Corporation "Deposit Insurance Agency"	RUB	2023	0.51%/9.29%	1,549,259
				<b>7,684,966</b>



**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017****20. SUBORDINATED LOANS**

To increase the Bank's equity, under the Financial Rescue Plan of the parent company of the Group, JSC "Zarubezhenergoproject" issued a subordinated loan.

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.

**21. OTHER LIABILITIES**

	As at 31 December 2017 RUB'000	As at 31 December 2016 RUB'000
Accounts payable to suppliers	65,260	23,225
Liabilities on payment to the SC "DIA"	12,845	19,049
Operating taxes payable	7,523	6,878
Payables to employees	23,785	8,494
Provision for guarantees	6,340	3,993
Other	1,161	2,868
<b>Total other liabilities</b>	<b>116,914</b>	<b>64,507</b>

**22. SHARE CAPITAL****Share capital issued**

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

As the license was withdrawn from OJSC JSCB "Probusinessbank" in August 2015, temporary administration was introduced in the Bank represented by the SC "Deposit Insurance Agency" (the SC "DIA") members and activities were carried out to reconcile the share capital of the Bank to RUB 1 in October 2015.

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 "Zarubezhenergoproject" were repurchased from minority shareholders. Since 25 November 2016 JSC "Zarubezhenergoproject" has been the single shareholder of JSC CB "Solidarnost".

## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

In 2017 under the Financial Rescue Plan (the FRP) of the parent company of the Group, JSC "Zarubezhenergoprojekt" purchased the additional issue of shares to increase the share capital of the Bank, as well as issued a subordinated loan for the capital increase of the Bank. The SC "DIA" acted as the funder, subject to the conditions of the FRP.

#### Dividends

Dividends payable by the parent company of the Group are restricted to the maximum retained earnings, which are determined according to legislation of the Russian Federation.

The Group's management does not plan distribute dividends for 2017 and shall use funds for business development (in 2016 dividends were not declared as the financial result for the year was negative). 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 company 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.

### 23. RISK MANAGEMENT

#### *Information on material risks for the Group*

The parent company of the Group in the Strategy of Risk and Capital Management (approved by the Minutes No.19 of the Board of Directors of the Bank dated 28 December 2016 and введена в действие by the Order of the Chairman of the Management Board No.009 dated 18 January 2017) has identified the key risks. These are credit risk, market risk, liquidity risk, country risk, operational risk (including legal risk), reputational risk, regulatory risk, strategic risk and concentration risk. For each risk type the Bank developed and approved separate internal regulatory documents in respect of that particular risk minimization and management procedures.

The below risks are viewed by the Group as material.

**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 performance with respect of contractual financial obligations to the Bank.

**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, currency risk, commodity risk, and interest rate 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.

**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 the Group's activities.

**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), as well as because of imposed sanctions and/ or other enforcement actions of supervisory authorities. The Group treats the following main risks as material: credit risk, market risk, liquidity risk, operational, regulatory and reputational risks. There are developed and approved individual policies on risk management and minimization for each risk type.

**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017*****Information on structure and organization of work of structural subdivisions engaged in risk management***

The structure of the Group's management bodies and structural subdivisions engaged in risk and capital management in the Group comprise the following:

- Board of Directors;
- Management Board;
- Chairman of the Management Board;
- Risk Management Service;
- Internal Control Service;
- Internal Audit Service;
- Financial Monitoring Service;
- Information Security Service; and
- Controller of a professional participant of the securities market.

Risk and capital management functions in the Group are divided as follows:

**The Board of Directors**

- takes part in development of internal procedures for capital adequacy assessment (hereinafter, ICAAP);
- approves Risk and capital management strategy of the Group;
- approves procedures for risk and capital management for the most material risks of the Group and exercises control over the implementation;
- at least annually considers necessity of amendments in the documentation being developed under the ICAAP framework.
- reviews reports prepared under the ICAAP framework in respect of
  - a) limits control results (reaching warning values, instances of limit excesses);
  - b) the ICAAP progress results;
  - c) stress-tests results;
  - d) material risks, observance of mandatory regulatory ratios, capital size and capital adequacy assessment results of the Bank; and
  - e) information on reaching warning values set and instances of limit excesses.

**The Management Board**

- approves procedures of risk and capital management;
- approves stress-testing procedures;
- ensures application/implementation of the ICAAP and maintenance of the capital adequacy at the level set in the Group;
- informs the Board of Directors about revealed shortcomings in the risk management and assessment methodology, as well as about warning values reached and instances of limits excesses and actions taken for their remedy;
- at least annually considers necessity of amendments in the documentation being developed under the ICAAP framework.
- reviews reports prepared under the ICAAP framework in respect of:
  - a) limits control results (reaching warning values, instances of limit excesses);
  - b) the ICAAP progress results;
  - c) stress-tests results;





**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

- d) material risks, observance of mandatory regulatory ratios, capital size and capital adequacy assessment results of the Bank; and
- e) information on reaching warning values set and instances of limit excesses.

**The Chairman of the Management Board** performs the following functions:

- approves stress-testing results;
- informs the Board of Directors about revealed shortcomings in the risk management and assessment methodology, as well as about warning values reached and instances of limits excesses and actions taken for their remedy;
- reviews reports prepared under the ICAAP framework in respect of:
  - a) limits control results (reaching warning values, instances of limit excesses);
  - b) the ICAAP progress results;
  - c) stress-tests results;
  - d) material risks, observance of mandatory regulatory ratios, capital size and capital adequacy assessment results of the Bank; and
  - e) information on reaching warning values set and instances of limit excesses.

**Risk Management Service** 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 warning values reached and instances of limits excesses and actions taken for their remedy.

**Internal Control Service**

- organizes regulatory risk management process and manages this risk in accordance with internal regulatory documents of the Bank.

**Internal Audit** performs the following functions:

- verifies effectiveness of the risk assessment methods, including updates of the internal documents establishing the methods of risk assessment, and performs validation of quantitative risk assessment models;
- verifies effectiveness of credit risk management procedures by counterparty;
- verifies effectiveness of the methodology for pricing trade portfolio instruments;
- quarterly assesses quality of the quantitative market risk assessment model on the basis of historical data, as well as based on the actual data obtained during current performance by applying such models;



## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

- controls application of the operational risk management procedures adopted in the Group and verifies their effectiveness;
- conduct audits of structural units in charge of risk management and capital adequacy; and
- informs the Board of Directors, the Management Board and the Sole Executive Body about identified shortcomings in functioning of the internal risk assessment systems in the Group, as well as about actions taken for their remedy.

**Financial Monitoring Service** performs the following functions:

- identifies operations subject to mandatory verification and operations that arouse suspicions as to their purpose, such as money laundering or financing terrorism;
- drafts and submits information to the Authorized body as required by the Federal law "On Anti-Money Laundering and Combating the Financing of Terrorism" (hereinafter, AML/CFT) and other legislation of the Bank of Russia.
- prepares requests to customers in respect of the AML/CFT issues;
- takes part in scrutinizing transactions in accordance with the procedures set in the Regulations on AML/CFT;
- carries out control over identification of customers, representatives, beneficiaries and beneficiary owners in accordance with the procedures set in the Regulations on AML/CFT;
- verifies facts of concurred evidence about a transaction party with the data obtained in accordance with Federal Law No. 115-FZ about a person's involvement in terrorist activities; or with the data stated in the decision of an interagency coordination body in charge of combating financing terrorism, or of another body authorized to decide on moratorium of banking transactions on customers' accounts/ deposits;
- assists the Responsible officer in development of Regulations on AML/CFT; and
- provides consultations to the Group's employees on issues of application of the Regulations on AML/CFT within the competence of the Structural subdivision for AML/CFT.

**Information Security (IS) Service** performs the following functions:

- along with other structural subdivisions of the Group develops and applies the requirements of the IS Policy;
- defines requirements to technical safeguards of information protection and to operational measures of information protection with due consideration of IS immediate threats and acting in accordance with the requirements of the existing legislation of the Russian Federation and its regulatory and supervisory bodies;
- along with other structural subdivisions of the Bank implements the tactical and strategic plans approved by the Chairman of the Management Board with respect to improvements in automation of processes in the Group and application of the IS Policy;
- monitors and analyzes IS events, assesses risks and IS threats origins, identifies the reasons and conditions for their realization, works out decisions to prevent and/ or minimize their occurrence;
- identifies incidents related to breaches of the requirements to IS in money transfer operations and response to such incidents;
- registers and evaluates events related to IS incidents that have occurred in the IT infrastructure of the Group and coordinates investigation into such incidents;
- ensures information safeguards in money transfer operations, which are used for protection at stages of IT infrastructure creation, maintenance (that is, intended use, technical servicing and repairs), modernization and retirement;
- ensures IS during maintenance and retirement of automated banking systems (ABS) used for realization of bank payments and information technology processes;

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- performs compliance control of the created (modernized) assets of IT infrastructure with the requirements of technical specifications, operation and maintenance documentation;
- monitors and controls effectiveness of the Group's operational and technical measures and information safeguards (including those used in money transfers) by means of self-assessments carried out at least once in two years;
- controls the Group's work performance on personal data protection of its employees, customers and counterparties in compliance with requirements of the existing legislation of the Russian Federation;
- controls incoming, outgoing and internal information flows of the Group to check for potential leakage of confidential data, attempted penetrations by intruders and/or attempted infiltration of malware in the Group's local area network by using Internet, e-mail services or portable data storage devices;
- verifies the established access rights differentiation and any new access granted (including remote) to information resources, services and the Group-sensitive information to the users registered according to the established procedures (employees, customers and counterparties only subject to existing signed confidentiality contracts and agreements);
- organizes works on building and improving a comprehensive IS system capable to prevent information leakage through technical and other communication channels, to protect from effects and intrusion of malicious code, unauthorized access by third parties and others (including employees, customers and counterparties), as well as to protect information during its processing, storage and transfer through insecure communication channels;
- controls installation and health of antivirus protection for servers and working stations of employees in the parent company of the Group, keeps software versions and antivirus bases current, verifies antivirus and anti-spam protection of incoming and outgoing messages within the corporate e-mail system; and
- prevents leakage of information, performs a content-aware control of information exchange and transfer outside of the Bank's local computer network, including by using Internet. Ensures protection against network attacks.

**Controller of the professional participant of the securities market**

- performs constant current control over compliance by the Group and its employees with requirements of the legislation of the Russian Federation on securities market, on protection of rights and legitimate interests of investors on the securities market, on advertizing, on counteraction to unlawful use of insider information and market manipulations, as well as with requirements of regulatory documents of the Bank of Russia, the Federal Financial Markets Service of Russia, documents of the National Association of Securities Market Participants (NAUFOR) and internal regulatory documents of the Group;
- in accordance with the approved work plan for the current year, conducts planned sample checks of the Group's compliance, being a professional participant of the securities market, with the requirements of the legislation of the Russian Federation on securities market, the legislation of the Russian Federation on protection of rights and legitimate interests of investors on the securities market, as well as with requirements of regulatory documents of the Bank of Russia, the Federal Financial Markets Service of Russia, documents of the National Association of Securities Market Participants (NAUFOR) and internal regulatory documents of the Group;
- in accordance with the procedures and deadlines set in the Instruction, gives consideration to, independently or along with employees of other structural subdivisions of the Group, received communications with respect to the Group's professional activities on the securities market;
- promptly (in a minimum reasonable term) notifies the CEO of the parent company of the Group about potential violation, being a professional participant of the securities market, of the legislation of the Russian Federation, including requirements of regulatory documents of the Bank of Russia, the Federal Financial Markets Service of Russia and internal

**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

regulatory documents of the Group. After that the Controller verifies the incidents of violations, reasons for them and those responsible for their occurrence.

- controls repairs of identified violations and observance of the preventive measures to avoid similar breaches in the future activities of the Group;
- submits the reports specified in the Instruction to the Board of Directors and the CEO of the parent company of the Group;
- provides consultations to the Group's employees on issues related to performance of professional activities on the securities market;
- informs the Group's employees about changes in the legislation of the Russian Federation on securities market, on protection of rights and legitimate interests of investors on the securities market, on advertizing, as well as with requirements of regulatory documents of the Bank of Russia, the Federal Financial Markets Service of Russia, documents of the National Association of Securities Market Participants (NAUFOR) and internal regulatory documents of the Group related to the professional activities on the securities market; and
- performs other control functions over the Group's compliance with requirements of the legislation of the Russian Federation on the securities market, on protection of rights and legitimate interests of investors on the securities market, as well as with requirements of regulatory documents of the Bank of Russia, the Federal Financial Markets Service of Russia, documents of the National Association of Securities Market Participants (NAUFOR) and internal regulatory documents of the Group.

**Principal provisions of the risk management strategy**

The Strategy of risk and capital management of the parent company of the Group establishes the main principles and premises of the risk and capital management system set-up by applying internal procedures of capital adequacy assessment (the ICAAP) that include

- methods and procedures to manage material risks;
- methods and procedures of capital management, including setting the planned (target) capital level, current capital requirements, capital adequacy assessment and allocation of capital by material risks type and the Group's business areas;
- system of controls over material risks, capital adequacy and risk limits;
- reports of the parent company of the Group prepared under the ICAAP framework; and
- system of controls over observance of the ICAAP and their effectiveness.

At least annually the Board of Directors considers necessity of changes (amendments) in the Strategy and other internal documentation with guidance on application of the ICAAP. This is based on the performed evaluation of consistency of the risk management procedures, including risk aggregation, with the current standing of the Group, given the coverage of all substantial activity areas of the Group.

The Group establishes the ICAAP in line with the *pro rata* rule.

The risk and capital management system is established to for the following:

- identification, assessment and aggregation of the most material risks;
- risk management;
- assessment of capital adequacy available to the Group to cover material and potential risks; and
- capital size planning driven by the results of a comprehensive assessment of material risks, stress-tests, and business development targets set in the Strategy of the Group's Development and established by the Bank of Russia in its requirements to capital adequacy (also depending on the phase of the business activity cycle).

The ICAAP are integral to the Group's strategic planning system, that is, the results of the ICAAP application are used in decision making on business development issues (Development

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### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

strategy formulation) of the Group as a base for the capital needs assessment to cover material and potential risks.

During formulation of the Development strategy the ICAAP is evaluated as to appropriateness to the new business environment of the Group, taking into consideration the *pro rata* principle.

The main principles of risk management are stated in the internal documents that establish: a) the organizational structure of the parent company of the Group, segregation and delegation of authority, functional responsibilities, interaction procedures for the structural subdivisions and employees and exchange of information; b) rules and procedures for conducting banking operations and other transactions, accounting policies and organization of internal processes; c) rules and procedures for functioning of various systems (technical, information and other systems); d) procedures for development, preparation and presentation of statements, reporting forms and other information; e) procedures for providing incentives to employees and other issues. When amending, designing and adopting new internal documents, the Group performs evaluation as to their consistency with the main principles of risk management.

#### **Summary of risk management procedures and measurement methods; information on changes in these procedures and measurements in the reporting period**

Guided by the ICAAP, the Group employs the methods of material risks assessment established in Regulation of the Bank of Russia No. 590-П, Regulation of the Bank of Russia No. 283-П, Regulation of the Bank of Russia No. 346-П, Regulation of the Bank of Russia No. 511-П and Instruction of the Bank of Russia No. 180-И. The methods of assessment of material risks set out in these regulatory documents of the Bank of Russia comprise all parameters of material risks. The assessment methods are defined in the relevant internal documents on risk assessment.

#### **Risk reduction policy**

To reduce risks 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 for the Group that are set in conformity with the risk appetite defined in the Risk and capital management strategy 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 movements.
- c) *Diversification* is a process of capital allocation between different capital investments that are not directly related to each other.

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- 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.*

**The Group's risk reporting content and frequency**

The content and frequency of risk reporting under the internal procedures for capital adequacy assessment (ICAAP) of the parent company of the Group are set out in the respective internal document, namely, "Rules for preparation and presentation of statements and reports under the ICAAP in JSC CB "Solidarnost" (approved by the Minutes of the Management Board of the Bank No. 410 dated 1 September 2017 and put into effect by Order of the Chairman of the Management Board No. 280 dated 1 September 2017).

**Information treated as commercially sensitive and confidential**

Information treated as commercially sensitive and confidential is established by "Regulation on commercially confidential information and banking secrecy" of the parent company of the Group (approved by the Minutes of the Management Board of the Bank No.368 dated 3 August 2016 and put into effect by Order of the Chairman of the Management Board No.207 dated 11 August 2016) and comprises:

- planned and operational information until the moment of its formal publication and/or use and/or application, such as information on:
  - a) strategic and tactical plans of the Group, promising banking products and business areas of the Group;
  - b) financial position and solvency of the Group and its stand-alone structural units;
  - c) size and distribution of the Group's profit;
  - d) information contained in the Group's statements and reporting documentation.
- contents of accounting and tax ledgers as well as of the management accounts;
- audit results and minutes of the Internal Audit Commission meetings, pronouncements and documented results of audits and other checks and reviews of the Group's activities (until the time of their formal publication);
- internal documents of the Group, except for the foundation documents and documents posted on the official web site of the parent company of the Group, such as:
  - a) internal regulatory documents of the Group (regulations, instructions, procedures, etc.);
  - b) document templates used by the Group in its business;
- information disclosures of custom-made technical and operational solutions, methods and procedures of management in the Group and decision-making patterns used in its business;
- information on the nature, purpose and outcomes of the meetings held by the Group's management bodies, work groups, committees and panels;
- information on preparation for and results of negotiations with business partners and counterparties on promotion of financial, commercial and economic ties;
- disclosure of negotiation tactics with business partners and counterparties when signing contracts or agreements with them. Form, substance and conditions of the deals and agreements being concluded;
- information on marketing activity of the Group, on results of market research for banking services, and results of financial and economic analyses and forecasts;
- disclosures about the Group's shareholders, when there are no mandatory requirements to disclose or prohibit restricted access to the information on them in the Russian legislation;
- details of security organization and procedures, access controls and security measures within the Group;

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- details of technical safety systems of the Group, information on locations, principles of work and technical integrity of specific technical safety systems of the Group;
- information on location of vaults and strong rooms, technical resistance to burglary and availability of valuables in cash operating units, vaults and strong rooms.
- procedures for storage and cash collection of bank notes, coins, foreign currencies, securities and routing of cash-in-transit vehicles.
- information on soft- and hardware arrangements used to ensure information security;
- data on information storage, processing and transfer, as well as on access to resources of the automated banking system;
- information on availability of networks, communication, switching and electric power supply facilities;
- information on development, implementation and use of software and technologies in information processing in the Group, such as:
  - a) electronic databases;
  - b) topology of local and global networks, locations of servers, archives and backups of accounting data;
  - c) operating algorithms of software, methods and procedures of data archiving;
  - d) procedures, ways and channels of communications in information exchange within the Group with customers, counterparties, respondent banks and correspondent banks;
  - e) information on passwords and user accounts of the Group's network;
  - f) secret keys for electronic digital signature and encryption of cryptosystems of information security, tables of telex keys;
  - g) information on proprietary software development in the Group.

**Banking secrecy comprises information on**

- customers, correspondent banks, the Group's counterparties and their financial position, creditworthiness, credit needs, outstanding loans, payments in arrears, as well as information from the credit files and legal files of the Group's customers;
- operations, accounts and deposits of customers and correspondent banks of the Group;
- contents, terms and conditions of contracts and agreements with the Group's customers, counterparties and correspondent banks;
- solvency and availability and movements of cash on accounts of the Group's customers;
- personal data of the Group's customers and their representatives;
- samples of the Group's customers signatures;
- transactions that are and are being concluded by the Group to attract and place funds;
- archives on the Group's customers activities that comprise banking secrecy data.

**Credit risk management**

Lending to legal entities and individuals by the Group is performed in accordance with the Credit Policy of the parent company of the Group adopted by the Board of Directors.

The key requirements applied by the Group for lending, decision-making procedures, segregation of responsibility areas in the lending process between the Group's subdivisions and their interactions, procedures for contracts finalization, disbursement of cash, credit files preparation, credit transactions monitoring, bad debt handling, procedures for loan classification and establishment of provision for loan losses, procedures for setting up provisions for possible losses are defined in the internal banking regulatory documents that comply with the requirements set by regulations of the Bank of Russia.

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## NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Group has worked out Regulation on lending to related parties to minimize risks, strengthen controls, protect depositors' and creditors' interests when the Group enters into related-party transactions with inherent credit risk.

Based on the criteria set out in the Regulation on lending to related parties a complete list of the Group-related parties and insiders of the parent company of the Group is drafted. The list is not exhaustive due to additions and removals of insiders. The document establishes structural subdivisions and employees of the parent company of the Group responsible for supplying relevant information for the list of insiders and for the presentation format of this information. Amendments to the list are made on the day the information is received from the subdivisions in charge of supply of such information.

Directory of regulatory documents of the Group's parent company posts in open access internal banking documents, including those on lending, that are accessible to all participants of the lending process.

Lending decisions in the parent company of the Group are made by the Credit Committee and the Sub-Committee for Retail Lending, integral to the Bank's Credit Committee, in accordance with Regulation on the Credit Committee of the parent company of the Group (adopted by the Minutes of the Management Board meeting No.401 dated 21 April 2017 and put into effect by Order of the Chairman of the Management Board No.119/1 dated 21 April 2017).

Creation and adjustment of provisions in the parent company of the Group happen at the time evidence is obtained regarding new (changed) credit risk and/or collateral quality. Credit risk measurement, classification and evaluation of a loan, estimation of a calculated provision for loan losses and provision are carried out on a regular basis but not less than once per month as at the reporting date.

Lending operations in the Group are standardized.

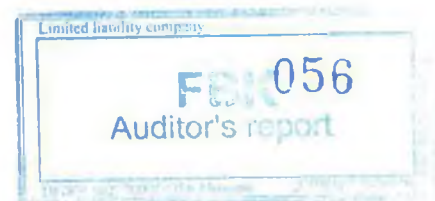
All lending transactions with interested parties made in 2017 were properly approved by the relevant management bodies of the Group.

**Maximum credit risk exposure**

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

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

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2017 Total
Due from the Central Bank of the Russian Federation	-	-	-	-	-	879,694	879,694
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	146,762	146,762
Due from banks and other financial institutions	183,074	1,300,000	-	-	17,997	289,974	1,791,044
Loans to customers	-	-	-	-	-	4,609,939	4,609,939
Reverse REPO transactions	-	-	-	-	-	175,074	175,074





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	AAA	AA	A	BBB	<BBB	Not rated	31 December 2016 Total
Due from the Central Bank of the Russian Federation	-	-	-	-	-	277,609	277,609
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	122,560	122,560
Due from banks and other financial institutions	13,756	1,323	2,392,186	13,470	257	164,843	2,585,835
Loans to customers	-	-	-	-	-	3,615,396	3,615,396
Other financial assets	-	-	-	-	-	244,980	244,980

**Liquidity risk management**

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 management is carried out 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.

Structure of the management bodies and subdivisions of the Group performing liquidity risk management functions comprises:

- the Board of Directors;
- the Management Board;
- the Chairman of the Management Board;
- Finance and Budget Committee;
- Treasury and Department for Financial Markets;
- Risk Management Service;
- Internal Control Service;
- Internal Audit Service;
- Subdivisions assuming risks.

Liquidity risk management functions are divided as follows:

The Board of Directors performs the following functions:

- approves Risk and capital management strategy of the Group; and
- reviews reports prepared under the ICAAP framework in respect of results of limits control, the ICAAP progress, stress-tests, as well as on observance of mandatory regulatory ratios, capital size and capital adequacy assessment results of the Group.

The Management Board performs the following functions:

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Auditor's report

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- approves procedures for liquidity risk management;
- approves stress-tests procedures;
- ensures application/implementation of the ICAAP and maintenance of capital adequacy at the required level;
- informs the Board of Directors about revealed shortcomings in the liquidity risk management and assessment methodology, as well as about warning values reached and instances of limits excesses and actions taken for their remedy; and
- reviews reports prepared under the ICAAP framework in respect of results of limits control, the ICAAP progress, stress-tests, as well as on observance of mandatory regulatory ratios, capital size and capital adequacy assessment results of the Group.

the Chairman of the Management Board performs the following functions:

- approves stress-tests results;
- informs the Management Board about revealed shortcomings in the risk management and assessment methodology, as well as about warning values reached and instances of limits excesses and actions taken for their remedy;
- reviews reports prepared under the ICAAP framework in respect of results of limits control, stress-tests, as well as on observance of mandatory regulatory ratios, capital size and capital adequacy assessment results of the Group.

Finance and Budget Committee (FBC) with respect to liquidity risk management performs the following functions:

- defines requirements to regulatory documents describing internal methods, procedures and approaches to liquidity risk management;
- approves the target limit structure for liquidity risk;
- approves limits for financial instruments, counterparties, issuers and open currency positions;
- sets warning limits for mandatory liquidity ratios of the Group established by the Bank of Russia and decides on issues of management of the mandatory liquidity ratios of the Group;
- approves structural limits (ratios of particular assets and liabilities items) for liquidity risk management;
- takes decisions on measures to bring indicators/positions in compliance with the set limits and plans for their implementation and, if appropriate, decides on limit revision;
- approves the minimum yield levels on investments into financial instruments;
- approves terms of transactions to raise funds on the debt capital markets;
- as to operations on financial markets, decides on necessary changes in terms and non-price parameters of the Group's products that have an effect on liquidity risk;
- takes decisions related to coordination of work, as well as to division of authority of subdivisions and responsible officers on issues of liquidity management of the Group;
- approves the list of management accounts forms and statements that serve a basis for decision-making on resource management in the short- and long run;
- approves the action plan for occurrence of liquidity crisis at the Group and procedures to cover the liquidity deficit.

Risk management Service performs the following functions:

- works out procedures and principles of liquidity risk management;
- organizes the liquidity risk management process;
- monitors liquidity risk;



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- within its competence ensures observance of the mandatory ratios established by the Bank of Russia;
- works out stress-testing procedures;
- arranges stress-tests; and
- informs the Sole Executive Body about revealed shortcomings in the risk management and assessment methodology, as well as about warning values reached and instances of limits excesses and actions taken for their remedy.

Treasury and Department for Financial Markets perform the following functions:

- control over the Group's payment position and its ability to effectuate own and customers' payments; and
- hands-on liquidity management in the Group by giving proper consideration to matching of assets and liabilities by maturities and amounts.

Internal Control Service performs the following functions:

- organizes the management process and performs regulatory risk management, including with respect to liquidity risk management.

Internal Audit Service performs the following functions:

- evaluates effectiveness of the liquidity risk assessment methods, including the internal documents updates;
- makes judgment on effectiveness of the liquidity risk management procedures;
- assesses effectiveness of the methodology for pricing trading portfolio instruments;
- conducts audits of the subdivisions in charge of liquidity risk and capital management;
- informs the Board of Directors, the Management Board and the Chairman of the Management Board about revealed shortcomings in functioning of the internal risk assessment systems, including liquidity risk, and actions taken for their remedy.

Subdivisions assuming risks perform the following functions:

- take part in development and implementation of the policy on liquidity (if necessary);
- implement recommendations of the Risk Management Service while concluding operations/deals;
- upon the Risk Management Service request, provide necessary information on liquidity risk management (data, reports, etc.).

If a "conflict of interests" between liquidity and returns arises (for instance, being driven by low yields of liquid assets and high cost of borrowed funds) all decisions are taken only on a collective basis (by the FBC).

Control over liquidity risk management is executed by the Board of Directors, the Management Board, the Chairman of the Management Board, by the Risk Management Service and the Internal Control Service in accordance with the Risk and capital management strategy of the Group.

Methods of liquidity analysis comprise:

- liquidity status analysis (analysis of actual and forecast values of the ratios for 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;



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- 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.

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.

To determine possible effect of negative factors on liquidity, the Group quarterly performs stress-tests for liquidity risks by using the methods prescribed by the internal document, "Methods of liquidity risk analysis and stress-testing".

The key risk factors taken into account in liquidity stress-testing are credit risk, liquidity risk (risk arising as a result of risk of non-repayment of loans and risk of rapid and unexpected outflow of the bank liabilities), concentration risk and market risk, including currency risk.

The goal of liquidity stress-testing is identification of liquidity deficit or surplus for various maturities, as well as timely measures on liquidity recovery to prevent negative risk effects on the Group's financial stability.

Stress-testing instruments are analyses of cash flow structure and of risk factors impact on the Group's activity, with the following objectives:

- evaluation of the current ability to fully discharge its liabilities;
- assessment of possibilities for the capital to absorb potential losses occurring in case of extra funding is raised to cover liquidity deficit;
- establishment of a set of measures for risk reduction and capital maintenance;
- formulation of probable stress scenarios that may pose a threat to the Group.

Key parameters of scenario models:

- Scenario 1: Deposit flight – deposit withdrawals from accounts of individuals and legal entities is 10% for each maturity;
- Scenario 2: Deposit flight – deposit withdrawals from accounts of individuals and legal entities is 20% for each maturity;
- Scenario 3: Deep crisis on financial markets – impossible to have financial market borrowings refinanced within 3 months;
- Scenario 4: Deep crisis on financial markets and deposit flight – a combination of Scenario 2 and 3.

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- Scenario 5: Deep crisis on financial markets and credit losses – a combination of Scenario 3 on liquidity risk and loss of 3 largest loans to borrowers/a group of related borrowers of quality category.
- Scenario 6: Deep crisis on financial markets, credit losses and change in currency cost – Scenario 5 is being realized, plus possible extra costs on assumed operations with foreign currency.

According to the results of liquidity stress-testing as at 31 December 2017, the level of risk is acceptable.

Public disclosure by the bank of the fair information on liquidity status and, in general, on its business activity is an important element of liquidity management as it has a positive effect on market participants' opinions and, consequently, on the Group's stability, also in case of unfavorable developments.

Information disclosure is made on the official web site of the parent company of the Group [http://www.solid.ru/about/emitent/fin\\_reports/](http://www.solid.ru/about/emitent/fin_reports/) in the form of the published financial statements.

**Market risk management**

Market risk management in the Group is performed in accordance with the Policy on Market Risk Management of the parent company of the Group.

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.

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.

Structure of the management bodies and subdivisions of the Group performing market risk management functions comprises:

- the Board of Directors;
- the Management Board;
- the Chairman of the Management Board;
- Finance and Budget Committee;
- Risk Management Service;

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- Internal Control Service;
- Internal Audit Service;
- Subdivisions conducting operations (deals) and managing positions in financial instruments and the open currency position.

Market risk management functions are divided as follows:

The Board of Directors performs the following functions:

- approves Risk and capital management strategy of the Group; and
- reviews reports prepared under the ICAAP framework in respect of results of limits control, the ICAAP progress, stress-tests, as well as on observance of mandatory regulatory ratios, capital size and capital adequacy assessment results of the Group

The Management Board performs the following functions:

- approves procedures for market risk management;
- approves stress-tests procedures;
- ensures application/implementation of the ICAAP and maintenance of capital adequacy at the required level;
- informs the Board of Directors about revealed shortcomings in the market risk management and assessment methodology, as well as about warning values reached and instances of limits excesses and actions taken for their remedy; and
- reviews reports prepared under the ICAAP framework in respect of results of limits control, the ICAAP progress, stress-tests, as well as on observance of mandatory regulatory ratios, capital size and capital adequacy assessment results of the Bank.

the Chairman of the Management Board performs the following functions:

- approves stress-tests results;
- informs the Management Board about revealed shortcomings in the risk management and assessment methodology, as well as about warning values reached and instances of limits excesses and actions taken for their remedy;
- reviews reports prepared under the ICAAP framework in respect of results of limits control, stress-tests, as well as on observance of mandatory regulatory ratios, capital size and capital adequacy assessment results of the Group.

Finance and Budget Committee (FBC) with respect to market risk management performs the following functions:

- sets up limits for financial instruments and open currency position;
- takes decisions on measures to bring indicators/positions in compliance with the set limits and their implementation plans and, if appropriate, decides on limit revision;
- approves hedging strategy for interest rate and foreign currency positions of the Bank;
- takes decisions in respect of interest income management of the Bank;
- as to operations on financial markets, decides on necessary changes in terms and non-price parameters of the Group's products that have an effect on market risk;
- sets warning limits for open currency positions of the Group by particular currency and for an overall open currency position in accordance with requirements of the Bank of Russia;
- takes decisions related to coordination of work, as well as to division of authority of subdivisions and responsible officers on issues of market risk management of the Group.

Risk Management Service performs the following functions:

- works out procedures and principles of market risk management;
- organizes the market risk management process;



## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

- monitors market risk;
- works out stress-testing procedures;
- arranges stress-tests; and
- informs the Sole Executive Body about revealed shortcomings in the risk management and assessment methodology, as well as about warning values reached and instances of limits excesses and actions taken for their remedy.

Internal Control Service performs the following functions:

- monitors market risk management process with respect to compliance with the Russian legislation, as well as with regulatory and internal documents of the Bank.

Internal Audit Service performs the following functions:

- evaluates effectiveness of the market risk assessment methods, including the internal documents updates;
- makes judgment on effectiveness of the market risk management procedures;
- assesses effectiveness of the methodology for pricing securities portfolio instruments;
- conducts audits of the subdivisions in charge of market risk management;
- informs the Board of Directors, the Management Board and the Chairman of the Management Board of the parent company of the Group about revealed shortcomings in functioning of the internal risk assessment systems, including market risk, and actions taken for their remedy.

Subdivisions conducting operations (deals) and managing positions in financial instruments and the open currency position perform the following functions:

- perform their professional activities within the limits set by the FBC and other participants of the market risk management system;
- implement recommendations of the Risk Management Service while concluding operations/deals;
- upon the Risk Management Service request, provide necessary information on market risk management (data, reports, etc.).

The market risk management process includes:

- 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". The market risk exposure is used in calculation of the capital adequacy ratio of the Group.
- monitoring of market risk level;
- drafting suggestions with regards to approval and revision of market risk limits;
- management of financial instruments;
- open currency position management;
- enhancement of approaches to/ methods of market risk assessment and elaboration of internal documents regulating market risk management of the Group; and
- internal controls over market risk management.

To minimize market risk the Group takes the following measures:

- diversification of market risk – allocation of the Group's resources by assets and instruments;



## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

- 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;
- monitoring of market risk level;
- establishment of provisions for possible asset impairment losses to ensure financial sustainability; and
- 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 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".

	As at 31 December 2017 RUB'000	As at 31 December 2016 RUB'000
<b>Interest rate risk (IR)</b>	<b>656,577</b>	<b>726,685</b>
- general interest rate risk (GIR)	188,106	223,298
- specific interest rate risk (SIR)	474,471	503,387
<b>Equity risk (ER)</b>	<b>165,571</b>	<b>136,757</b>
- general equity risk (GER)	82,785	68,378
- specific equity risk (SER)	82,785	68,378
<b>Currency risk (CR)</b>	-	<b>30,476</b>
<b>Commodity risk (CR)</b>	-	-
<b>Total market risk (MR)</b>	<b>10,276,852</b>	<b>11,173,963</b>

Interest rate risk 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 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 a credit organization 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.

#### Currency risk management

Currency risk management process in the Group is guided by the internal regulatory documents that define currency risk, describe procedures of currency risk management, set limits of currency risk and establish participants of the currency risk management and control process and their functions.

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. The Department of Regulatory Reporting and Economic Analysis computes currency risk exposure as a part of market risk computation.



## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2017

An analysis of sensitivity of the Group's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 10% change in USD and Euro to Russian ruble exchange rates is as follows:

	2017		2016	
	Net profit RUB'000	Equity RUB'000	Net profit RUB'000	Equity RUB'000
10% appreciation of USD against RUB	(2,454)	135,278	39,054	194,946
10% depreciation of USD against RUB	2,454	(135,278)	(39,054)	(194,946)
10% appreciation of EUR against RUB	329	467	2,076	1,942
10% depreciation of EUR against RUB	(329)	(467)	(2,076)	(1,942)

**Interest rate risk management**

Interest rate risk management is regulated by the provisions established in "Regulation on main principles of assets and liabilities management in the Group, on currency and interest rate risks management and the system of interest rate pricing" (approved by Order of the Chairman of the Management Board No.404aa dated 18 October 2014). This document is aimed at establishment of a system of internal indicators and ratios that put interest rate risk and losses due to changes in market interest rates within a scope acceptable to the Group.

These ratios are mandatory and are controlled and maintained within the limits set by the Treasury.

Interest rate risk assessment is performed on the basis of the gap-analysis by using stress-test in accordance with Regulation on arrangement of stress-testing in the Group, underpinned by international approaches set out in Letter of the Bank of Russia No.15-1-3-6/3995 dated 2 October 2007.

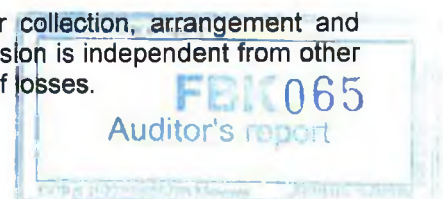
An analysis of sensitivity of the Group's net profit for the period and equity to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2017 and 31 December 2016 is as follows:

	2017		2016	
	Net profit RUB'000	Equity RUB'000	Net Profit RUB'000	Equity RUB'000
100 bp parallel fall	42,221	42,221	31,589	31,589
100 bp parallel rise	(42,221)	(42,221)	(31,589)	(31,589)

**Operational risk management**

Operational risk is managed in the Group according to "Policy on Operational Risk Management in the Group" (approved by the Minutes of the meeting of the Board of Directors No.19 dated 28 December 2016 and put into effect by Order of the Chairman of the Management Board No.019 dated 23 January 2017) and "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputational Risks" (approved by Order of the Chairman of the Management Board No.351 dated 26 October 2017).

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



## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 in a form of an approved product/service card describing the main product/service delivery features and terms.

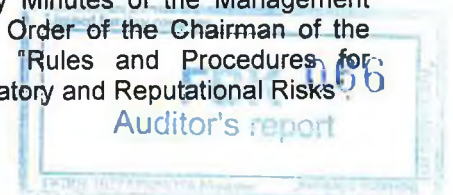
Calculation of capital required to cover operational risk in the Group is carried out by applying the method based on computation of a positive average annual gross income for the last 3 years multiplied by the fixed coefficient of 15%. Appropriateness of the operational risk level for the Group is verified by assessing the operational risk impact on the capital adequacy ratio of the Group (N1) as at the reporting quarterly 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;
- 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;
- 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.
- 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.

#### Reputational risk management

The key principles of reputational risk management, including its assessment procedures and methods of minimization, are established in "Policy on management of the risk of business reputation loss (reputational risk)" in the Group (approved by Minutes of the Management Board No.391 dated 18 January 2017 and put into effect by Order of the Chairman of the Management Board No.33 dated 31 January 2017) and "Rules and Procedures for Maintenance of Events Database Related to Operational, Regulatory and Reputational Risks".



**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

As reputational 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 a negative public perception about financial sustainability of the Group, quality of services offered or the nature of its activities.

The main verification of reputational risk by the Group is made on the basis of information analysis in the media. The Department of Marketing and Public Relations effectuates collection of such information.

**Legal risk management**

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 Reputational 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" (approved by Minutes of the Management Board of the Bank No.363 dated 3 August 2016 and put into effect by Order of the Chairman of the Management Board No.206 dated 11 August 2016). 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.

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 legislative information web sites "Consultant Plus" and "Garant".

**Strategic risk management**

Under strategic risk the group understands a risk type that is connected with occurrence of losses due to errors and oversights made in decision-making related to the strategy definition for the Group's activities and development.

At present the Group carries out its activities according to the Financial Rescue Plan with the following aims:

- to solve liquidity problem at the parent company of the Group and restore its full solvency;
- to recover financial stability of the Group, to strengthen its activities and to meet all prudential requirements of the Bank of Russia;
- to ensure efficient functioning of the Group;
- to keep developing and to transform the parent company of the Group into a modern credit institution able to timely provide quality banking services in demand on the market.

**Action plan for non-conventional and extraordinary situations and events**

Actions for non-conventional and extraordinary situations and events that may undermine financial sustainability of the Bank, provoke its loss of solvency and cause material negative impact on the capital and financial results are established in "Action plan for business continuity

## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2017

and/ or recovery of the Group's operations in case of non-conventional and extraordinary situations/events" (approved by Minutes of the Board of Directors No.8 dated 22 April 2015). Business continuity of systems functionality is ensured according to the requirements of the "Information Security Policy" of the Group and the "Plan of Business Continuity and Recovery of Operations of the IS system of the Group in a crisis situation".

At present a new version of the "Action Plan for business continuity and/ or recovery of the Group's operations" has been prepared, approved by Minutes of the Management Board No.421 dated 20 November 2017 and submitted for further approval to the Board of Directors.

## 24. CAPITAL MANAGEMENT

Control over observation of the capital adequacy ratio set by the Bank of Russia is exercised by the parent company of the Group on a daily basis. The Group provides on a monthly basis information on capital adequacy ratio calculation 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 Group defines as equity (capital) those items defined by the statutory legislation of the Russian Federation as capital for credit institutions. The Group calculates capital according to the Regulation of the Bank of Russia No. 395-П "On methodology to define the amount of equity (capital) in credit institutions (Basel III)" of 28 December 2012.

Minimum capital adequacy ratios as at 31 December 2017 and 31 December 2016 are as follows:

	As at 31 December 2017 (%)	As at 31 December 2016 (%)
Base capital adequacy ratio (N 1.1)	4.50	4.50
Core capital adequacy ratio (N 1.2)	6.00	6.00
Equity (capital) adequacy ratio (N 1.0)	8.00	8.00

The calculation of capital adequacy ratio of the Bank according to the requirements of the Bank of Russia as at 31 December 2017 and 31 December 2016 is as follows:

	As at 31 December 2017 RUB'000	As at 31 December 2016 RUB'000
Core capital	10,178,995	78,994
Additional paid-in capital	4,794,989	606,503
Indicators decreasing the amount of core capital and additional paid-in capital	(799,948)	(2,819,738)
<b>Total capital</b>	<b>14,174,036</b>	<b>(2,134,241)</b>
Risk weighted assets	<b>31,043,020</b>	<b>26,771,162</b>
Base capital adequacy ratio (N 1.1), %	30.49	-
Core capital adequacy ratio (N 1.2), %	30.49	-
Equity (capital) adequacy ratio (N 1.0), %	45.66	-

## 25. 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.

## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2017**26. COMMITMENTS**

The Bank may have commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group issues guarantees and opens letters of credit for the purpose of meeting liabilities of its customers before third parties. The said agreements fix limits of the Group's liabilities and as a rule have maturities up to 5 years. The Group also issues guarantees acting as a settlement agent on transactions related to lending in securities.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for credit commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

As at 31 December 2017 and 31 December 2016, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2017		31 December 2016	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
<b>Contingent liabilities and credit commitments</b>				
Guarantees issued and similar commitments	237,413	231,073	25,730	21,737
Unused credit commitments	469,493	469,493	183,456	183,456
<b>Total contingent liabilities and credit commitments</b>	<b>706,906</b>	<b>700,566</b>	<b>209,186</b>	<b>205,193</b>

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2017 and 31 December 2016, the Bank had no capital commitments and operating lease commitments.

**27. CONTINGENCIES****Environmental commitments**

From time to time the Group performs assessment of its environmental commitments in accordance with the environmental legislation. Such liabilities are recognized in the consolidated financial statements as identified. Potential liabilities that may arise as a result of changes in the existing legislation, civil law disputes or changes in the ratios are hard to assess precisely but they may turn out to be material. Given the existing system of controls, the Group's management believes that currently there are no material environmental liabilities, except for those that are recognized in the consolidated financial statements.

**Legal proceedings**

From time to time and in the normal course of business, claims against the parent company of the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

**Capital commitments**

As at 31 December 2017 the Group did not have any contractual capital commitments related to reconstruction of buildings and acquisition of equipment and software.

## Group JSC CB "Solidarnost"

### NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### Taxation

Tax legislation in the Russian Federation keeps developing and is subject to changes. Tax legislation pieces are not always explicit and may allow for more than one interpretation. Interpretations between the local, regional and federal tax authorities often differ.

Tax declaration in the Russian Federation may be subject to review and extra checks within three years. Completion of a field or documentary tax audit of the declaration for the current year does not mean that another tax audit for the period not exceeding three years preceding its starting date cannot be conducted. In accordance with the Russian tax legislation understated tax liabilities may lead to penalties and fines, with their amount being substantial if compared with the amount of the identified tax violations.

On the whole, the management believes that the Group has paid or accrued all taxes due according to the tax legislation. With regard to transactions with tax contingencies, except for the income tax, the Group has accrued tax liabilities in the amount estimated by the management using its best judgment as to potential amount of cash outflows required to settle these liabilities. Contingent tax liabilities identified as at the reporting date and defined by the management as those related to varied interpretations of the tax legislation and norms, are not recognized in these consolidated financial statements.

#### 28. RELATED PARTY TRANSACTIONS

Operations between the parent company of the Group and its subsidiaries, who are also the related parties, were removed on consolidation and are not recognized in this Note.

##### List of parties related with the Group:

JSC "Zarubezhenergoproject"

JSC "Insurance Company "Diana"

JSC "Privolzhskoye Credit Bureau"

- Vadim Valentinovich Kumin, Chairman of the Board of Directors of JSC CB "Solidarnost" (independent director);
- Vyacheslav Petrovich Arbuzov, a member of the Board of Directors;
- Irina Olegovna Gordeeva, a member of the Board of Directors; and
- Anastasiya Valerievna Arkhipova, Deputy Chairperson of the Management Board of JSC CB "Solidarnost"

As at 31 December 2017

	Shareholders	Companies under common control	Other related parties	Key management personnel
	RUB'000	RUB'000	RUB'000	RUB'000
<b>ASSETS</b>				
Loans to customers	230,186	-	9,124	1,004
Investments in equity liabilities	-	1,050	-	-
Provision for impairment	-	(1,050)	-	-
Other assets	-	-	48	500
<b>LIABILITIES</b>				
Subordinated loans	661,672	-	-	-
Current accounts and deposits from customers	45,739	-	-	3,552
<b>Equity</b>				
Additional paid-in capital	3,350,288	-	-	-
<b>Profit or loss</b>				
Interest income	47,643	-	484	184
Interest expense	22,677	-	-	346
Operating expenses	-	-	-	92,271



## Group JSC CB "Solidarnost"

## NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Charges to)/recovery of provision for impairment	66,121	19	8
Other income/(expense)	1,393	-	-
<b>Contingencies</b>			
Unused lines of credit	-	3,404	13,496
Guarantees issued	118,062	-	-
Securities received on transactions of reciprocal nature	177,700	-	-

All related party transactions are made on market terms.

As at 31 December 2016

	Shareholders RUB'000	Companies under common control RUB'000	Other related parties RUB'000	Key management personnel RUB'000
<b>ASSETS</b>				
Loans to customers	410,101	-	2,566	3,266
Investments in debt liabilities	-	1,050	-	-
Provision for impairment	(66,121)	(1,050)	(19)	(8)
<b>LIABILITIES</b>				
Current accounts and deposits from customers	36,884	-	1,179	7,858
Other liabilities (provision)	-	-	-	-
<b>Profit or loss</b>				
Interest income	8,491	-	82	330
Interest expense	459	-	-	516
Operating expenses	-	-	-	99,284
(Charges to)/recovery of provision for impairment	81,701	-	4,831,659	11,658
Other income/(expense)	198	-	(15)	-
<b>Contingencies</b>				
Unused lines of credit	-	-	487	13,934
Guarantees issued	-	-	-	-
Securities received on transactions of reciprocal nature	300,000	-	-	-

## 29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

	As at 31 December 2017 RUB'000	As at 31 December 2016 RUB'000
Cash with the Central Bank of the Russian Federation	879,694	277,609
Cash	431,498	404,792
NOSTRO accounts in banks of the Russian Federation and other countries	320,036	234,587
	<b>1,631,228</b>	<b>916,988</b>



## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2017**30. 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 other than cases of forced sale or liquidation sale. The presented estimates can fail to reflect amounts which the Group could gain if its package of any financial instruments was realized.

The estimated fair values of cash, mandatory cash balances with the CBRF, and placements with banks and other financial institutions are their carrying values.

The estimated fair value of financial instruments at fair value through profit or loss and quoted available-for-sale securities are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

**Valuation techniques**

The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate.

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilizing valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

**Bond prices** - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

**Interest rates** - these are basically benchmark interest rates or internal Group's rates effective as at reporting date and quoted interest rates in the swap, bond and futures markets.

**Foreign currency exchange rates** - there are observable markets both for spot and forward contracts and futures in the world's major currencies.

**Equity and equity index prices** - quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

**Commodity prices** - many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centers.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. Furthermore, on an ongoing basis, the Bank assesses the appropriateness of any model used.

**Financial assets and liabilities**

The following methods and significant assumptions have been applied to estimate the fair values of the following financial instruments:

The fair value of loans and advanced to banks and loans to customers for loans provided during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other loans is estimated by application of market interest rates when the loans were originated with the year-end market rates offered on similar loans with the deduction of the allowances for credit losses from the calculated fair value amounts.

Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.



## Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2017

The fair value of term deposits (included in customer accounts and deposits from banks) placed during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of other term deposits is estimated by application of market interest rates when the deposits were placed and the year-end market rates offered on similar deposits. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.

The fair value of issued bonds and subordinated liabilities is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds quoted at the market.

The valuation techniques have been consistently applied by the Group across the years.

	2017 RUB'00 Carrying value	2017 RUB'00 Fair value	2016 RUB'00 Carrying value	2016 RUB'00 Fair value
<b>ASSETS</b>				
Due from banks and other financial institutions	6,796,320	6,796,320	7,819,064	7,819,064
Loans to customers	10,631,983	10,718,701	10,041,663	10,039,778
Securities available for sale	8,926,809	8,926,809	8,731,022	8,731,022
Securities at fair value through profit or loss	4,887	4,887	198	198
Reverse REPO transactions	192,030	192,030	310,101	310,101
Other assets	193,673	193,673	128,794	128,794
<b>LIABILITIES</b>				
Due to banks and other financial institutions	783,775	783,775	2,316	2,316
Current accounts and deposits from customers	11,259,092	11,259,092	10,537,192	10,537,192
Subordinated loans	661,672	661,672	-	-
Other borrowed funds	-	-	7,684,966	7,684,966
Financial liabilities at fair value through profit or loss	8,890	8,890	-	-
Other liabilities	116,914	116,914	64,507	64,507

## 31. MATURITY ANALYSIS

The following table shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2017.

Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

ASSETS	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	More than 3 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
Cash	431,498								431,498
Cash with the Central Bank of the Russian Federation	879,694								879,694
Mandatory cash balances with the Central Bank of the Russian Federation							146,762		146,762
Due from banks and other financial institutions	1,791,044								1,791,044
Loans to customers	988	79,010	237,571	80,619	1,967,594	1,014,961		1,229,196	4,609,939
Securities at fair value through profit or loss	4,887								4,887
Investment securities available for sale			18,402	931	569,446	6,277,545	2,060,485		8,926,809
Investments in real estate							1,168,586		1,168,586
Reverse REPO transactions				175,074					175,074
Premises, equipment and intangible assets							929,943		929,943
Assets intended for sale							4,449		4,449
Other assets	184,019								184,019
<b>Total assets</b>	<b>3,292,130</b>	<b>79,010</b>	<b>255,973</b>	<b>256,624</b>	<b>2,537,040</b>	<b>7,292,506</b>	<b>4,310,225</b>	<b>1,229,196</b>	<b>19,252,704</b>
<b>LIABILITIES</b>									
Due to banks	333,775	450,000							783,775
Current accounts and deposits from customers	2,407,501	2,054,677	2,378,424	4,202,222	215,208	1,060			11,259,092
Deferred tax liability									-
Current tax liability		5,093							5,093
Subordinated loans						661,672			661,672
Financial liabilities at fair value through profit or loss	8,890								8,890
Other liabilities	116,914								116,914
<b>Total liabilities</b>	<b>2,367,080</b>	<b>2,509,770</b>	<b>2,378,424</b>	<b>4,202,222</b>	<b>215,208</b>	<b>662,732</b>	<b>-</b>	<b>-</b>	<b>12,835,436</b>
<b>Net position as at 31 December 2017</b>	<b>425,050</b>	<b>(2,430,760)</b>	<b>(2,122,451)</b>	<b>(3,945,598)</b>	<b>2,321,832</b>	<b>6,629,774</b>	<b>4,310,225</b>	<b>1,229,196</b>	<b>6,417,268</b>



**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2017**

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Match and controlled mismatch of assets and liabilities as to maturities and interest rates is essential for management of the Group. The complete match of maturities and interest rates of assets and liabilities is impossible for banks as concluded transactions often have an indefinite term and are different in nature. A mismatched position may result in a higher yield but also it may increase the risk of losses. Maturities of assets and liabilities and the ability to replace maturities of interest bearing liabilities on acceptable terms when come due, are important factors, which should be taken into account when assessing the Group's liquidity, as well as interest rate and currency risks the Group is exposed to.

The following table shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2016.



Group JSC CB "Solidarnost"

NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

ASSETS	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	More than 3 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
Cash	404,792								404,792
Cash with the Central Bank of the Russian Federation	277,609								277,609
Mandatory cash balances with the Central Bank of the Russian Federation							122,560		122,560
Due from banks and other financial institutions	2,585,835		69,843	193,434	755,485	881,405			2,585,835
Loans to customers	770	104,953	356,171	460,805	274,190	6,226,683		1,609,506	3,615,396
Investment securities available for sale									8,716,582
Investment securities at fair value through profit or loss	198								198
Investments in real estate				244,980			555,314		555,314
Reverse REPO transactions							867,387		244,980
Premises, equipment and intangible assets							3,781		867,387
Assets intended for sale									3,781
Other assets	999	123,173							124,172
<b>Total assets</b>	<b>3,270,203</b>	<b>228,126</b>	<b>426,014</b>	<b>899,219</b>	<b>1,029,675</b>	<b>7,108,088</b>	<b>2,947,775</b>	<b>1,609,506</b>	<b>17,518,606</b>
<b>LIABILITIES</b>									
Due to banks	2,316								2,316
Current accounts and deposits from customers	1,994,608	1,735,482	2,272,138	4,402,625	128,950	3,389			10,537,192
Deferred tax liability	47,819								47,819
Other borrowed funds						7,684,966			7,684,966
Other liabilities	30,185	2,869					31,453		64,507
<b>Total liabilities</b>	<b>2,074,928</b>	<b>1,738,351</b>	<b>2,272,138</b>	<b>4,402,625</b>	<b>128,950</b>	<b>7,688,355</b>	<b>31,453</b>	<b>-</b>	<b>18,336,800</b>
<b>Net position as at 31 December 2016</b>	<b>1,195,275</b>	<b>(1,510,225)</b>	<b>(1,846,124)</b>	<b>(3,503,406)</b>	<b>900,725</b>	<b>(580,267)</b>	<b>2,916,322</b>	<b>1,609,506</b>	<b>(818,194)</b>



## Group JSC CB "Solidarnost"

## NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The amounts in the tables represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

## 32. CURRENCY ANALYSIS

The following table shows the currency structure of assets and liabilities of the Group as at 31 December 2017.

	RUB RUB'000	USD RUB'000	EUR RUB'000	Other currencies RUB'000	Total RUB'000
<b>ASSETS</b>					
Cash	333,755	47,679	49,874	190	431,498
Cash with the Central Bank of the Russian Federation	879,694				879,694
Mandatory cash balances with the Central Bank of the Russian Federation	146,762				146,762
Due from banks and other financial institutions	1,646,540	49,314	94,540	650	1,791,044
Loans to customers	4,549,106	34,412	26,421		4,609,939
Reverse REPO transactions	175,074				175,074
Investment securities available for sale	7,289,985	1,636,824			8,926,809
Financial assets at fair value through profit or loss	4,887				4,887
Premises, equipment and intangible assets	929,943				929,943
Investment property	1,168,586				1,168,586
Assets intended for sale	4,449				4,449
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>
<b>LIABILITIES</b>					
Deposits and due to banks and other financial institutions	783,745	30			783,775
Current accounts and deposits from customers	10,675,611	416,524	166,956	1	11,259,092
Subordinated loans	661,672				661,672
Financial liabilities at fair value through profit or loss	8,890				8,890
Current income tax liability	5,093				5,093
Other liabilities	116,851	63			116,914
<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 position as at 31 December 2017</b>	<b>5,058,979</b>	<b>1,352,779</b>	<b>4,671</b>	<b>839</b>	<b>6,417,268</b>

## Group JSC CB "Solidarnost"

## NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The following table shows the currency structure of assets and liabilities of the Group as at 31 December 2016.

	RUB RUB'000	USD RUB'000	EUR RUB'000	Other currencies RUB'000	Total RUB'000
<b>ASSETS</b>					
Cash	320,072	50,199	34,509	12	404,792
Cash with the Central Bank of the Russian Federation	277,609	-	-	-	277,609
Mandatory cash balances with the Central Bank of the Russian Federation	122,560	-	-	-	122,560
Due from banks and other financial institutions	2,407,714	23,714	154,402	5	2,585,835
Loans to customers	3,005,235	568,757	41,404	-	3,615,396
Reverse REPO transactions	244,980	-	-	-	244,980
Investment securities available for sale	7,043,670	1,672,912	-	-	8,716,582
Financial assets at fair value through profit or loss	198	-	-	-	198
Premises, equipment and intangible assets	867,387	-	-	-	867,387
Investment property	555,314	-	-	-	555,314
Assets intended for sale	3,781	-	-	-	3,781
Other assets	121,769	2,292	111	-	124,172
<b>Total assets</b>	<b>14,970,289</b>	<b>2,317,874</b>	<b>230,426</b>	<b>17</b>	<b>17,518,606</b>
<b>LIABILITIES</b>					
Deposits and due to banks and other financial institutions	2,316	-	-	-	2,316
Current accounts and deposits from customers	9,957,848	368,351	210,993	-	10,537,192
Deferred tax liability	47,819	-	-	-	47,819
Other borrowed funds	7,684,966	-	-	-	7,684,966
Other liabilities	64,424	66	17	-	64,507
<b>Total liabilities</b>	<b>17,757,373</b>	<b>368,417</b>	<b>211,010</b>	<b>-</b>	<b>18,336,800</b>
<b>Net position as at 31 December 2016</b>	<b>(2,787,084)</b>	<b>1,949,457</b>	<b>19,416</b>	<b>17</b>	<b>(818,194)</b>

**Group JSC CB "Solidarnost"****NOTES BEING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017****33. EVENTS AFTER THE REPORTING DATE**

On 2 February 2018 the rating agency RAEX (Expert RA) withdrew its rating of 2 February 2018 due to expiration of the agreement. The rating agency RAEX (Expert RA) withdrew its creditworthiness rating of JSC CB "Solidarnost" without confirmation.

In accordance with the Financial Rescue Plan, in 2018 JSC CB "Solidarnost" plans to obtain a credit rating from the Analytical Credit Rating Agency (ACRA).

On 12 February 2018 the Group opened a new structural unit, such as a Supplementary office "Angara" of its Irkutsk branch.

The Group does not have other events after the reporting date which can have a significant effect on the financial statements.


V. Yu. Belov  
Chairman of the Management Board  
of JSC CB "Solidarnost"

26 February 2018

E. Yu. Panfilova  
Chief accountant of JSC CB "Solidarnost"

Limited liability company

**FBK80**  
Auditor's report



Numbered and stitched

up in total

( ) pages

President of LLC «FBK»

Head of audit

