

Report on Review of Interim Financial Information of
Sovcombank PJSC and its subsidiaries
for the six months ended 30 June 2019

August 2019

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Report on Review of Interim Financial Information

To the Supervisory Board of
Sovcombank PJSC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Sovcombank PJSC and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 June 2019, and the related interim consolidated statement of comprehensive income for the three and six months then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six months then ended, and explanatory notes ("interim financial information").

Management of Sovcombank PJSC is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.



G.A. Shinin
Partner
Ernst & Young LLC

28 August 2019

Details of the entity

Name: Sovcombank PJSC

Record made in the State Register of Legal Entities on 1 September 2014, State Registration Number 1144400000425.

Address: Russia 156000, Kostroma, prospect Tekstilshchikov, 46.

Details of the auditor

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of the Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Interim consolidated statement of comprehensive income
for the six months ended 30 June 2019

	Notes	For the three months ended 30 June (unaudited)		For the six months ended 30 June (unaudited)	
		2019 RUB MM	2018 RUB MM	2019 RUB MM	2018 RUB MM
Interest income calculated using EIR method	4	18,306	15,083	36,519	25,752
Other interest income	4	6,772	8,261	12,776	15,384
Interest expense	4	(11,278)	(10,072)	(21,603)	(18,746)
Obligatory deposit insurance		(611)	(549)	(1,254)	(999)
Net interest income		13,189	12,723	26,438	21,391
Allowances for credit losses	15	(2,362)	(3,114)	(3,401)	(4,441)
Net interest income after allowance for credit losses		10,827	9,609	23,037	16,950
Fee and commission income	5	8,373	6,462	15,208	11,072
Fee and commission expense		(1,939)	(1,020)	(3,461)	(1,782)
Net fee and commission income		6,434	5,442	11,747	9,290
Net gain/(loss) on financial instruments at fair value through profit or loss		1,211	(4,313)	1,220	(2,506)
Net gain on derecognition of financial assets at amortized cost		209	-	209	-
Net gain on derecognition of financial assets at fair value through other comprehensive income		-	731	-	586
Net gain from foreign exchange and transactions with precious metals	6	418	483	997	651
Other impairment and provisions	10	(825)	(500)	(2,296)	(824)
Share of profit of joint ventures		93	87	126	117
Share of profit of associates		-	-	-	287
Other operating income		338	3,292	551	3,442
Operating income		18,705	14,831	35,591	27,993
Revenue and other gains from other non-banking business	7	637	-	1,098	-
Cost and other losses from other non-banking business	7	(650)	-	(1,190)	-
Net loss from other non-banking business		(13)	-	(92)	-
Personnel expenses	8	(5,719)	(5,213)	(11,483)	(9,066)
Other general and administrative expenses	9	(3,912)	(3,653)	(7,790)	(6,655)
Profit before income tax expense		9,061	5,965	16,226	12,272
Income tax expense	11	(1,807)	(348)	(3,237)	(1,553)
Profit for the period		7,254	5,617	12,989	10,719
Profit for the period attributable to:					
- shareholders of the Bank		7,150	5,773	12,825	10,793
- non-controlling interests		104	(156)	164	(74)
Other comprehensive income					
<i>Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met</i>					
Net gains on investment securities at fair value through other comprehensive income, net of tax		-	10	-	10
<i>Other comprehensive income not to be reclassified subsequently to profit or loss</i>					
Net losses on investment securities at fair value through other comprehensive income, net of tax		-	(17)	-	(17)
Revaluation of buildings, net of tax		(2)	(3)	(2)	(7)
Other comprehensive income, net of tax		(2)	(10)	(2)	(14)
Total comprehensive income		7,252	5,607	12,987	10,705
Comprehensive income attributable to:					
- shareholders of the Bank		7,148	5,763	12,823	10,779
- non-controlling interests		104	(156)	164	(74)

Approved on 28 August 2019

Mr. Dmitry Gusev
Chairman of the Management Board

Mr. Dmitry Baryshnikov
Financial Director

Mr. Andrei Osnos
Managing Director

The interim consolidated statement of comprehensive income is to be read in conjunction with notes 1 to 30 to, and forming an integral part of, the interim condensed consolidated financial statements.

Interim consolidated statement of financial position
as at 30 June 2019

	Notes	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Assets			
Cash and cash equivalents	12	151,476	109,817
Mandatory cash balances with the CBR		5,352	4,991
Placements with banks and bank bonds measured at amortized cost			
- held by the Group	13	24,888	35,614
- pledged under sale and repurchase agreements	13	10,101	12,921
Financial instruments at fair value through profit or loss			
- held by the Group	14	163,334	114,261
- pledged under sale and repurchase agreements	14	54,922	110,779
Investment securities at fair value through other comprehensive income	16	691	691
Loans to customers and bonds measured at amortized cost			
- held by the Group	15	491,031	455,413
- pledged under sale and repurchase agreements	15	44,875	86,065
Investments in associates		464	424
Investments in joint ventures		953	927
Investment property		56	56
Property and equipment and intangible assets		10,831	10,650
Goodwill		1,205	1,505
Current income tax asset		1,522	3,156
Deferred tax asset		467	427
Other assets		13,531	19,707
Total assets		975,699	967,404
Liabilities			
Due to the CBR		819	859
Due to banks	18	110,854	190,255
Due to customers	17	667,593	598,874
Debt securities issued	19	18,315	8,479
Other borrowed funds	20	18,028	16,924
Deferred tax liability		1,402	5,153
Current income tax payable		454	77
Subordinated debt	21	10,214	13,993
Other liabilities		21,204	18,754
Total liabilities		848,883	853,368
Equity			
Share capital	22	1,969	1,871
Other capital contributions		25,082	19,100
Revaluation reserve for investment securities at fair value through other comprehensive income		(133)	(133)
Perpetual subordinated bonds	22	6,308	6,975
Revaluation reserve for buildings		347	349
Retained earnings		91,293	83,896
Total equity attributable to shareholders of the Bank		124,866	112,058
Non-controlling interests		1,950	1,978
Total equity		126,816	114,036
Total equity and liabilities		975,699	967,404

Approved on 28 August 2019

Mr. Dmitry Gusev
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Financial Director

Mr. Andrei Osnos
Managing Director

The interim consolidated statement of financial position is to be read in conjunction with notes 1 to 30 to, and forming an integral part of, the interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows
for the six months ended 30 June 2019

	<i>Notes</i>	<i>For the six months ended 30 June (unaudited)</i>	
		<i>2019 RUB MM</i>	<i>2018 RUB MM</i>
Cash flows from operating activities before changes in operating assets and liabilities		25,218	18,140
(Increase)/decrease in operating assets		(13,811)	12,164
Increase in operating liabilities		8,320	11,075
Net cash flows from operating activities before income tax		19,727	41,379
Income tax paid		(4,724)	(3,238)
Cash flows from operating activities		15,003	38,141
Cash flows from investing activities		23,018	(2,606)
Cash flows from financing activities		6,568	13,798
Net increase in cash and cash equivalents		44,589	49,333
Effect of exchange rate changes on cash and cash equivalents		(2,930)	112
Cash and cash equivalents at the beginning of the period		109,817	39,962
Cash and cash equivalents at the end of the period	12	151,476	89,407

The interim condensed consolidated statement of cash flows is to be read in conjunction with notes 1 to 30 to, and forming an integral part of, the interim condensed consolidated financial statements.

**Interim consolidated statement of changes in equity
for the six months ended 30 June 2019**

	Share capital RUB MM	Other capital contributions RUB MM	Revaluation reserve for property RUB MM	Revaluation reserve for investment securities RUB MM	Perpetual subordinated debt RUB MM	Retained earnings RUB MM	Total equity attributable to shareholders of the Bank RUB MM	Non- controlling interests RUB MM	Total equity RUB MM
As at 1 January 2018	1,716	2,852	122	806	–	78,302	83,798	1,620	85,418
Effect of adopting IFRS 9	–	–	–	–	–	(3,357)	(3,357)	–	(3,357)
Restated balance as at 1 January 2018 under IFRS 9	1,716	2,852	122	806	–	74,945	80,441	1,620	82,061
Net profit for the period	–	–	–	–	–	10,793	10,793	(74)	10,719
Other comprehensive income for the period	–	–	(7)	(7)	–	–	(14)	–	(14)
Total comprehensive income	–	–	(7)	(7)	–	10,793	10,779	(74)	10,705
Dividends (Note 22)	–	–	–	–	–	(5,820)	(5,820)	–	(5,820)
Interest paid on perpetual subordinated loans (Note 22)	–	–	–	–	–	(195)	(195)	–	(195)
Perpetual subordinated bonds issued	–	–	–	–	5,650	–	5,650	–	5,650
Revaluation of perpetual subordinated bonds	–	–	–	–	629	(629)	–	–	–
Interest accrued on perpetual subordinated bonds	–	–	–	–	–	(169)	(169)	–	(169)
Tax effect recognized in respect of perpetual subordinated bonds	–	–	–	–	–	160	160	–	160
Conversion of a perpetual subordinated loan (Note 22)	–	6,717	–	–	–	–	6,717	–	6,717
Reclassification of net change in fair value of equity instruments on derecognition	–	–	–	(921)	–	921	–	–	–
Acquisition of subsidiaries (Note 28)	–	–	–	–	–	–	–	5,636	5,636
As at 30 June 2018 (unaudited)	1,716	9,569	115	(122)	6,279	80,006	97,563	7,182	104,745
As at 1 January 2019	1,871	19,100	349	(133)	6,975	83,896	112,058	1,978	114,036
Net profit for the period	–	–	–	–	–	12,825	12,825	164	12,989
Other comprehensive income for the period	–	–	(2)	–	–	–	(2)	–	(2)
Total comprehensive income	–	–	(2)	–	–	12,825	12,823	164	12,987
Dividends (Note 22)	–	–	–	–	–	(5,750)	(5,750)	(192)	(5,942)
Perpetual subordinated bonds purchased	–	–	–	–	(172)	–	(172)	–	(172)
Sale of previously purchased perpetual subordinated bonds	–	–	–	–	172	–	172	–	172
Revaluation of perpetual subordinated bonds	–	–	–	–	(667)	667	–	–	–
Interest on perpetual subordinated bonds	–	–	–	–	–	(265)	(265)	–	(265)
Tax effect recognized in respect of perpetual subordinated bonds	–	–	–	–	–	(80)	(80)	–	(80)
Issue of ordinary shares (Note 22)	98	5,982	–	–	–	–	6,080	–	6,080
As at 30 June 2019 (unaudited)	1,969	25,082	347	(133)	6,308	91,293	124,866	1,950	126,816

The interim consolidated statement of changes in equity is to be read in conjunction with notes 1 to 30 to, and forming an integral part of, the interim condensed consolidated financial statements.

1. Background

Principal activities

These interim condensed consolidated financial statements include the financial statements of Public Joint-Stock Company ("PJSC") Sovcombank (the "Bank" or "Sovcombank") and its subsidiaries (together referred to as the "Group" or "Sovcombank Group"). Note 30 lists principal subsidiaries included in these interim condensed consolidated financial statements of Sovcombank Group.

Sovcombank, the parent company of the Group, was originally established in 1990 as Buoycombank in Buoy, Kostroma Region, Russian Federation. The current major ultimate beneficial owners acquired the Bank, renamed it into Sovcombank and relocated its head office to the city of Kostroma in 2002. In September 2014, the Bank changed its legal form from limited liability company to open joint-stock company. In December 2014, the Bank changed its legal form from an open joint-stock company to a public joint-stock company. These reorganizations, first into the open joint-stock company and then into the public joint-stock company, had no effect on the principal activities of the Bank or its shareholder structure.

The Bank's registered legal address is 46, prospect Tekstilshchikov, Kostroma, 156000, Russia. Sovcombank operates under a general banking license No. 963 issued by the Central Bank of the Russian Federation (the "CBR" or the "Bank of Russia") on 27 November 1990. The Bank holds brokerage, dealership and depositary licenses of a professional securities market participant issued by the Federal Securities Market Commission (FSMC) on 27 January 2009. The Bank is a member of the deposit insurance system managed by the State Corporation Deposit Insurance Agency (the "DIA") since 15 September 2005.

The Group's principal business activity is retail, corporate and investment banking services. These include accepting term deposits and issuing commercial loans denominated in Russian rubles and foreign currencies; providing financial services, including investment banking services; dealing with securities, derivative financial instruments and precious metals. The Group includes a digital public procurement platform comprising www.rts-tender.ru, an online platform for public procurement, and www.fintender.ru, an online platform that provides bank guarantees. The digital platform enables access to public procurement for 514 thousand companies, mostly small and medium businesses. The Group operates primarily in the Russian Federation.

The Group has 2,431 offices located in 1,027 cities and towns across 75 constituent entities of the Russian Federation (31 December 2018: 2,648 offices located in 1,051 cities and towns across 75 constituent entities of the Russian Federation).

The Group's customers can withdraw and deposit cash through 4,568 ATMs and cash-in terminals (31 December 2018: 4,663 ATMs and cash-in terminals).

The Group serves 5.6 million customers: 4.9 million borrowers, 0.5 million depositors and 0.2 million corporate customers.

The Bank has 15,149 employees (31 December 2018: 15,700 employees).

Shareholders

Shareholders	Ownership, % 30 June 2019	Ownership, % 31 December 2018
Sovco Capital Partners N.V.	87.1%	91.7%
Other beneficiaries	12.9%	8.3%

No single beneficiary owner ultimately controls the Group as at 30 June 2019 and 31 December 2018 (Note 22).

A group of Russian businessmen, including the key members of Sovcombank management and the Supervisory Board of the Bank, owns Sovco Capital Partners N.V., a holding company registered in the Netherlands. No ultimate beneficial owner controls Sovco Capital Partners N.V.

Sovco Capital Partners N.V. is a tax resident of the Russian Federation since 1 January 2016.

1. Background (continued)**Shareholders (continued)**

In August 2018 and March 2019, Sovcombank increased its share capital by RUB 15,766 MM in total by issuing new ordinary non-documentary shares (Note 22) and selling them to third-party investors ("Other beneficiaries"). As a result, Sovco Capital Partners N.V. decreased its ownership of the Group from 100.0% to 87.1%. The table below lists the Other beneficiaries.

<i>Other beneficiaries</i>	<i>Ownership, % 30 June 2019</i>	<i>Ownership, % 31 December 2018</i>
Public Investment Fund	3.4%	1.6%
Russia-China Investment Fund	2.1%	2.2%
Ilya Brodskiy	1.8%	1.9%
Russian Direct Investment Fund	1.8%	0.3%
Russia-Japan Investment Fund	1.4%	–
Qatar Investment Authority	1.0%	1.1%
Andrey Suzdaltsev	0.6%	0.6%
SBI Holdings, Inc.	0.5%	0.5%
Other	0.3%	0.1%
Total ownership	12.9%	8.3%

A short description of other beneficiaries is presented below:

- ▶ Public Investment Fund is a sovereign fund of the Kingdom of Saudi Arabia.
- ▶ Russia-China Investment Fund (RCIF) is a fund of China Investment Corporation ("CIC") and the Russian Direct Investment Fund ("RDIF"). RDIF is a sovereign investment fund of the Russian Federation. CIC is a sovereign wealth fund of the People's Republic of China.
- ▶ Ilya Brodskiy and Andrey Suzdaltsev are co-founders of Rosevrobank JSB.
- ▶ The Russian Direct Investment Fund is a sovereign fund of the Russian Federation.
- ▶ Russia-Japan Investment Fund is a fund of Japan Bank for International Cooperation ("JBIC") and RDIF. JBIC is wholly owned by the Government of Japan.
- ▶ Qatar Investment Authority is a sovereign wealth fund of the Government of Qatar.
- ▶ SBI Holdings, Inc. is a public investment company headquartered in Tokyo, Japan.
- ▶ "Other" beneficiaries represent Middle-Eastern sovereign funds.

Corporate governance

The Bank's Supervisory Board comprises nine persons:

- ▶ Mikhail Kuchment (Chairman of the Bank's Supervisory Board);
- ▶ Anatoly Braverman (First Deputy General Director of RDIF);
- ▶ Ilya Brodskiy (President of the Bank);
- ▶ Nikolai Varma (an independent director);
- ▶ Dmitry Gusev (Chairperson of the Management Board of the Bank);
- ▶ Mikhail Klyukin (one of the ultimate owners of the Bank);
- ▶ Aleksey Fisun (one of the ultimate owners of the Bank);
- ▶ Dmitry Khotimskiy (Chief Investment Director of the Bank);
- ▶ Sergey Khotimskiy (First Deputy Chairman of the Management Board).

Dmitry Khotimskiy, Sergey Khotimskiy, Dmitry Gusev and Ilya Brodskiy are ultimate owners of the Bank, hold management positions in the Bank and participate in the daily Group's operating management.

Mikhail Kuchment, Mikhail Klyukin and Aleksey Fisun are ultimate owners of the Bank but are not employed by and are not directly involved in the operating management of the Bank.

1. Background (continued)

Corporate governance (continued)

Anatoly Braverman and Nikolai Varma are not employed by and are not directly involved in the operating management of the Bank.

Ms. Ya Li, the investment director of RCIF, is the supervisor to the Bank's Supervisory Board.

Operating environment

The Group operates predominantly in the Russian Federation. Russia continues to carry out economic reforms and to develop its legal, tax and regulatory frameworks.

The Russian economy demonstrates a strong correlation to changes in oil and other commodities prices and to a limited extent is affected by economic sanctions imposed on Russia by a number of countries. The combination of these factors may have a negative impact on the Group's future financial position, results of operations and business prospects. The Russian Government and the Bank of Russia have taken consistent and effective measures in response to a decline in energy prices. The floating official Russian ruble exchange rate, inflation targeting and active support of the financial sector lowered the inflation rate and relatively stabilized the Russian economy.

Management believes that it is taking all appropriate measures to support the sustainability of the Group's business in the current circumstances.

2. Basis of preparation

General

These interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

These interim condensed consolidated financial statements are presented in millions of Russian rubles (hereinafter, "RUB MM"), unless otherwise indicated.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied by the Group in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, with the exception of the adoption of new standards effective as at 1 January 2019. The Group has not yet adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Although these new standards and amendments apply for the first time in 2019, they do not have a material effect on the annual consolidated financial statements or the interim condensed consolidated financial statements of the Group. The nature and the effect of each new standard or amendment are described below:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors classify all leases using the same classification principles as in IAS 17 and distinguish between two types of leases: operating and finance leases.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The Group adopted IFRS 16 on the effective date of 1 January 2019. The new standard was adopted using the modified retrospective method with the recognition of the cumulative effect of the initial application as an adjustment to retained earnings at the date of initial application. When using the modified retrospective method of transition, comparative figures were not restated.

The Group used the exemptions provided by the standard for leases of low value assets, including lease contracts for office equipment, the value of which is considered low, as well as for short-term leases. The Group considers long-term lease contracts with an early termination right and lease contracts that expire within 12 months from the date of initial application but with prerogative right for prolongation as short-term, which is a significant judgment. Liabilities under such lease contracts are expensed on a straight-line basis.

The below interpretations, amendments and improvements to the standards became effective from 1 January 2019 but had no significant effect on the interim condensed consolidated financial statements of the Group:

- ▶ IFRIC 23 *Uncertainty over Income Tax Treatment* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
Despite the fact that the Group operates in a complex tax environment, applying the interpretation did not have a significant impact on its consolidated financial statements.
- ▶ Amendments to IFRS 9: *Prepayment Features with Negative Compensation* (issued on 27 March 2018 and effective for annual periods beginning on or after 1 January 2019).
- ▶ Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- ▶ Amendments to IAS 28: *Long-Term Interests in Associates and Joint Ventures* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- ▶ Annual improvements 2015-2017 cycle (IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 23 *Borrowing Costs*) (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019).
- ▶ Amendments to IAS 12: *Income Taxes* are effective for annual periods beginning on or after 1 January 2019 and affect the reported tax effect from dividends under perpetual subordinated bonds. Since the Group's current practice is in line with these amendments, there is no significant effect on its consolidated financial statements.

3. Segment information

The Group has three operating segments:

- ▶ **Retail banking ("Retail")**: providing banking services to low- and medium- income retail customers, individual entrepreneurs and small businesses residing or located primarily in small towns. These services include mortgage, car and consumer lending, issuance of installment cards, placement of deposits, as well as provision of access to a wide range of bancassurance products of third-party companies. Bancassurance includes selling membership in financial protection programs and other insurance products through the bank branch network.
- ▶ **Corporate banking ("CB")**: rendering banking services, mainly to medium-sized and major Russian corporations, state-owned enterprises and constituent entities of the Russian Federation. These services include the issuance of loans, arrangement of bond issues, trade financing, transactions with precious metals, placement of deposits, as well as settlement and cash services. CB also enables small and medium-sized businesses and individual entrepreneurs to engage in public procurement via the Group's digital platform.
- ▶ **Treasury and capital management ("Treasury")**: managing the fixed income portfolio; capital, risks and liquidity of the Group; foreign exchange and derivative transactions.

The Group's management monitors operating results of each segment separately to make decisions on the allocation of resources and performance assessment. In 2018, the Group changed its approach to segment reporting due to the merger with Rosevrobank JSB ("Rosevrobank"):

- ▶ **Retail**: Sovcombank's retail banking segment merged with Rosevrobank's retail banking segment.
- ▶ **CB**: a part of Sovcombank's Corporate and Investment Business segment related to servicing corporate customers merged with Rosevrobank's Corporate Banking and International Business segments.
- ▶ **Treasury**: a part of Sovcombank's Corporate and Investment Business segment related to management of the securities portfolio, capital, risks and liquidity merged with Rosevrobank's Treasury Banking segment.

3. Segment information (continued)

Comparative data was adjusted retrospectively for comparability purposes.

For the six months ended 30 June 2019					
	(unaudited)				
	Retail RUB MM	CB RUB MM	Treasury RUB MM	Adjustments RUB MM	Total RUB MM
Revenue					
Interest income	20,513	9,119	19,663	–	49,295
Fee and commission income	11,132	3,971	105	–	15,208
Net gain on financial instruments at FVPL	–	147	1,073	–	1,220
Net gain on derecognition of financial assets at amortized cost	–	–	209	–	209
Net gain on foreign exchange and transactions with precious metals	–	543	454	–	997
Other operating income	–	19	658	–	677
Inter-segment revenue	5,269	3,127	–	(8,396)	–
Total revenue	36,914	16,926	22,162	(8,396)	67,606
Expenses					
Interest expense	(11,927)	(6,351)	(3,325)	–	(21,603)
Obligatory deposit insurance	(1,089)	(165)	–	–	(1,254)
Fee and commission expense	(3,144)	(157)	(160)	–	(3,461)
Allowances for credit losses	(2,819)	(8)	(574)	–	(3,401)
Other impairment and provisions	–	(1,800)	(496)	–	(2,296)
Personnel expenses	(7,192)	(2,791)	(1,500)	–	(11,483)
Net loss from other non-banking business	–	–	(92)	–	(92)
Other expenses	(5,457)	(933)	(1,400)	–	(7,790)
Inter-segment expenses	–	–	(8,396)	8,396	–
Total expenses	(31,628)	(12,205)	(15,943)	8,396	(51,380)
Segment results	5,286	4,721	6,219	–	16,226
Income tax expense					(3,237)
Profit for the period					12,989

For the six months ended 30 June 2018					
	(unaudited)				
	Retail RUB MM	CB RUB MM	Treasury RUB MM	Adjustments RUB MM	Total RUB MM
Revenue					
Interest income	15,963	8,239	16,934	–	41,136
Fee and commission income	7,983	2,429	660	–	11,072
Net gain on financial instruments at FVPL	–	280	–	–	280
Net gain on derecognition of financial assets at FVOCI	–	586	–	–	586
Net gain on foreign exchange and transactions with precious metals	–	53	598	–	651
Other operating income	21	183	3,642	–	3,846
Inter-segment revenue	7,122	–	–	(7,122)	–
Total revenue	31,089	11,770	21,834	(7,122)	57,571
Expenses					
Interest expense	(11,277)	(2,982)	(4,487)	–	(18,746)
Obligatory deposit insurance	(978)	(21)	–	–	(999)
Fee and commission expense	(1,151)	(271)	(360)	–	(1,782)
Net loss on financial instruments at FVPL	–	–	(2,786)	–	(2,786)
Allowances for credit losses	(1,972)	(1,815)	(654)	–	(4,441)
Other impairment and provisions	14	(733)	(105)	–	(824)
Personnel expenses	(5,881)	(2,096)	(1,089)	–	(9,066)
Other expenses	(5,197)	(714)	(744)	–	(6,655)
Inter-segment expenses	–	(963)	(6,159)	7,122	–
Total expenses	(26,442)	(9,595)	(16,384)	7,122	(45,299)
Segment results	4,647	2,175	5,450	–	12,272
Income tax expense					(1,553)
Profit for the period					10,719

3. Segment information (continued)

Assets and liabilities of the Group's operating segments are presented in the table below:

30 June 2019 (unaudited)				
	Retail RUB MM	CB RUB MM	Treasury RUB MM	Total RUB MM
Segment assets				
Cash and cash equivalents	17,277	13,775	120,424	151,476
Mandatory cash balances with the CBR	2,461	2,891	–	5,352
Placements with banks	–	1,438	7,795	9,233
Bank bonds measured at amortized cost	–	–	25,756	25,756
Financial instruments at FVPL	–	46	218,210	218,256
Investment securities at FVOCI	–	–	691	691
Loans to customers measured at amortized cost	223,623	183,332	2,702	409,657
Bonds measured at amortized cost	–	–	126,249	126,249
Investments in associates	–	–	464	464
Investments in joint ventures	–	–	953	953
Investment property	–	56	–	56
Property and equipment and intangible assets	3,642	2,568	4,621	10,831
Goodwill	–	586	619	1,205
Current income tax asset	–	–	1,522	1,522
Deferred tax asset	–	57	410	467
Other assets	1,604	9,693	2,234	13,531
	248,607	214,442	512,650	975,699
Segment liabilities				
Due to the CBR	–	819	–	819
Due to banks	–	6,651	104,203	110,854
Due to customers	356,990	310,505	98	667,593
Debt securities issued	–	2,824	15,491	18,315
Other borrowed funds	–	–	18,028	18,028
Deferred tax liability	–	–	1,402	1,402
Current income tax payable	–	–	454	454
Subordinated debt	–	–	10,214	10,214
Other liabilities	–	4,879	16,325	21,204
	356,990	325,678	166,215	848,883
31 December 2018				
	Retail RUB MM	CB RUB MM	Treasury RUB MM	Total RUB MM
Segment assets				
Cash and cash equivalents	17,796	23,372	68,649	109,817
Mandatory cash balances with the CBR	2,994	1,997	–	4,991
Placements with banks	–	12,871	5,659	18,530
Bank bonds measured at amortized cost	–	–	30,005	30,005
Financial instruments at FVPL	–	–	225,040	225,040
Investment securities at FVOCI	–	–	691	691
Loans to customers measured at amortized cost	190,800	187,671	3,647	382,118
Bonds measured at amortized cost	–	–	159,360	159,360
Investments in associates	–	–	424	424
Investments in joint ventures	–	–	927	927
Investment property	56	–	–	56
Property and equipment and intangible assets	2,167	2,762	5,721	10,650
Goodwill	–	602	903	1,505
Current income tax asset	–	–	3,156	3,156
Deferred tax asset	–	362	65	427
Other assets	1,586	12,817	5,304	19,707
	215,399	242,454	509,551	967,404
Segment liabilities				
Due to the CBR	–	–	859	859
Due to banks	–	5,218	185,037	190,255
Due to customers	349,768	249,100	6	598,874
Debt securities issued	–	3,011	5,468	8,479
Other borrowed funds	–	–	16,924	16,924
Deferred tax liability	–	–	5,153	5,153
Current income tax payable	–	–	77	77
Subordinated debt	–	–	13,993	13,993
Other liabilities	–	3,429	15,325	18,754
	349,768	260,758	242,842	853,368

3. Segment information (continued)

For the six months of 2019, the Group revised the segmenting of the other assets category. The changes were made retrospectively.

The Retail balance sheet items included assets and liabilities directly related to the Group's retail segment.

The Treasury balance sheet items included the following:

- ▶ Cash and cash equivalents: short-term repurchase agreements with Russian and foreign banks, as well as with Moscow Exchange Group;
- ▶ Placements with banks: collateral for derivative financial instruments, correspondent accounts;
- ▶ Loans to customers measured at amortized cost: loans issued as part of mezzanine lending;
- ▶ Property and equipment and intangible assets, deferred tax asset: intangible assets and deferred tax assets received by the Group due to acquisition of businesses;
- ▶ Goodwill: goodwill recorded on the Group's balance sheet due to business combination excluding goodwill from acquisition of online platform for public procurement RTS-Tender and RTS-Holding;
- ▶ Other borrowed funds: the loan issued to Sovcombank for the financial rehabilitation of Express-Volga Bank JSC.

The CB balance sheet items include:

- ▶ Cash and cash equivalents: security deposits placed with Moscow Exchange Group;
- ▶ Obligatory reserve with the CBR: mandatory cash balances with the CBR to secure the Bank's liabilities to the corporate customers;
- ▶ Placements with banks: collateral for derivative financial instruments;
- ▶ Goodwill: goodwill recorded on the Group's balance sheet due to acquisition of online platform for public procurement RTS-Tender and RTS-Holding;
- ▶ Debt securities issued: interest-bearing and discount promissory notes issued by the Group.

4. Net interest income

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>
Interest income calculated using EIR method				
Retail loans:	10,603	8,402	20,436	15,968
- Consumer loans	3,560	3,159	6,903	6,807
- Car loans	3,229	2,849	6,247	5,040
- Mortgage loans	2,222	1,940	4,495	3,261
- Installment cards	1,592	454	2,791	860
Corporate loans and bonds measured at amortized cost	7,110	5,473	14,710	8,472
Placements with banks and financial institutions and bonds measured at amortized cost	593	293	1,373	397
Investment securities at FVOCI	–	915	–	915
Total interest income calculated using EIR method	18,306	15,083	36,519	25,752
Other interest income				
Financial instruments at FVPL	4,646	6,611	9,272	13,313
Net gains on foreign currency swaps	2,126	652	3,504	1,073
Gain on remeasurement of cash flows from interest-bearing assets acquired in business combinations	–	998	–	998
Total other interest income	6,772	8,261	12,776	15,384
Total interest income	25,078	23,344	49,295	41,136
Interest expense				
Due to customers	(9,620)	(7,801)	(18,010)	(14,174)
Due to banks	(587)	(984)	(1,531)	(2,346)
Other borrowed funds	(615)	(568)	(1,205)	(1,116)
Subordinated debt	(223)	(417)	(462)	(479)
Promissory notes and bonds issued	(233)	(302)	(395)	(631)
Total interest expense	(11,278)	(10,072)	(21,603)	(18,746)
Obligatory deposit insurance	(611)	(549)	(1,254)	(999)
Net interest income	13,189	12,723	26,438	21,391

Interest expense on other borrowed funds relates to the loan provided by the DIA for the financial rehabilitation of Express-Volga Bank JSC (the “EVB”) in September 2015.

Sovcombank's retail customers may purchase the Minimum Rate Guarantee (MRG) service to reduce the interest rate on existing loans provided that the customers meet the following conditions:

- The loan is not overdue;
- The loan is not prepaid in full or in part;
- At least one purchase with the “Halva” installment card per month;
- The customer is a participant of the Financial protection program.

The amount of accumulated MRG fees since the start of sales of this service is RUB 2.2 BN. The major part of these fees will be recognized as interest income in future periods following the assessment of Bank's payments to customers.

5. Fee and commission income

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>
Financial protection program	3,110	2,672	5,686	4,676
Card fees	2,336	1,398	4,258	2,477
Settlement operations	808	621	1,535	854
Bank guarantees	729	770	1,389	1,453
Digital public procurement platform	641	134	1,101	239
Agent fee for selling insurance products	161	137	292	241
Other	588	730	947	1,132
	8,373	6,462	15,208	11,072

6. Net gain on foreign exchange and transactions with precious metals

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>
Dealing	1,213	(3,712)	7,311	(4,462)
Net gains on currency derivative financial instruments and precious metals	4,917	(4,983)	11,062	(4,448)
Foreign exchange differences	(5,712)	9,178	(17,376)	9,561
	418	483	997	651

Dealing represents a financial result from exchange-traded foreign currency contracts entered into by the Group in order to hedge long and short foreign currency positions to comply with the regulatory requirements.

Net gains on currency derivative financial instruments represent a financial result from OTC long-term swap contracts entered into by the Group in order to hedge long and short foreign currency positions. Net gains on precious metals represent a financial result from transactions with the period of 2 business days or more.

Foreign exchange differences represent a financial result from the revaluation of net assets and liabilities denominated in foreign currencies.

7. Other non-banking activity

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>
Revenue and other gains from software implementation and support services	396	–	614	–
Revenue and other gains from ATM maintenance services	241	–	484	–
Revenue and other gains from other non-banking business	637	–	1,098	–
Cost and other losses from software implementation and support services	(417)	–	(762)	–
Cost and other losses from ATM maintenance services	(233)	–	(428)	–
Cost and other losses from other non-banking business	(650)	–	(1,190)	–
Net loss from other non-banking activity	(13)	–	(92)	–
			<i>30 June 2019 (unaudited) RUB MM</i>	<i>31 December 2018 RUB MM</i>
Contract assets (presented within other assets)			90	60
Deferred income (presented within other liabilities)			26	19

8. Personnel expenses

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>
Payroll, including bonuses	(4,436)	(4,205)	(9,113)	(7,253)
Payroll-related taxes	(1,283)	(1,008)	(2,370)	(1,813)
	(5,719)	(5,213)	(11,483)	(9,066)

The Group has no liabilities to pension funds except for those stipulated by the Russian legislation. The Russian legislation obliges employers to make mandatory contributions to social security funds calculated based on the amount of salary. These contributions are included in payroll-related taxes for respective periods.

9. Other general and administrative expenses

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	2019 RUB MM	2018 RUB MM	2019 RUB MM	2018 RUB MM
Rent	(701)	(659)	(1,406)	(1,210)
Advertising and marketing	(703)	(811)	(1,390)	(1,388)
Depreciation and amortization	(494)	(289)	(996)	(536)
Professional and cash collection services	(451)	(394)	(922)	(772)
Telecommunication and postal services	(347)	(191)	(690)	(405)
Transport and business travel	(279)	(183)	(468)	(341)
Software support	(274)	(259)	(459)	(483)
Maintenance of property and equipment	(205)	(189)	(419)	(349)
Inventory	(152)	(234)	(331)	(525)
Security	(79)	(72)	(157)	(119)
Property insurance	(32)	(36)	(67)	(70)
Taxes other than income tax	(27)	(54)	(110)	(68)
Other	(168)	(282)	(375)	(389)
	(3,912)	(3,653)	(7,790)	(6,655)

10. Other impairment and provisions

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	2019 RUB MM	2018 RUB MM	2019 RUB MM	2018 RUB MM
Litigations	(381)	(181)	(486)	(375)
Contingencies	75	(297)	(957)	(376)
Goodwill impairment	–	–	(300)	–
Other assets	(491)	(26)	(524)	(333)
Foreclosed assets	(28)	4	(29)	11
Reversal of impairment of investments in associates	–	–	–	249
	(825)	(500)	(2,296)	(824)

Movements in other provisions for the six months ended 30 June 2019 and 2018 are as follows:

	<i>Provision for other assets RUB MM</i>	<i>Provision for litigations RUB MM</i>	<i>Provision for contingencies RUB MM</i>	<i>Impairment of investments in associates RUB MM</i>	<i>Provision for foreclosed assets RUB MM</i>	<i>Total RUB MM</i>
As at 1 January 2018	542	1,043	573	656	19	2,833
Increase/(decrease)	333	375	376	(249)	(11)	824
Write-off	(42)	–	–	–	–	(42)
Settlement of liabilities	–	(44)	–	–	(4)	(48)
As at 30 June 2018 (unaudited)	833	1,374	949	407	4	3,567
As at 1 January 2019	681	1,165	1,544	407	44	3,841
Increase/(decrease)	980	780	957	–	29	2,746
Write-off	(456)	–	–	–	–	(456)
Write-off due to settlement	–	(294)	–	–	–	(294)
Settlement of liabilities	–	(80)	–	–	(3)	(83)
As at 30 June 2019 (unaudited)	1,205	1,571	2,501	407	70	5,754

An increase in provisions for contingencies by RUB 612 MM in the first half of 2019 reflects the Group's projections of losses on bank guarantees calculated based on statistical data.

11. Income tax expense

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>
Current income tax	(2,663)	594	(6,677)	(1,655)
Origination of temporary differences	856	(942)	3,440	102
	(1,807)	(348)	(3,237)	(1,553)

The current general income tax rate for legal entities in the Russian Federation is 20%.

12. Cash and cash equivalents

	<i>30 June 2019 (unaudited) RUB MM</i>	<i>31 December 2018 RUB MM</i>
Due from the CBR	68,318	62,798
Short-term deposits and reverse REPO transactions with Russian banks and financial institutions maturing in less than 90 days	51,153	7,095
Nostro accounts with Russian banks and financial institutions	22,043	27,183
Cash on hand	9,388	11,134
Nostro accounts with OECD banks	481	817
Short-term deposits with OECD banks maturing in less than 90 days	93	790
	151,476	109,817

As at 30 June 2019, short-term deposits and reverse REPO transactions with Russian banks and financial institutions maturing in less than 90 days include transactions with a non-banking credit institution rated by S&P, Fitch or Moody's at the level of the sovereign rating of the Russian Federation. The increase was due to the placement of temporarily disposable cash of the Group.

Cash on hand includes cash in ATMs and in transit.

13. Placements with banks and bank bonds of measured at amortized cost

	<i>30 June 2019 (unaudited) RUB MM</i>	<i>31 December 2018 RUB MM</i>
Russian bank bonds held by the Group	15,715	17,140
Russian bank bonds pledged under sale and repurchase agreements	10,130	12,997
Collateral for derivative financial instruments ("DFI")	7,252	5,452
Term deposits with banks	1,438	7,317
Repurchase agreements	589	5,783
Total placements with banks and bank bonds of measured at amortized cost	35,124	48,689
Less allowance for impairment	(135)	(154)
Placements with banks and bank bonds measured at amortized cost, net	34,989	48,535

As at 30 June 2019 and 31 December 2018, all bank bonds measured at amortized cost were included in Stage 1 and allowance for ECL amounted to RUB 90 MM and RUB 132 MM, respectively.

13. Placements with banks and bank bonds measured at amortized cost (continued)

The breakdown of Russian bank bonds measured at amortized cost by long-term issuer credit rating assigned by international rating agencies (S&P, Fitch or Moody's) is presented in the table below. If a security or an issuer has credit ratings from several international rating agencies, only the highest rating is taken into account:

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Russian bank bonds measured at amortized cost		
Issuers with credit rating from A+ to A-	1,033	2,040
Issuers with credit rating from BBB+ to BBB-	9,056	10,389
Issuers with credit rating from BB+ to BB-	15,756	17,708
Total bank bonds measured at amortized cost	25,845	30,137

14. Financial instruments at FVPL

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Held by the Group		
Corporate bonds and Eurobonds	84,241	61,088
Bonds of companies with state participation	41,987	22,010
Russian subfederal and municipal bonds	27,947	25,601
Derivative financial instruments	7,997	5,337
Foreign government Eurobonds	526	–
Eurobonds of the Russian Federation	349	–
Corporate shares	157	126
Shares of companies with state participation	128	99
Russian government bonds (OFZ)	2	–
Total financial instruments at FVPL held by the Group	163,334	114,261
Pledged under sale and repurchase agreements		
Bonds of companies with state participation	35,808	45,717
Corporate bonds and Eurobonds	19,114	59,293
Russian subfederal and municipal bonds	–	5,768
Shares of companies with state participation	–	1
Total financial instruments at FVPL pledged under sale and repurchase agreements	54,922	110,779
Total financial instruments at FVPL	218,256	225,040

14. Financial instruments at FVPL (continued)**Securities at FVPL**

The table below presents a breakdown of securities at FVPL by industry:

	30 June 2019 (unaudited)		31 December 2018 (restated)	
	RUB MM	%	RUB MM	%
Transport and infrastructure	40,447	19.3%	42,850	19.50%
Government and municipal	28,824	13.7%	31,905	14.50%
Leasing	25,662	12.2%	17,497	8.00%
Banks	24,679	11.8%	26,152	11.90%
Mining	15,913	7.6%	17,266	7.90%
Metallurgy	12,019	5.7%	13,809	6.30%
Government financial development institutions	11,639	5.5%	7,612	3.50%
Petrochemicals	11,042	5.3%	13,304	6.10%
Manufacturing	7,860	3.7%	7,250	3.30%
Chemical and pharmaceutical industry	6,480	3.1%	11,234	5.10%
Construction and development	5,906	2.8%	7,449	3.40%
Telecommunications	4,898	2.3%	7,344	3.30%
Energy	2,605	1.2%	2,627	1.20%
Diversified holdings	2,446	1.2%	2,730	1.20%
Services	2,390	1.1%	4,045	1.80%
Other financial institutions	2,340	1.1%	1,553	0.70%
Trade	2,142	1.0%	2,156	1.00%
Agriculture and food processing	1,932	0.9%	1,099	0.50%
Commercial real estate	1,035	0.5%	669	0.30%
Residential real estate	–	0.0%	1,152	0.50%
	210,259	100.0%	219,703	100.00%

As at 30 June 2019, the Group revised its industry structure in order to account for the issuers' business more accurately. Comparative data as at 31 December 2018 was adjusted retrospectively for comparability purposes.

The table below presents a breakdown of securities at FVPL by long-term issuer credit rating assigned by rating agencies S&P, Fitch or Moody's. If a security or an issuer has credit ratings from several international rating agencies, only the highest rating is taken into account:

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Securities at FVPL		
Issuers with credit rating from A+ to A-	129	128
Issuers with credit rating from BBB+ to BBB-	60,543	67,617
Issuers with credit rating from BB+ to BB-	117,017	103,604
Issuers with credit rating from B+ to B-	12,356	25,048
Unrated issuers	20,214	23,306
Total securities at FVPL	210,259	219,703

As at 30 June 2019, maturities of these securities were within the following range: July 2019 – June 2047 (31 December 2018: February 2019 – August 2049).

The coupon rates were from 4.0% to 9.5% for USD-denominated debt securities, from 2.6% to 5.2% for EUR-denominated debt securities and from 6.0% to 15.0% for RUB-denominated debt securities (31 December 2018: from 3.8% to 9.0% for USD-denominated debt securities, from 2.6% to 4.0% for EUR denominated debt securities, and from 5.2% to 15.0% for RUB-denominated debt securities).

As at 30 June 2019, the share of the largest issuer, a state-owned leasing company, in the aggregate portfolio of securities at fair value through profit or loss was 8.7%. The maturity of bonds of this issuer ranged from September 2019 to January 2034; the coupon rate ranged from 4.9% to 11.1% (31 December 2018: the share of the largest issuer was 9.5%, maturity dates ranged from March 2019 to April 2041; the coupon rate was 5.7%-10.5%).

14. Financial instruments at FVPL (continued)**Derivative financial instruments**

The Group manages interest and currency risks using derivative financial instruments.

The Group recognizes derivative financial instruments, including foreign currency contracts, currency and interest rate swaps, as well as other derivative financial instruments at fair value. The fair values of derivative financial instruments recorded as assets or liabilities, and their notional amounts representing the amount of the transaction underlying the derivative financial instrument, are shown in the table below.

	30 June 2019 (unaudited)			31 December 2018		
	Notional amount RUB MM	Fair value		Notional amount RUB MM	Fair value	
		Asset RUB MM	Liability RUB MM		Asset RUB MM	Liability RUB MM
Interest rate swaps – foreign banks	137,631	964	5,681	151,585	3,379	1,919
Interest rate swaps – Russian banks	31,538	389	–	50,028	1,898	–
Cross currency interest rate swaps – foreign banks	9,937	982	–	13,894	–	639
Cross currency interest rate swaps – Russian banks	50,071	5,322	–	69,471	–	3,036
Currency swaps – Russian banks	61,238	54	7	–	–	–
Currency forwards and options – foreign companies and banks	–	–	–	139	19	–
Currency forwards and options – Russian companies and banks	5,620	50	25	2,003	41	26
Credit default swaps – foreign banks	18,292	168	575	27,094	–	1,226
Precious metals contracts – foreign companies	4,959	1	23	–	–	–
Precious metals contracts – Russian companies	1,620	67	–	–	–	–
Total derivative assets or liabilities	320,906	7,997	6,311	314,214	5,337	6,846

15. Loans to customers and bonds measured at amortized cost

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Retail loans		
Car loans	88,868	74,978
Mortgage loans	62,475	57,801
Consumer loans	51,045	47,609
Installment cards	32,663	20,303
Total retail loans	235,051	200,691
Corporate loans and bonds measured at amortized cost		
Corporate loans	144,433	149,063
Corporate bonds	70,906	96,127
Loans to small businesses and other loans to customers*	44,054	42,050
Bonds of companies with state participation	40,380	48,145
Russian subfederal and municipal bonds	15,550	16,001
Loans to constituent entities and municipalities of the Russian Federation	4,810	6,347
Total corporate loans and bonds measured at amortized cost	320,133	357,733
Total loans to customers and bonds measured at amortized cost	555,184	558,424
Less allowance for loan impairment	(19,278)	(16,946)
Loans to customers and bonds measured at amortized cost, net	535,906	541,478

* This group also includes retail loans issued on individual terms, not exceeding RUB 200 MM.

15. Loans to customers and bonds measured at amortized cost (continued)

Car loans are special-purpose loans to purchase a car pledged as collateral under this loan, or the loan secured by the car already owned.

Mortgage loans mainly include loans with the pledge of already owned real estate and loans with the pledge of already owned residential properties pledged as collateral under the loan.

Consumer loans mainly include general-purpose loans accrued on debit or installment cards issued by the Bank.

Installment cards allow the customer to pay for goods in installments during 2 to 36 months. The Bank does not accrue interest on loans to customers but receives fees from the partner stores. The fee amount depends on the installment terms provided to the customer. The customer repays loan principal in even installments during the respective term. The Bank sets limits on installment cards depending on the assessment of customers' creditworthiness. These limits may be increased or decreased as appropriate by decision of the Bank.

As at 30 June 2019, Installment cards item comprised a loan portfolio of RUB 29,342 MM ("Halva" installment cards) and RUB 3,321 MM (credit cards). The total number of "Halva" installment cards issued is 3.3 million. Receivables under credit cards were mainly acquired with the banks purchased by the Bank earlier.

The Group entered into contracts with 44.2 thousand legal entities operating 164.5 thousand retail and online stores to enable their customers to pay by installments using "Halva" cards. Fees and commissions received from the partners under the "Halva" program are recorded in interest income calculated using EIR method (Note 4).

Analysis of corporate loans and bonds measured at amortized cost by industry

Corporate loans were provided to companies, while corporate bonds were issued by Russian and foreign issuers operating in the following industries:

	30 June 2019 (unaudited) RUB MM	31 December 2018 (restated) RUB MM
Manufacturing	34,486	33,500
Metallurgy	28,998	34,264
Mining	28,536	36,081
Government financial development institutions	25,186	25,142
Transport and infrastructure	20,525	23,407
Construction and development	15,276	11,094
Trade	13,238	13,328
Commercial real estate	10,718	10,620
Petrochemicals	8,675	11,879
Leasing	7,837	8,344
Services	5,546	8,716
Agriculture and food processing	4,079	5,373
Residential real estate	3,570	3,893
Energy	2,338	2,335
Telecommunications	2,071	5,782
Chemical and pharmaceutical industry	2,034	445
Other financial institutions	576	3,865
Diversified holdings	480	5,905
Other	1,170	1,217
	215,339	245,190

As at 30 June 2019, the Group revised its industry structure in order to account for the business of its borrowers and issuers more accurately. Comparative data fs at 31 December 2018 was adjusted retrospectively for comparability purposes.

15. Loans to customers and bonds measured at amortized cost (continued)**Allowance for impairment of loans to customers and bonds measured at amortized cost**

The tables below show the analysis of movements in allowances for ECL on retail loans for the six months ended 30 June 2019 (unaudited).

<i>Consumer loans</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2019	1,691	381	2,413	4,485
Transfers to Stage 2	(27)	27	–	–
Transfers to Stage 3	(44)	(305)	349	–
Increase/(decrease) for the period	120	417	411	948
Write-offs	–	–	(1,185)	(1,185)
Recovery of write-offs	–	–	596	596
Balance as at 30 June 2019	1,740	520	2,584	4,844
<i>Car loans</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2019	1,209	354	1,390	2,953
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	(27)	(259)	286	–
Increase/(decrease) for the period	(35)	418	662	1,045
Write-offs	–	–	(832)	(832)
Recovery of write-offs	–	–	12	12
Balance as at 30 June 2019	1,147	513	1,518	3,178
<i>Mortgage loans</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2019	676	159	1,111	1,946
Transfers to Stage 2	(6)	6	–	–
Transfers to Stage 3	(24)	(100)	124	–
Increase/(decrease) for the period	(7)	155	225	373
Write-offs	–	–	(85)	(85)
Recovery of write-offs	–	–	133	133
Balance as at 30 June 2019	639	220	1,508	2,367
<i>Installment cards</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2019	839	64	356	1,259
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	(18)	(48)	66	–
Increase/(decrease) for the period	81	165	258	504
Write-offs	–	–	(166)	(166)
Recovery of write-offs	–	–	3	3
Balance as at 30 June 2019	902	181	517	1,600

The tables below show the analysis of movements in allowances for ECL on corporate loans and bonds measured at amortized cost for the six months ended 30 June 2019 (unaudited).

<i>Corporate loans and bonds measured at amortized cost</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>POCI assets RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2019	2,500	27	2,123	271	4,921
Transfers to Stage 2	(114)	114	–	–	–
Transfers to Stage 3	–	–	–	–	–
Increase/(decrease) for the period	(42)	(87)	370	(11)	230
Write-offs	–	–	–	–	–
Recovery of write-offs	–	–	156	–	156
Balance as at 30 June 2019	2,344	54	2,649	260	5,307

15. Loans to customers and bonds measured at amortized cost (continued)**Allowance for impairment of loans to customers and bonds measured at amortized cost (continued)**

<i>Loans to constituent entities and municipalities of the Russian Federation</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2019	42	–	–	42
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Increase/(decrease) for the period	(12)	–	–	(12)
Write-offs	–	–	–	–
Recovery of write-offs	–	–	–	–
Balance as at 30 June 2019	30	–	–	30

<i>Loans to small businesses and other loans to customers</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>POCI assets RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2019	694	–	541	105	1,340
Transfers to Stage 2	(20)	20	–	–	–
Transfers to Stage 3	(58)	(6)	64	–	–
Increase/(decrease) for the period	(28)	139	688	21	820
Write-offs	–	–	(325)	–	(325)
Recovery of write-offs	–	–	117	–	117
Balance as at 30 June 2019	588	153	1,085	126	1,952

The tables below show the analysis of movements in allowances for ECL on retail loans for the six months ended 30 June 2018 (unaudited).

<i>Consumer loans</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2018	1,640	412	3,455	5,507
Transfers to Stage 2	(67)	67	–	–
Transfers to Stage 3	(31)	(611)	642	–
Decrease/(increase) for the period	178	464	528	1,170
Write-offs	–	–	(1,667)	(1,667)
Amortization of credit-impaired assets	–	–	15	15
Recovery of write-offs	–	–	144	144
Balance as at 30 June 2018	1,720	332	3,117	5,169

<i>Car loans</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2018	958	205	565	1,728
Transfers to Stage 2	(33)	33	–	–
Transfers to Stage 3	(10)	(313)	323	–
Decrease/(increase) for the period	114	333	315	762
Write-offs	–	–	(397)	(397)
Recovery of write-offs	–	–	376	376
Balance as at 30 June 2018	1,029	258	1,182	2,469

<i>Mortgage loans</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2018	812	129	658	1,599
Transfers to Stage 2	(30)	30	–	–
Transfers to Stage 3	(13)	(186)	199	–
Decrease/(increase) for the period	(71)	196	40	165
Write-offs	–	–	(10)	(10)
Amortization of credit-impaired assets	–	–	38	38
Recovery of write-offs	–	–	190	190
Balance as at 30 June 2018	698	169	1,115	1,982

15. Loans to customers and bonds measured at amortized cost (continued)**Allowance for impairment of loans to customers and bonds measured at amortized cost (continued)**

<i>Installment cards</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2018	666	97	545	1,308
Transfers to Stage 2	(27)	27	–	–
Transfers to Stage 3	(86)	(143)	229	–
Decrease/(increase) for the period	151	70	75	296
Write-offs	–	–	(322)	(322)
Recovery of write-offs	–	–	32	32
Balance as at 30 June 2018	704	51	559	1,314

The tables below show the analysis of movements in allowances for ECL on corporate loans and bonds measured at amortized cost for the six months ended 30 June 2018 (unaudited).

<i>Corporate loans and bonds measured at amortized cost</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>POCI assets RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2018	2,965	–	–	–	2,965
Transfers to Stage 2	(2,011)	2,011	–	–	–
Transfers to Stage 3	–	–	–	–	–
Decrease/(increase) for the period*	1,356	(21)	–	191	1,526
Write-offs	–	–	–	–	–
Recovery of write-offs	–	–	–	–	–
Balance as at 30 June 2018	2,310	1,990	–	191	4,491

<i>Loans to constituent entities and municipalities of the Russian Federation</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2018	115	–	–	115
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Decrease/(increase) for the period	(74)	–	–	(74)
Write-offs	–	–	–	–
Recovery of write-offs	–	–	–	–
Balance as at 30 June 2018	41	–	–	41

<i>Loans to small businesses and other loans to customers</i>	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>POCI assets RUB MM</i>	<i>Total RUB MM</i>
Balance as at 1 January 2018	75	12	260	–	347
Transfers to Stage 2	(3)	3	–	–	–
Transfers to Stage 3	(4)	(6)	10	–	–
Decrease/(increase) for the period*	20	79	144	353	596
Write-offs	–	–	(55)	(277)	(332)
Recovery of write-offs	–	–	84	–	84
Balance as at 30 June 2018	88	88	443	76	695

15. Loans to customers and bonds measured at amortized cost (continued)**Credit quality of retail loans**

The table below provides information on the credit quality of retail loans as at 30 June 2019 (unaudited):

	Stage 1 RUB MM	Stage 2 RUB MM	Stage 3 RUB MM	Total RUB MM
Consumer loans				
- Not overdue	44,756	–	26	44,782
- Overdue less than 30 days	1,575	–	32	1,607
- Overdue 30 to 89 days	–	1,138	95	1,233
- Overdue 90 to 179 days	–	–	1,349	1,349
- Overdue 180 to 360 days	–	–	2,074	2,074
Total consumer loans	46,331	1,138	3,576	51,045
Allowance for impairment	(1,740)	(520)	(2,584)	(4,844)
Consumer loans, net	44,591	618	992	46,201
Installment cards				
- Not overdue	30,614	–	6	30,620
- Overdue less than 30 days	658	–	5	663
- Overdue 30 to 89 days	–	522	96	618
- Overdue 90 to 179 days	–	–	419	419
- Overdue 180 to 360 days	–	–	343	343
Total installment cards	31,272	522	869	32,663
Allowance for impairment	(902)	(181)	(517)	(1,600)
Installment cards, net	30,370	341	352	31,063
Mortgage loans				
- Not overdue	57,030	–	512	57,542
- Overdue less than 30 days	1,370	–	50	1,420
- Overdue 30 to 89 days	–	726	55	781
- Overdue 90 to 179 days	–	–	669	669
- Overdue 180 to 360 days	–	–	854	854
Overdue more than 360 days	–	–	1,209	1,209
Total mortgage loans	58,400	726	3,349	62,475
Allowance for impairment	(639)	(220)	(1,508)	(2,367)
Mortgage loans, net	57,761	506	1,841	60,108
Car loans				
- Not overdue	83,905	–	47	83,952
- Overdue less than 30 days	1,836	–	18	1,854
- Overdue 30 to 89 days	–	937	113	1,050
- Overdue 90 to 179 days	–	–	869	869
- Overdue 180 to 360 days	–	–	1,143	1,143
Total car loans	85,741	937	2,190	88,868
Allowance for impairment	(1,147)	(513)	(1,518)	(3,178)
Car loans, net	84,594	424	672	85,690
Total retail loans	221,744	3,323	9,984	235,051
Allowance for impairment	(4,428)	(1,434)	(6,127)	(11,989)
Retail loans, net	217,316	1,889	3,857	223,062

15. Loans to customers and bonds measured at amortized cost (continued)**Credit quality of retail loans (continued)**

The table below provides information on the credit quality of retail loans as at 31 December 2018:

	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>Total RUB MM</i>
Consumer loans				
- Not overdue	42,195	–	44	42,239
- Overdue less than 30 days	1,218	–	36	1,254
- Overdue 30 to 89 days	–	817	132	949
- Overdue 90 to 179 days	–	–	1,094	1,094
- Overdue 180 to 360 days	–	–	2,073	2,073
Total consumer loans	43,413	817	3,379	47,609
Allowance for impairment	(1,691)	(381)	(2,413)	(4,485)
Consumer loans, net	41,722	436	966	43,124
Installment cards				
- Not overdue	19,299	–	3	19,302
- Overdue less than 30 days	288	–	3	291
- Overdue 30 to 89 days	–	166	31	197
- Overdue 90 to 179 days	–	–	187	187
- Overdue 180 to 360 days	–	–	326	326
Total installment cards	19,587	166	550	20,303
Allowance for impairment	(839)	(64)	(356)	(1,259)
Installment cards, net	18,748	102	194	19,044
Mortgage loans				
- Not overdue	53,714	–	388	54,102
- Overdue less than 30 days	943	–	19	962
- Overdue 30 to 89 days	–	600	45	645
- Overdue 90 to 179 days	–	–	646	646
- Overdue 180 to 360 days	–	–	698	698
Overdue more than 360 days	–	–	748	748
Total mortgage loans	54,657	600	2,544	57,801
Allowance for impairment	(676)	(159)	(1,111)	(1,946)
Mortgage loans, net	53,981	441	1,433	55,855
Car loans				
- Not overdue	71,092	–	37	71,129
- Overdue less than 30 days	1,310	–	29	1,339
- Overdue 30 to 89 days	–	698	91	789
- Overdue 90 to 179 days	–	–	635	635
- Overdue 180 to 360 days	–	–	1,086	1,086
Total car loans	72,402	698	1,878	74,978
Allowance for impairment	(1,209)	(354)	(1,390)	(2,953)
Car loans, net	71,193	344	488	72,025
Total retail loans	190,059	2,281	8,351	200,691
Allowance for impairment	(4,415)	(958)	(5,270)	(10,643)
Retail loans, net	185,644	1,323	3,081	190,048

15. Loans to customers and bonds measured at amortized cost (continued)**Credit quality of corporate loans and bonds measured at amortized cost**

The table below provides information on the credit quality of corporate loans and bonds measured at amortized cost as at 30 June 2019 (unaudited):

	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>POCI assets* RUB MM</i>	<i>Total RUB MM</i>
Corporate loans and bonds measured at amortized cost					
- Not overdue*	306,315	8,028	1,563	813	316,719
- Overdue less than 30 days	229	–	244	–	473
- Overdue 30 to 89 days	–	333	–	–	333
- Overdue 90 to 179 days	–	–	185	–	185
- Overdue 180 to 360 days	–	–	1,783	26	1,809
- Overdue more than 360 days	–	–	233	381	614
Total corporate loans and bonds measured at amortized cost	306,544	8,361	4,008	1,220	320,133
Allowance for impairment	(2,962)	(207)	(3,734)	(386)	(7,289)
Corporate loans and bonds measured at amortized cost, net	303,582	8,154	274	834	312,844

* The line Not overdue of Stage 1 includes corporate bonds measured at amortized cost totaling RUB 126,836 MM provided for RUB 587 MM.

The table below provides information on the credit quality of corporate loans and bonds measured at amortized cost as at 31 December 2018:

	<i>Stage 1 RUB MM</i>	<i>Stage 2 RUB MM</i>	<i>Stage 3 RUB MM</i>	<i>POCI assets* RUB MM</i>	<i>Total RUB MM</i>
Corporate loans and bonds measured at amortized cost					
- Not overdue**	352,269	–	1,494	749	354,512
- Overdue less than 30 days	591	3	–	–	594
- Overdue 30 to 89 days	–	38	70	–	108
- Overdue 90 to 179 days	–	–	1,718	24	1,742
- Overdue 180 to 360 days	–	–	164	199	363
- Overdue more than 360 days	–	–	197	217	414
Total corporate loans and bonds measured at amortized cost	352,860	41	3,643	1,189	357,733
Allowance for impairment	(3,236)	(27)	(2,664)	(376)	(6,303)
Corporate loans and bonds measured at amortized cost, net	349,624	14	979	813	351,430

* POCI loans (purchased or originated credit-impaired) mostly comprise loans issued by Rosevrobank, which were included in Stage 3 as at the date of acquisition.

** The line Not overdue of Stage 1 includes corporate bonds measured at amortized cost totaling RUB 160,273 MM provided for RUB 912 MM.

16. Investment securities at FVOCI

As at 30 June 2019 and 31 December 2018, the Group's assets at FVOCI included shares of Russian companies and/or their foreign holdings.

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM	Ownership interest as at 30 June 2019 (unaudited) %	Ownership interest as at 31 December 2018 %
Shares	111	111	3.7% to 6.8%	3.7% to 6.8%
- Shares as part of mezzanine lending	580	580	2.2% to 25.0%	2.2% to 25.0%
	691	691		

17. Due to customers

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Individuals		
Term deposits	363,475	361,108
Current accounts and demand deposits	39,864	41,795
Legal entities		
Term deposits	175,494	110,005
Current accounts and demand deposits	88,760	85,954
Amounts due under sale and repurchase agreements	–	12
	667,593	598,874

As at 30 June 2019 and 31 December 2018, the Group had no customers whose balance with the bank accounted for more than 10% of the total due to customers.

18. Due to banks

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Sale and repurchase agreements with banks	95,457	182,059
Deposits	7,916	6,498
Collateral for derivative financial instruments ("DFI")	6,768	1,291
LORO accounts	713	407
	110,854	190,255

18. Due to banks (continued)

As at 30 June 2019 and 31 December 2018, the Group pledged the following securities as collateral for sale and repurchase agreements with legal entities and banks:

	30 June 2019 (unaudited)	31 December 2018	
	Sale and repurchase agreements with banks RUB MM	Sale and repurchase agreements with legal entities RUB MM	Sale and repurchase agreements with banks RUB MM
Financial instruments at FVPL pledged under sale and repurchase agreements			
Bonds of companies with state participation	35,808	–	45,717
Corporate bonds and Eurobonds	19,114	14	59,279
Russian subfederal and municipal bonds	–	–	5,768
Shares of companies with state participation	–	–	1
Total carrying amount	54,922	14	110,765
Loans to customers and bonds measured at amortized cost, pledged under sale and repurchase agreements			
Corporate bonds	30,313	–	54,870
Bonds of companies with state participation	11,270	–	25,780
Russian subfederal and municipal bonds	3,292	–	5,415
Total carrying amount	44,875	–	86,065
Placements with banks and bank bonds measured at amortized cost, pledged under sale and repurchase agreements			
Corporate bonds	4,735	–	7,021
Russian subfederal and municipal bonds	5,366	–	5,900
Total carrying amount	10,101	–	12,921
Related liabilities	95,457	12	182,059

19. Debt securities issued

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Bonds	15,491	5,468
Promissory notes	2,824	3,008
Savings certificates	–	3
	18,315	8,479

On 30 May 2019, the Bank placed series BO-P01 stock-exchange bonds for a total of RUB 10 BN (state registration number 4B020100963B001P of 28 May 2019) with a maturity period of 10 years. This issue provides for an offer in two years from the date of placement. The coupon rate for 1 to 8 coupon periods is set at 9.0% per annum. The rates for subsequent coupon periods are determined not later than in five business days before the end of prior coupon period.

20. Other borrowed funds

On 21 September 2015, Sovcombank won an open tender for the financial rehabilitation of "Express Volga Bank" JSC ("EVB").

On 23 September 2015, the DIA provided Sovcombank with a loan of RUB 49,850 MM bearing an interest rate of 0.51% and maturing on 23 September 2025 (the "DIA Loan"). The DIA provided the DIA loan to Sovcombank to enable the financial rehabilitation of EVB in accordance with the financial rehabilitation plan approved by the CBR on 12 August 2015.

As at 30 June 2019, the Group pledged the rights of claim on loans to individuals and corporate customers totaling RUB 45,297 MM (31 December 2018: RUB 45,371 MM) as a collateral for the DIA loan.

The DIA carries out bankruptcy procedures in respect of Probusinessbank OJSC (the parent bank of EVB, hereinafter, "PBB") and repays its liabilities to the creditors of PBB, including EVB, with the recovered funds. According to the DIA loan agreement, Sovcombank then repays the respective amount to the DIA. From date of issuance of the DIA loan to 30 June 2019, Sovcombank repaid a part of the DIA loan totaling RUB 9,008 MM.

The DIA issued the loan to Sovcombank at the rate of 0.51% per annum, i.e. significantly below the market rate. According to IAS 9, loans issued with interest rates other than the market interest rates are measured at fair value at the date of issuance. The fair value equals the future interest payments and principal debt discounted with the market interest rate. As at the date of issuance of the DIA loan, the market interest rate for similar loans provided by Sovcombank was 14.9%. As at 30 June 2019, the fair value of the DIA loan of RUB 18,025 MM (31 December 2018: RUB 16,923 MM) was recorded within "Other borrowed funds."

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
DIA loan	18,025	16,923
Other borrowed funds	3	1
	18,028	16,924

21. Subordinated debt

Type	Principal, loan currency, MM	Currency	Counter- party	Interest rate	Issue date	Maturity date	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Subordinated bonds	51	USD	–	8.25%	7 March 2018	21 February 2029	3,326	7,000
Subordinated debt	1,255	RUB	DIA	10.04%	27 April 2015	28 April 2032	1,398	1,434
Subordinated debt	1,255	RUB	DIA	10.18%	27 April 2015	29 November 2034	1,388	1,427
Subordinated debt	1,255	RUB	DIA	9.85%	27 April 2015	26 September 2029	1,382	1,422
Subordinated debt	1,255	RUB	DIA	9.68%	27 April 2015	24 February 2027	1,368	1,375
Subordinated debt	1,255	RUB	DIA	9.48%	27 April 2015	22 January 2025	1,352	1,335
							10,214	13,993

Term subordinated bonds issued

On 7 March 2018, the Bank placed 11-year subordinated bonds series 2V03 of USD 150 MM with a coupon rate of 8.25% p.a. (State registration number 41400963V of 22 January 2018). On 26 March 2018, the CBR approved the request to convert subordinated bonds series 2V03 to the Bank's additional paid-in capital.

For the six months ended 30 June 2019, the Group repurchased subordinated bonds series 2V03 of RUB 5,348 MM and then sold the bonds to investors in the amount of RUB 2,158 MM.

21. Subordinated debt (continued)

Participation of Sovcombank and Rosevrobank in the anti-crisis plan of the Russian Government

On 27 January 2015, the Russian Government issued Decision No. 98-r approving the *Plan of Priority Measures to Ensure Sustainable Development of the Economy and Social Stability in 2015* (the "Anti-crisis Plan"). On 23 January 2015, the Board of Directors of the DIA approved a list of banks, including Sovcombank and Rosevrobank, selected to participate in the Anti-crisis Plan.

On 27 April 2015, the DIA provided the Bank with five tranches of a subordinated loan totaling RUB 6,275 MM in the form of coupon-bearing federal loan bonds issued by the Ministry of Finance of the Russian Federation (the "OFZ"). These tranches have maturities of 12 to 19 years.

The CBR confirmed that the Bank might include this subordinated loan for the calculation of the Bank's capital adequacy ratio. Sovcombank sold securities received and therefore as at 30 June 2019 and 31 December 2018, its subordinated debt is recorded as liabilities at fair value.

On 20 May 2016, the DIA provided to Rosevrobank five tranches of a subordinated loan totaling RUB 100 MM in the form of OFZ issued by the Ministry of Finance of the Russian Federation. These tranches have maturities of 9 to 18 years.

The CBR confirmed that Rosevrobank might include this subordinated loan in its capital. The subordinated loan is not shown in the Group balance sheet because in accordance with IAS 9 it is classified as securities borrowed and for this reason the subordinated loan is recorded in off-balance sheet at fair value, which is RUB 110 MM as at 30 June 2019 (31 December 2018: RUB 111 MM).

22. Equity

As at 30 June 2019, the Bank's share capital was RUB 1,969 MM (31 December 2018: RUB 1,871 MM).

As at 30 June 2019, the total number of authorized ordinary shares with a nominal value of RUB 0.1 each was 19,694,045,875 (31 December 2018: 18,714,967,550).

The Bank's share capital was contributed by the shareholders in Russian rubles. The shareholders are entitled to dividends and any capital distribution in Russian rubles.

In August 2018, Sovcombank placed 1,559,024,850 ordinary registered book-entry shares with the total value of RUB 9,686 MM (637 million shares for RUB 6.067 each and 922 million shares for USD 0.097 each). The shares were purchased by a consortium of investors through a private subscription (Note 1).

In March 2019, Sovcombank placed 979,078,325 ordinary registered book-entry shares for the total amount of RUB 6.080 MM (558 million shares for RUB 6.218 each and 421 million shares for USD 0.095 each) with a consortium of investors (Note 1). The shares were placed through a private subscription.

On 26 March 2018, the CBR approved the Bank's request to convert the perpetual subordinated loan of USD 117 MM provided by Sovco Capital Partners N.V. into the Bank's core capital for ratio calculation purposes. The Bank increased its core capital to RUB 6,717 MM in accordance with the CBR's approval of 2 April 2018. IAS 32 also treats conversion of a perpetual subordinated loan as an increase in equity.

IFRS classifies interest payments related to perpetual subordinated loan as dividends on the grounds that the Bank may unilaterally halt interest payments. For the six months ended 30 June 2018, Sovcombank paid interest of RUB 195 MM on the perpetual subordinated loan.

For the six months ended 30 June 2019, Sovcombank paid dividends of RUB 4,000 MM or RUB 0.2 per share (for the six months ended 30 June 2018: RUB 3,820 MM or RUB 0.2 per share).

In June 2019, the general meeting of shareholders decided to pay dividends for the total amount of RUB 1,750 MM or RUB 0.1 per share (June 2018: declared dividends for the total amount of RUB 2,000 MM or RUB 0.1 per share). The Bank paid the full amount of dividends in cash in July 2019 and July 2018, respectively.

22. Equity (continued)

Perpetual subordinated bonds issued

On 7 March 2018, the Bank placed perpetual subordinated bonds series 1V02 for USD 100 MM (State Registration Number 41000963V of 22 January 2018). The coupon rate for coupons 1-11 are set at 8.8% p.a.; the interest rate for further coupons is determined by the formula:

$$C_k = R + m + 100 \text{ basis points, where:}$$

"C_k" is a coupon interest rate of the k-th coupon;

"R" equals to a yield of 7-year U.S. treasury bonds one working day prior to the date on which a new coupon interest rate is determined;

"m" equals 900 basis points.

On 26 March 2018, the CBR approved the Bank's request to convert subordinated bonds series 1V02 to its additional capital.

As this instrument meets the criterion of the capital component in accordance with IAS 32 *Financial Instruments: Presentation*, Group classified the perpetual subordinated bonds as equity.

The Group records USD-denominated perpetual subordinated bonds in Russian rubles at the CBR exchange rates at the placement date and recognizes the effect of currency translation within retained earnings.

IFRS classifies interest payments related to perpetual subordinated bonds as dividends on the grounds that the Bank may unilaterally halt interest payments. For the six months ended 30 June 2019, Sovcombank paid interest of RUB 265 MM on the perpetual subordinated bonds (six months ended 30 June 2018: no payments were made).

23. Commitments

The Group has outstanding commitments to extend credit facilities in the form of approved loans, credit and installment card limits and overdraft facilities.

The Group provides bank guarantees, which form the contractual limits of liabilities and generally extend for a period of up to one year.

The commitments by category were as follows:

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
<i>Contractual amount*</i>		
Loan and credit line commitments	211,801	216,144
Bank guarantees	120,266	147,650
Commitments to issue banking guarantees	58,402	53,864
	390,469	417,658
Provisions for non-financial commitments	(1,899)	(1,283)
Allowance for credit losses	(474)	(962)
Provisions for pre-trial proceedings	(602)	(261)
	(2,975)	(2,506)

* The contractual amounts shown in the table assume that commitments will be settled in full.

Provisions for pre-trial proceedings represent provisions for the portfolio of non-financial bank guarantees primarily issued to suppliers in accordance with Federal Law No. 44-FZ, *On the Contract System for the Procurement of Goods, Work and Services for Public and Municipal Needs*, and Federal Law No. 223-FZ, *On Purchases of Goods, Work and Services by Certain Types of Legal Entities*, under which the Group received claims but has not yet effected payment to the beneficiary under the bank guarantee.

As at 30 June 2019, the bank guarantees included non-financial guarantees (including those issued by the Group to small and medium-sized businesses in accordance with Federal Laws No. 44-FZ and No. 223-FZ) of RUB 95,846 MM in total (31 December 2018: RUB 99,330 MM).

23. Commitments (continued)

The table below shows a breakdown of the bank guarantees by amount issued.

Amount	30 June 2019 (unaudited) RUB MM	30 June 2019 (unaudited) number	31 December 2018 (unaudited) RUB MM	31 December 2018 (unaudited) number
Less than RUB 0.5 MM	6,453	78,949	11,247	141,292
RUB 0.5 MM– RUB 1 MM	3,110	4,304	4,848	6,782
RUB 1 MM– RUB 10 MM	13,361	4,739	17,686	6,378
RUB 10 MM– RUB 100 MM	29,053	871	32,612	1,003
More than RUB 100 MM	43,869	174	32,937	155
	95,846	89,037	99,330	155,610

For the six months ended 30 June 2019, Sovcombank Group provided to participants in government procurement 58,900 bank guarantees totaling RUB 28.5 BN. Of them, 65.3% were provided under Federal Law No. 44-FZ, the remaining 34.7% were provided in accordance with Federal Law No. 223-FZ. The average amount of one guarantee issued was RUB 485 thousand (31 December 2018: RUB 339 thousand).

During the period from 1 January 2018 through 30 June 2019, the Group issued 95.4% of guarantees under Federal Law No. 44-FZ and Federal Law No. 223-FZ to secure contract execution, 4.5% of the guarantees to make procurement bids, and 0.1% of the guarantees to secure repayment of advances.

Contractual commitments to issue loans not always result in actual cash outflow as such commitments may be annulled or may expire without actual funding being provided. In addition, the majority of the Group's loan agreements provide that the Group at its sole discretion may unilaterally refuse to extend a loan.

The tables below show the analysis of movements in the allowances for ECL under financial guarantees and loan and credit line commitments for the six months ended 30 June 2019 (unaudited):

Financial guarantees	Stage 1 RUB MM	Total RUB MM
Balance as at 1 January 2019	956	956
Reversal	(488)	(488)
Balance as at 30 June 2019	468	468
Loan commitments	Stage 1 RUB MM	Total RUB MM
Balance as at 1 January 2019	6	6
Charge/(reversal) for the period	–	–
Balance as at 30 June 2019	6	6

24. Contingencies**Litigations related to Express-Volga Bank JSC**

In August 2015, the CBR revoked the banking license of Probusinessbank OJSC ("Probusinessbank"). In September 2015, Sovcombank won an open tender and became an investor for the financial rehabilitation of EVB, a subsidiary of Probusinessbank. In September 2015, the DIA included EVB, the Bank's subsidiary at that date, into the register of Probusinessbank's creditors. In October 2015, the Moscow Arbitration Court declared Probusinessbank bankrupt. The minority creditors of Probusinessbank initiated several litigations concerning its bankruptcy.

In November 2017, the minority creditors of Probusinessbank filed a lawsuit to declare invalid the transfer of RUB 625 MM to EVB from Probusinessbank in August 2015. In December 2017, the Group created a provision of RUB 755 MM that the Group's management believes covered all the possible risks and litigation costs related to this case. In October 2018, the Moscow Arbitration Court satisfied the claims of the minority creditors of Probusinessbank. The court ordered the return of RUB 625 MM to Probusinessbank's insolvency estate and restatement of obligations of Probusinessbank to EVB in the same amount. The decision of the Moscow Arbitration Court was upheld by the appeal court (in March 2019) and the cassation court (in July 2019). The decision of the Moscow Arbitration Court dated 9 November 2018 was implemented and RUB 625 MM was returned by EVB to the insolvency estate of Probusinessbank on 16 July 2019.

24. Contingencies (continued)

Litigations related to Express-Volga Bank JSC (continued)

In November 2016, Sovcombank won an open auction organized by the DIA to acquire shares of CB "Poidem!" JSC, previously a member of Probusinessbank group. The funds raised as a result of the auction went into Probusinessbank's insolvency estate and subsequently allocated to all its registered creditors. In year 2016, Sovcombank signed an agreement to sell 100% of shares of CB Poidem! JSC to the management of this bank.

In November 2017, the minority creditors of Probusinessbank filed a lawsuit to challenge the sale of shares of CB Poidem! JSC via open auction to Sovcombank. In March 2018, the Moscow Arbitration Court upheld the results of the open auction. The decision of the Moscow Arbitration Court was upheld by the appeal court (in May 2018) and the cassation court (in July 2018). In February 2019, the Supreme Court of the Russian Federation satisfied the claim of minority creditors, canceled all judicial acts of the appeal court and the cassation court and referred the case to the first instance court for retrial, indicating that a thorough examination of evidence presented by the parties was necessary. The hearing of the case was scheduled for 12 September 2019. The Group's management believes that it is impossible to determine the consequences and potential monetary effect of the unfavorable outcome. Based on the above, the Group did not make a provision for this claim.

In February 2018, the minority creditors of Probusinessbank filed a claim to declare invalid several transactions related to Probusinessbank's repayment of interbank loans to EVB in the amount of RUB 46 BN. In October 2018, the Moscow Arbitration Court partially satisfied the claims of the minority creditors and declared the transfer of RUB 10.9 BN invalid. The Ninth Arbitration Court of Appeal in February 2019 cancelled the decision of the first instance court and refused to declare these transactions invalid in full; the cassation court upheld the decision of the appeal court. On 12 August 2019, the Supreme Court of the Russian Federation denied the examination of the complaint of the minority creditors by the Judicial Panel for Economic Disputes under the Supreme Court of the Russian Federation.

In July 2018, the minority creditors of Probusinessbank filed a request to remove EVB's claims for RUB 22.7 BN from the claim register of Probusinessbank. In September 2018, the Arbitration Court determined that the court proceeding in respect of the claim of the minority creditors was terminated as the court had already examined the claims with similar grounds and there was a legally effective court's judgment on the matter. The Arbitration Court of Moscow District (cassation court) upheld the ruling of the first instance court. On 20 May 2019, the Supreme Court of the Russian Federation denied the examination of the complaint of the minority creditors by the Judicial Panel for Economic Disputes under the Supreme Court of the Russian Federation.

Tax contingencies

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant state authorities. The tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that were challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. Under certain circumstances, audits may cover earlier periods.

The tax legislation prohibits taxpayers to reduce tax base as a result of distortion of facts with regard to business operations and taxable activities or due to operations with a primary objective of non-payment or underpayment of taxes. As there is no well-established practice for applying the above provisions, there is uncertainty regarding the procedure for application of the new rules and their possible interpretation by the Russian tax authorities with regard to VAT and income tax treatment of the Group's banking operations, services and other associated activities, as well as operations financial market operations, including purchase and sale of securities and other property rights.

It is possible that with the evolution of these rules and changes in the approach of the Russian tax authorities and/or courts to their interpretation and enforcement, additional taxes and related fines and penalties may be assessed, which could negatively impact the financial condition of the Group. The details of such contingent liabilities are not disclosed in the financial statements because of the uncertainty of the potential outcome in case of different interpretation of tax law by tax authorities. Management though believes that the Group's tax position is sustained and documented, therefore, management believes that its interpretation of the relevant legislation is appropriate as at 30 June 2019.

Russian transfer pricing legislation allows Russian tax authorities to apply tax base adjustments and impose additional income tax and VAT liabilities in respect of "controlled" transactions if the controlled transaction price differs from the market price. In 2018, the Group determined its tax liabilities arising from controlled transactions on the basis of actual transaction prices or by adjusting actual prices in accordance with transfer pricing rules (if applicable).

24. Contingencies (continued)**Tax contingencies (continued)**

The Russian tax legislation contains norms determining the “tax residency” status in respect of foreign legal entities, “beneficiary owner,” and the rules for taxation of retained earnings of controlled foreign companies in the Russian Federation. These norms result in an increase the administrative and, in some cases, tax burden on Russian taxpayers that have foreign subsidiaries and/or pay income from sources in the Russian Federation to foreign entities. There is uncertainty regarding the procedure for application of these norms, their possible interpretation by the Russian tax authorities and the effect on the amount of the tax liabilities of the Group.

The management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group’s position in respect of tax, currency and customs legislation will be sustained.

25. Related party transactions

IAS 24 *Related Party Disclosures* defines the parties as related if one party has an ability to control the other party or exercise significant influence over the other party in making operational and financial decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Total remuneration included in employee benefits is presented in the table below (Note 8).

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>	<i>2019 RUB MM</i>	<i>2018 RUB MM</i>
Members of the Supervisory Board	218	45	335	107
Management Board	351	448	505	747
	569	493	840	854

Outstanding balances with related parties as at 30 June 2019 were as follows (unaudited):

	<i>Shareholders⁽¹⁾ RUB MM</i>	<i>JV⁽²⁾ RUB MM</i>	<i>KMP⁽³⁾ RUB MM</i>	<i>AC⁽⁴⁾ RUB MM</i>	<i>Other⁽⁴⁾ RUB MM</i>	<i>Total RUB MM</i>
Loans	–	442	342	194	2,152	3,130
Allowance for impairment	–	(6)	(3)	(2)	(1,247)	(1,258)
Loans, net	–	436	339	192	905	1,872
Deposits	–	94	1,464	–	391	1,949
Financial instruments at FVPL	293	1,372	–	–	–	1,665
Current accounts	20	18	563	10	3,306	3,917
Other liabilities	–	–	719	–	–	719
Commitments and guarantees issued	1,250	521	92	206	708	2,777
Commitments and guarantees received	–	902	128	600	7,730	9,360

Outstanding balances with related parties as at 31 December 2018 were as follows:

	<i>Shareholders⁽¹⁾ RUB MM</i>	<i>JV⁽²⁾ RUB MM</i>	<i>KMP⁽³⁾ RUB MM</i>	<i>AC⁽⁴⁾ RUB MM</i>	<i>Other⁽⁴⁾ RUB MM</i>	<i>Total RUB MM</i>
Loans	224	305	737	194	2,337	3,797
Allowance for impairment	–	(4)	(12)	(2)	(854)	(872)
Loans, net	224	301	725	192	1,483	2,925
Deposits	–	98	2,454	–	1,733	4,285
Financial instruments at FVPL	1,970	1,558	–	–	–	3,528
Current accounts	52	7	342	14	438	853
Other liabilities	–	–	2,361	–	–	2,361
Commitments and guarantees issued	1,276	1,310	66	327	731	3,710
Commitments and guarantees received	–	1,506	128	600	8,077	10,311

25. Related party transactions (continued)

The following table presents related party transactions recorded in the interim consolidated statement of comprehensive income for the six months ended 30 June 2019 (unaudited):

	<i>Shareholder of the Group⁽¹⁾</i> RUB MM	<i>JV⁽²⁾</i> RUB MM	<i>KMP⁽³⁾</i> RUB MM	<i>AC⁽⁴⁾</i> RUB MM	<i>Other⁽⁵⁾</i> RUB MM	<i>Total</i> RUB MM
Interest income	–	18	31	10	368	427
Interest income on financial instruments at FVPL	34	78	–	–	–	112
Interest expense on deposits	–	(3)	(21)	–	(12)	(36)
Allowances for credit losses	–	(6)	(3)	–	(393)	(402)
Fee and commission income	1	36	1	3	5	46
Gains less losses from foreign currencies	(94)	–	–	–	(4)	(98)
General and administrative expenses	–	(4)	(5)	–	–	(9)

The following table presents related party transactions recorded in the interim consolidated statement of comprehensive income for the six months ended 30 June 2018 (unaudited):

	<i>Shareholder of the Group⁽¹⁾</i> RUB MM	<i>JV⁽²⁾</i> RUB MM	<i>KMP⁽³⁾</i> RUB MM	<i>AC⁽⁴⁾</i> RUB MM	<i>Other⁽⁵⁾</i> RUB MM	<i>Total</i> RUB MM
Interest income	18	35	33	13	177	276
Interest income on financial instruments at FVPL	63	110	–	–	–	173
Interest expense on deposits	–	–	(7)	(3)	(19)	(29)
Allowances for credit losses	–	(6)	1	–	(231)	(236)
Fee and commission income	1	6	2	–	23	32
Gains less losses from foreign currencies	(121)	–	7	–	39	(75)
General and administrative expenses	–	(8)	(2)	–	–	(10)

(1) Sovco Capital Partners N.V. is the major shareholder of the Group with ownership of 87.1% (Note 1).

(2) Joint ventures (JV) are companies where the Group is engaged in joint operations and have equal shares (50/50) with the partners in JV. JVs include Sollers-Finance LLC and CTB LLC.

(3) Key management personnel ("KMP") are those with responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

(4) Associate companies (AC) are entities, in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

(5) Other related parties ("Other") mainly comprise companies under control of the key management personnel.

During the six months ended 30 June 2019 and 2018, the Group also conducted purchase and sale of own securities issued with the Group's shareholder. These transactions were carried out at market conditions.

26. Fair value

IAS 7 *Financial Instruments: Disclosures* requires the Group to make the following disclosure of the estimated fair value of financial instruments. Fair value is defined as the amount for which a financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction other than in forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments (specifically extended loans) at which such financial assets would be traded on a regular basis, judgment is necessary in arriving at fair value based on current economic conditions and the specific risks attributable to a given instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- ▶ Level 3: techniques, which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

26. Fair value (continued)

For the fair value disclosures, the Group determined class of assets and liabilities based on the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy.

As at 30 June 2019 (unaudited)	Fair value measurement using			Total RUB MM
	Quoted prices in active markets (Level 1) RUB MM	Significant observable inputs (Level 2) RUB MM	Significant unobservable inputs (Level 3) RUB MM	
Assets measured at fair value				
Financial instruments at FVPL	161,514	56,742	–	218,256
Investment securities at FVOCI	–	–	691	691
Investment property	–	–	56	56
Property and equipment and intangible assets (land and buildings)	–	–	3,656	3,656
Other financial assets	–	5,046	–	5,046
Other non-financial assets	4,087	–	–	4,087
Liabilities measured at fair value				
Subordinated debt	6,888	–	–	6,888
Derivative financial liabilities	–	6,311	–	6,311
Fair value measurement using				
As at 31 December 2018	Quoted prices in active markets (Level 1) RUB MM	Significant observable inputs (Level 2) RUB MM	Significant unobservable inputs (Level 3) RUB MM	Total RUB MM
Assets measured at fair value				
Financial instruments at FVPL	155,832	67,534	1,674	225,040
Investment securities at FVOCI	–	–	691	691
Investment property	–	–	56	56
Property and equipment and intangible assets (land and buildings)	–	–	3,703	3,703
Other financial assets	–	6,947	883	7,830
Other non-financial assets	8,648	–	–	8,648
Liabilities measured at fair value				
Subordinated debt	6,993	–	–	6,993
Derivative financial liabilities	–	6,846	–	6,846

Trading securities valued using valuation techniques primarily consist of equity and debt securities for which no market quotations are available. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

26. Fair value (continued)**Movements in Level 3 financial instruments measured at fair value**

The following table shows a reconciliation of the opening and closing balances of Level 3 financial assets and liabilities which are recorded at fair value as at 30 June 2019 (unaudited):

	As at 1 January 2019 RUB MM	Gains/ (losses) recorded in the statement of profit or loss RUB MM	Gains/ (losses) recorded in other comprehensive income RUB MM	Acquisitions RUB MM	Sales RUB MM	Settlements RUB MM	Transfers to other items RUB MM	Transfers to Level 1 and Level 2 RUB MM	As at 30 June 2019 RUB MM
Financial assets									
Financial instruments at FVPL	1,674	(77)	-	-	-	(31)	-	(1,566)	-
Investment securities at FVOCI	691	-	-	-	-	-	-	-	691
Other financial assets	883	-	-	-	-	-	(883)	-	-
Total Level 3 financial assets	3,248	(77)	-	-	-	(31)	(883)	(1,566)	691

During the six months ended 30 June 2019, the Group transferred certain financial assets at fair value through profit or loss from Level 3 to Level 1 of the fair value hierarchy, as they became actively traded during the reporting period and their fair values were subsequently determined based on quoted prices in an active market for identical assets. The carrying amount of the financial assets transferred totaled RUB 1,566 MM.

The following table shows a reconciliation of the 2018 opening and closing balances of Level 3 financial assets and liabilities which are recorded at fair value:

	As at 1 January 2018 RUB MM	Gains/ (losses) recorded in the statement of profit or loss RUB MM	Gains/ (losses) recorded in other comprehensive income RUB MM	Business combinations RUB MM	Acquisitions RUB MM	Sales RUB MM	Settlements RUB MM	Transfers from Level 1 and Level 2 RUB MM	Reclassification to loans to customers RUB MM	Transfer from investment securities at FVOCI to financial instruments at FVPL RUB MM	As at 31 December 2018 RUB MM
Financial assets											
Financial instruments at FVPL	-	1,078	-	-	-	-	(182)	9,894	(10,246)	1,130	1,674
Investment securities at FVOCI	3,935	65	(23)	1,021	-	(3,149)	(28)	-	-	(1,130)	691
Other financial assets	883	-	-	-	-	-	-	-	-	-	883
Total Level 3 financial assets	4,818	1,143	(23)	1,021	-	(3,149)	(210)	9,894	(10,246)	-	3,248

Gains or losses on Level 3 financial instruments included in profit or loss for the period comprise:

	For the six months ended 30 June 2019 (unaudited)			For the year ended 31 December 2018		
	Realized gains/(losses) RUB MM	Unrealized gains/(losses) RUB MM	Total RUB MM	Realized gains/(losses) RUB MM	Unrealized gains/(losses) RUB MM	Total RUB MM
Total gains/(losses) recognized in profit or loss for the period	31	(108)	(77)	106	1,037	1,143

26. Fair value (continued)**Effect of changes in significant unobservable inputs on the measurement of financial instruments categorized within Level 3 of the fair value hierarchy**

The following table shows quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

30 June 2019 (unaudited)	Carrying amount RUB MM	Valuation technique	Unobservable inputs	Range (weighted average value)
Investment securities at FVOCI				
<i>Equity securities</i>				
Energy	400	Value of net assets	Net assets	Not applicable
Electronics	130	The last transaction price	Price of the most recent transaction	Not applicable
Rating agencies	111	Value of net assets	Net assets	Not applicable
Electronics	50	Value of net assets	Net assets	Not applicable
Investment property	56	Market and income approach	Discount for sale	10%
Property and equipment and intangible assets (land and buildings)	3,656	Market and income approach	Discount for sale	10%
31 December 2018	Carrying amount RUB MM	Valuation technique	Unobservable inputs	Range (weighted average value)
Financial instruments at FVPL				
Metallurgy	1,674	Discounted cash flows	Credit risk of the issuer	1-2%
Investment securities at FVOCI				
<i>Equity securities</i>				
Energy	400	Value of net assets	Net assets	Not applicable
Electronics	130	The last transaction price	Price of the most recent transaction	Not applicable
Rating agencies	111	Value of net assets	Net assets	Not applicable
Electronics	50	Value of net assets	Net assets	Not applicable
Investment property	56	Comparative and cost approach	Discount for sale	10%
Property and equipment and intangible assets (land and buildings)	3,703	Comparative and cost approach	Discount for sale	10%
Other financial assets	883	Discounted cash flows	Credit risk of the counterparty	20%

The effect of reasonably possible alternative assumptions on the fair value of Level 3 financial instruments is insignificant.

Transfers between Level 1 and Level 2

The following tables show transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets measured at fair value during the six months ended 30 June 2019 and for the year ended 31 December 2018:

	For the six months ended 30 June 2019 (unaudited) RUB MM	For the year ended 31 December 2018 RUB MM
Financial instruments at FVPL		
Bonds of companies with state participation	5,990	1,508
Russian subfederal and municipal bonds	461	1,685
Corporate bonds	1,322	1,031
Total transfers from Level 1 to Level 2	7,773	4,224

26. Fair value (continued)**Transfers between Level 1 and Level 2 (continued)**

The financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the period. Their fair values were determined using valuation techniques based on observable market inputs.

	<i>For the six months ended 30 June 2019 (unaudited) RUB MM</i>	<i>For the year ended 31 December 2018 RUB MM</i>
Financial instruments at FVPL		
Corporate bonds	7,549	48,843
Russian subfederal and municipal bonds	9,458	9,489
Bonds of companies with state participation	3,857	24,968
Corporate shares	157	–
Total transfers from Level 2 to Level 1	21,021	83,300

Transfers from Level 2 to Level 1 for the six months ended 30 June 2019 were due to the fact they became actively traded during the reporting period and fair values were consequently determined using quoted prices in an active market.

Transfers from Level 2 to Level 1 for the year 2018 were mainly due to the application of the new method for determining market activity and as they became actively traded during the reporting period and fair values were consequently determined using quoted prices in an active market.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets and liabilities that are not carried at fair value in the interim consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<i>30 June 2019 (unaudited)</i>			<i>31 December 2018</i>		
	<i>Carrying amount RUB MM</i>	<i>Fair value RUB MM</i>	<i>Unrecognized gain/(loss) RUB MM</i>	<i>Carrying amount RUB MM</i>	<i>Fair value RUB MM</i>	<i>Unrecognized gain/(loss) RUB MM</i>
Financial assets						
Cash and cash equivalents	151,476	151,476	–	109,817	109,817	–
Mandatory cash balances with the CBR	5,352	5,352	–	4,991	4,991	–
Placements with banks and bank bonds measured at amortized cost	34,989	35,761	772	48,535	48,719	184
Loans to customers and bonds measured at amortized cost	535,906	542,931	7,025	541,478	544,931	3,453
Other assets	1,318	1,318	–	802	802	–
Financial liabilities						
Due to the CBR	819	819	–	859	859	–
Due to banks	110,854	110,818	36	190,255	190,134	121
Due to customers	667,593	668,053	(460)	598,874	598,925	(51)
Debt securities issued	18,315	18,422	(107)	8,479	8,495	(16)
Other borrowed funds	18,028	21,173	(3,145)	16,924	18,336	(1,412)
Subordinated debt	3,326	3,318	8	7,000	7,587	(587)
Other liabilities	7,093	7,093	–	4,930	4,930	–
Total unrecognized change in fair value			4,129			1,692

27. Currency analysis

The table below shows the breakdown of assets and liabilities by currency as at 30 June 2019 (unaudited):

	<i>RUB and other currencies RUB MM</i>	<i>USD RUB MM</i>	<i>EUR RUB MM</i>	<i>Total RUB MM</i>
Assets				
Cash and cash equivalents	128,406	5,536	17,534	151,476
Mandatory cash balances with the CBR	5,352	–	–	5,352
Placements with banks and bank bonds measured at amortized cost:				
- held by the Group	–	23,042	1,846	24,888
- pledged under sale and repurchase agreements	1,032	9,069	–	10,101
Financial instruments at FVPL:				
- held by the Group	78,321	79,569	5,444	163,334
- pledged under sale and repurchase agreements	15,886	39,036	–	54,922
Investment securities at FVOCI	691	–	–	691
Loans to customers and bonds measured at amortized cost	404,382	114,481	17,043	535,906
Investments in associates	464	–	–	464
Investments in joint ventures	953	–	–	953
Investment property	56	–	–	56
Property and equipment and intangible assets	10,831	–	–	10,831
Goodwill	1,205	–	–	1,205
Current income tax asset	1,522	–	–	1,522
Deferred tax asset	467	–	–	467
Other assets	8,111	5,358	62	13,531
Total assets	657,679	276,091	41,929	975,699
Liabilities				
Due to the CBR	819	–	–	819
Due to banks	22,508	85,197	3,149	110,854
Due to customers	601,014	48,259	18,320	667,593
Debt securities issued	14,485	3,755	75	18,315
Other borrowed funds	18,028	–	–	18,028
Deferred tax liability	1,402	–	–	1,402
Current income tax payable	454	–	–	454
Subordinated debt	6,888	3,326	–	10,214
Other liabilities	14,609	6,562	33	21,204
Total liabilities	680,207	147,099	21,577	848,883
Net balance sheet position as at 30 June 2019	(22,528)	128,992	20,352	126,816
Net off-balance sheet position as at 30 June 2019	143,696	(123,697)	(19,999)	–
Net position as at 30 June 2019	121,168	5,295	353	126,816
Perpetual subordinated bonds	–	6,308	–	6,308
Net position, including perpetual subordinated bonds, as at 30 June 2019	121,168	(1,013)	353	120,508
Credit-related commitments	255,703	35,013	3,893	294,609

The USD-nominated claims include advances for RUB 5,046 MM nominated in USD, which will be settled by an actual delivery of gold to the Group. For foreign currency risk management purposes, the Group considers these transactions as exposed to the risk related to volatility of the US dollar and takes measures to mitigate those risks by managing open currency position in USD.

Placements with banks and bank bonds measured at amortized cost in the table above include bank bonds measured at amortized cost and nominated in RUB and USD for RUB 1,032 MM for RUB 24,724 MM, respectively.

Loans to customers and bonds measured at amortized cost in the table above include bonds measured at amortized cost and nominated in RUB, USD and GBP for RUB 32,770 MM, RUB 88,718 MM and RUB 1,469 MM, respectively.

27. Currency analysis (continued)

The table below shows the breakdown of assets and liabilities by currency as at 31 December 2018:

	<i>RUB and other currencies RUB MM</i>	<i>USD RUB MM</i>	<i>EUR RUB MM</i>	<i>Total RUB MM</i>
Assets				
Cash and cash equivalents	85,207	6,536	18,074	109,817
Mandatory cash balances with the CBR	4,991	–	–	4,991
Placements with banks and bank bonds measured at amortized cost:				
- held by the Group	2,063	27,543	6,008	35,614
- pledged under sale and repurchase agreements	2,038	10,883	–	12,921
Financial instruments at FVPL:				
- held by the Group	59,931	52,883	1,447	114,261
- pledged under sale and repurchase agreements	30,181	76,893	3,705	110,779
Investment securities at FVOCI	691	–	–	691
Loans to customers and bonds measured at amortized cost	373,558	147,586	20,334	541,478
Investments in associates	424	–	–	424
Investments in joint ventures	927	–	–	927
Investment property	56	–	–	56
Property and equipment and intangible assets	10,650	–	–	10,650
Goodwill	1,505	–	–	1,505
Current income tax asset	3,156	–	–	3,156
Deferred tax asset	427	–	–	427
Other assets	19,188	496	23	19,707
Total assets	594,993	322,820	49,591	967,404
Liabilities				
Due to the CBR	859	–	–	859
Due to banks	35,021	151,726	3,508	190,255
Due to customers	529,140	43,353	26,381	598,874
Debt securities issued	7,605	787	87	8,479
Other borrowed funds	16,924	–	–	16,924
Deferred tax liability	5,153	–	–	5,153
Current income tax payable	77	–	–	77
Subordinated debt	6,993	7,000	–	13,993
Other liabilities	11,642	7,089	23	18,754
Total liabilities	613,414	209,955	29,999	853,368
Net balance sheet position as at 31 December 2018	(18,421)	112,865	19,592	114,036
Net off-balance sheet position as at 31 December 2018	126,549	(107,459)	(19,090)	–
Net position as at 31 December 2018	108,128	5,406	502	114,036
Perpetual subordinated bonds	–	6,975	–	6,975
Net position, including perpetual subordinated bonds, as at 31 December 2018	108,128	(1,569)	502	107,061
Credit-related commitments	288,251	24,378	5,699	318,328

Placements with banks and bank bonds measured at amortized cost in the table above include bank bonds measured at amortized cost and nominated in RUB and USD for RUB 2,063 MM and RUB 27,942 MM, respectively.

Loans to customers and bonds measured at amortized cost in the table above include bonds measured at amortized cost and nominated in RUB, USD and GBP for RUB 38,791 MM, RUB 115,305 MM and RUB 1,630 MM, respectively.

28. Business combinations

Acquisition of Rosevrobank JSB

Rosevrobank is incorporated in the Russian Federation. Its principal business activity is the issuance of loans and provision of cash and settlement services to small and medium enterprises ("SME").

In September 2015, Sovcombank acquired 9.5% of shares of Rosevrobank. In 2015-2017, the Group gradually increased its share in the capital of Rosevrobank both directly and through REG Holding Limited ("REG").

As at 31 December 2017, the Group owned 34.3% share capital of Rosevrobank (24.3% was held directly and 10.0% was held through REG). As at 31 December 2017, REG is a main shareholder of Rosevrobank, owning 64.7% of REB's shares as at that date.

In January and April 2018, Sovcombank acquired 11.0% and 39.7% shares of Rosevrobank, respectively. In April 2018, Sovcombank sold its stake in REG to Rosevrobank's founders and Rosevrobank purchased 9.99% of its own shares from other shareholders. As a result of these transactions, the Group increased its direct share in Rosevrobank up to 83.3%. In August 2018, Sovcombank acquired remaining 16.7% interest in the share capital of Rosevrobank and, therefore, consolidated 100% of Rosevrobank's shares.

Sovcombank acquired Rosevrobank in order to receive expertise in SMEs. On the one hand, Rosevrobank had generated significant and stable net profit for 20 years. On the other hand, the acquisition price was favorable.

Fair value of identifiable net assets and liabilities of Rosevrobank JSB

The Bank determined the fair value of the identifiable net assets and liabilities of Rosevrobank and the consideration received in line with all available data in accordance with IFRS 3 *Business Combinations*. The fair value of net identifiable assets and liabilities of Rosevrobank as at 10 April 2018 (the "Acquisition date") was as follows:

	RUB MM
Assets	
Cash and cash equivalents	12,126
Mandatory cash balances with the CBR	1,336
Financial instruments at FVPL	824
Investment securities	65,756
Loans to customers	102,382
Investment property	250
Property and equipment and intangible assets	3,334
Other assets	850
Total assets	186,858
Liabilities	
Due to the CBR	357
Due to banks	5,569
Due to customers	139,242
Debt securities issued	2,286
Deferred tax liability	60
Subordinated debt	2,476
Other liabilities	3,051
Total liabilities	153,041
Identifiable net assets	33,817
	RUB MM
Acquisition price	24,995
Preliminary fair value of identifiable net assets of Rosevrobank JSB as at the Acquisition date	33,817
Non-controlling interest	5,636
Gain from bargain purchase (Note 7)	3,186
Acquisition price	RUB MM
Cash paid on acquisition	14,104
Fair value of the associate as at the disposal date	10,891
Total acquisition price	24,995

28. Business combinations (continued)

Acquisition of Rosevrobank JSB (continued)

As the fair value of identifiable net assets of Rosevrobank exceeded the value of consideration paid, the Group recognized gain on bargain purchase within other operating income in the consolidated statement of profit or loss. As at the Acquisition date, gain from bargain purchase amounted to RUB 3,186 MM, which is in line with the market prices.

The Group recognized the non-controlling interests in Rosevrobank as a proportionate share of non-controlling shareholders in the identifiable net assets.

From the Acquisition date though 30 June 2018, Rosevrobank has the following key results: interest income of RUB 4,896 MM, non-interest income of RUB 1,885 MM and net profit before tax of RUB 1,687 MM. The Group consolidated net profit of Rosevrobank in the Group's interim consolidated statement of comprehensive income for the six months of 2018.

If the combination had occurred on 1 January 2018, the Group's profit, interest income and non-interest income for the six months ended 30 June 2018 would have been RUB 11,973 MM, RUB 44,042 MM and RUB 14,671 MM, respectively.

29. Capital adequacy

The Group manages its capital in accordance with the Russian legislation and requirements of the CBR at the level of each bank within the Group. Capital management aims to mitigate risks inherent in the activities of the Group, where the Bank is the major asset.

The Group monitors its capital adequacy based on the principles stipulated by the Basel Capital Accord, as well as based on ratios established by the CBR.

The primary objective of capital management is monitoring compliance with the requirements of the CBR and maintaining high credit ratings and profitability.

The CBR's capital adequacy ratio

According to the requirements of the CBR, banks must maintain a capital adequacy ratio of 8.0% of risk-weighted assets, computed based on Russian Accounting Standards (the ratio is calculated based on the statutory financial statements prepared in accordance with Russian Accounting Standards).

As at 30 June 2019 and 31 December 2018, the Bank's capital adequacy ratio calculated in accordance with the above requirements exceeded the statutory minimum established by the CBR.

Capital adequacy ratio under Basel Capital Accord

As at 30 June 2019 and 31 December 2018, the Group calculated the capital adequacy ratio in accordance with the requirements of the Basel Committee on Banking Supervision – Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems dated December 2010 (updated in June 2011) (hereinafter, the "Basel III").

The Basel III sets a minimum requirement of 4.5% for Tier 1 common capital adequacy ratio; 6.0% for Tier 1 capital adequacy ratio; and 8.0% for Total capital adequacy ratio.

To determine the amount of credit risk, a component of capital adequacy ratio, the Group applies a standardized Basel III approach with an exception for derivative financial instruments and credit line commitments, which are subject to the requirements of the national regulator when calculating capital adequacy ratio (Regulation No. 180-I of the CBR *On Prudential Ratios of Banks* of 28 June 2017).

29. Capital adequacy (continued)**Capital adequacy ratio under Basel Capital Accord (continued)**

The table below shows calculations of the Group's capital adequacy ratio according to the requirements of Basel III as at 30 June 2019 and 31 December 2018.

	30 June 2019 (unaudited) RUB MM	31 December 2018 RUB MM
Common capital	112,334	99,021
Additional capital	16,631	19,918
Tier 1 capital	128,965	118,939
Tier 2 capital	–	–
Total equity	128,965	118,939
Risk-weighted assets		
Credit risk	720,153	722,267
Operational risk	97,651	97,651
Market risk	42,427	42,163
Total risk-weighted assets	860,231	862,081
Tier 1 common capital adequacy ratio	13.1%	11.5%
Tier 1 capital adequacy ratio	15.0%	13.8%
Total capital adequacy ratio	15.0%	13.8%

30. Principal consolidated subsidiaries, associates and joint ventures

The table below shows the list of the principal consolidated subsidiaries, associates and joint ventures of the Group as at 30 June 2019 and 31 December 2018:

		Voting rights	
	Relationship	30 June 2019 (unaudited)	31 December 2018
Express-Volga Bank JSC	Subsidiary	100.0%	100.0%
Komana Holdings LLC	Subsidiary	100.0%	100.0%
Investitsionnoye Agentstvo LLC	Subsidiary	100.0%	100.0%
Lafa Ventures LTD	Subsidiary	100.0%	100.0%
Sovcomcard LLC	Subsidiary	100.0%	100.0%
GMCS Management LLC	Subsidiary	100.0%	100.0%
Fintender JSC	Subsidiary	100.0%	100.0%
R.E. Leasing LLC	Subsidiary	100.0%	100.0%
Sovcom Factoring LLC	Subsidiary	100.0%	100.0%
Torgovy Dom LLC	Subsidiary	100.0%	100.0%
BTE LLC	Subsidiary	75.0%	75.0%
RTS-Holding JSC	Subsidiary	50.0%	50.0%
RTS-Tender LLC	Subsidiary	50.0%	50.0%
Sollers-Finance LLC	Joint venture	50.0%	50.0%
Tsifrovye Tekhnologii Buduschego LLC	Joint venture	50.0%	50.0%
Kostromskoy Zavod Avtokomponentov JSC	Associate	40.1%	40.1%
Aviatsionnye Tekhnologii Svyazi LLC	Associate	25.0%	–
Cbonds.ru LLC	Associate	24.9%	24.9%