Independent auditor’s report
on the consolidated financial statements of
Sovcombank PJSC
and its subsidiaries
for the year ended 31 December 2018

April 2019

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Independent auditor's report

To the sole shareholder and Supervisory Board of
Sovcombank PJSC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sovcombank PJSC (hereinafter, "the Bank") and its subsidiaries (hereinafter, "the Group"), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2018, and the consolidated statement of financial position as at 31 December 2018, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibility for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment of loans to customers	
Estimation of the allowance for impairment of loans to customers is a key area of judgment for the Group's management. Identification of impairment indicators and increase in the credit risk, determination of the recoverable amount, probability of default and loss given default require judgments and assumptions, as well as the analysis of many factors including analysis of the borrower rating models, analysis of financial position of the borrowers, expected future cash flows and collateral value on loans. The Group management approach to assessing and managing credit risk is described in Note 2 "Basis of preparation" to the consolidated financial statements. The use of various models and assumptions may significantly affect the estimates of the impairment allowance. Due to the significance of loans to customers and the subjectivity of judgments, the estimation of the impairment allowance is a key audit matter.	Our audit procedures included an analysis of the methodology for assessing the allowance for impairment of loans to customers. We focused on identification of indicators of increase in the credit risk and impairment, which may be different for different types of products and customers. We also paid attention to significant individually impaired loans, as well as loans mostly exposed to the risk of individual impairment. With respect to collective assessment of loans to customers for impairment we verified input data and analyzed assumptions used by the Group, and reviewed borrower rating models that include the analysis of the financial position and probability of default depending on the rating assigned. To estimate the allowance for impairment of loans to customers on an individual basis, we analyzed the expected future cash flows, including in case of foreclosure on collateralized property. During our audit procedures we analyzed management assumptions used to estimate the allowance for impairment of loans to customers. We reviewed the information about the allowance for impairment of loans to customers disclosed in Note 21 "Loans to customers and bonds measured at amortized cost" and Note 2 "Basis of preparation".
Fair value of financial assets not quoted in active markets	
The Group invests in various types of financial assets recognized in the consolidated statement of financial position at fair value as at the reporting date. A significant portion of financial assets recognized at fair value are not quoted in an active market and are classified within Level 2 of the fair value hierarchy. Fair value measurement of Level 2 bonds using the discounted cash flows method involved the use of yield to maturity on the issuers' bonds that are equivalent to the measured bonds. Due to the significant impact on the consolidated financial statements, fair value measurement of financial assets not quoted in active markets is one of the key audit matters.	Our audit procedures involved recalculating the fair value of assets not traded in active markets on a selective basis and analyzing comparability of equivalent financial instruments used in fair value measurement models. We reviewed information disclosed in Note 20 "Financial instruments at FVPL" and Note 39 "Fair value" to the consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Approach to assessing purchase price allocation upon business combination	
In April 2018, the Group acquired control over JSB Rosevrobank. This purchase is disclosed in detail in Note 40 “Business combinations”. We believe that assessing the purchase price allocation is a matter of most significance in the audit of the consolidated financial statements, as the financial result from this acquisition in the amount of excess of the fair value of the acquiree’s net assets over the consideration paid totaled RUB 3,186 MM and significantly affected the Group’s net profit. Fair value measurement of assets and liabilities require the use of significant estimates and assumptions by management and is one of the key audit matters.	In the course of the audit procedures, we reviewed the transaction documentation required to assess purchase price allocation upon business combination, tested the estimation of the fair value of assets and liabilities on a selective basis, and engaged our experts in this field to review the valuation methods and assumptions used. We reviewed information disclosed in Note 40 “Business combinations” to the consolidated financial statements for completeness and compliance with the requirements of International Financial Reporting Standards.

Other information included in the 2018 Annual report of Sovcombank PJSC

Other information consists of the information included in the Annual Report of Sovcombank PJSC for 2018, other than the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when it is provided to us and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

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

The Supervisory Board is responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatements of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report in accordance with the requirements of Article 42 of Federal Law No. 395-1 of the Russian Federation *Concerning Banks and Banking Activities* of 2 December 1990

Management of the Bank is responsible for the compliance by the banking group, where the Bank is the parent credit institution (hereinafter, the "Banking Group") with the mandatory prudential ratios established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for the conformity of internal control and organization of the risk management systems of the Banking Group with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of Federal Law No. 395-1 of the Russian Federation *Concerning Banks and Banking Activities* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Group's consolidated financial statements for the year ended 31 December 2018, we determined:

1) Whether the Banking Group complied as at 1 January 2019 with the obligatory ratios established by the Bank of Russia;
2) Whether internal control and organization of the risk management systems of the Banking group conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
    - Subordination of risk management departments;
    - The existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
    - Consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
    - Oversight functions performed by the Supervisory Board and executive management to ensure that the Bank complies with internally established risk limits and capital adequacy requirements, and applies the risk management procedures in an effective and consistent manner.

This work included procedures selected based on our judgment, such as inquiries, analysis, studying of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

Compliance by the Banking Group with prudential ratios established by the Bank of Russia

We found that the values of prudential ratios calculated by the Banking Group as at 1 January 2019 were within the limits established by the Bank of Russia.

We did not perform any procedures in respect of accounting data of the Banking Group, except for those procedures we considered necessary to express our opinion on the fair presentation of the Group's consolidated financial statements.

Conformity of internal controls and organization of the risk management systems of the Banking Group with the requirements set forth by the Bank of Russia in respect of such systems

- We found that, in accordance with the regulations and recommendations issued by the Bank of Russia, as at 31 December 2018 the Bank's internal audit division was subordinated and accountable to the Supervisory Board, and the Bank's risk management departments were not subordinated or accountable to the departments that take the respective risks.

- We found that the Bank's internal documents effective as at 31 December 2018 that establish the methodologies for detecting and managing credit, market, operational risks, interest rate risk of the banking book, as well as the liquidity risk, that are significant to the Banking Group, and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2018, the Bank had a reporting system pertaining to credit, market, operational risks, interest rate risk of the banking book, as well as the liquidity risk that were significant to the Banking Group and pertaining to its capital.

- We found that the periodicity and consistency of reports prepared by the Bank's risk management departments and internal audit function during the year ended 31 December 2018 with regard to the management of the Bank's credit, market, operational risks, interest rate risk of the banking book, as well as the liquidity risk of the Banking Group, complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management departments and internal audit function regarding the effectiveness of the Bank's relevant risk management methods.

- We found that, as at 31 December 2018, the authority of the Supervisory Board and executive management bodies of the Bank included control over compliance of the Banking Group with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2018, the Supervisory Board and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division, and the measures suggested to address the findings.

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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Banking Group, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

The partner in charge of the audit resulting in this independent auditor's report is G.A. Shinin.

G.A. Shinin
Partner
Ernst & Young LLC

24 April 2019

Details of the audited 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.

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 RUB MM	2017 RUB MM
Interest income calculated using the EIR method	7	62,298	42,374
Other interest income	7	25,125	26,349
Interest expense	7	(37,754)	(34,482)
Obligatory deposit insurance		(2,190)	(1,263)
Net interest income		**47,479**	**32,978**
Allowances for credit losses	10	(8,800)	(4,438)
Net interest income after allowance for credit losses		**38,679**	**28,540**
Fee and commission income	8	24,535	20,282
Fee and commission expense	9	(4,538)	(2,232)
Net fee and commission income		**19,997**	**18,050**
Net (loss)/gain on financial instruments at fair value through profit or loss		(8,588)	11,567
Net gain on available-for-sale assets		–	1,067
Net gain on derecognition of financial assets at fair value through other comprehensive income		657	–
Net gain from foreign exchange and transactions with precious metals	11	770	2,670
Other impairment, provisions and expenses attributable to non-controlling interests	16	(1,222)	(2,718)
Share of profit of joint ventures		258	126
Share of profit of associates		287	–
Other operating income	12	4,896	1,725
Operating income		**55,734**	**61,027**
Revenue and other gains from other non-banking business	13	700	–
Cost and other losses from other non-banking business	13	(759)	–
Net loss from other non-banking business		**(59)**	**–**
Revaluation of buildings and investment property		(119)	(78)
Personnel expenses	14	(19,554)	(13,397)
Other general and administrative expenses	15	(15,177)	(10,893)
Profit before income tax expense		**20,825**	**36,659**
Income tax expense	17	(3,276)	(7,088)
Profit for the period		**17,549**	**29,571**
Profit for the period attributable to:			
- shareholders of the Bank		17,437	29,571
- non-controlling interests		112	–
Other comprehensive income			
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met			
Net amount of change in the fair value of debt instruments at fair value through other comprehensive income, net of tax		(844)	–
Amount reclassified to profit or loss as a result of disposal of debt investments at fair value through other comprehensive income, net of tax		592	–
Amount reclassified to profit or loss as a result of reclassification of debt investments at fair value through other comprehensive income to financial instruments at fair value through profit or loss, net of tax		252	–
Revaluation reserve for available-for-sale investment securities, net of tax		–	(782)
Other comprehensive income not to be reclassified subsequently to profit or loss			
Net realized gains on investment securities at fair value through other comprehensive income, net of tax		(18)	–
Revaluation of buildings, net of tax		227	33
Other comprehensive income, net of tax		**209**	**(749)**
Total comprehensive income		**17,758**	**28,822**
Comprehensive income attributable to:			
- shareholders of the Bank		17,646	28,822
- non-controlling interests		112	–

Approved on 24 April 2019

Mr. Dmitry Gusev Chairman of the Management Board	Mr. Dmitry Baryshnikov Financial Director	Mr. Andrei Osnos Managing Director

The consolidated statement of comprehensive income is to be read in conjunction with notes 1 to 45, and forming an integral part of, the consolidated financial statements.

Consolidated statement of financial position
as at 31 December 2018

	Notes	*2018 RUB MM*	*2017 RUB MM*
Assets			
Cash and cash equivalents	18	109,817	39,962
Mandatory cash balances with the CBR		4,991	2,975
Placements with banks and bonds measured at amortized cost			
- held by the Group	19	35,614	9,338
- pledged under sale and repurchase agreements	19	12,921	–
Financial instruments at fair value through profit or loss			
- held by the Group	20	114,261	140,043
- pledged under sale and repurchase agreements	20	110,779	209,098
Investments securities at fair value through other comprehensive income (2017: investment securities available for sale)	22	691	3,935
Loans to customers and bonds measured at amortized cost			
- held by the Group	21	455,413	262,729
- pledged under sale and repurchase agreements	21	86,065	3,516
Investment in associates		424	8,224
Investments in joint ventures		927	506
Assets held for sale		–	425
Investment property	23	56	58
Property and equipment and intangible assets	24	10,650	4,942
Goodwill	42	1,505	728
Current income tax asset		3,156	1,153
Deferred tax asset	33	427	459
Other assets	25	19,707	1,408
Total assets		**967,404**	**689,499**
Liabilities			
Due to the CBR	27	859	–
Due to banks	28	190,255	194,135
Due to customers	26	598,874	358,914
Debt securities issued	29	8,479	15,744
Other borrowed funds	30	16,924	15,381
Deferred tax liability	33	5,153	5,244
Subordinated debt	31	13,993	6,799
Other liabilities	32	18,831	7,864
Total liabilities		**853,368**	**604,081**
Equity			
Share capital	34	1,871	1,716
Other capital contributions		19,100	2,852
Revaluation reserve for investment securities at fair value through other comprehensive income		(133)	806
Perpetual subordinated bonds	34	6,975	–
Revaluation reserve for buildings		349	122
Retained earnings		83,896	78,302
Total equity attributable to shareholders of the Bank		**112,058**	**83,798**
Non-controlling interests		1,978	1,620
Total equity		**114,036**	**85,418**
Total equity and liabilities		**967,404**	**689,499**

Approved on 24 April 2019

Mr. Dmitry Gusev Chairman of the Management Board	Mr. Dmitry Baryshnikov Financial Director	Mr. Andrei Osnos Managing Director

The consolidated statement of financial position is to be read in conjunction with notes 1 to 45, and forming an integral part of, the consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2018

	Notes	2018 RUB MM	2017 RUB MM
Cash flows from operating activities			
Interest received		84,601	67,437
Interest paid		(36,201)	(27,397)
Fees and commissions received		24,633	20,798
Fees and commissions paid		(4,522)	(2,112)
Net realized gain/(loss) on financial instruments at fair value through profit or loss		7,557	(1,649)
Net realized gain from foreign exchange and transactions with precious metals		(18,306)	(1,635)
Other operating income received		4,785	1,540
Net loss from other non-banking business		(59)	–
Personnel and other general administrative expenses paid		(32,106)	(22,814)
Cash flows from operating activities		**30,382**	**34,168**
(Increase)/decrease in operating assets			
Mandatory cash balances with the CBR		(681)	42
Placements with banks		(9,139)	(9,545)
Financial instruments at fair value through profit or loss		60,134	(47,335)
Loans to customers		(41,633)	(34,769)
Other assets		(16,768)	(850)
Increase/(decrease) in operating liabilities			
Due to customers		90,915	79,945
Due to the CBR and other banks		(25,303)	5,686
Promissory notes issued		(861)	(258)
Other liabilities		1,169	(767)
Net cash flows from operating activities before income tax		**88,215**	**26,317**
Income tax paid		(3,589)	(6,453)
Cash flows from operating activities		**84,626**	**19,864**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash received	40	(4,057)	(755)
Acquisition of associates		(3,206)	(1,637)
Sales of subsidiaries and associates, net of cash disposed		394	–
Acquisition of property and equipment and intangible assets		(2,847)	(710)
Proceeds from disposal of property and equipment and intangible assets		36	20
Proceeds from disposal of investment property		442	72
Acquisition of investment securities at fair value through other comprehensive income		(38,782)	(2,802)
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income		73,974	–
Acquisition of securities at amortized cost		(54,575)	–
Proceeds from sale and redemption of securities at amortized cost		8,645	–
Cash flows from investing activities		**(19,976)**	**(5,812)**
Cash flows from financing activities			
Acquisition of non-controlling interests		(5,879)	–
Contributions from shareholders		16,403	470
Proceeds from bonds issued		30	10,367
Redemption of bonds issued		(8,777)	(3,032)
Subordinated debt received		15,552	–
Subordinated debt repaid		(6,022)	(1,470)
Perpetual subordinated debt received		5,355	1,302
Perpetual subordinated debt repaid		(6,717)	–
Distributions to shareholders		(7,320)	(3,592)
Cash flows from financing activities		**2,625**	**4,045**
Net increase (decrease) in cash and cash equivalents		**67,275**	**18,097**
Effect of exchange rate changes on cash and cash equivalents		2,580	400
Cash and cash equivalents at the beginning of the period		39,962	21,465
Cash and cash equivalents at the end of the year	18	**109,817**	**39,962**

The consolidated statement of cash flows is to be read in conjunction with notes 1 to 45, and forming an integral part of, the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2018

	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 capital RUB MM*
As at 1 January 2017	**1,716**	**2,382**	**89**	**1,588**	**5,770**	**52,249**	**63,794**	**122**	**63,916**
Net profit for the period	–	–	–	–	–	29,571	**29,571**	–	**29,571**
Other comprehensive income for the period	–	–	33	(782)	–	–	**(749)**	–	**(749)**
Total comprehensive income	**–**	**–**	**33**	**(782)**	**–**	**29,571**	**28,822**	**–**	**28,822**
Perpetual subordinated loans received	–	–	–	–	(5,770)	(7)	**(5,777)**	–	**(5,777)**
Payments on perpetual subordinated loans (Note 34)	–	–	–	–	–	(458)	**(458)**	–	**(458)**
Dividends (Note 34)	–	–	–	–	–	(3,053)	**(3,053)**	–	**(3,053)**
Contributions from participants	–	470	–	–	–	–	**470**	–	**470**
Non-controlling interests	–	–	–	–	–	–	**–**	1,498	**1,498**
As at 31 December 2017	**1,716**	**2,852**	**122**	**806**	**–**	**78,302**	**83,798**	**1,620**	**85,418**
As at 1 January 2018	**1,716**	**2,852**	**122**	**806**	**–**	**78,302**	**83,798**	**1,620**	**85,418**
Effect of transition to IFRS 9 (Note 2)	–	–	–	–	–	(3,357)	**(3,357)**	–	**(3,357)**
Balance as at 1 January 2018 recalculated in accordance with IFRS 9	**1,716**	**2,852**	**122**	**806**	**–**	**74,945**	**80,441**	**1,620**	**82,061**
Net profit for the period	–	–	–	–	–	17,437	**17,437**	112	**17,549**
Other comprehensive income for the period	–	–	227	(18)	–	–	**209**	–	**209**
Total comprehensive income	**–**	**–**	**227**	**(18)**	**–**	**17,437**	**17,646**	**112**	**17,758**
Dividends (Note 34)	–	–	–	–	–	(7,320)	**(7,320)**	–	**(7,320)**
Payments on perpetual subordinated loans (Note 34)	–	–	–	–	–	(490)	**(490)**	–	**(490)**
Perpetual subordinated bonds issued (Note 34)	–	–	–	–	5,650	–	**5,650**	–	**5,650**
Revaluation of perpetual subordinated bonds	–	–	–	–	1,325	(1,325)	**–**	–	**–**
Accrued interest on perpetual subordinated bonds	–	–	–	–	–	(195)	**(195)**	–	**(195)**
Tax effect recognized in respect of perpetual subordinated bonds	–	–	–	–	–	357	**357**	–	**357**
Conversion of a perpetual subordinated loan (Note 34)	–	6,717	–	–	–	–	**6,717**	–	**6,717**
Reclassification of the net change in fair value of equity instruments at derecognition	–	–	–	(921)	–	921	**–**	–	**–**
Issue of ordinary shares (Note 34)	155	9,531	–	–	–	–	**9,686**	–	**9,686**
Acquisition of subsidiary (Note 40)	–	–	–	–	–	–	**–**	5,636	**5,636**
Acquisition/sale of non-controlling interests	–	–	–	–	–	(434)	**(434)**	(5,390)	**(5,824)**
As at 31 December 2018	**1,871**	**19,100**	**349**	**(133)**	**6,975**	**83,896**	**112,058**	**1,978**	**114,036**

1. Background

Principal activities

These consolidated financial statements include the financial statements of Public Join-Stock Company (PJSC) Sovcombank (the "Bank" or "Sovcombank") and its subsidiaries (together referred to as the "Group" or "Sovcombank Group"). Note 44 discloses a list of principal consolidated subsidiaries included into these consolidated financial statements of the Group.

Sovcombank, the parent company of the Group, was established in 1990 as "Buoykombank" Limited Liability Company 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 also 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 State Corporation Deposit Insurance Agency (DIA) since 15 September 2005.

The Group's principal business activity is retail and corporate banking, and investment banking services. This includes accepting term deposits and issuing commercial loans denominated in Russian rubles and foreign currencies; providing financial services, including investment banking services; dealing with securities and derivative financial instruments. The Group includes RTS-Tender (the largest digital platform enabling access to public procurement) and Fintender (a platform that provides bank guarantees online). These digital platforms enable access to public and municipal procurement for 514 thousand companies, mostly micro-, small and medium-sized businesses, as well as individual entrepreneurs. The Group operates primarily in the Russian Federation.

The Group has 2,648 offices located in 1,051 cities and towns across 75 constituent entities of the Russian Federation (31 December 2017: 2,418 offices located in 1,031 cities and towns across 74 constituent entities of the Russian Federation).

The Group's customers can withdraw and deposit cash though 4,663 ATMs and cash-in terminals (31 December 2017: 4,119 ATMs and cash-in terminals).

The Group serves 4.4 million individuals: 3.9 million borrowers, 0.5 million depositors, and 0.4 million corporate customers.

The Bank has 15,700 employees (31 December 2017: 11,480 employees).

Shareholders

Shareholders	***Ownership, % 31 December 2018***	***Ownership, % 31 December 2017***
Sovco Capital Partners N.V.	91.7%	100.0%
Other beneficiaries	8.3%	–

As at 31 December 2018 and 31 December 2017, the Group was not ultimately controlled by any single beneficiary owner (Note 34).

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, which is not controlled by any ultimate beneficial owner.

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, Sovcombank increased its share capital by RUB 9,686 MM by issuing new ordinary shares (Note 34). The shares were acquired by third-party investors ("Other beneficiaries") presented in the table below. As a result, Sovco Capital Partners N.V. decreased its ownership of the Group from 100.0% to 91.7%.

Other beneficiaries	***Ownership, % 31 December 2018***
Russia-China Investment Fund	2.2%
Ilya Brodskiy	1.9%
Public Investment Fund	1.7%
Qatar Investment Authority	1.1%
Andrey Suzdaltsev	0.6%
SBI Holdings, Inc.	0.6%
Other	0.3%
Total ownership	**8.3%**

A short description of Other beneficiaries is presented below:

- Russia-China Investment Fund ("RCIF") is a private equity fund established by the Russian Direct Investment Fund ("RDIF") and China Investment Corporation ("CIC"). RCIF is a sovereign investment fund of the Russian Federation. CIC is a sovereign wealth fund of the People's Republic of China.
- Public Investment Fund is a sovereign fund of the Kingdom of Saudi Arabia.
- Ilya Brodskiy and Andrey Suzdaltsev are co-founders of Rosevrobank JSB (Note 40).
- 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).
- Nikolai Varma (Independent Director).
- 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 Gusev (Chairperson of the Management Board of the Bank).
- Anatoly Braverman (First Deputy General Director of RDIF).
- Ilya Brodskiy (President of the Bank).

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

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

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 of the Bank's Supervisory Board.

1. Background (continued)

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 Russian Government and the Bank of Russia have taken consistent and effective measures in response to changes of commodity prices. The floating official exchange rate, inflation targeting and active support of the financial sector lowered the inflation rate and relatively stabilized the Russian economy.

The combination of these factors may have a negative impact on the Group’s future financial position, results of operations and business prospects. 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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Bank and its subsidiaries maintain accounting records and prepare financial statements in accordance with Russian accounting and banking legislation and related instructions (“Russian Accounting Standards”, or “RAS”) as required by the regulation. The consolidated financial statements are based on the RAS accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies below. For example, trading and available-for-sale investment securities, derivative financial instruments, investment property, and buildings are measured at fair value.

The consolidated financial statements are presented in millions of Russian rubles (“RUB MM”), unless otherwise indicated.

Changes in accounting policies

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below.

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any standards, interpretations or amendments that have issued but are not yet effective. The nature and impact of each amendment are described below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014 and amended in April 2016, establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard does not apply to income related to financial instruments or leases, and therefore does not impact the majority of the Group’s income, including interest income, net gains/(losses) from investment securities, lease income regulated by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. Adoption of this standard did not have any effect on the financial position or performance of the Group.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in equity as at 1 January 2018 and are disclosed below.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

(a) Classification and measurement

Since 1 January 2018, at initial recognition a financial asset is classified as measured at amortized cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVPL). A financial asset shall be measured at amortized cost if both of the following conditions are met and if the Group selected not to measure it at FVPL:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument shall be measured at FVOCI if both of the following conditions are met and if the Group selected not to measure it at FVPL:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition at FVPL.

Under this criterion, debt instruments that do not correspond to a “basic lending arrangement”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Debt financial instruments that are managed on a “hold to collect” basis are measured at amortized cost.
- Debt financial instruments that are managed on a “hold to collect and for sale” basis are measured at FVOCI.
- Instruments that are managed on another basis are measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements.

Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group’s accounting for loan impairment by replacing the IAS 39 incurred loss approach with the forward-looking expected credit loss (ECL) approach. Starting 1 January 2018, ECLs are a probability-weighted estimate of credit losses, that is, the present value of all future cash shortfalls. The ECL estimate should reflect an objective amount of losses and is to be calculated through analyzing a range of possible scenarios.

The Group uses four key indicators to measure ECLs:

- The Exposure at Default (EAD) is an estimate of exposure at a future default date.
- The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon.
- The Loss Given Default (LGD) is an estimate of the loss arising on default, based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It usually expressed as a percentage of the EAD.
- The Discount Rate is an instrument used to discount expected losses to their present value at the reporting date. The Discount Rate is the effective interest rate (EIR) of the financial instrument or a rate approximating the EIR existing as at the loan issuance date.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Lifetime is the maximum period for measuring ECLs. For credit-related commitments and financial guarantees, this period is equal to the maximum period stipulated in the agreement, when an entity has a present contractual obligation to extend a loan. For credit cards issued to individuals, this period is determined using internal statistical data.

Lifetime ECLs (LTECLs) comprise losses arising on every possible default event over the remaining life of the financial instrument.

The 12-month ECLs (12mECLs) is the portion of LTECL that represents the ECLs that result from default events on a financial instrument, which may occur within the 12 months after the reporting date, or, if shorter, the remaining contractual term of the financial instrument.

Purchased or originated credit impaired (POCI) assets are financial assets that are credit-impaired at initial recognition.

Defaulted and credit-impaired assets. A loan is credit-impaired is the borrower failed to make contractual payments on time for more than 90 days or if other qualitative factors exist.

The definition of default given above applies to all types of the Group’s financial instruments.

Significant increase in credit risk (SICR). SICR assessment is performed both individually and collectively. Corporate loans and bonds (federal loan bonds, municipal and corporate bonds and state-owned enterprise bonds), as well as loans to constituent entities of the Russian Federation and municipalities, interbank loans carried at amortized cost or at FVOCI, are individually assessed for SICR by monitoring events and circumstances listed below. The Group’s risk department monitors and analyzes criteria used for SICR identification on a regular basis.

The Group concludes that there has been a SICR related to a financial asset if one or more of the following quantitative or qualitative criteria are met:

For corporate loans, bonds (state, municipal and corporate bonds and state-owned enterprise bonds), loans to constituent entities of the Russian Federation and municipalities, interbank loans:

- 31 to 90 days overdue;
- Inclusion in the list of potentially non-performing loans based on the results of credit risk monitoring procedures.

For retail loans:

- 31 to 90 days overdue;
- Loan renegotiation following adverse changes in the borrower’s credit standing and measures taken to recover the loan as at the reporting date.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 month expected credit losses (12mECL). The 12mECL is the portion of LTECL that represents the ECLs from default events on a financial instrument, which may occur within the 12-months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy perform an assessment, at the end of each reporting period, of whether there has been a significant increase in a financial instrument’s credit risk since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group classifies financial instruments as follows:

Stage 1:	Financial instruments whose credit risk has not significantly increased since the date of initial recognition. The allowance for such instruments is accrued in the amount equal to the 12mECL, and the respective interest income is calculated based on the gross carrying amount.
Stage 2:	Financial instruments whose credit risk has significantly increased since the date of initial recognition. The allowance for such instruments is accrued in the amount equal to the LTECL, and the respective interest income is calculated based on the gross carrying amount.
Stage 3:	Credit-impaired financial instruments, with the allowance is made in the amount equal to the LTECL and the interest income is accrued based on amortized cost.
POCI assets:	Purchased or originated credit-impaired (POCI) assets are assets that are credit-impaired on initial recognition. POCI financial assets are recorded at fair value at initial recognition, and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are measured as lifetime, and, at the reporting date, the Group records only cumulative changes in LTECL, which have occurred since the date of initial recognition.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The Group performs assessment of credit-impaired assets both on individual and collective basis.

The Group collectively assesses the following types of loans: consumer loans, credit cards, mortgage loans, car loans, loans to small businesses and other loans to customers, as well as some corporate loans. This approach involves splitting the portfolio into homogeneous segments based on borrowers' data, including data on failures to perform payment obligations, defaults and historical write-offs.

Principles of assessment on an individual and collective basis. When estimating ECLs on a collective basis, the Group calculates PD, LGD and EAD by types of loans. Individual assessment is usually based on assessment of expected future cash flows on a financial asset based the most probable settlement scenario.

Expert judgments should be regularly reviewed to reduce any differences between estimated and actual losses.

Principles of collective assessment. When assessing an ECL allowance on a collective basis, loans are grouped based on similar credit risk characteristics so that the risk exposure within a group is similar as well.

Such characteristics include, for example, the type of customer or credit product, etc.

The amount of ECLs is determined by estimating credit risk parameters (EAD, PD and LGD) for all future periods over the life of the collectively assessed segment. This method helps to efficiently calculate ECLs for all future periods, which are subsequently discounted to their present value as at the reporting date and aggregated. The discount rate used to calculate ECLs is an initial effective interest rate or a rate approximating it.

Below is an overview of the key principles for calculating credit risk parameters.

EAD values are determined based on the expected payment schedule depending on the product type.

To calculate ECL, two types of PD are used: the12-month and the lifetime PD.

- The 12-month PD (12mPD) is a loss curve during the 12 months following the reporting date (or over the remaining life of the financial instrument if it is shorter than 12 months). The 12mPD is assessed based on the most recent available data on past default events, and may be adjusted to reflect forecast information.
- The lifetime PD (LTPD) is a loss curve over the remaining life of the financial instrument. This parameter is assessed based on the most recent available data on past default events, and may be adjusted to reflect forecast information.

When calculating the LTPD, the Group applies statistical methods, depending on the segment and type of product, e.g., building LTPD curves based on historical information on default events, the 12mPD extrapolation based on migration matrices, etc.

The LGD is an estimate of expected losses on defaulted loans, made by the Group on a collective basis, based on the most recent available statistical data on repayments.

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

A reconciliation between the carrying amount under IAS 39 with the carrying amount under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		Reclassi-	Remeasurement		IFRS 9 measurement	
Financial assets	***Notes***	***Category***	***Amount***	***fication***	***ECL***	***Other***	***Amount***	***Category***
Cash and cash equivalents		L&R[1]	39,962	−	−	−	39,962	AC[2]
Mandatory cash balances with the CBR		L&R	2,975	−	−	−	2,975	AC
Placements with banks		L&R	9,338	−	−	−	9,338	AC
Financial Instruments at FVPL (trade securities and derivatives)		FVPL	349,141	−	−	−	349,141	FVPL
Investment securities − equity securities at FVOCI	A	AFS[3]	3,935	−	−	−	3,935	FVOCI (equity instruments)
Loans to customers		L&R	266,245	(883)	(4,197)	−	261,165	AC
To: financial assets at FVOCI	B		−	*(883)*	−	−	*(883)*	
Other financial assets at FVOCI			n/a	883	−	−	883	FVPL
From: loans to customers − amortized cost			−	*883*	−	−	*883*	
Non-financial assets			−	−	−	−	−	
Deferred tax asset			459	−	−	−	459	
Total assets			**672,055**	**−**	**(4,197)**	**−**	**667,858**	
Financial liabilities								
Due to banks		AC	194,135	−	−	−	194,135	AC
Due to customers		AC	358,914	−	−	−	358,914	AC
Debt securities issued		AC	15,744	−	−	−	15,744	AC
Other borrowed funds		AC	15,381	−	−	−	15,381	AC
Subordinated debt		AC	6,799	−	−	−	6,799	AC
Derivative financial liabilities		FVPL	317	−	−	−	317	FVPL
Non-financial liabilities								
Deferred tax liability			5,244	−	(840)	−	4,404	
Provisions for financial guarantees		n/a	120	−	−	−	120	n/a
Total liabilities			**596,654**	**−**	**(840)**	**−**	**595,814**	

[1] L&R− loans and receivables.

[2] AC − amortized cost.

[3] AFS− available for sale.

A The Group has elected to irrevocably designate its previous AFS equity instruments as equity instruments at FVOCI.

B The Group's analysis indicated that as at initial recognition, certain loans to customers did not meet the SPPI criterion. Therefore, the Group reclassified such loans previously measured at amortized cost as financial assets at FVPL as at 1 January 2018.

The impact of transition to IFRS 9 on retained earnings is as follows:

	Reserves and retained earnings
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**78,302**
Revaluation on reclassification of financial assets from measured at amortized cost to measured at FVPL	−
Recognition of ECL under IFRS 9, including those for instruments at FVOCI	(4,197)
Related deferred tax	840
Opening balance under IFRS 9 (1 January 2018)	**74,945**
Total changes in equity due to adoption of IFRS 9	**(3,357)**

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The following table reconciles the aggregate opening loan impairment allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

	Allowance for loan impairment as per IAS 39 / IAS 37 at 31 December 2017	***Remeasurement***	***Amortization of credit-impaired assets***	***ECL under IFRS 9 (as at 1 January 2018)***
Allowance for impairment of				
Loans to customers	(9,025)	(4,197)	(347)	(13,569)
Financial guarantees	(120)	–	–	(120)
	(9,145)	**(4,197)**	**(347)**	**(13,689)**

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation had no impact on the Group's consolidated financial statements.

Transfers of Investment Property − Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments had no impact on the Group's consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures − clarification that measuring investees at FVPL is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect to measure its investments in associates and joint ventures at FVPL. This election is made separately for each investment at initial recognition. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments had no impact on the Group's consolidated financial statements.

3. Significant accounting policies

Basis of consolidation

Subsidiaries, which are those entities in which the Group has more than half of the voting rights or otherwise exercises control over their operations, are consolidated. Subsidiaries are consolidated from the date, on which control is transferred to the Group, and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

3. Significant accounting policies (continued)

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with IFRS 9 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the "Predecessor") at the date of the transfer. Related goodwill inherent in the predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity attributable to shareholders.

These means consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates and joint ventures

Associates 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.

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venture has an interest. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Investments in associates and joint ventures are accounted for under the equity method and are initially recognized at cost, including goodwill. Goodwill arising as a result of an investment in associates or joint ventures is not tested for impairment separately. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Group's share of net assets of the associate or joint venture. The Group's share of its associates' or joint ventures' profits or losses is recognized in the consolidated statement of profit or loss, and its share of movements in reserves is recognized in other comprehensive income.

3. Significant accounting policies (continued)

Investments in associates and joint ventures (continued)

If an acquisition is achieved in stages, initial cost of investments in associates includes fair value of investments recorded in lines “Investment securities available for sale” or “Financial instruments at FVPL” at the moment of acquisition of significant influence.

If the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to pay to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments at FVPL and FVOCI and non-financial assets, such as investment property and property and equipment (land and buildings), at each reporting date.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value of the Group’s investment property and property and equipment is determined based on reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Depending on the development stage of the market where the properties comparable with the ones under assessment are sold, either the cost approach or the comparative approach is used.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date, i.e. the date that the Group commits to purchase the asset or the liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities under a contract that requires delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at fair value, including transaction costs, except when financial assets and financial liabilities are measured at FVPL.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all its financial assets based on the business model used to manage the assets and the asset's contractual terms, measured at either:

- Amortized cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivative and trading instruments at FVPL. The Group may designate financial instruments as at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Group classified its financial assets as loans and receivables (at amortized cost), assets measured at FVPL, assets available for sale or held to maturity (at amortized cost).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investment securities measured at amortized cost

Before 1 January 2018, amounts due from credit institutions and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term;
- That the Group, upon initial recognition, designated as at FVPL or as available-for-sale at its own discretion;
- Those for which the Group could collect the amount substantially less than the amount of its initial investment for reasons other than deterioration of the asset's credit quality. Such assets were classified as available for sale.

From 1 January 2018, the Group measures amounts due from credit institutions, loans to customers, and other financial investments at amortized cost, only when the following two conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset provide for the receipt on specified dates of cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

These terms are detailed below.

Business model assessment

The Group performs an assessment of the business model under which financial assets are held at the aggregated portfolios level, which ensures best understanding of the business management.

- The analysis is based on the following observable data: How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group’s original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses contractual terms of the financial asset to determine whether the contractual cash flows related to the asset are solely payments of principal and interest on the principal amount outstanding (meet the SPPI test).

“Principal” for the purpose of this test is defined as the fair value of a financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

From 1 January 2018, the Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

Debt instruments at FVOCI are subsequently measured at fair value, and gains or losses from changes in the fair value are recognized in OCI. Interest income and gains or losses from the change in exchange rates are recognized in profit or loss in the same manner as in the case of financial assets at amortized cost. In the process of derecognition, the cumulative gain or loss, previously recognized in OCI, are reclassified from OCI to profit or loss.

ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which continue to be measured at fair value. Instead, an amount equal to the allowance for expected losses that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

From 1 January 2018, upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of an equity instrument under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other income when the right to the dividend has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument. In such case, profit is recognized in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial guarantees, letters of credit and loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group measures its liability under each guarantee at the higher of the initially recognized amount less accumulated amortization recognized in the consolidated income statement, and, according to IAS 37 (prior to 1 January 2018), the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or, according to IFRS 9 (from 1 January 2018), of estimated allowance for ECL.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 37, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates. Such commitments are recognized initially at fair value and subsequently are measured at the higher of the amount of the allowance for ECL and the initially recognized amount net of accumulated income, if applicable.

Performance guarantees

Performance guarantees are contracts that provides compensation if the other party to the contract fails to perform its contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the other party fails to perform the contractual obligation. Accordingly, performance guarantees are not financial instruments and, therefore, do not fall within the scope of IFRS 9.

Held-to-maturity investments

Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturities were classified as held to maturity when the Group had the intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this category. Held-to-maturity investments were subsequently measured at amortized cost. Gains and losses were recognized in profit or loss when the investments were impaired, as well as through the amortization process.

Loans and receivables

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or investment securities available for sale. Such assets were carried at amortized cost using the effective interest rate method. Gains and losses were recognized in profit or loss when the loans and receivables were derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available for sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognized in other comprehensive income until the investment was derecognized or until the investment was determined to be impaired. at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the consolidated statement of profit or loss. However, interest calculated using the effective interest rate method was recognized in profit or loss.

Reclassification of financial assets and liabilities

From 1 January 2018, the Group does not reclassify financial assets after their initial recognition, apart from exceptional cases, when the Group changes the business model for managing the financial assets. Financial liabilities are never reclassified. In 2018, due to the acquisition of Rosevrobank (Note 40), the Group changed the business model for managing a part of its financial assets (Note 6). The Group did not reclassify its financial assets or liabilities in 2017.

Cash and cash equivalents

The Group classifies cash, nostro accounts with the CBR and other banks, due from other banks and other credit institutions with an original maturity of less than 90 days as Cash and cash equivalents. The minimum mandatory reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its use by the Group.

3. Significant accounting policies (continued)

Precious metals

Gold and other precious metals are recorded at the CBR bid prices, which approximate fair values and are quoted at a discount to London Metal Exchange rates. Changes in the CBR bid prices are recorded as translation differences from precious metals in other income.

Repurchase and reverse repurchase agreements and securities lending

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

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

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

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options and other instruments in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated profit or loss as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

According to IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contracts, were carried separately and recognized at fair value, if they met the definition of a derivative financial instrument (see above), their risks and characteristics were not closely linked to those of the host contracts and the host contracts were not held for sale and were not measured at FVPL. The embedded derivatives separated from the host contract were carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated income statement.

Since 1 January 2018, with the introduction of IFRS 9, the Group has accounted in this way for derivatives embedded in financial liabilities and non-financial host contracts. The Group classifies financial assets based on the business model and SSPI assessment.

Offsetting

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

3. Significant accounting policies (continued)

Property and equipment and intangible assets

Owned assets

Items of property, equipment and intangible assets are carried at cost, less accumulated depreciation and accumulated impairment losses, except for buildings that are recorded at revalued amounts, as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

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

Revaluation

Land and buildings of the Group are measured at revalued amounts. The frequency of revaluation depends upon the movements in the fair values of the items being revalued. A revaluation increase on land and buildings is recognized directly in other comprehensive income (in equity) except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on land and buildings is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized directly in other comprehensive income (in equity).

Depreciation

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

Buildings	20-50 years
Computers and ATMs	2-5 years
Motor vehicles	3-5 years
Furniture and equipment	3-7 years
Intangible assets	Over 1 year and not later than 10 years

Intangible assets

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

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

Investment property

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

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary an joint venture is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

3. Significant accounting policies (continued)

Goodwill (continued)

For the impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units, to which the goodwill is so allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management; and
- Is not larger than the operating segment before aggregation as defined in IFRS 8 *Operating Segments* before aggregation.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Repossessed assets

The assets repossessed by the Group following litigation to recover amounts due under loans and held for sale in the near term to cover losses arising from lending activities are classified as inventories in accordance with IAS 2. In accordance with IAS 2, the Group measures these assets at the lower of cost and net realizable value.

Rent

i. Finance – Group as lessee

The Group recognizes finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee under the finance lease agreement, are included as part of the amount recognized as an asset under the lease.

ii. Finance – Group as lessor

The Group recognizes lease receivables at value equal to the net investments in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Group as lessee

Leases of assets, under which the risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in other operating expenses.

iv. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated profit or loss on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of lease income over the lease term on a straight-line basis. The aggregate cost of incentives provided to lessees is recognized as a reduction of lease income over the lease term.

Promissory notes

Promissory notes purchased are included in trading securities, or in due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

3. Significant accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include current accounts and deposits from customers, deposits and balanced from banks, promissory notes, subordinated debt. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated profit or loss when the borrowings are derecognized as well as through the amortization process.

Renegotiated loans

From 1 January 2018, the Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement, unless the new loan is deemed to be POCI. When assessing whether or not to derecognize a loan to a customer, amongst others, the Group considers the following factors:

- ► Change in currency of the loan;
- ► Change in counterparty;
- ► If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the changes in cash flows discounted at the original EIR, the Group recognizes gains or losses from the modification that are recorded within interest income calculated using the effective interest rate method in the consolidated statement of profit or loss before the impairment loss is recognized.

For modifications not resulting in derecognition, the Group also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as a result of a modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest should be made during at least half of the probation period in accordance with the modified payment schedule.

Impairment of financial assets under IAS 39

Prior to 1 January 2018, the Group assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment might include indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganization and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below its cost.

The Group individually assessed whether there was any objective evidence of impairment for individually significant financial assets or collectively assessed whether there was any objective evidence of impairment for financial assets that were not individually significant.

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not yet been incurred) discounted at the financial asset’s original effective interest rate or the difference between the original cost of the investment and its fair value in case of available-for-sale financial assets. The carrying amount of the asset was reduced, and the amount of the loss was recognized in profit or loss. Interest income continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset or at the interest rate used to discount the future cash flows for the measuring the impairment loss in case of available-for-sale financial assets. Assets together with the respective allowance were written off when there no realistic prospect of future recovery, and all collateral had been realized or transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognized, the previously recognized impairment loss was reversed in consolidated statement of profit or loss, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognized in other comprehensive income.

3. Significant accounting policies (continued)

Impairment of financial assets under IAS 39 (continued)

Financial assets were grouped on the basis of the Group's internal credit grading system that considered credit risk characteristics, such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Information on the impairment measurement under IFRS 9 is provided in Note 37.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- ► The rights to receive cash flows from the asset have expired.
- ► The Group has transferred the right to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement.
- ► The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Securitization

The Group may securitize financial assets through the sale of these assets to special purpose entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Interests in the securitized financial assets may be retained by the Group and are primary classified as loans and receivables. Gains or losses on securitizations are based on the carrying amount of the financial assets derecognized and the retained interest, based on their relative fair values at the date of transfer.

In 2018, the Group did not securitize financial assets. As at 31 December 2018, the Group held no securitized assets on its balance sheet.

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied to the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

3. Significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Credit-related commitments

The Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to reimburse the holder (beneficiary) of the guarantee for a loss it incurs because the Group's customer (principal of the financial guarantee) fails to make payment when due in accordance with the terms of a debt instrument.

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

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognized in the consolidated statement of profit or loss on a straight-line basis over the life of the guarantee.

Financial guarantee liabilities and allowance for other credit related commitments are included in other liabilities.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for sale at a price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements other than participation in the state pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-employment benefits.

3. Significant accounting policies (continued)

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Treasury shares

Where the Bank purchases its own shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Taxation

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

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

Deferred tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation. The following temporary differences are not provided for: goodwill not deductible for tax, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, associates and joint ventures where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Russia also has various operating taxes that are applied to the Group’s activities. These taxes are included as a part of other operating expenses.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

From 1 January 2018, the Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired financial assets (before 1 January 2018: by applying the effective interest rate to the amortized cost of financial assets). The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest revenue or expense.

3. Significant accounting policies (continued)

Recognition of income and expenses (continued)

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

In case of purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest income applying the effective interest rate adjusted for the credit risk to the amortized cost of the financial asset. An effective interest rate adjusted for the credit risk is an interest rate that at initial recognition discounts estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Interest income on all financial assets at FVPL is recognized using the contractual interest rate in “Other interest income” in the consolidated income statement.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and fees for asset management, custody and other management and advisory services. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses − are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance indicator are recognized once the corresponding criteria have been met.

Customer loyalty programs

The Group offers several customer loyalty programs. Such programs are recognized depending on who is identified as a customer, as well as the Group’s role in a contract (agent or principal). For point-based programs, the Group generally recognized a liability for the accumulated points at the moment when a customer uses them. Cashbacks on plastic card transactions reduce interest income.

Dividend income

Revenue is recognized when the Group’s right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Russian rubles, which is the Group’s functional and presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of profit or loss as gains less losses from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the CBR on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official exchange rates of the CBR at 31 December 2018 and 31 December 2017 were RUB 69.4706 and RUB 57.6002 to USD 1, respectively.

3. Significant accounting policies (continued)

Foreign currency translation (continued)

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Russian rubles at the rate of exchange ruling at the reporting date and their statements of profit or loss are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in profit or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

Segment reporting

The Group determines operating segments based on its organizational structure. Operational segments are based on the aggregated management accounts provided to the Supervisory Board. The Group's segment reporting is based on the following operating segments: Retail banking, Corporate banking and Treasury.

As the Group's business primarily takes place in the Russian Federation and the largest proportion of its revenues and financial result is received from the operations within the territory of the Russian Federation, the Group does not use the geographical segmentation of its business.

Contingent assets and liabilities

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. Contingent assets are not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

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. The standard provides for two types of recognition exemptions for lessees: for leases of "low-value" assets (e.g. computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the inception of the lease, the lessee will recognize a liability to make lease payments (i.e. a lease liability) and an asset granting the right to use an underlying asset over the lease term (i.e. a right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

In addition, IFRS 16, which becomes effective for annual periods beginning on 1 January 2019, requires lessors and lessees to make more extensive disclosures than under IAS 17.

The Group plans to apply IFRS 16 retrospectively and recognize the cumulative effect of initial application of IFRS 16 at the date of initial application. The Group will apply this standard to agreements that were previously identified as lease agreements with the application of IAS 17 and IFRIC 4. Accordingly, the Group will not apply the standard to agreements that were not previously identified as lease agreements with the application of IAS 17 and IFRIC 4.

The Group will use exemptions specified in the standard with regard to lease agreements that expire within 12 months from the date of initial application, as well as with regard to leases of low-value underlying assets. The Group has lease agreements for certain office equipment (e.g. personal computers, printers and copiers) the value of which is considered low.

3. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new financial reporting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all insurance contracts (i.e., life insurance and insurance other than life insurance, direct insurance and reinsurance) regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation conditions. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model supplemented by:

- Certain modifications for insurance contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on the date it first applies IFRS 17. This standard is not applicable to the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following issues:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by tax authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual periods beginning on or after 1 January 2019. The Group will apply interpretation from its effective date. Since the Group operates in a complex tax environment, the adoption of this interpretation may affect the Group's consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at FVOCI provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective for annual periods beginning on 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

3. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine the net interest applicable to the remaining part of the period after the plan amendment, curtailment or settlement with the use of a net liability (asset) under the defined benefit plan, reflecting the consideration under the plan and assets of the plan after this event; and the discount rate used to remeasure this net liability (asset) under the defined benefit plan.

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

These amendments are applied to the plan amendment, curtailment or settlement occurred on the date of or after the first annual period beginning on or after 1 January 2019, with early application permitted. These amendments will be applied only to the Group's future plan amendment, curtailment or settlement.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarify that, in applying IFRS 9, an entity does not take into account any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective for annual periods beginning on or after 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in an associate or a joint venture, these amendments will not have any impact on its consolidated financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity should apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply to future business combinations of the Group.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity should apply those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. At present, these amendments are not applicable to the Group but may apply to future transactions.

3. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity should apply those amendments to annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity should apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity should apply those amendments to annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with the amendments, the Group does not expect any effect on its consolidated financial statements.

4. Significant accounting judgments and estimates

Judgments

In the process of applying the Group's accounting policies, Management makes the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Estimation uncertainty

In the process of applying the Group's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments (Note 39)

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Expected credit losses / impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL / impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's calculation of ECL is the result of applying complex models that include a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL calculation models that are considered accounting judgments and estimates include:

- ► The Group's internal credit grading model, which assigns PDs to individual grades;
- ► The Group's criteria for assessing if there has been a significant increase in credit risk, so allowances for impairment of financial assets should be measured on the lifetime ECL basis, and qualitative assessment;
- ► The segmentation of financial assets when their ECL are assessed on a collective basis;
- ► Development of ECL models, including various formulae and the choice of inputs;
- ► Determination of interrelations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- ► Selection of forward-looking macroeconomic scenarios (Urals oil price, effective ruble exchange rate) and their probability weightings to derive economic inputs for ECL calculation models.

4. Significant accounting judgments and estimates (continued)

Judgments (continued)

The allowance recognized in the consolidated statement of financial position at 31 December 2018 amounted to RUB 8,800 MM (2017: RUB 4,438 MM). More details are provided in Note 10.

Reclassification of financial assets

Assessment whether a change in circumstances justify the change of the Group's business model regarding specific portfolios of financial assets is a significant judgment. More details are provided in Note 6.

Goodwill impairment

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RUB 1,505 MM (31 December 2017: RUB 728 MM). More details are provided in Note 42.

Revaluation of buildings and investment property

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed annually, on the basis of reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category, in order to avoid significant differences between fair value of the revalued asset and its carrying amount.

Deferred tax

When determining the amount of deferred tax assets which may be recognized in the financial statements, the Group's management assesses the probability that the deferred tax asset will be used. The use of the deferred tax asset depends on taxable profit obtained in periods when timing differences may be used against it. When conducting the assessment, the management takes into account the regulatory restriction on utilization of deferred tax assets, future expected taxable profit, as well as tax planning strategies.

Based on the historical data on income tax amounts, as well as future expected taxable profit in periods when timing differences may be used against it, the Group's management considers it possible to use the deferred tax asset recognized in the Group's financial statements.

5. Segment information

The Group has three operating segments:

- **Retail banking (Retail):** providing banking services to low- and middle-income retail customers, micro-, small business customers and individual entrepreneurs residing primarily in small towns. These services include issuance of mortgage, car and consumer loans, credit and installment cards, placement of term deposits and servicing current accounts, as well as a wide range of insurance products provided by third-party insurance companies and pension funds. Retail enables 514 thousand micro-, small and medium-sized businesses and individual entrepreneurs participate in public procurement through the Group's proprietary digital platform.
- **Corporate banking (CB):** extending bilateral and syndicated loans, providing investment and banking services, providing trade finance services, transacting with precious metals, providing term deposits and settlement and transactional services to medium-sized and major Russian corporations, state-owned companies and the constituent entities of the Russian Federation.
- **Treasury operations (Treasury):** managing portfolio of securities on Group's balance sheet; managing capital, risk and liquidity; foreign exchange dealings, trading derivative financial instruments; and mergers and acquisitions ("M&A").

5. Segment reporting (continued)

Group management monitors the operating results of each segment separately to make decisions about allocation of resources and assessing performance. In 2018, the Group changed its segment reporting due to the merger with Rosevrobank JSCB ("Rosevrobank"):

- Retail: retail segment of Sovcombank merged with retail segment of Rosevrobank;
- Corporate banking: a part of Corporate and Investment Business segment of Sovcombank related to servicing corporate customers merged with Corporate Banking and International Business of Rosevrobank and formed a segment of Corporate banking;
- Treasury operations: a part of Corporate and Investment Business segment of Sovcombank related to management of securities portfolio, management of capital, risks and liquidity merged with Treasury Banking Transactions of Rosevrobank.

To make the historical information comparable with the current segments, segment reporting was adjusted retrospectively.

	2018				
	Retail RUB MM	***CB RUB MM***	***Treasury RUB MM***	***Adjustments RUB MM***	***Total RUB MM***
Revenue					
Interest income	33,681	15,994	37,748	–	**87,423**
Fee and commission income	17,654	6,870	11	–	**24,535**
Net gain on derecognition of financial assets at FVOCI	–	–	657	–	**657**
Net foreign exchange gain and net gain on currency derivatives	–	722	48	–	**770**
Other operating income	–	–	5,441	–	**5,441**
Inter-segment revenue	13,114	1,100	–	(14,214)	**–**
Total revenue	**64,449**	**24,686**	**43,905**	**(14,214)**	**118,826**
Expenses					
Interest expense	(21,462)	(7,520)	(8,772)	–	**(37,754)**
Obligatory deposit insurance	(1,883)	(307)	–	–	**(2,190)**
Fee and commission expense	(3,413)	(662)	(463)	–	**(4,538)**
Net loss on financial instruments at FVPL	–	–	(8,588)	–	**(8,588)**
Allowances for credit losses	(4,019)	(1,318)	(3,463)	–	**(8,800)**
Other impairments and provisions	–	(862)	(360)	–	**(1,222)**
Personnel expenses	(12,514)	(4,361)	(2,679)	–	**(19,554)**
Net loss from other non-banking business	–	–	(59)	–	**(59)**
Other expenses	(11,008)	(1,841)	(2,447)	–	**(15,296)**
Inter-segment expenses	–	–	(14,214)	14,214	**–**
Total expenses	**(54,299)**	**(16,871)**	**(41,045)**	**14,214**	**(98,001)**
Segment results	**10,150**	**7,815**	**2,860**	**–**	**20,825**
Income tax expense					**(3,276)**
Profit for the period					**17,549**

5. Segment reporting (continued)

	2017				
	Retail RUB MM	*CB RUB MM*	*Treasury RUB MM*	*Adjustments RUB MM*	*Total RUB MM*
Revenue					
Interest income	26,512	10,073	32,138	–	**68,723**
Fee and commission income	16,004	4,204	74	–	**20,282**
Net gain on financial instruments at FVPL	–	267	11,300	–	**11,567**
Net foreign exchange gain and net gain on currency derivatives	–	–	2,670	–	**2,670**
Net gains on available-for-sale assets	–	–	1,067	–	**1,067**
Other operating income	48	221	1,582	–	**1,851**
Inter-segment revenue	14,884	–	–	(14,884)	**–**
Total revenue	**57,448**	**14,765**	**48,831**	**(14,884)**	**106,160**
Interest expense	(21,514)	(2,934)	(10,034)	–	**(34,482)**
Obligatory deposit insurance	(1,221)	(42)	–	–	**(1,263)**
Fee and commission expense	(1,636)	(78)	(518)	–	**(2,232)**
Allowance for loan impairment	(3,808)	(105)	(525)	–	**(4,438)**
Other impairment and provisions	(102)	(1,734)	(882)	–	**(2,718)**
Payroll, including bonuses	(9,646)	(1,693)	(2,058)	–	**(13,397)**
Other expenses	(9,439)	(955)	(577)	–	**(10,971)**
Inter-segment expenses	–	(3,464)	(11,420)	14,884	**–**
Total expenses	**(47,366)**	**(11,005)**	**(26,014)**	**14,884**	**(69,501)**
Segment results	**10,082**	**3,760**	**22,817**	**–**	**36,659**
Income tax expense					**(7,088)**
Profit for the period					**29,571**

The following table presents assets and liabilities of the Group's operating segments:

	31 December 2018			
	Retail RUB MM	*CB RUB MM*	*Treasury RUB MM*	*Total RUB MM*
Segment assets	213,819	233,800	519,785	**967,404**
Segment liabilities	349,768	260,758	242,842	**853,368**

	31 December 2017			
	Retail RUB MM	*CB RUB MM*	*Treasury RUB MM*	*Total RUB MM*
Segment assets	156,503	109,793	423,203	**689,499**
Segment liabilities	288,271	73,325	242,485	**604,081**

6. Reclassification

Integration of Rosevrobank and Sovcombank began in 2Q 2018. Due to the integration, the Group reorganized the business and revised business models for managing the portfolio of securities. The Group split the portfolio of securities into investment and trading sub-portfolios for IFRS 9 classification on 1 July 2018. The Group changed its organizational structure as appropriate. Effective interest rate on securities classified as securities measured at amortized cost varied from 4.6% to 15.8% on 1 July 2018.

	2018		
	Loans to customers and bonds measured at amortized cost RUB MM	***Placements with banks and bonds measured at amortized cost RUB MM***	***Total RUB MM***
Fair value as at the date of reclassification	128,026	26,110	**154,136**
Carrying amount as at 31 December	135,846	28,415	**164,261**
Fair value as at 31 December	135,210	28,544	**163,754**
Losses from changes in the fair value of financial instruments reclassified in 2018, which would have been recognized from the reclassification date up to 31 December if the reclassification had not been made	(1,551)	(140)	**(1,691)**
Interest income recognized in profit or loss for the year	7,774	1,695	**9,469**
Provision recognized after reclassification	(813)	(125)	**(938)**

The Group completed the integration with Rosevrobank on 1 October 2018. Due to this, starting from October 2018, the Group transferred securities received by the Group as a result of the acquisition of Rosevrobank (Note 40) from the portfolio of securities measured at FVOCI to the portfolio of financial instruments measured at FVPL.

	2018
	Financial instruments at FVPL RUB MM
Carrying amount (fair value) as at the date of reclassification	33,999
Carrying amount (fair value) as at 31 December	30,018
Net losses on securities at FVOCI, net of tax, recognized prior to the reclassification	(252)
Gains on changes in the fair value of financial instruments reclassified in 2018, which would have been recognized in comprehensive income for the period from the reclassification date up to 31 December if the reclassification had not been made	58
Gains on provision decrease recognized after reclassification	65

7. Net interest income

	2018 RUB MM	2017 RUB MM
Interest income calculated using EIR method		
Retail loans	34,698	26,630
Corporate loans and bonds measured at amortized cost	24,203	15,532
Investment securities at FVOCI	1,481	–
Placements with banks and financial institutions and bonds measured at amortized cost	1,916	212
Total interest income calculated using EIR method	**62,298**	**42,374**
Other interest income		
Financial instruments at FVPL	22,182	22,883
Net gains on foreign currency swaps	2,943	3,466
Total other interest income	**25,125**	**26,349**
Total interest income	**87,423**	**68,723**
Interest expense		
Due to customers	(28,866)	(23,952)
Due to banks	(4,264)	(7,116)
Other borrowed funds	(2,329)	(2,280)
Promissory notes and bonds issued	(1,199)	(1,033)
Subordinated debt	(1,096)	(101)
Total interest expense	**(37,754)**	**(34,482)**
Obligatory deposit insurance	(2,190)	(1,263)
Net interest income	**47,479**	**32,978**

The comparative data for the twelve months ended 31 December 2017 present net gains on swaps denominated in foreign currencies as a separate line in order to ensure comparability with the current period data. Previously, net gains on foreign currency swaps formed a part of interest income from placements with banks and financial institutions. The Group enters into swaps denominated in foreign currencies through the Moscow Exchange in order to decrease the cost of funding.

Interest expense on “Other borrowed funds” mainly relates to the interest expense on the loan provided by State Corporation “Deposit Insurance Agency” for the financial rehabilitation of “Express-Volga Bank” JSC (hereinafter, the “EVB”) in September 2015.

8. Fee and commission income

	2018 RUB MM	2017 RUB MM
Financial protection program membership	10,655	9,944
Plastic card operations	5,285	4,513
Issuance of bank guarantees	3,227	2,876
Settlement operations	2,448	965
Income from electronic trading platforms	817	340
Agent fee for selling insurance products	507	434
Securities underwriting	446	487
Currency control	426	24
Lending operations	247	297
Cash operations	222	91
Agent fees due from pension funds	63	223
Other	192	88
	24,535	**20,282**

9. Fee and commission expense

	2018 RUB MM	*2017 RUB MM*
Agent services	(2,142)	(1,497)
Plastic card operations	(1,176)	(344)
Settlement operations	(618)	(72)
Depositary services	(201)	(165)
Interest expense on subordinated loan issued by DIA	(84)	(64)
Banking guarantees and letters of credit	(28)	–
Other	(289)	(90)
	(4,538)	**(2,232)**

Agent services mainly include agency commissions paid by the Bank to third party agents for selling financing products of the Group. The increase in expenses on this item in 2018 was due to an increase in the corresponding fee and commissions income.

Interest expense on the subordinated loan issued by the DIA relates to the subordinated loans in the form of securities from the DIA of RUB 6,375 MM (Note 31). The DIA provided the subordinated loans in the form of securities which were recorded as off-balance sheet items. For this reason, the related interest expense cannot be recognized in interest expense and is recognized as a part of fee and commission expense. In 2018, the Group sold these securities with the nominal value of RUB 6,275 MM and recognized the related interest expense from the sale date and reporting date within "Interest expense".

10. Allowance for credit losses, other impairment losses and provisions

The table below shows allowances for ECL of financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2018:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Placements with banks and bonds measured at amortized cost	19	(153)	–	–	–	**(153)**
Loans to customers and bonds measured at amortized cost	21	(3,006)	(2,323)	(2,477)	(797)	**(8,603)**
Financial guarantees	35	(38)	–	–	–	**(38)**
Loan commitments	35	(6)	–	–	–	**(6)**
Total allowance for credit losses		**(3,203)**	**(2,323)**	**(2,477)**	**(797)**	**(8,800)**

11. Net foreign exchange gain and transactions with precious metals

	2018 RUB MM	*2017 RUB MM*
Dealing	(15,912)	(1,797)
Net gains from currency derivative financial instruments	(10,072)	5,868
Revaluation	26,754	(1,401)
	770	**2,670**

"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" represents a financial result on OTC long-term swap contracts entered into by the Group in order to hedge long and short foreign currency positions.

"Revaluation" is a financial result from the revaluation of net assets and liabilities denominated in foreign currency.

12. Other operating income

	2018 RUB MM	2017 RUB MM
Bargain purchase gain (Note 40)	3,186	–
Gain on loan repayment obligations to DIA	1,332	–
Disposal of foreclosed assets	108	176
Income from operating sublease	35	29
Gain from asset restructuring	–	1,089
Revaluation of investments in associates	–	106
Other	235	325
	4,896	**1,725**

"Bargain purchase gain" is a difference between the fair value of net assets of Rosevrobank and the value of Sovcombank's investments into Rosevrobank as at the date of the Bank's acquisition of control in Rosevrobank in April 2018. See Note 40 for details.

"Gain on loan repayment obligations to DIA" represents income received by the Group from debt repayments to EVB based on the decision of the Arbitration Court in relation to the bankruptcy proceedings for Probusinessbank JSCB.

"Gain from asset restructuring" in 2017 represents cash received by the Group as a compensation for a conversion of bonds issued by a Russian bank to subordinated debt with the same nominal value and maturity of 2030.

13. Other non-banking business

In August and October 2018, Sovcombank purchased 100% of the issued share capital of GMCS Management LLC and 74.99% of the issued share capital of BTE LLC (Note 40). Revenue and expenses of these companies presented in separate lines of the statement of profit and loss because GMCS Management LLC and BTE LLC engaged in non-banking business.

The table below presents a breakdown of the financial results from non-banking business for 2018:

	2018 RUB MM
Revenue and other income from software implementation and support services	458
Revenue and other income from ATM maintenance services	242
Revenue and other gains from other non-banking business	**700**
Cost and other expenses from software implementation and support services	(491)
Cost and other expenses from ATM maintenance services	(268)
Cost and other losses from other non-banking business	**(759)**
Net loss from other non-banking business	**(59)**

	2018 RUB MM
Contractual assets (presented within other assets)	60
Deferred income (presented within other liabilities)	19

14. Personnel expenses

	2018 RUB MM	2017 RUB MM
Payroll, including bonuses	(15,795)	(10,762)
Payroll-related taxes	(3,759)	(2,635)
	(19,554)	**(13,397)**

The increase in payroll, including bonuses in 2018 was mainly due to an increase in headcount in the retail and corporate segments from 11,480 employees as at 31 December 2017 to 15,700 employees as at 31 December 2018, due to the acquisition of Rosevrobank (Note 40), and due to the growth of bonuses for achieving key performance indicators.

15. Other general and administrative expenses

	2018 RUB MM	2017 RUB MM
Advertising and marketing	(2,933)	(2,354)
Rent	(2,631)	(2,009)
Professional and cash collection	(1,821)	(1,229)
Depreciation and amortization	(1,430)	(883)
Inventory	(1,210)	(1,039)
Software support	(1,071)	(742)
Telecommunication and postal services	(1,070)	(534)
Maintenance of property and equipment	(901)	(638)
Transport and business travel	(796)	(571)
Security	(280)	(202)
Taxes other than income tax	(232)	(229)
Property insurance	(149)	(138)
Other	(653)	(325)
	(15,177)	**(10,893)**

Other general and administrative expenses grew in 2018 in comparison with those in 2017 mainly due to the expansion of the retail network, the increase in the headcount, acquisition of Rosevrobank (Note 40), cost of integration with Rosevrobank, expenses on new retail products and upgrade of the Group's IT infrastructure.

Rent increased to RUB 2,631 MM in 2018 from RUB 2,009 MM in 2017 due to the expansion of the Group's retail network from 2,418 branches and mini-offices as at 31 December 2017 to 2,648 branches and mini-offices as at 31 December 2018, and due to the consolidation of Rosevrobank.

In 2018, professional services and cash collection increased to RUB 1,821 MM as compared to RUB 1,229 MM in 2017 due to the expansion of the Group's retail network and significant expansion of the retail and corporate business, in particular, increasing number of clients, development of new retail segments, e.g., car and mortgage lending, and due to the consolidation of Rosevrobank.

16. Other impairment, provisions and expenses attributable to non-controlling interests

	2018 RUB MM	2017 RUB MM
Contingencies	(1,091)	137
Other assets	(139)	(546)
Litigations	(215)	(934)
Foreclosed assets	(26)	(30)
Losses attributable to non-controlling interest	−	(1,095)
Reversal of impairment of investments in associates	249	−
Goodwill impairment (Note 42)	−	(250)
	(1,222)	**(2,718)**

Provisions for "Contingencies" related to the credit risk on the portfolio of non-financial bank guarantees primarily issued to suppliers in accordance with Federal Laws No. 44-FZ and No.223-FZ. The volume of non-financial guarantee portfolio was RUB 99,330 MM as at 31 December 2018 (31 December 2017: RUB 84,844 MM) (Note 35).

Provisions for litigations mainly related to suits filed by creditors of Probusinessbank OJSC against the bankruptcy administrator of Probusinessbank, a DIA representative, with regard to several transactions relating to the period before the date on which Probusinessbank was declared bankrupt by the Arbitration Court (Note 36). The provision covers the possible cash outflow from the Bank into Probusinessbank's insolvency estate in respect of this litigation.

Losses attributable to non-controlling interest in 2017 represented expenses associated with income attributable to non-controlling shareholders of Sovremenny Kommerchesky Innovatsionny Bank LLC. This income is recorded on an item-by-item basis in the consolidated financial statement of comprehensive income. Sovremenny Kommerchesky Innovatsionny Bank LLC and Sovcombank PJSC merged on 12 November 2018.

16. Other impairment, provisions and expenses attributable to non-controlling interests (continued)

Movements in other provisions for 2018 and 2017 are as follows:

	Provisions for other assets	*Provisions for litigations*	*Provisions for contin-gencies*	*Impairment of investments in associates*	*Provisions for foreclosed assets*	*Total*
As at 1 January 2017	**102**	**134**	**710**	**656**	**35**	**1,637**
Increase/(decrease) for the period	546	934	(137)	–	30	**1,373**
Write-off	(106)	–	–	–		**(106)**
Extinction of liabilities	–	(25)	–	–	(46)	**(71)**
As at 31 December 2017	**542**	**1,043**	**573**	**656**	**19**	**2,833**
As at 1 January 2018	**542**	**1,043**	**573**	**656**	**19**	**2,833**
Transfer of ECL under IFRS 9 (Note 2)	–	–	(120)	–	–	**(120)**
Increase/(decrease) for the period	139	215	1,091	(249)	26	**1,222**
Extinction of liabilities	–	(93)	–	–	(1)	**(94)**
As at 31 December 2018	**744**	**1,165**	**1,544**	**407**	**44**	**3,904**

17. Income tax expense

	2018 RUB MM	*2017 RUB MM*
Current income tax	(2,350)	(6,354)
Origination of temporary differences	(926)	(734)
	(3,276)	**(7,088)**

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

Deferred tax for items charged or credited to other comprehensive income during the year was as follows:

	2018 RUB MM	*2017 RUB MM*
Net gains/(losses) on investment securities available for sale	X	195
Revaluation of buildings	(57)	(8)
Income tax charged to other comprehensive income (Note 33)	**(57)**	**187**

Russian legal entities have to file individual corporate income tax declarations. The income tax rate for legal entities (including banks) was 20% for 2018 and 2017. The income tax rate applicable to interest (coupon) income on federal loan bonds and mortgage-backed bonds was 15% in 2018 and 2017. The income tax rate applicable to interest (coupon) income on municipal bonds was 9% in 2018 and 2017. Dividends are taxed at the corporate income tax rate of 9%, which may be reduced to 0% subject to certain criteria.

Reconciliation of effective income tax rate

	2018 RUB MM	*2017 RUB MM*
Profit before tax	**20,825**	**36,659**
Statutory tax rate	20%	20%
Theoretical income tax expenses at the statutory rate	**(4,165)**	**(7,332)**
Tax exempt income	775	–
Effect of non-deductible expenses	–	(463)
Effect of income on state securities taxed at different rates	257	425
Other	(143)	282
	(3,276)	**(7,088)**

18. Cash and cash equivalents

	2018 *RUB MM*	*2017* *RUB MM*
Due from the CBR	62,798	24,695
Nostro accounts with Russian banks and financial institutions	27,183	8,207
Cash on hand	11,134	5,988
Short-term deposits and reverse REPO transactions with Russian banks and financial institutions maturing in less than 90 days	7,095	921
Nostro accounts with OECD banks	817	16
Short-term deposits with OECD banks maturing in less than 90 days	790	135
	109,817	**39,962**

The increase in “Due from the CBR” from RUB 24,695 MM as at 31 December 2017 to RUB 62,798 MM as at 31 December 2018 was mainly due to the placement of funds for averaging mandatory cash balances with the CBR and due to the growth in the Group’s liabilities.

“Cash on hand” mainly comprises cash on hand and in Group’s ATMs (Note 1).

“Short-term deposits and reverse REPO transactions with Russian banks and financial institutions maturing in less than 90 days” include transactions with two banks and one non-banking credit institution with investment-grade ratings assigned by rating agencies S&P, Fitch or Moody’s. The increase in the item at 31 December 2018 was due to the placement of temporarily available cash of the Group.

19. Placements with banks and bonds measured at amortized cost

	2018 *RUB MM*	*2017* *RUB MM*
Bonds of Russian banks held by the Group	17,140	32
Bonds of Russian banks pledged under sale and repurchase agreements	12,997	–
Term deposits with banks	7,317	6,283
Repurchase agreements	5,783	522
Collateral for derivative financial instruments (“DFI”)	5,452	2,502
Total placements with banks and bonds measured at amortized cost	**48,689**	**9,339**
Less allowance for impairment	(154)	(1)
Placements with banks and bonds measured at amortized cost, net	**48,535**	**9,338**

The increase in “Bonds of Russian banks held by the Group” and “Bonds of Russian banks pledged under sale and repurchase agreements” as at 31 December 2018 was because the Group separated its bond portfolio into investment and trading portfolios (Note 6). Portfolio of investment securities issued by Russian banks is accounted for at amortized cost.

Increase in “Repurchase agreements” at 31 December 2018 was mainly due to the placement of available cash with a non-banking credit institution with an investment-grade rating assigned by rating agencies S&P, Fitch or Moody’s.

For “Placements with banks and bonds measured at amortized cost” bear credit risk, the Group recognizes the respective allowance for ECL. The table below presents movements in allowances for ECL for the year ended 31 December 2018:

	Stage 1	*Total*
Balance as at 1 January 2018	**1**	**1**
Increase/(decrease) for the period	153	**153**
Balance at 31 December 2018	**154**	**154**

20. Financial instruments at FVPL

	2018 *RUB MM*	*2017* *RUB MM*
Held by the Group		
Corporate bonds and eurobonds	61,088	59,467
Government and municipal bonds	25,601	27,863
State-owned enterprise bonds	22,010	43,269
Derivative financial instruments	5,337	9,240
Corporate shares	126	204
Shares in state-owned companies	99	−
Total financial instruments at FVPL held by the Group	**114,261**	**140,043**
Pledged under sale and repurchase agreements		
Corporate bonds and Eurobonds	59,293	106,363
State-owned enterprise bonds	45,717	69,301
Government and municipal bonds	5,768	33,434
State-owned enterprise shares	1	−
Total financial instruments at FVPL pledged under sale and repurchase agreements	**110,779**	**209,098**
Total financial instruments at FVPL	**225,040**	**349,141**

Securities at FVPL

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

	2018		*2017*	
	RUB MM	*%*	*RUB MM*	*%*
Transport and infrastructure	42,850	19.5%	46,464	13.7%
Government and municipal institutions	31,368	14.3%	61,297	18.0%
Banks, including state-owned banks	28,643	13.0%	59,944	17.6%
Metallurgy	22,700	10.4%	39,157	11.5%
Leasing	17,497	8.0%	20,739	6.1%
Petrochemicals	13,304	6.1%	26,005	7.7%
Diversified holdings and other financial institutions	12,951	5.9%	15,926	4.7%
Chemical industry	11,234	5.1%	5,893	1.7%
Mining	8,375	3.8%	16,031	4.70%
Telecommunications	7,344	3.3%	8,660	2.60%
Manufacturing	6,415	3.0%	15,503	4.60%
Construction and development	5,055	2.3%	9,242	2.70%
Energy	2,627	1.2%	−	0.00%
Services	2,445	1.1%	6,838	2.00%
Trade	1,958	0.9%	4,041	1.20%
Agriculture and food processing	1,099	0.5%	3,784	1.10%
Other	3,838	1.6%	377	0.1%
	219,703	**100.0%**	**339,901**	**100.0%**

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.

	2018	*2017*
Securities at FVPL		
Issuers with credit rating from A+ to A-	128	−
Issuers with credit rating from BBB+ to BBB-	67,617	85,953
Issuers with credit rating from BB+ to BB-	103,604	184,003
Issuers with credit rating from B+ to B-	25,048	51,533
Issuers without rating by S&P, Fitch or Moody's	23,306	18,412
Total securities at FVPL	**219,703**	**339,901**

As at 31 December 2018, maturities of these securities were within the following range: February 2019 − August 2049 (31 December 2017: January 2018 − August 2049).

20. Financial instruments at FVPL (continued)

Securities at FVPL (continued)

As at 31 December 2018, the coupon rates were 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 (31 December 2017: from 3.7% to 11.0% for USD-denominated debt securities, 7.5% for GBP-denominated debt securities, and from 6.3% to 17.0% for RUB-denominated debt securities).

As at 31 December 2018, the share of the largest issuer in the aggregate portfolio of securities at FVPL was 9.5%. The maturity of bonds of this issuer ranged from March 2019 to April 2041; coupon rate was 5.7%-10.5% (31 December 2017: the share of the largest issuer (a state-owned financial institution) was 6.2%, maturity dates ranged from March 2018 to September 2032; coupon rate was 4.5%-9.8%).

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 table below shows the fair values of derivative financial instruments, recorded as assets or liabilities in the financial statements:

	2018			*2017*		
	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	151,585	3,379	1,919	68,544	2,056	–
Interest rate swaps – Russian banks	50,028	1,898	–	28,800	1,241	–
Cross-currency interest rate swaps – foreign banks	13,894	–	639	–	–	–
Cross-currency interest rate swaps – Russian banks	69,471	–	3,036	67,392	5,943	–
Currency forwards – foreign companies	139	19	–	–	–	–
Currency forwards – Russian companies and banks	2,003	41	26	–	–	–
Credit default swaps –foreign banks	27,094	–	1,226	15,552	–	317
Total derivative assets or liabilities	**314,214**	**5,337**	**6,846**	**180,288**	**9,240**	**317**

21. Loans to customers and bonds measured at amortized cost

	2018 RUB MM	*2017 RUB MM*
Retail loans		
Auto loans	74,978	56,706
Mortgage loans	57,801	30,228
Consumer loans	47,609	47,653
Credit cards	20,303	9,222
Total retail loans	**200,691**	**143,809**
Corporate loans and bonds measured at amortized cost		
Corporate loans	149,063	83,262
Corporate bonds	96,127	10,551
Loans to small businesses and other loans to customers*	42,050	2,530
State-owned enterprise bonds	48,145	5,933
Government and municipal bonds	16,001	4,298
Loans to constituent entities and municipalities of the Russian Federation	6,347	24,887
Total corporate loans and bonds measured at amortized cost	**357,733**	**131,461**
Total loans to customers	**558,424**	**275,270**
Less: allowance for loan impairment	(16,946)	(9,025)
Loans to customers, net	**541,478**	**266,245**

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

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

As at 31 December 2018, "Corporate loans and bonds measured at amortized cost" of RUB 86,065 MM were represented by corporate bonds, state-owned enterprise bonds and government and municipal bonds pledged under repurchase agreements with banks (31 December 2017: RUB 3,516 MM) (Note 28).

As at 31 December 2018, the carrying amount of loans issued to the Group's ten largest borrowers was RUB 77,134 MM representing 13.8% of the total loan portfolio or 8.0% of the Group's total assets. As at 31 December 2017, the carrying amount of loans issued to the Group's ten largest borrowers was RUB 61,485 MM representing 22.3% of the total loan portfolio or 8.9% of the Group's total assets. As at 31 December 2018, the Group created an allowance for the impairment of loans issued to the ten largest borrowers of RUB 462 MM (31 December 2017: RUB 399 MM).

Industry analysis of corporate loans and bonds

Corporate borrowers and bond issuers operate in the following industries:

	2018 RUB MM	*2017 RUB MM*
Metallurgy	52,618	576
Diversified holdings and other financial institutions	39,408	37,500
Transport and infrastructure	34,689	8,505
Manufacturing	21,598	853
Petrochemicals	11,883	6,446
Construction	10,894	5,728
Mining	10,883	–
Trade	10,531	8
Commercial real estate	10,007	7,328
Services	9,445	2,706
Chemical industry	8,391	143
Leasing	8,344	14,387
Agriculture and food processing	5,693	–
Telecommunications	5,479	2,069
Energy	4,657	5,222
Other	670	2,342
	245,190	**93,813**

Finance lease receivables

Finance lease receivables form a part of the portfolio of loans to small businesses and other loans to customers at 31 December 2018. The analysis of finance lease receivables is as follows:

	Not later than 1 year RUB MM	*Later than 1 year but not later than 5 years RUB MM*	*Later than 5 years RUB MM*
Gross investment in finance leases	222	149	–
Unearned future finance income on finance lease	41	15	–
Net investments in finance lease	**263**	**164**	**–**

Allowance for impairment of loans to customers and bonds measured at amortized cost

The tables below show the analysis of movements in the allowances for ECL for retail loans in 2018. Note 2 contains the description of the credit risk measurement system employed by the Group and its approach to ECL measurement.

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**1,640**	**412**	**3,455**	**5,507**
Transfers to Stage 2	(119)	119	–	**–**
Transfers to Stage 3	(57)	(1,148)	1,205	**–**
Increase/(decrease) for the period	227	998	1,193	**2,418**
Write-offs	–	–	(4,394)	**(4,394)**
Amortization of credit-impaired assets	–	–	–	**–**
Recovery of write-offs	–	–	954	**954**
Balance as at 31 December 2018	**1,691**	**381**	**2,413**	**4,485**

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

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

Auto loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**958**	**205**	**565**	**1,728**
Transfers to Stage 2	(61)	61	–	**–**
Transfers to Stage 3	(24)	(661)	685	**–**
Increase/(decrease) for the period	336	749	794	**1,879**
Write-offs	–	–	(1,035)	**(1,035)**
Unwinding of discount	–	–	7	**7**
Recovery of write-offs	–	–	374	**374**
Balance as at 31 December 2018	**1,209**	**354**	**1,390**	**2,953**

Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**812**	**129**	**658**	**1,599**
Transfers to Stage 2	(79)	79	–	**–**
Transfers to Stage 3	(27)	(419)	446	**–**
Increase/(decrease) for the period	(30)	370	(125)	**215**
Write-offs	–	–	(102)	**(102)**
Unwinding of discount	–	–	43	**43**
Recovery of writy-offs	–	–	191	**191**
Balance as at 31 December 2018	**676**	**159**	**1,111**	**1,946**

Credit cards	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**666**	**97**	**545**	**1,308**
Transfers to Stage 2	(46)	46	–	**–**
Transfers to Stage 3	(99)	(229)	328	**–**
Increase/(decrease) for the period	318	150	305	**773**
Write-offs	–	–	(901)	**(901)**
Unwinding of discount	–	–	2	**2**
Recovery writy-offs	–	–	77	**77**
Balance as at 31 December 2018	**839**	**64**	**356**	**1,259**

The table below shows the analysis of movements in allowances for ECL for the corporate loans and bonds measured at amortized cost for 2018. Note 2 describes the credit risk measurement system employed by the Group and its approach to ECL measurement.

Corporate loans, government and municipal bonds, corporate bonds and state-owned enterprise bonds	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Balance as at 1 January 2018	**2,965**	**–**	**–**	**–**	**2,965**
Transfers to Stage 2	(48)	48	–	–	**–**
Transfers to Stage 3	(2,011)	–	2,011	–	**–**
Increase/(decrease) for the period*	1,594	(21)	112	271	**1,956**
Write-offs	–	–	–	–	**–**
Recovery of write-offs	–	–	–	–	**–**
Balance as at 31 December 2018	**2,500**	**27**	**2,123**	**271**	**4,921**

Loans to constituent entities and municipalities of the Russian Federation	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**115**	**–**	**–**	**115**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Increase/(decrease) for the period	(73)	–	–	**(73)**
Write-offs	–	–	–	**–**
Recovery write-offs	–	–	–	**–**
Balance as at 31 December 2018	**42**	**–**	**–**	**42**

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

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

Loans to small business and other loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Balance as at 1 January 2018	**75**	**12**	**260**	**–**	**347**
Transfers to Stage 2	(5)	5	–	–	**–**
Transfers to Stage 3	(10)	(94)	104	–	**–**
Increase/(decrease) for the period	634	77	198	526	**1,435**
Write-offs	–	–	(148)	(470)	**(618)**
Recovery of write-offs	–	–	127	49	**176**
Balance as at 31 December 2018	**694**	**–**	**541**	**105**	**1,340**

* Allowance for corporate loans equals to RUB 1,040 MM. This amount represents an increase in the allowance for Rosevrobank's loan portfolio after the merger with the Group. A gain of RUB 1,188 MM resulting from revaluation of cash flows from the same portfolio is recognized as interest income calculated using the EIR method (Note 5).

The table below presents movements in the allowance for loan impairment for 2017. Comparative amounts for the year ended 31 December 2017 comprise credit losses and reflect the results of assessment in accordance with IAS 39.

	Corporate loans, government, municipal and corporate bonds	*Loans to small businesses and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities and municipalities of the Russian Federation*	*Mortgage loans*	*Car loans*	*Total*
As at 1 January 2017	**(1,143)**	**(189)**	**(4,848)**	**(829)**	**(361)**	**(357)**	**–**	**(7,727)**
Increase/(decrease) for the year	(623)	(389)	(1,178)	(926)	236	(586)	(972)	**(4,438)**
Reversal write-offs	–	–	(1,479)	(278)	–	(60)	–	**(1,817)**
Loans written off as uncollectible	253	348	3,141	952	–	303	(40)	**4,957**
As at 31 December 2017	**(1,513)**	**(230)**	**(4,364)**	**(1,081)**	**(125)**	**(700)**	**(1,012)**	**(9,025)**
Individual impairment	(698)	–	–	–	–	–	–	**(698)**
Collective impairment	(815)	(230)	(4,364)	(1,081)	(125)	(700)	(1,012)	**(8,327)**
	(1,513)	**(230)**	**(4,364)**	**(1,081)**	**(125)**	**(700)**	**(1,012)**	**(9,025)**
Total of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**3,010**	**–**	**–**	**–**	**–**	**–**	**–**	**3,010**

In 2018, the most significant movements in the carrying amount of the loan portfolio before allowance explain the major changes in allowance for ECL:

- As the result of the acquisition of Rosevrobank (Note 40), corporate loans, SME loans and mortgage loans grew by RUB 36,185 MM, RUB 32,537 MM and RUB 13,535 MM, respectively. The increase of these portfolios led to the increase in the allowance for ECL.
- Write-off of impaired and provisioned in full loans of RUB 6,808 MM. This resulted in decrease in the allowance for Stage 3 ECL.
- Reclassification of certain bonds of RUB 136,659 MM as bonds measured at amortized cost. The Group created a respective Stage 1 allowance (Note 6).
- Reclassification of corporate loans of RUB 2,902 MM from Stage 1 into Stage 3 due to an increase of the credit risk. This resulted in increase in the respective allowance for ECL.

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

Credit quality of retail loans

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

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

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

Credit quality of retail loans (continued)

The following table provides information on the credit quality of retail loans as at 31 December 2017:

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Consumer loans				
- Not overdue	40,969	(305)	40,664	0.7%
- Overdue less than 30 days	1,617	(126)	1,491	7.8%
- Overdue from 30 to 89 days	1,178	(648)	530	55.0%
- Overdue from 90 to 179 days	1,282	(1,006)	276	78.5%
- Overdue from 180 to 360 days	2,607	(2,279)	328	87.4%
Total consumer loans	**47,653**	**(4,364)**	**43,289**	**9.2%**
Credit cards				
- Not overdue	8,000	(210)	7,790	2.6%
- Overdue less than 30 days	316	(94)	222	29.8%
- Overdue from 30 to 89 days	281	(213)	68	75.8%
- Overdue from 90 to 179 days	308	(277)	31	89.9%
- Overdue from 180 to 360 days	317	(287)	30	90.5%
Total credit cards	**9,222**	**(1,081)**	**8,141**	**11.7%**
Mortgage loans				
- Not overdue	28,391	(246)	28,145	0.9%
- Overdue less than 30 days	642	(51)	591	7.9%
- Overdue from 30 to 89 days	334	(69)	265	20.7%
- Overdue from 90 to 179 days	291	(93)	198	32.0%
- Overdue from 180 to 360 days	282	(86)	196	30.5%
- Overdue more than 360 days	288	(155)	133	53.8%
Total mortgages	**30,228**	**(700)**	**29,528**	**2.3%**
Auto loans				
- Not overdue	54,270	(194)	54,076	0.4%
- Overdue less than 30 days	1,086	(96)	990	8.8%
- Overdue from 30 to 89 days	543	(179)	364	33.0%
- Overdue from 90 to 179 days	404	(235)	169	58.2%
- Overdue from 180 to 360 days	403	(308)	95	76.4%
Total auto loans	**56,706**	**(1,012)**	**55,694**	**1.8%**
Total retail loans	**143,809**	**(7,157)**	**136,652**	**5.0%**

Credit quality of corporate loans and bonds measured at amortized cost

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

	Stage 1 RUB MM	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*POCI assets* RUB MM*	*Total RUB MM*
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 from 30 to 89 days	–	38	70	–	**108**
- Overdue from 90 to 179 days	–	–	1,718	24	**1,742**
- Overdue from 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 loan 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 include loans issued by Rosevrobank at stage 3 as at the date of the acquisition.

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

Credit quality of corporate loans and bonds measured at amortized cost (continued)

The following table provides information on the credit quality of corporate loans and bonds measured at amortized cost as at 31 December 2017:

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Corporate loans and bonds measured at amortized cost				
Unimpaired loans	**128,113**	**(1,007)**	**127,106**	**0.8%**
Impaired loans				
- Not overdue	3,010	(698)	2,312	23.2%
- Overdue less than 90 days	132	(28)	104	21.2%
- Overdue from 90 to 360 days	167	(112)	55	67.1%
- Overdue more than 360 days	39	(23)	16	59.0%
Total impaired loans	**3,348**	**(861)**	**2,487**	**25.7%**
Individual impairment	3,010	(698)	2,312	23.2%
Collective impairment	338	(163)	175	48.2%
Total corporate loans and bonds measured at amortized cost	**131,461**	**(1,868)**	**129,593**	**1.4%**

Collateral and other credit enhancements

The value and type of collateral required by the Group from a borrower depends on Group's assessment of the credit risk of the borrower. The Group established guidelines in relation to types of collateral and their valuation parameters.

The main types of collateral required by the Group are as follows:

- For corporate and small business loans: pledge of real estate, liquid securities or cash;
- For retail loans: pledge of residential real estate or vehicles.

The Group may also demand guarantees from parent companies of the borrowers to secure the loans.

The Group estimates the market value of collateral and may request additional collateral in accordance with the loan agreement as a result Group's review of the adequacy of the allowance for impairment losses.

Were collateral or other means to reduce credit risk absent, ECL on Stage 3 loans to customers would increase as at 31 December 2018 by:

	2018 RUB MM
Mortgage loans	531
Car loans	439
Loans to small businesses and other loans to customers	21

The table below presents the breakdown of loans to customers (net of impairment allowance) by type of collateral as at 31 December 2018:

	Corporate loans, government and municipal bonds, corporate bonds and state-owned enterprise bonds	*Loans to small businesses and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities and municipalities of the Russian Federation*	*Mortgage loans*	*Car loans*	*Total*
Real estate	12,819	13,449	5	–	–	55,494	9	**81,776**
Motor vehicles	301	495	50	–	–	15	69,379	**70,240**
Goods and materials	4,135	1,762	–	–	–	–	–	**5,897**
Securities and equity investments	13,775	944	–	–	–	–	–	**14,719**
Other collateral	4,553	694	–	–	–	–	–	**5,247**
No collateral	268,547	23,650	43,070	19,045	6,305	346	2,636	**363,599**
Total loans to customers	**304,130**	**40,994**	**43,125**	**19,045**	**6,305**	**55,855**	**72,024**	**541,478**

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

Collateral and other credit enhancements (continued)

The breakdown of loans to customers (net of impairment allowance) by type of collateral as at 31 December 2017 is presented in the table below:

	Corporate loans, government and municipal bonds, corporate bonds and state-owned enterprise bonds	*Loans to small businesses and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities and municipalities of the Russian Federation*	*Mortgage loans*	*Car loans*	*Total*
Real estate	6,790	596	–	–	–	29,528	–	**36,914**
Motor vehicles	496	125	–	–	–	–	55,694	**56,315**
Goods and materials	2,423	28	–	–	–	–	–	**2,451**
Securities and equity investments	7,657	113	–	–	–	–	–	**7,770**
Other collateral	1,168	–	–	–	–	–	–	**1,168**
No collateral	83,999	1,437	43,289	8,141	24,761	–	–	**161,627**
Total loans to customers	**102,533**	**2,299**	**43,289**	**8,141**	**24,761**	**29,528**	**55,694**	**266,245**

As at 31 December 2018 and 2017, the loans secured by "Other collateral" were mainly secured by guarantees issued by third parties.

The values shown in the tables above represent the carrying amount of the loans (net of impairment allowance) and do not necessarily represent the fair value of the collateral.

The table below presents a breakdown of corporate loans by long-term credit rating assigned by rating agencies S&P, Fitch or Moody's. If a customer does not have its own credit rating, the breakdown includes the credit rating of customer's parent company.

	2018 RUB MM	*2017 RUB MM*
Corporate loans		
Customers with credit rating from BBB+ to BBB-	38,263	8,417
Customers with credit rating from BB+ to BB-	8,656	43,991
Customers with credit rating from B+ to B-	1,300	4,602
Customers without credit rating of S&P, Fitch or Moody's	100,844	26,252
Total corporate loans	**149,063**	**83,262**

The increase in loans issued to customers with credit rating from BBB+ to BBB- was mainly due to the increase in loans issued to borrowers with the majority stake held by the Russian Federation.

The increase in unrated loans to customers was mainly due to a gradual transition of the largest Russian companies, regional and municipal authorities to credit rating assigned by Russian credit rating agencies (Analytical Credit Rating Agency (ACRA) and Rating Agency Expert RA).

The table below presents a breakdown of corporate bonds by long-term issuer credit rating assigned by international rating agencies (S&P, Fitch or Moody's).

	2018 RUB MM	*2017 RUB MM*
Corporate bonds		
Issuers with credit rating from BBB+ to BBB-	9,081	–
Issuers with credit rating from BB+ to BB-	58,805	4,092
Issuers with credit rating from B+ to B-	9,263	2,427
Issuers without credit rating assigned by S&P, Fitch or Moody's	18,978	4,032
Total corporate bonds	**96,127**	**10,551**

The increase in corporate bonds issued by unrated issuers was mainly due to a gradual transition of the largest Russian companies and regional and municipal authorities to credit rating assigned by Russian credit rating agencies (Analytical Credit Rating Agency (ACRA) and Rating Agency Expert RA).

22. Investments securities at FVOCI (2017: Investment securities available for sale)

As at 31 December 2018 and 31 December 2017, the Group's investments measured at FVOCI (2017: available-for-sale investment securities) included shares of Russian companies and/or their foreign holdings.

	31 December 2018 RUB MM	*31 December 2017 RUB MM*	*Ownership interest as at 31 December 2018 %*	*Ownership interest as at 31 December 2017 %*
Credit institutions	–	3,074	–	15.5%
Companies				
- Investments in shares	111	111	3.7% to 6.8%	3.7% to 6.8%
Investments in shares as part of mezzanine lending	580	750	2.2% to 25.0%	4.4% to 25.0%
	691	**3,935**		

The Group at its own discretion classified certain investments in equity instruments previously classified as available for sale as investments in equity instruments at FVOCI because these investments were not held for trading. These investments mostly include investments in Russian and foreign companies including investments in shares as part of mezzanine lending. Investments in shares as part of mezzanine lending represent a loan origination fee in form of a non-controlling interest in the borrower for provided by the Group financing to major Russian companies.

In February 2018, the Group sold a part of its investments in shares as part of mezzanine lending. The fair value of the shares sold was RUB 150 MM as at the derecognition date. As a result, the Group reclassified accumulated loss of RUB (96) MM from fair value reserve into retained earnings in the consolidated statement of changes in equity.

In April 2018, as a part of acquisition of Rosevrobank (Note 40), the Group sold its shares in REG Holding Ltd and derecognized equity instruments at FVOCI with the fair value of RUB 3,074 MM at the derecognition date. As a result, the Group reclassified accumulated profit of RUB (1,017) MM from fair value reserve into retained earnings in its consolidated statement of changes in equity.

As a result of the acquisition of Rosevrobank (Note 40), the Group received bonds at FVOCI with the fair value of RUB 64,161 MM. From the acquisition date to the date of the accession of Rosevrobank to Sovcombank, a part of the bonds was sold for RUB 34,064 MM and the remaining part was transferred from the portfolio of investment securities at FVOCI to the portfolio of financial instruments at FVPL (Note 6).

23. Investment property

The Group owns a number of real estate properties. The Group occupies some of these properties and rents out the excess space. Properties occupied by the Group form a part of "Property and equipment and intangible assets" (Note 24). he rented out real estate is classified as investment property.

Management determines the fair value of investment property based on annual independent appraisals.

	2018 RUB MM	*2017 RUB MM*
Fair value at the beginning of the year	58	288
Transfer from/to property and equipment (Note 24)	6	339
Transfer to assets held for sale	–	(425)
Disposal	–	(65)
Business combinations	–	–
Revaluation	(8)	(79)
Fair value at the end of the year	**56**	**58**

24. Property and equipment and intangible assets

	Land and buildings RUB MM	Leasehold improve-ments RUB MM	Computers RUB MM	ATMs RUB MM	Motor vehicles RUB MM	Furniture and equipment RUB MM	Construc-tion in progress RUB MM	Intangible assets RUB MM	Total RUB MM
Cost / revalued amount									
As at 1 January 2018	**718**	**19**	**317**	**1,261**	**165**	**419**	**30**	**4,161**	**7,090**
Effect of business combination	2,786	7	69	23	54	146	–	1,473	**4,558**
Additions	71	7	224	149	22	296	–	2,078	**2,847**
Disposals	(45)	(6)	(81)	(22)	(17)	(305)	–	(342)	**(818)**
Transfer to investment property (Note 23)	(6)	–	–	–	–	–	–	–	**(6)**
Revaluation	186	–	–	–	–	–	–	–	**186**
Elimination of accumulated depreciation on revalued assets	(7)	–	–	–	–	–	–	–	**(7)**
As at 31 December 2018	**3,703**	**27**	**529**	**1,411**	**224**	**556**	**30**	**7,370**	**13,850**
Depreciation and impairment									
As at 1 January 2018	**–**	**(12)**	**(150)**	**(764)**	**(56)**	**(280)**	**–**	**(886)**	**(2,148)**
Depreciation charge	(7)	(8)	(142)	(146)	(42)	(130)	–	(955)	**(1,430)**
Disposals	–	4	64	17	8	84	–	194	**371**
Elimination of accumulated depreciation on revalued assets	7	–	–	–	–	–	–	–	**7**
Impairment	–	–	–	–	–	–	–	–	**–**
As at 31 December 2018	**–**	**(16)**	**(228)**	**(893)**	**(90)**	**(326)**	**–**	**(1,647)**	**(3,200)**
Carrying amount as at 31 December 2018	**3,703**	**11**	**301**	**518**	**134**	**230**	**30**	**5,723**	**10,650**
Carrying amount as at 31 December 2017	**718**	**7**	**167**	**497**	**109**	**139**	**30**	**3,275**	**4,942**

	Land and buildings RUB MM	Leasehold improve-ments RUB MM	Computers RUB MM	ATMs RUB MM	Motor vehicles RUB MM	Furniture and equipment RUB MM	Construc-tion in progress RUB MM	Intangible assets RUB MM	Total RUB MM
Cost / revalued amount									
As at 1 January 2017	**1,092**	**28**	**209**	**1,030**	**134**	**392**	**–**	**3,682**	**6,567**
Effect of business combination	–	–	–	–	–	–	–	514	**514**
Additions	19	–	125	237	44	66	30	189	**710**
Disposals	(16)	(9)	(17)	(6)	(13)	(39)	–	(224)	**(324)**
Transfer to investment property (Note 23)	(339)	–	–	–	–	–	–	–	**(339)**
Revaluation	46	–	–	–	–	–	–	–	**46**
Elimination of accumulated depreciation on revalued assets	(84)	–	–	–	–	–	–	–	**(84)**
As at 31 December 2017	**718**	**19**	**317**	**1,261**	**165**	**419**	**30**	**4,161**	**7,090**
Depreciation and impairment									
As at 1 January 2017	**–**	**(4)**	**(80)**	**(639)**	**(31)**	**(225)**	**–**	**(625)**	**(1,604)**
Depreciation charge	(87)	(8)	(80)	(133)	(31)	(66)	–	(478)	**(883)**
Disposals	3	–	10	8	6	11	–	217	**255**
Elimination of accumulated depreciation on revalued assets	84	–	–	–	–	–	–	–	**84**
Impairment	–	–	–	–	–	–	–	–	**–**
As at 31 December 2017	**–**	**(12)**	**(150)**	**(764)**	**(56)**	**(280)**	**–**	**(886)**	**(2,148)**
Carrying amount as at 31 December 2017	**718**	**7**	**167**	**497**	**109**	**139**	**30**	**3,275**	**4,942**
Carrying amount as at 31 December 2016	**1,092**	**24**	**129**	**391**	**103**	**167**	**–**	**3,057**	**4,963**

Revalued assets

As at 31 December 2018, the Group recognized:

- A negative revaluation of RUB (109) MM in profit or loss (31 December 2017: a positive revaluation of RUB 1 MM);
- A positive revaluation of RUB 295 MM in other comprehensive income and revaluation reserve (31 December 2017: a positive revaluation of RUB 45 MM in other comprehensive income and revaluation reserve).

Had land and buildings not been revalued, their carrying amount would have been RUB 3,510 MM as at 31 December 2018 (31 December 2017: RUB 711 MM).

25. Other assets

	2018 RUB MM	2017 RUB MM
Other financial assets		
Other financial assets at FVPL	883	–
Delivery of cash and securities	367	204
Security deposit placed with MasterCard Europe	267	–
Cash settlement services	168	56
Total other financial assets	**1,685**	**260**
Other non-financial assets		
Precious metals	8,648	2
Advances to suppliers	6,947	–
Other advances	2,460	1,237
Foreclosed assets	212	194
Prepaid taxes other than VAT and income tax	98	216
VAT receivable (leasing operations)	90	26
Settlements with employees	6	1
Other	242	14
Total other non-financial assets	**18,703**	**1,690**
Provision for impairment of advances to suppliers (Note 16)	(681)	(542)
	19,707	**1,408**

"Delivery of cash and securities" relate to securities sold, but not paid for by a counterparty.

"Cash settlement services" comprise receivables from the Group's customers, mainly from small and medium-sized businesses, for cash settlement services. The increase in 2018 results from the growth in the volume of services provided.

26. Due to customers

	2018 RUB MM	2017 RUB MM
Individuals		
Term deposits	361,108	281,762
Current accounts and demand deposits	41,795	20,879
Legal entities		
Term deposits	110,005	28,155
Current accounts and demand deposits	85,954	28,118
Amounts due under repurchase agreements	12	–
	598,874	**358,914**

As at 31 December 2018 and 31 December 2017, the ten largest customers of the Group placed the total of RUB 50,114 MM and RUB 30,497 MM current accounts and term deposits, 8.4% and 8.5% of total due to customers, respectively.

As at 31 December 2018 and 31 December 2017, the Group did not have a customer whose balance with the bank accounted for more than 10% of total due to customers.

27. Due to the CBR

	2018 RUB MM	2017 RUB MM
Loans secured by assets	859	–
	859	**–**

28. Due to banks

	2018 RUB MM	*2017 RUB MM*
Sale and repurchase agreements with banks	182,059	180,056
Deposits	6,498	4,647
Collateral for derivative financial instruments ("DFI")	1,291	7,175
LORO accounts	407	2,257
	190,255	**194,135**

As at 31 December 2018, the Group had two counterparties whose balance exceeded 10% of total due to banks (31 December 2017: three counterparties). As at 31 December 2018, respective liabilities amounted to RUB 159,866 MM or 84.0% of total due to banks (31 December 2017: RUB 146,287 MM or 75.4% of total due to banks).

As at 31 December 2018 and 31 December 2017, the Group pledged the following securities as collateral for sale and repurchase agreements with legal entities and banks:

	2018		*2017*
	REPO with legal entities RUB MM	*REPO with banks RUB MM*	*REPO with banks RUB MM*
Financial instruments at FVPL pledged under repurchase agreements			
Corporate bonds and eurobonds	14	59,279	106,363
State-owned enterprise bonds	–	45,717	69,301
Government and municipal bonds	–	5,768	33,434
Shares of state-owned companies	–	1	–
Total carrying amount	**14**	**110,765**	**209,098**
Loans to customers and bonds measured at amortized cost, pledged under sale and repurchase agreements			
Government and municipal bonds	–	5,415	3,271
State-owned enterprise bonds	–	25,780	245
Corporate bonds	–	54,870	–
Total carrying amount	**–**	**86,065**	**3,516**
Placements with banks and bonds measured at amortized cost, pledged under sale and repurchase agreements			
Corporate bonds	–	7,021	–
Government and municipal bonds	–	5,900	–
Total carrying amount	**–**	**12,921**	**–**
Related liabilities	**12**	**182,059**	**180,056**

29. Debt securities issued

	2018 RUB MM	*2017 RUB MM*
Bonds	5,468	14,394
Promissory notes	3,008	1,291
Savings certificates	3	59
	8,479	**15,744**

As at 31 December 2018, the Group had four issues of bonds:

- With an aggregate nominal value of RUB 5,087 MM maturing in November 2027;
- With an aggregate nominal value of RUB 299 MM maturing in July 2021;
- With an aggregate nominal value of RUB 37 MM maturing in February 2019;
- With an aggregate nominal value of RUB 2 MM maturing in June 2021.

The annual interest rates on the bonds issued by the Group ranged from 7.5% to 9.25% as at 31 December 2018.

30. 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 0.5% 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 31 December 2018, Sovcombank pledged loans to individuals and corporate customers totaling RUB 45,371 MM (31 December 2017: RUB 45,270 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 31 December 2018, Sovcombank repaid a part of the DIA loan totaling RUB 9,008 MM.

The interest rate on the DIA loan is 0.5% 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, 23 September 2015, the market interest rate for similar loans provided to Sovcombank was 14.9%. As at 31 December 2018, the fair value of the DIA loan of RUB 16,923 MM (31 December 2017: RUB 14,920 MM) was recorded within "Other borrowed funds".

	2018 RUB MM	***2017 RUB MM***
DIA loan	16,923	14,920
Other	1	461
	16,924	**15,381**

31. Subordinated debt

Type	*Principal, loan currency, thousand*	*Currency*	*Counterparty*	*Interest rate*	*Issue date*	*Maturity date*	*2018 RUB MM*	*2017 RUB MM*
Subordinated bonds	98	USD	–	8.25%	7 March 2018	21 February 2029	7,000	–
Subordinated debt	1,255	RUB	DIA	9.61%	27 April 2015	28 April 2032	1,434	–
Subordinated debt	1,255	RUB	DIA	9.80%	27 April 2015	29 November 2034	1,427	–
Subordinated debt	1,255	RUB	DIA	9.45%	27 April 2015	26 September 2029	1,422	–
Subordinated debt	1,255	RUB	DIA	9.33%	27 April 2015	24 February 2027	1,375	–
Subordinated debt	1,255	RUB	DIA	9.25%	27 April 2015	22 January 2025	1,335	–
Perpetual subordinated debt received (Note 34)	117	USD	Sovco Capital Partners N.V.	9.00%	21 March 2017	2 April 2018	–	6,799
							13,993	**6,799**

Term subordinated bonds issued

On 7 March 2018, the Bank placed perpetual subordinated bonds series 1V03 for USD 150 MM (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.

31. 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 Bank's capital adequacy ratio. Because Sovcombank sold the OFZ, the subordinated loan is recorded as liability at fair value as at 31 December 2018.

On 20 May 2016, the DIA provided to Rosevrobank five tranches of a subordinated loan in the form of the OFZ totaling RUB 100 MM Russian. 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 of RUB 114 MM is recorded as an off-balance sheet liability at fair value of RUB 111 MM as at 31 December 2018.

32. Other liabilities

	2018 RUB MM	*2017 RUB MM*
Other financial liabilities		
Derivative financial liabilities (Note 20)	6,847	317
Payables to personnel	3,507	2,425
Payables to suppliers	1,297	834
Allowance for credit losses	962	–
Lease liabilities	107	–
Settlements on currency conversion transactions	18	11
Other non-financial liabilities		
Provisions for non-financial contingencies (Note 36)	1,283	573
Deferred revenues	1,453	1,835
Provision for litigations (Note 16)	1,165	1,043
Accrued expenses on obligatory deposit insurance	544	343
Taxes payable other than VAT and income tax	535	150
VAT payable	301	52
Provision for pre-trial proceedings	261	–
Current income taxes payable	77	19
Other non-financial liabilities	474	262
	18,831	**7,864**

"Payables to suppliers" mainly include general and administrative expenses recognized after the reporting date but related to 2018.

"Provisions for non-financial contingencies" mainly include provisions for non-financial guarantees related to the state procurement and issued in accordance with the 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 the Purchases of Goods, Work and Services by Certain Types of Legal Entity*.

"Provision for pre-trial proceedings" includes allowance for cases when customers fail to fulfill their recourse obligations.

"Settlements on currency conversion operations" represent the fair value of the currency swaps the entered into by the Group in order to manage its currency position (currency risk).

As at 31 December 2018, the increase in "Accrued expenses on obligatory deposit insurance" was due to the proportional increase in deposits placed by individuals.

33. Deferred tax

Movements in temporary differences during the years ended 31 December 2018 and 2017 were as follows:

	2016	Origination and reversal of temporary differences: In the income statement	Origination and reversal of temporary differences: In other compre-hensive income	Origination and reversal of temporary differences: Effect of business combi-nation	2017	Effect of applying IFRS 9 and [IFRS 15] (Note 2)	Origination and reversal of temporary differences: In the income statement	Origination and reversal of temporary differences: In other compre-hensive income	Origination and reversal of temporary differences: Effect of business combi-nation	Within equity	2018
Tax effect of deductible temporary differences											
Other assets	330	(162)	–	–	168	–	405	–	74	–	647
Placements with banks	–	–	–	–	–	–	1	–	–	–	1
Due to customers	63	(23)	–	–	40	–	33	–	–	–	73
Other liabilities	129	831	–	–	960	–	1,911	–	–	–	2,871
Investments securities at FVOCI (2017: Investment securities available for sale)	(397)	–	195	–	(202)	–	–	–	–	235	33
Cash and cash equivalents	(115)	(34)	–	–	(149)	–	314	–	–	–	165
Debt securities issued	(10)	(1)	–	–	(11)	–	359	–	–	–	348
Subordinated debt	–	–	–	–	–	–	(151)	–	–	357	206
Deferred tax asset	**–**	**611**	**195**	**–**	**806**	**–**	**2,872**	**–**	**74**	**592**	**4,344**
Tax effect of taxable temporary differences											
Financial instruments at FVPL	(2,547)	(340)	–	65	(2,822)	–	(3,807)	–	18	–	(6,611)
Loans to customers	(534)	(805)	–	–	(1,339)	840	(185)	–	(482)	–	(1,166)
Property and equipment and intangible assets	(18)	(223)	(8)	62	(187)	–	(187)	(57)	–	–	(431)
Placements with banks	(1,266)	23	–	–	(1,243)	–	381	–	–	–	(862)
Deferred tax liability	**(4,365)**	**(1,345)**	**(8)**	**127**	**(5,591)**	**840**	**(3,798)**	**(57)**	**(464)**	**–**	**(9,070)**
Deferred tax asset	**496**	**(37)**	**–**	**–**	**459**	**–**	**(32)**	**–**	**–**	**–**	**427**
Deferred tax liability	**(4,861)**	**(697)**	**187**	**127**	**(5,244)**	**840**	**(894)**	**(57)**	**(390)**	**592**	**(5,153)**

As at 31 December 2018, temporary differences associated with investments in subsidiaries, for which the Group did not recognize a deferred tax liability, totaled RUB 3,566 MM (31 December 2017: RUB 3,608 MM).

34. Equity

As at 31 December 2018, the Bank's share capital was RUB 1,871 MM (31 December 2017: RUB 1,716 MM).

As at 31 December 2018, the total number of authorized ordinary shares with a nominal value of RUB 0.1 each was 18,714,967,550 (31 December 2017: 17,155,942,700).

The shareholders contributed share capital to the Bank in Russian rubles. Shareholders are entitled to dividends and any capital distribution in Russian rubles.

In August 2018, Sovcombank sold to third-party investors (Note 1) 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).

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. In accordance with IAS 32, the conversion is classified 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. Sovcombank paid interest of RUB 195 MM on the perpetual subordinated loan provided by Sovco Capital Partners N.V. for the year ended 31 December 2018 (2017: RUB 458 MM).

For the year ended 31 December 2018, Sovcombank paid dividends of RUB 7,320 MM or RUB 0.4 per share (2017: RUB 3,053 MM or RUB 0.2 per share).

34. 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:

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

"Ck" 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 addition of subordinated bonds series 2V03 to the Bank's 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 ruble equivalents 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 year ended 31 December 2018, Sovcombank paid interest of RUB 295 MM on the perpetual subordinated bonds placed on 7 March 2018.

35. Commitments

The Group has outstanding commitments to extend loans. These commitments take a form of approved loans, credit card limits and overdraft facilities.

The Group provides bank guarantees to ensure that its customers meet their liabilities to third parties. These bank guarantees form the limits of liabilities and generally extend for a period of up to one year.

The commitments by category were as follows:

*Contractual amount**	*2018 RUB MM*	*2017 RUB MM*
Loan and credit line commitments	216,144	152,412
Bank guarantees	147,650	112,686
Commitments to issue banking guarantees	53,864	27,073
	417,658	**292,171**
Provisions for contingencies (Note 16)	(1,283)	(453)
Allowance for credit losses	(962)	(120)
Provisions for pre-trial proceedings (Note 16)	(261)	–
	(2,506)	**(573)**

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

As at 31 December 2018, the bank guarantees include non-financial guarantees (including those issued by the Group to small and medium businesses to facilitate public procurement 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*) of RUB 99,330 MM in total (31 December 2017: RUB 84,844 MM).

According to the analysis of commitment categories, changes that took place during the year ended 31 December 2018 mostly resulted from the acquisition of Rosevrobank (Note 40). The acquisition of Rosevrobank had the following effect:

- Loan and credit line commitments increased by RUB 54.1 BN;
- Financial bank guarantees increased by RUB 16.6 BN;
- Non-financial bank guarantees increased by RUB 35.5 BN;
- Commitments to issue bank guarantees increased by RUB 19.6 BN.

35. Commitments (continued)

Contractual commitments to issue loans not always result in actual cash outflow as the Group may be annul such commitments or they may expire without providing actual funding. 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 table below shows the analysis of movements in the allowances for ECL under financial guarantees and loan and credit line commitments for the year ended 31 December 2018:

Financial guarantees	*Stage 1 RUB MM*	*Total RUB MM*
Balance as at 1 January 2018	**120**	**120**
Reversal	38	**38**
Received as a result of the acquisition (Note xx)	798	**798**
Balance as at 31 December 2018	**956**	**956**

Loan commitments	*Stage 1 RUB MM*	*Total RUB MM*
Balance as at 1 January 2018	**–**	**–**
Charge/(reversal) for the period	6	**6**
Balance as at 31 December 2018	**6**	**6**

In July 2014, the Group sold an office building occupied by the Bank and located at the address: Russia, Moscow, Krasnopresnenskaya naberezhnaya, 14, building 1, to a third party. Simultaneously, the Bank entered into a long-term agreement for rent of the office premises with the new owner that is in effect up to September 2024. According to the lease agreement, Sovcombank may unilaterally terminate the agreement after July 2018 by sending the respective notice to the lessor six months before the expected termination.

Office rent under the rental agreements constitutes operating lease commitments and as at 31 December 2018 and 2017 was as follows:

Operating lease commitments	*2018 RUB MM*	*2017 RUB MM*
Up to 1 year	255	193
From 1 to 5 years	47	111
	302	**304**

36. Contingencies

Litigation related to "Express-Volga Bank" JSC

In August 2015, the CBR revoked a banking license of Probusinessbank OJSC ("Probusinessbank"). In September 2015, Sovcombank won an open tender and became an investor for the financial rehabilitation of Express Volga Bank JSC ("EVB"). 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.

In October 2017, minority creditors of Probusinessbank challenged the inclusion of EVB into the register of Probusinessbank's creditors at the court of primary jurisdiction.

The DIA and EVB did not agree with the court ruling and filed appeals. In December 2017, the second instance court canceled the ruling of the first instance court and ruled to reject the claims of minority creditors.

The minority creditors challenged the ruling of the second instance court at the third instance court. The third instance court upheld the ruling of the second instance court in March 2018.

In May 2018, the minority creditors filed a cassation appeal to the Supreme Court of the Russian Federation against decisions of the second and third instance courts to remain the ruling of the first instance court effective. In August 2018, the Supreme Court of the Russian Federation rejected to transfer this appeal to the Judicial Panel for Economic Disputes under the Supreme Court of the Russian Federation. The minority creditors filed a complaint to the Chairman of the Russian Supreme Court. The complaint was dismissed because the deadline for the appeal expired .

On 16 November 2018, dispute resolution was completed based on a ruling to deny the examination of the complaint by the Judicial Panel for Economic Disputes under the Supreme Court of the Russian Federation. Based on the above, the Group did not make a provision for this claim.

36. Contingencies (continued)

Litigation related to "Express-Volga Bank" JSC (continued)

In December 2017, the minority creditors of Probusinessbank challenged actions of its bankruptcy administrator (a representative of the DIA) with regard to certain transactions which took place before the date on which Probusinessbank was declared bankrupt by the Arbitration Court.

In December 2017, the Group estimated the risk of cash outflow from EVB as possible and created a respective provision of RUB 755 MM. The provision covers the entire amount of possible cash outflow from EVB into Probusinessbank's insolvency estate in respect of this litigation and is not adjusted for possible return of funds to the Bank from the insolvency estate since EVB (as one of the major creditors of Probusinessbank) will receive a portion of the insolvency estate if this risk realized.

In October 2018, the court declared the operative part of the determination of the Moscow Arbitration Court on that claim. In accordance with this decision, the following claims were satisfied: the transfer of RUB 625 MM from Probusinessbank to EVB in August 2015 was declared as invalid; the consequences of the void transaction applied. In March 2019, the 9th Arbitration Court of Appeal ruled to leave the previous decision in force. EVB is now preparing a cassation appeal against the court ruling. The Group's management believes that accrued provisions for legal proceedings cover the entire amount of possible risks and litigation costs.

In November 2016, Sovcombank won an open auction organized by the DIA to acquire shares of "Poidem!" OJSC, previously a member of Probusinessbank group. The funds raised as a result of the auction went into Probusinessbank's insolvency estate and were subsequently allocated to its creditors. In December 2016, Sovcombank signed an agreement to sell 100% of shares of "Poidem!" OJSC to the management of "Poidem!" OJSC. In November 2017, minority creditors of Probusinessbank challenged the sale of shares of "Poidem!" OJSC via open trade procedures to Sovcombank in November 2016. According to the court ruling in December 2017, the auction results remained in force. The minority creditors of Probusinessbank challenged this decision, however the appeal (in May 2018) and cassation (in July 2018) courts upheld the initial decision of the Moscow Arbitration Court. However, in February 2019, the Supreme Court of the Russian Federation upheld the claim of minority creditors, canceled all judicial rulings 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 is scheduled for 19 April 2019 and will take place in the Arbitration Court of Moscow. Currently, it is impossible to determine the potential effect from the unfavorable outcome. Based on these grounds, the Group did not make provision for this claim in these financial statements.

In February 2018, the minority creditors of Probusinessbank filed a request to declare several transactions of RUB 46 BN related to Probusinessbank's repayment of interbank loans to EVB (the "Transactions") void. The minority creditors applied to the court to declare repayment of interbank loans by Probusinessbank invalid and recover RUB 46 BN from EVB to Probusinessbank's insolvency estate. The minority creditors believed that the Transactions resulted in EVB gaining preference in satisfaction of its claims, as the transactions were closed shortly before Probusinessbank was declared bankrupt. In October 2018, the Moscow Arbitration Court partially satisfied the claims of the minority creditors and declared a return of RUB 10.9 BN to EVB from Probusinessbank void; the consequences of a void transaction applied. In February 2019, the 9th Arbitration Court of Appeal upheld the appeal filed by EVB in full: it refused to declare all challenged transactions that include repayment of interbank loans void. Management believes that the Group will not have an outflow of economic benefits, since the matters described in the court claim by the minority creditors were inconsistent with the actual circumstances in 2015. If the court leaves decisions of the first instance court in force, the loss to EVB will not exceed RUB 4.9 BN as it will remain the registered creditor of the third stage for 41% of the register of Probusinessbank's creditors and has a right to obtain the respective payments.

In July 2018, the minority creditors of Probusinessbank filed a request to remove the EVB's claim for RUB 22.7 BN from the register of Probusinessbank's creditors. The minority creditors believe that Probusinessbank and EVB had corporate relationship as they were affiliated though the common ultimate beneficiaries and Probusinessbank was 100% shareholder of EVB. For these reasons, the minor creditors believed that EVB's transfer of funds to Probusinessbank was a contribution to its share capital or a contribution to its property by the ultimate beneficial owners of Probusinessbank in order to support its financial stability. The creditors also believed that such claims should not be included to the register of Probusinessbank's claims. In September 2018, the Arbitration Court declared the court proceedings in respect of the claim of the minority creditors terminated as the court had already examined similar claims in 2017 and a ruling on the matter had been legally effective. The minority creditors challenged the determination to terminate the proceedings. In October 2018, an appeals court overturned the decision in respect of some creditors, however in fact it confirmed the repeating nature of the claims. The case was referred to the first instance court for retrial. EVB filed a cassation appeal against that determination. In January 2019, the Arbitration Court of Moscow District upheld the cassation appeal of EVB: the first instance court invalidated the ruling of the appeal court to send the case for retrial. In case of unfavorable outcome in the courts of all instances, potential loss for ERB will not exceed RUB 3.8 BN. However, according to management, the Group will not suffer an outflow of economic resources as on the basis of decision made by the appeals court, the cassation court and the Supreme Court on the previous dispute over exclusion of EVB from the register of Probusinessbank's creditors, there were no grounds for invalidating the court's determination to terminate the proceedings on the creditor's claim. Based on the above, the Group did not make a provision for this claim.

36. Contingencies (continued)

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 31 December 2018.

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).

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.

37. Risk management

Risk management is one of the Group's most important internal processes. The ultimate goal of the Group risk management policy is to ensure that significant types of risk are identified and mitigated in advance.

Risk management policies and procedures

The Group identifies, assesses and mitigates existing and emerging risks through risk management tools and processes, as well as strict compliance with the Group's corporate governance principles. Risk management policies and processes are reviewed regularly to reflect changes in market conditions, products and services offered, as well as emerging best practice in risk management.

The organizational structure of the Group has the following levels of the risk management:

- Corporate governance level;
- Executive management level;
- Control and summary level;
- Operating level.

37. Risk management (continued)

Corporate governance level

General shareholders' meeting

- Decides whether it is appropriate to change/decrease share capital, issue/convert bonds and other issuable securities convertible to ordinary shares;
- Makes decisions in respect of the dividend distribution;
- Approves annual reports and year-end financial statements.

The Supervisory Board manages the Group and maintains control over the Management Board and Chairman of the Management Board of Sovcombank, as well as management bodies of its subsidiaries. The Supervisory Board has the following risk and capital management functions:

- Approves internal banking regulations governing the management of risks, including credit risk, as well as additions and amendments to such regulations if the Russian legislation is amended;
- Approves risk and capital management strategies, procedures to manage the most significant risks and capital, and controls compliance;
- Considers the need to regularly update (at least annually) documents designed in accordance with the internal capital adequacy assessment procedures (ICAAP);
- Establishes an organizational structure in line with the key banking risk management principles;
- Controls the completeness and frequency of by the internal control function's audits of compliance with the key banking risk management principles;
- Controls the completeness and frequency of reports on the level of key banking risks both on the Group's level and on the level of subsidiaries;
- Approves anti-crisis measures used when the Group is continuously exposed to credit risk, including emergency action plans (continuity and/or business recovery plans);
- Mitigates risks, enforces laws, regulations of the CBR and the Group's internal regulations;
- Approves annual risk appetite indicators and their values;
- Assesses the efficiency of the banking risk management system;
- Controls the Group's executive bodies that manage banking risks and ensure compliance with ICAAP;
- Reviews (at least annually) ICAAP reports and the use of ICAAP data to make management decisions, including those used for approval of documents establishing the procedure for the determination of the amounts of compensations to the Chairman of the Management Board and members of the Management Board, Head of the Risk Management, Head of Internal Audit and Head of Internal Controls of Sovcombank in accordance with p. 2.1 of Instruction No.154-I of the CBR, *Concerning Assessing a Credit Institution's Compensation System and Instructing a Credit Institution to Eliminate Irregularities in Its Compensation System*, of 17 June 2014;
- Approves the procedure of implementing banking risk management methods and models for qualitative risk assessment (in cases stipulated in Article 72.1 of Federal Law, *On the Central Bank of the Russian Federation (Bank of Russia)*), including the assessment of assets and liabilities, off-balance claims and liabilities of Sovcombank, as well as scenarios and results of stress testing;
- Decides on whether it is appropriate to assume operating and non-financial risks and allocation of risks to risk-takers for the 'very high' and 'critical' level of materiality.

37. Risk management (continued)

Executive management level

Executive management level includes all special-purpose committees of the Group in accordance with its approved internal regulations.

Management Board and Chairman of the Management Board of Sovcombank manage the current operations of the Bank. The Management Board and Chairman of the Management Board have the following functions in terms of the risk and capital management:

- Approve risk and capital management procedures, including risk assessment methodologies, risk limits and stress-testing procedures based on risk and capital management strategy approved by the Supervisory Board;
- Regularly (at least annually) review the need for of updates to risk and capital management procedures;
- Ensure compliance with the internal capital adequacy procedures and maintain equity at the level set by the Group's internal regulations;
- Review ICAAP reports as often as required by the regulations of the CBR and internal regulations of the Group; set tasks for the Group's executives upon the review of the above report;
- Resolve conflicts that arise in the course of risk management operations;
- Review and approve action plans to prevent the Group from reaching risk appetite limits;
- Create favorable conditions for professional development and training of the Group employees;
- Determine business lines that are the most important for the Group;
- Take risk mitigation measures;
- Make decisions to amend the capital of the Group in accordance with the existing competencies;
- Form collegial bodies and committees of the Group, approve respective regulations and determine their competencies;
- Decide whether it is appropriate to assume operating and non-financial risks and allocate risks to risk-takers for the 'high' (Management Board) and 'average' (Chairman of the Management Board) levels of materiality (for Sovcombank only);
- Decide whether it is appropriate to assume operating and non-financial risks and allocate risks to risk-takers for the 'average' level of materiality (for the entities of the Group only). Decisions on 'high' and hagher risks are made by Sovcombank.

Risk Committee of the Bank (Risk Committee)

- Annually reviews the risk and capital management strategy;
- Annually reviews significant risk management procedures;
- Reviews every quarter analytical reports on the assumed risks, assessment procedures, risk and capital management;
- Reviews every month reports describing significant risks, compliance with statutory ratios, capital requirements, results of the Bank's capital adequacy assessment;
- Reviews ICAAP internal regulations within the established competencies;
- Assesses (at least annually) the need to update the methodology and procedures to identify significant risks, amend the methodology and procedures to aggregate quantitative assessment of significant risks;
- Reviews the results of efficiency assessment of the methodology and procedures to aggregate quantitative assessment of significant risks;
- Reviews (at least annually) whether methodology to identify significant risks is efficient;
- Reviews (at least annually) the need to update the capital requirements aggregation methodology;
- Reviews (at least annually) the need to update stress-testing procedures;
- Reviews (at least annually) the efficiency of the methodology to assess and aggregate significant risks;
- Review (at least annually) the need to update the methodology to assess and aggregate significant risks;
- Review (at least annually) whether the methodology used to determine the amount of capital required to cover significant risks is efficient;
- Reviews (at least annually) the need to update the methodology used to determine the amount of capital required to cover significant risks;

37. Risk management (continued)

Executive management level (continued)

- Reviews (at least annually) the need to update the procedures of setting limits and red flags on significant risks;
- Reviews (at least annually) the need to update control procedures for limits on significant risks;
- Reviews (at least annually) the need to update significant risk management procedures;
- Sets red flags, re-allocates limits approved by the Supervisory Board;
- Ensures compliance with the Bank's ICAAP on the basis of documents prepared in the course of risk and capital management;
- Ensures compliance with ICAAP and maintaining capital adequacy on the level established by the internal regulations;
- Presents ICAAP reports, internal documents, data, information, etc. (both for the Bank and for the Group) for review and approval of the Management Board/Supervisory Board (within their competencies).

The above competencies applicable for the Bank and consolidated entities of the Group.

The Small Credit Committee

Within the established limits, it makes decisions on the following transactions bearing credit risk:

- The Bank's acceptance of credit risks for commercial loans issued to legal entities and individuals, including issuance of guarantees and sureties, opening letters of credit, etc.

For transactions previously approved by the Small Credit Committee:

- Extends existing loan agreements, guarantees and sureties;
- Amends terms of transactions;
- Brings criminal proceedings against borrowers;
- Approves off-budget expenses that include custody fees, transportation, assembly and dismantlement of assets, safekeeping of collateral that include engagement of private security firms;
- Signs pledge agreements, sale/assignment of debt to another lender;
- Amends the procedure of allocating cash inflows to loan repayment;
- Amends repayment schedules;
- Restructures loans;
- Hears issues that include writing-off bad and equivalent debts, as well as bad debt (liabilities) on the loan (including credit-related contingencies) and makes decisions on whether to take the issue to Sovcombank's Management Board;
- Hears issues that include placing assets on Sovcombank's books and taking the matter to the Management Board for consideration;
- Cancels monthly loan commission fees.

The Large Credit Committee

Within the established limits, it makes decisions on the following transactions bearing credit risk:

- Sets credit risk limits on loans issued under sureties of the constituent entities of the Russian Federation and municipalities;
- Sovcombank's acceptance of credit risk limits on loans issued under sureties of the constituent entities of the Russian Federation and municipalities for which credit risk limits were set;
- Sets credit risk limits on commercial loans issued to legal entities;
- Sovcombank's acceptance of credit risk limits on commercial loans issued to legal entities, including issuance of guarantees and sureties, opening letters of credit, etc. for which the Large Credit Committee set credit risk limits;
- Amends terms of transactions, including cancellation of fines on transactions previously approved by the Large Credit Committee;
- Amends terms of loan agreements, regardless of their amounts.

37. Risk management (continued)

Executive management level (continued)

For transactions previously approved by the Large Credit Committee:

- Extends existing loan agreements, guarantees and sureties;
- Amends terms of transactions;
- Amends procedures for allocating cash inflows to loan repayment;
- Amends repayment schedules;
- Restructures loans.

The Limit Credit Committee

Within the established limits, it makes decisions on the following transactions bearing the credit risk:

- Sets credit risk limits on loans issued the constituent entities of the Russian Federation and municipalities;
- Sovcombank's acceptance of credit risk limits on loans issued to the constituent entities of the Russian Federation and municipalities for which the Limit Credit Committee set the credit risk limits;
- Sets credit risk limits on loans issued under sureties of the constituent entities of the Russian Federation and municipalities;
- Sovcombank's acceptance of credit risk limits on loans issued under sureties of the constituent entities of the Russian Federation and municipalities for which the Limit Credit Committee set the credit risk limits;
- Sets credit risk limits on commercial loans issued to legal entities and individuals;
- Sovcombank's acceptance of credit risk limits on commercial loans issued to legal entities and individuals, including issuance of guarantees and sureties, opening letters of credit, etc. for which the Limit Credit Committee set credit risk limits;
- Sets credit risk limits on commercial loans issued to counterparty banks;
- Sets credit risk limits on the purchase of securities for own portfolio and repurchase agreements;
- Sovcombank's assuming of the risks associated with the equity securities for own portfolio;
- Sets credit risk limits on correspondent accounts, including cash collection limits and ATM loading limits;
- Sovcombank's assuming of the credit risks on loans issued to the commercial counterparty banks;
- Sovcombank's assuming of the credit risks on loans issued to the insiders;
- Decides on whether a borrower must provide documents issued by the governmental authorities to prove its inability to repay a loan (for loans exceeding 1% of Sovcombank's equity);
- Sets limits for the Limit Credit Committee to make decisions on the transactions bearing credit risk;
- Makes decisions to delegate powers of the Limit Credit Committee.

If a loan (sum of loans issued to one borrower or a group of borrowers) amounts to 1% (one percent) of Sovcombank's equity or less:

a) Makes decisions to treat debt servicing on the restructured loans as 'good' in accordance with paragraph 3.10 of Regulation of 590-P;

b) Decides whether the borrower (the legal entity) is engaged in actual operations in accordance with paragraph 3.12.3 of Regulation of 590-P;

c) Makes decisions on applications from branches to issue loans from the funds of the Moscow branch of Sovcombank (if the units' funds are insufficient).

37. Risk management (continued)

Executive management level (continued)

For transactions previously approved by the Limit Credit Committee:

- Extends existing loan agreements, guarantees and sureties;
- Amends terms of transactions;
- Amends procedures of allocating cash inflows to loan repayment;
- Initiates criminal proceedings against borrowers;
- Approves off-budget expenses that include custody fees, transportation, assembly and dismantlement of assets, safekeeping of collateral that include engagement of private security firms;
- Signs pledge agreements, sale/assignment of debt to another lender;
- Amends procedures of allocating cash inflows to loan repayment;
- Amends repayment schedules;
- Restructures loans.

For transactions previously approved by the second level of the Limit Credit Committee:

The first level of the Limit Credit Committee may decide on the following:

1) Change non-financial terms of transactions;
2) Approve applications for regular monitoring of treasury limits.

Liquidity Management Committee

- Determines current (mid-term) liquidity;
- Forecasts current (mid-term) liquidity;
- Analyzes current and projected current (midterm) liquidity;
- Approves interest rates for deposits of individuals and legal entities, own promissory notes;
- Presents crisis plans;
- Develops a strategy to realize excessive liquidity or overcome a deficit of liquidity;
- Identifies the following securities recorded on the balance sheet:
  - Securities realizable in the short-term perspective;
  - Securities subject to transfer;
  - Securities purchased to manage liquidity risk.

Corporate Business Committee

- Approves corporate business budgets (transactions with legal entities, individual entrepreneurs and certain individuals (large Sovcombank customers);
- Makes decisions to launch new types of services;
- Negotiates banking transactions and concludes corporate business deals;
- Deals in precious metals;
- Approves rates, including cash settlement service fees for legal entities and individual entrepreneurs, brokerages and depositary fees;
- Approves interbank regulations, as well as calculations of provisions for all assets of the Group (including consumer loans) in accordance with the Russian accounting standards;
- Decides whether to write off bad debts of legal entities and individual entrepreneurs (cash settlement service fees, other receivables other than commission fees, state duties, penalties and interest on the loan agreements) against the provision made and whether to write off accounts receivable on Sovcombank’s business operations.

37. Risk management (continued)

Executive management level (continued)

Retail Business Committee

- Controls retail lending in accordance with the Loan Policy;
- Reviews and approves retail lending programs;
- Sets tariffs, limits, restrictions and lending requirements for the approved programs;
- Approves tariffs for credit and debit cards;
- Monitors retail credit risks, including:
  - Reviews compliance with the set goals and culture of control over credit risks;
  - Raises awareness of the need to manage retail credit risks among employees;
  - Maintains the balance between mitigation of retail credit risks and benefits from risks assumed;
  - Assists the Management Board in controlling retail credit risks, identifying Sovcombank's risk profiles, assessing performance of systems used to determine risk levels, analyzing risks;
- Determines management accounts form and preparation procedures;
- Monitors competitive environment;
- Approves and monitors the implementation of procedures, processes and new product/service guidelines;
- Approves the design and contents of the retail products website;
- Approves the templates of applications for products offered to individuals;
- Manages regional networks;
- Introduces new products, cancels existing products, amends business processes (other than amendments and approval of tariffs);
- Assesses risks and compliance with the established risk appetite when taking decisions to enter new markets, launching new operations (implementing new products).

Retail Portfolio Credit Committee

- Makes decisions to enter into deals that bear a credit risk, as well as agreeing on terms of such deals, including approval of price parameters, including:
  - Those related to issuing loans to individuals;
  - Those related to granting collateral under agreements with individuals that relate to the credit risk;
- Makes decisions on setting limits on deals with a credit risk between a customer and Sovcombank, as well as on deals related to change the previously set limit (with no restriction on the amount);
- Makes decisions to change terms of transactions that bear credit risk, previously approved by the Committee or by a Sovcombank's authorized employee, including changes in names of borrowers under the loans agreement, type, amount and/or quality of collateral under those transactions, names of pledgers and realization of collateral for full or partial repayment of loan;
- Makes decisions to approve refinancing/restructuring terms, including those related to exchange rate used when the currency of the loan is changed;
- Makes decisions on deferral in initiating legal claims, as well as deferral in presenting enforcement documents for execution;
- Approves delays in payment/possibility to pay in installments to execute the court rulings;
- Approves deals aimed at the settlement of outstanding debt, including foreclosures, novation, transfer of debt, amicable agreements, debt forgiveness agreements, interest on loan, forfeitures/fines, agreements to accept the collateral (movable or immovable property) to the Group's balance sheet, as well as assignment (cession) agreements, including those bearing a loss;
- Coordinates the Group's units working with problem assets;
- Approves procedures to manage collateral portfolio accepted to the Group's balance sheet, including decisions about their commercial use, disposal and/or encumbrance;
- Prepares recommendations to improve work with problem assets;

37. Risk management (continued)

Executive management level (continued)

- Analysis and measurement of efficiency of measures taken in respect of a certain problem asset;
- Approves a selling price for the pledged assets Sovcombank will indicate in its claim to the court;
- Makes decisions whether to treat a loan as bad debt and writing it off against the provision made;
- Makes decisions whether to grant a real estate owner who pledged a real estate with Sovcombank a permission to lease it to the third parties;
- Approves pricing terms for partial early repayment of loans denominated in foreign currencies;
- Makes decisions whether to assign a loan (or its equivalent) a credit rating, include it into homogeneous loans portfolio and set provisioning rate considering the requirements of the CBR and internal regulations of Sovcombank (other than IFRS requirements).

Control and summary level

On the control and summary level, Sovcombank has Risk Function that complies with the following requirements:

- Risk Function complies with the legislative requirements, regulations of the CBR and internal regulations of Sovcombank;
- Sovcombank has Head of the Risk Function who qualifies for the requirements set by Instruction No. 4662-U of the CBR and requirements to business reputation set by Federal Law No. 395-1, *Concerning Banks and Banking Activity*;
- Head and employees of the Risk Function are employed with the Bank;
- Head of the Risk Function is a member of committees of the Bank responsible for ongoing risk and capital management;
- The Risk Function includes the following separate units of the Bank performing risk management functions:
    - Credit and Business Risk Department (Risk department);
    - Risk Assessment Department (Risk department);
    - Retail Risk Department (units engaged in risk management).

Risk department

- Designs, implements, supports and improves the risk management system of the Bank and of the Group, ensures its compliance with the development strategy, requirements of the CBR, recommendations of the Basel Committee and best global practices;
- Organizes identification of risks evaluation of their significance;
- Prepares ICAAP report on the overall Group level and on the level of its entities;
- Prepares an aggregated report on the level of significant risks to the management, management bodies and other collegial bodies engaged in risk management in scope necessary for making managerial decisions;
- Performs stress-testing;
- Consolidates risk data for the disclosures;
- Consolidates the Group financial statements for the statutory financial statements;
- Prepares reports on the equity (capital), compliance with prudential ratios, provisions for possible losses on loans and their equivalents.

Finance department

- Consolidates the Group financial statements for the management accounts;
- Forecasts the total capital considering limits and restrictions set by risk appetite and target level of risks;
- Plans the transactions and capital at least annually;
- Takes results of ICAAP results into account when making decisions related to the Group business development;
- Analyzes actual results of the Group, including comparison with the plan.

37. Risk management (continued)

Control and summary level (continued)

Internal Control Function

- Identifies regulatory risk;
- Evaluates events related to the regulatory risk;
- Monitors regulatory risk, as well as analyzes new banking products and services for regulatory risk exposure;
- If necessary, sends recommendations on managing regulatory risk to the management and management bodies;
- Coordinates and participates in the development of a whole set of regulatory risk mitigation measures on the level of the Group;
- Monitors the efficiency of regulatory risk management;
- Takes part in design of internal documents on regulatory risk management;
- Communicates matters concerning regulatory risk management to the employees of the Group.

Internal Audit

- Evaluates the efficiency of the risk and capital management system, including review of the methodology for assessing risks and risk management procedures established by regulations (techniques, programs, rules, practices, etc.) and completeness of their application;
- Reviews operation of risk management units, as well as operation of Risk department of the Bank;
- Communicates deficiencies of risk and capital management system, as well as measures to address them to the Supervisory Board and executive management bodies;
- Sets requirements to the internal audit of the Group in terms of review of risk and capital management, as well as designs and updates internal regulations setting consistent standards and requirements to the organizational structure, segregation of duties, processes and procedures of internal audit.

For detailed information about the functions of the control and summary level refer to the respective Regulations on the units and other internal regulations of the Group.

Operating level

Chief accountant and units that report to him/her maintain control over operations and risks of the Bank during payment processing and the documenting of deals. Deals are concluded only if the Bank's internal regulations are complied with, and there are no violations of legal and regulatory norms, including requirements of the Bank of Russia.

All *units of the Group directly involved in operations*:

- Maintain ongoing control over the current level of risks of the transactions performed;
- Head of the units are responsible for integration of the risk management on site;
- Ensure compliance with risk management procedures and strategy accepted by the Group;
- Participate in ongoing improvement of the risk management by presenting initiatives to improve it;
- Assist units of the control and summary level in the course of control over the risk management.

The Bank management cosiders the following types of risks are significant for the Group:

- Market risk (interest rate risk, currency risk and prepayment risk);
- Credit risk;
- Liquidity risk;
- Operational risk.

37. Risk management (continued)

Market risk

Market risk is the risk of financial losses due to changes in the fair value of financial instruments and goods, exchange rates and (or) reference prices for precious metals.

The Group determines the following target structure of the market risk by the types of transactions exposed to the market risk:

- Sales and purchases of securities for the trade portfolio;
- Deals and transactions forming open currency positions;
- Sales and purchases of derivatives.

Procedures to manage market risk, including concentration risk, include the following:

- The definition of the trading portfolio structure;
- The methodologies for market risk assessment and determination of capital requirements for market risk;
- The methodology for estimating the value of trading portfolio instruments;
- Procedures to make decisions on the launch of operations with new types of financial instruments or operations in new markets;
- The system of limits and limit-setting procedures.

In order to take the concentration risk into account when assessing and forecasting the market risk, the Group focuses on the following concentration elements (in the course of sensitivity analysis at additional scenarios):

- Share of financial instruments of the same credit quality in the trade portfolio;
- Share of instruments of one issuer/counterparty in the trade portfolio.

Interest rate risk

Interest rate risk is the risk of deterioration of the Group's financial position due to a decrease in capital, income or value of assets as a result of changes in market interest rates.

All assets and liabilities of the Group that are sensitive to the interest rate fluctuations are exposed to the interest rate risk.

Interest rate risk management procedures include the following:

- Determining assets and liabilities sensitive to the interest rate fluctuations;
- Interest rate risk measurement methodology;
- Capital adequacy assessment procedures;
- Methodology of sensitivity analysis in respect of that risk;
- The system of limits and limit-setting procedures.

In order to take the concentration risk into account when assessing and forecasting the interest rate risk, the Group focuses on the following concentration elements:

- Share of instruments of the same type in the assets/liabilities of the Group sensitive to the interest rate fluctuations;
- Share of financial instruments with embedded options (if any);
- Concentration of financial instruments with the same maturity.

37. Risk management (continued)

Interest rate risk (continued)

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group sets limits on the acceptable level of mismatch for interest rate revision.
The sensitivity of the fair value of such instruments includes the effect of the plausible changes in risk-free interest rate for one year. The above parameter is measured by reference to the effect of the fair value of the fixed-rate financial instruments at fair value through profit or loss, loans issued to customers and attracted deposits carrying a floating interest rate. Such measurement envisages applying the assumption of a parallel shift in the yield curve.

Currency	*Increase in basis points*	*Sensitivity of net interest income 2018*	*Sensitivity of net gain on financial instruments at fair value through profit or loss 2018*	*Sensitivity of equity 2018*	*Sensitivity of net interest income 2017*	*Sensitivity of net gain on financial instruments at fair value through profit or loss 2017*	*Sensitivity of equity 2017*
RUB	100	1,773	(3,079)	(1,306)	403	(6,048)	(5,645)
USD	100	190	(4,050)	(3,860)	69	(626)	(557)
EUR	100	446	(55)	391	144	–	144

Currency	*Decrease in basis points*	*Sensitivity of net interest income 2018*	*Sensitivity of net gain on financial instruments at fair value through profit or loss 2018*	*Sensitivity of equity 2018*	*Sensitivity of net interest income 2017*	*Sensitivity of net gain on financial instruments at fair value through profit or loss 2017*	*Sensitivity of equity 2017*
RUB	100	(1,773)	3,079	1,306	(403)	6,048	5,645
USD	100	(190)	4,050	3,860	(69)	626	557
EUR	100	(446)	55	(391)	(144)	–	(144)

To reduce interest rate risk, the Group enters into long-term interest rate swaps with Russian and foreign banks. The detailed information is presented in the Section "Derivative financial instruments" (Note 19).

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Currency risk arises when the actual or forecast assets denominated in a foreign currency mismatch the liabilities in the same currency. The Group's policy requires that total currency risk exposure does not exceed 10% equity attributable to shareholders.

To manage currency risk mainly arising from the mismatch of volumes of foreign currency assets and liabilities, the Group enters into currency swaps for the respective currencies through the Moscow Exchange.

Sensitivity of the Group's annual profit or loss and equity attributable to shareholders, including perpetual subordinated bonds, to changes in foreign currency exchange rates as at 31 December 2018 and 2017 was as follows:

	2018	***2017***
	Profit or loss RUB MM	***Profit or loss RUB MM***
20% appreciation of USD vs. RUB	(314)	(12)
20% depreciation of USD vs. RUB	314	12
20% appreciation of EUR vs. RUB	100	(14)
20% depreciation of EUR vs. RUB	(100)	14

If the perpetual subordinated bonds had not been included in the calculation, the sensitivity of the Group's profit or loss, as well as its equity attributable to shareholders for the year ended 31 December 2018, would have been as follows:

	2018
	Profit or loss RUB MM
20% appreciation of USD vs. RUB	1,081
20% depreciation of USD vs. RUB	(1,081)

37. Risk management (continued)

Currency risk (continued)

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

	RUB *RUB MM*	*USD* *RUB MM*	*EUR* *RUB MM*	*Other* *RUB MM*	*Total* *RUB MM*
Assets					
Cash and cash equivalents	84,808	6,536	18,074	399	**109,817**
Mandatory cash balances with the CBR	4,991	–	–	–	**4,991**
Placements with banks:					
- 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**
Available-for-sale investment securities	691	–	–	–	**691**
Loans to customers	371,928	147,586	20,334	1,630	**541,478**
Investment in associates	424	–	–	–	**424**
Assets held for sale	–	–	–	–	**–**
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	19,164	496	23	24	**19,707**
Total assets	**592,940**	**322,820**	**49,591**	**2,053**	**967,404**
Liabilities					
Due to the CBR	859	–	–	–	**859**
Due to banks	34,963	151,726	3,508	58	**190,255**
Due to customers	527,446	43,353	26,381	1,694	**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**
Subordinated debt	6,993	7,000	–	–	**13,993**
Other liabilities	11,718	7,089	23	1	**18,831**
Total liabilities	**611,661**	**209,955**	**29,999**	**1,753**	**853,368**
Net balance sheet position as at 31 December 2018	**(18,721)**	**112,865**	**19,592**	**300**	**114,036**
Net off-balance sheet position as at 31 December 2018	128,232	(107,459)	(19,090)	(1,683)	**–**
Net position as at 31 December 2018	**109,511**	**5,406**	**502**	**(1,383)**	**114,036**
Perpetual subordinated bonds	–	6,975	–	–	**6,975**
Net position, including perpetual subordinated bonds as at 31 December 2018	**109,511**	**(1,569)**	**502**	**(1,383)**	**107,061**
Credit-related commitments	**288,207**	**24,378**	**5,699**	**44**	**318,328**

37. Risk management (continued)

Currency risk (continued)

The table below shows the breakdown of assets and liabilities by currency as at 31 December 2017:

	RUB RUB MM	*USD RUB MM*	*EUR RUB MM*	*Other RUB MM*	*Total RUB MM*
Assets					
Cash and cash equivalents	33,985	544	5,397	36	**39,962**
Mandatory cash balances with the CBR	2,975	–	–	–	**2,975**
Placements with banks	32	5,162	4,144	–	**9,338**
Financial instruments at FVPL:					
- held by the Group	100,270	38,550	–	1,223	**140,043**
- pledged under sale and repurchase agreements	79,583	129,265	–	250	**209,098**
Available-for-sale investment securities	3,935	–	–	–	**3,935**
Loans to customers	233,230	25,255	7,760	–	**266,245**
Investment in associates	8,224	–	–	–	**8,224**
Assets held for sale	425	–	–	–	**425**
Investments in joint ventures	506	–	–	–	**506**
Investment property	58	–	–	–	**58**
Property and equipment and intangible assets	4,942	–	–	–	**4,942**
Goodwill	728	–	–	–	**728**
Current income tax asset	1,153	–	–	–	**1,153**
Deferred tax asset	459	–	–	–	**459**
Other assets	1,407	1	–	–	**1,408**
Total assets	**471,912**	**198,777**	**17,301**	**1,509**	**689,499**
Liabilities					
Due to banks	110,440	83,695	–	–	**194,135**
Due to customers	345,346	9,454	4,109	5	**358,914**
Debt securities issued	15,608	70	66	–	**15,744**
Other borrowed funds	14,920	461	–	–	**15,381**
Subordinated debt	–	6,799	–	–	**6,799**
Deferred tax liability	5,244	–	–	–	**5,244**
Other liabilities	7,523	341	–	–	**7,864**
Total liabilities	**499,081**	**100,820**	**4,175**	**5**	**604,081**
Net balance sheet position as at 31 December 2017	**(27,169)**	**97,957**	**13,126**	**1,504**	**85,418**
Net off-balance sheet position as at 31 December 2017	112,461	(98,017)	(13,195)	(1,249)	**–**
Net position as at 31 December 2017	**85,292**	**(60)**	**(69)**	**255**	**85,418**
Credit-related commitments	**249,041**	**15,241**	**816**	**–**	**265,098**

The Group calculates the net off-balance sheet position in Russian rubles as a balance of off-balance assets and liabilities denominated in foreign currencies.

Prepayment risk

Prepayment risk is the risk that the Group will fail to receive income from its assets as planned because some customers repay or request repayment earlier or later than expected.

The Group's financial results and equity at the end of the current reporting period would not have been significantly impacted by the prepaid amounts.

Credit risk

Credit risk is the risk that the Group will incur losses because the borrower fails to discharge its contractual financial obligations to the Group, or discharged them in an untimely fashion or not in full.

Based on the activities exposed to credit risk, the Group determines the following target structure of credit risk:

- Corporate lending;
- Retail lending;
- SME lending;
- Lending to constituent entities and municipalities of the Russian Federation;
- Contributions made by the treasury units into securities, promissory notes, interbank loans and other financial instruments;
- Credit risk of the counterparty.

37. Risk management (continued)

Credit risk (continued)

Procedures to manage credit risk, including concentration risk, include the following:

- Procedure for loan issuance and the respective decision-making process;
- Methods to determine and impose limits on transactions exposed to credit risk;
- Methodology to assess counterparty (borrower) risk including methodology to assess financial position of the counterparty (borrower), loan quality, determination of the capital requirements to the Group;
- Requirements to collateral (pledge) for liabilities of counterparties (borrowers) and the respective assessment methodology.

The Group does not identify concentration risk as a separate type of risk and considers it within each significant risk.

Procedures to manage concentration risk include the following:

- Methodology and procedure to determine and measure concentration risk, methodology for stress-testing of the Group's resilience to concentration risk;
- Procedures to limit concentration risk, procedure to establish concentration limits, methods to ensure compliance with these limits;
- Procedures to inform management bodies on the size of accepted concentration risk and breaches of concentration limits and the ways to eliminate them.

In order to identify and measure concentration risk, the Group establishes a system of indicators that considers the following forms of concentration:

- Significant exposure to one client (a group of related clients);
- There are significant investments in one type of instruments and instruments whose value depends on changes in general factors;
- Credit exposures to counterparties are concentrated in one sector or geographic region;
- Credit exposures to counterparties whose financial results are generated from the same type of activity or the same products and services;
- The Group depends on particular types of income and particular sources of funding.

In the course of concentration risk management procedures, the Group determines a system of limits that allows controlling the forms of concentration.

The group's regulations related to management of each significant risk stipulates monitoring of the Group's exposure to each form of concentration risk and control over the level of concentration risk limits.

Classification of assets into four categories of credit risk represents aggregated information on credit quality of financial assets subject to IFRS 9.

- High grade: financial assets, counterparties of which show sustainable ability to fulfill their obligations usually have high credit grade of BBB- or Baa3 (equal to credit rating of the Russian Federation) or higher assigned by Fitch Ratings, S&P (Moody's);
- Standard grade is assigned to financial assets, counterparties of which has a lower probability of default; credit grades are in the range of B- (B3) to BBB- (Baa3), and for retail loans the amounts are outstanding for no more than 30 days. Timely discharge of financial obligations on the assets by the counterparty are deemed by the Group as "High grade";
- Sub-standard grade: financial assets, which show an increase in credit risk (overdue from 30 to 90 days), counterparties have higher probability of default;
- Impaired: financial assets, which show a significant increase in credit risk, have impairment indicators and meet the definition of default.

37. Risk management (continued)

Credit risk (continued)

The analysis of the credit quality by class of assets for loan-related line items of the consolidated statement of financial position, based on the Group's credit rating system as at 31 December 2018 is shown in the table below.

As at 31 December 2018	*Notes*		*High grade*	*Standard grade*	*Substandard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	18	Stage 1	57,418	41,267	–	–	**98,685**
Due from banks	19	Stage 1	23,631	24,903	–	–	**48,534**
Loans to customers measured at amortized cost:	21						
- Consumer lending		Stage 1	–	40,543	1,179	–	**41,722**
		Stage 2	–	–	436	–	**436**
		Stage 3	–	–	–	966	**966**
- Credit cards		Stage 1	–	18,471	277	–	**18,748**
		Stage 2	–	–	102	–	**102**
		Stage 3	–	–	–	194	**194**
- Mortgages		Stage 1	–	53,060	921	–	**53,981**
		Stage 2	–	–	441	–	**441**
		Stage 3	–	–	–	1,433	**1,433**
- Car loans		Stage 1	–	69,911	1,282	–	**71,193**
		Stage 2	–	–	344	–	**344**
		Stage 3	–	–	–	488	**488**
- Corporate loans and bonds measured at amortized cost		Stage 1	35,323	313,780	521	–	**349,624**
		Stage 2	–	–	–	–	**–**
		Stage 3	–	–	–	1,198	**1,198**
		POCI assets	–	–	–	813	**813**
Loan and credit line commitments	35	Stage 1	–	216,144	–	–	**216,144**
Bank guarantees	35	Stage 1	–	48,320	–	–	**48,320**
Commitments to issue banking guarantees	35	Stage 1	–	53,864	–	–	**53,864**
Total			**116,372**	**880,263**	**5,503**	**5,092**	**1,007,230**

The table below presents gross carrying amounts calculated in accordance with IAS 39 as at 31 December 2017 based on the Group's internal credit rating:

		Neither past due nor impaired					
As at 31 December 2017	*Notes*	*High grade*	*Standard grade*	*Substandard grade*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents, except for cash on hand	18	30,462	3,512	–	–	–	**33,974**
Placements with banks	19	3,024	6,314	–	–	–	**9,338**
Loans to customers	21						
Retail loans							
Consumer loans		–	40,664	–	2,625	–	**43,289**
Car loans		–	54,076	–	1,618	–	**55,694**
Credit cards		–	7,790	–	351	–	**8,141**
Mortgage loans		–	28,145	–	1,383	–	**29,528**
Corporate loans							
Loans to constituent entities and municipalities of the Russian Federation		–	24,758	–	4	–	**24,762**
Corporate loans		–	79,684	–	–	2,312	**81,996**
Loans to small businesses and other loans to customers		–	2,129	–	170	–	**2,299**
State-owned enterprise bonds		–	5,815	–	–	–	**5,815**
Corporate bonds		–	10,429	–	–	–	**10,429**
Government and municipal bonds		–	4,292	–	–	–	**4,292**
Total		**33,486**	**267,608**	**–**	**6,151**	**2,312**	**309,557**

37. Risk management (continued)

Credit risk (continued)

Impairment assessment

From 1 January 2018, the Group calculates ECL on the basis of expected cash shortfalls. Cash shortfall is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive. Note 2 outlines the mechanics of ECL calculations.

Note 21 discloses the credit quality management of loans issued to individuals and corporate customers as at 31 December 2018 and 31 December 2017.

Liquidity risk

Liquidity risk is the probability of losses due to inability of the Group to finance its activities, i.e., ensure increase in its assets and discharge its obligations when they fall due without incurring losses that can impact its financial stability.

All the Group's lending and funding transactions that imply payback of cash during contractual terms established between the counter parties are subject to liquidity risk.

The liquidity risk is managed through establishing liquidity risk management procedures and allocating capital to cover for it.

Liquidity risk management procedures include the following:

- Determination of liquidity risk factors;
- Determination and distribution of duties related to acceptance and management of liquidity risk between structural units;
- Description of procedures to determine funding requirement;
- Determination of the procedure to analyze the liquidity position for various time perspectives (short-term, current, long-term liquidity);
- Determination of the procedure to establish liquidity limits and determine a method to control over compliance with them;
- Procedures to manage liquidity on a daily basis and during longer periods;
- Methods to analyze the liquidity of assets and the stability of liabilities;
- Procedures to make decisions in case of a conflict of interests between liquidity and profitability;
- Procedures to recover liquidity in case of liquidity deficit.

The Group determines the following liquidity risk structure by the sources of liquidity risk:

- The risk of mismatch between the amounts and dates of receipts and disbursements of cash (cash inflows and outflows);
- The risk of unforeseen liquidity requirements, that is, the risk that unforeseen future events may require financing above the envisaged amount;
- The risk of market liquidity, that is, the risk of losses resulting from assets disposal or inability to close the existing position due to insufficient market liquidity or insufficient trading volume;
- The funding risk, that is, the risk associated with potential changes in the cost of funding, which impact the head credit institution's future income.

The Bank management considers the following elements of concentration to estimate the liquidity risk in assessment and forecast of operational risk:

- Requirement for major funding sources (by certain funding type) if there is no information on extension;
- When analyzing the stability of liabilities, the major sources of funding with higher volatility are excluded from statistical sample and considered separately (the balances are deemed stable are less than RUB 300 MM per client);
- When analyzing early repayment of deposits of retail clients, only the amount of deposit in excess of guaranteed by deposit insurance system minimum are accounted.

37. Risk management (continued)

Liquidity risk (continued)

The following tables show the undiscounted cash flows related to the Group's financial liabilities, guarantees and off-balance sheet credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the table is the contractual undiscounted cash flow related to the financial liability or commitment. The Group's expected cash flows related to these financial liabilities and off-balance sheet credit-related commitments may vary significantly from this analysis.

Financial liabilities as at 31 December 2018	*On demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross outflow*	*Carrying amount*
Due to the CBR	–	–	–	967	–	**967**	859
Due to banks	183,108	–	3,243	677	3,593	**190,621**	190,255
Due to customers	227,916	113,977	112,870	96,441	63,214	**614,418**	598,874
Debt securities issued	489	417	4,325	4,035	–	**9,266**	8,479
Other borrowed funds	–	51	157	833	41,202	**42,243**	16,924
Subordinated debt	–	12	1,098	4,644	19,845	**25,599**	13,993
Other liabilities	11,776	–	–	–	–	**11,776**	11,776
Total financial liabilities	**423,289**	**114,457**	**121,693**	**107,597**	**127,854**	**894,890**	**841,160**
Credit-related commitments	**60,532**	**17,275**	**85,885**	**143,808**	**10,828**	**318,328**	**318,328**

Financial liabilities as at 31 December 2017	*On demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*Total gross outflow*	*Carrying amount*
Due to banks	184,327	1,993	2,589	–	5,519	**194,428**	194,135
Due to customers	133,513	67,986	84,967	90,289	–	**376,755**	358,914
Debt securities issued	74	362	16,164	316	31	**16,947**	15,744
Other borrowed funds	463	51	157	833	41,410	**42,914**	15,381
Subordinated debt	47	98	458	2,434	37,791	**40,828**	6,799
Other liabilities	3,587	–	–	–	–	**3,587**	3,587
Total financial liabilities	**322,011**	**70,490**	**104,335**	**93,872**	**84,751**	**675,459**	**594,560**
Credit-related commitments	**68,682**	**20,626**	**51,866**	**117,913**	**6,011**	**265,098**	**265,098**

The table below provides the breakdown of monetary assets and liabilities by their expected maturities, as determined by the Group's management, as at 31 December 2018:

	Less than 1 month RUB MM	*From 1 to 3 months RUB MM*	*From 3 months to 1 year RUB MM*	*Subtotal less than 1 year RUB MM*	*From 1 to 5 years RUB MM*	*More than 5 years RUB MM*	*Subtotal more than 1 year RUB MM*	*No maturity and overdue RUB MM*	*Total RUB MM*
Assets									
Cash and cash equivalents	109,817	–	–	**109,817**	–	–	**–**	–	**109,817**
Mandatory cash balances with the CBR	1,180	941	915	**3,036**	713	–	**713**	1,242	**4,991**
Placements with banks									
- held by the Group	10,713	3,345	2,579	**16,637**	15,937	3,040	**18,977**	–	**35,614**
- pledged under sale and repurchase agreements	12,921	–	–	**12,921**	–	–	**–**	–	**12,921**
Financial instruments at FVPL									
- held by the Group	114,261	–	–	**114,261**	–	–	**–**	–	**114,261**
- pledged under sale and repurchase agreements	110,779	–	–	**110,779**	–	–	**–**	–	**110,779**
Available-for-sale investment securities	–	–	–	**–**	–	–	**–**	691	**691**
Loans to customers	21,814	22,855	93,770	**138,439**	286,414	110,228	**396,642**	6,397	**541,478**
Investment in associates	–	–	–	**–**	–	–	**–**	424	**424**
Investments in joint ventures	–	–	–	**–**	–	–	**–**	927	**927**
Other assets	1,685	–	–	**1,685**	–	–	**–**	–	**1,685**
Total assets	**383,170**	**27,141**	**97,264**	**507,575**	**303,064**	**113,268**	**416,332**	**9,681**	**933,588**
Liabilities									
Due to the CBR	–	–	–	**–**	859	–	**859**	–	**859**
Due to banks	182,913	–	3,130	**186,043**	619	3,593	**4,212**	–	**190,255**
Due to customers	141,538	112,935	109,791	**364,264**	85,548	31	**85,579**	149,031	**598,874**
Debt securities issued	488	415	3,877	**4,780**	3,699	–	**3,699**	–	**8,479**
Other borrowed funds	–	–	–	**–**	–	16,924	**16,924**	–	**16,924**
Subordinated debt	–	–	–	**–**	–	13,993	**13,993**	–	**13,993**
Other liabilities	11,776	–	–	**11,776**	–	–	**–**	–	**11,776**
Total liabilities	**336,715**	**113,350**	**116,798**	**566,863**	**90,725**	**34,541**	**125,266**	**149,031**	**841,160**
Net position as at 31 December 2018	**46,455**	**(86,209)**	**(19,534)**	**(59,288)**	**212,339**	**78,727**	**291,066**	**(139,350)**	**92,428**
Cumulative gap as at 31 December 2018	**46,455**	**(39,754)**	**(59,288)**	**(59,288)**	**153,051**	**231,778**	**291,066**	**92,428**	**–**
Credit-related commitments	**318,328**	**–**	**–**	**318,328**	**–**	**–**	**–**	**–**	**318,328**

37. Risk management (continued)

Liquidity risk (continued)

The table below provides the breakdown of monetary assets and liabilities by their expected maturities, as determined by the Group's management, as at 31 December 2017:

	Less than 1 month RUB MM	*From 1 to 3 months RUB MM*	*From 3 months to 1 year RUB MM*	*Subtotal less than 1 year RUB MM*	*From 1 to 5 years RUB MM*	*More than 5 years RUB MM*	*Subtotal more than 1 year RUB MM*	*No maturity and overdue RUB MM*	*Total RUB MM*
Assets									
Cash and cash equivalents	39,962	–	–	**39,962**	–	–	**–**	–	**39,962**
Mandatory cash balances with the CBR	872	556	677	**2,105**	637	–	**637**	233	**2,975**
Placements with banks	3	2,139	3,195	**5,337**	3,448	553	**4,001**	–	**9,338**
Financial instruments at FVPL									
Held by the Group	140,043	–	–	**140,043**	–	–	**–**	–	**140,043**
Pledged under sale and repurchase agreements	209,098	–	–	**209,098**	–	–	**–**	–	**209,098**
Available-for-sale investment securities	–	–	–	**–**	–	–	**–**	3,935	**3,935**
Loans to customers	9,770	25,319	50,170	**85,259**	129,668	47,722	**177,390**	3,596	**266,245**
Investment in associates	–	–	–	**–**	–	–	**–**	8,224	**8,224**
Investments in joint ventures	–	–	–	**–**	–	–	**–**	506	**506**
Other assets	204	–	–	**204**	–	–	**–**	–	**204**
Total assets	**399,952**	**28,014**	**54,042**	**482,008**	**133,753**	**48,275**	**182,028**	**16,494**	**680,530**
Liabilities									
Due to banks	184,034	1,993	2,589	**188,616**	–	5,519	**5,519**	–	**194,135**
Due to customers	105,101	67,127	81,680	**253,908**	76,888	–	**76,888**	28,118	**358,914**
Debt securities issued	74	358	15,060	**15,492**	232	20	**252**	–	**15,744**
Other borrowed funds	461	–	–	**461**	–	14,920	**14,920**	–	**15,381**
Subordinated debt	–	–	–	**–**	–	–	**–**	6,799	**6,799**
Other liabilities	3,587	–	–	**3,587**	–	–	**–**	–	**3,587**
Total liabilities	**293,257**	**69,478**	**99,329**	**462,064**	**77,120**	**20,459**	**97,579**	**34,917**	**594,560**
Net position as at 31 December 2017	**106,695**	**(41,464)**	**(45,287)**	**19,944**	**56,633**	**27,816**	**84,449**	**(18,423)**	**85,970**
Cumulative gap as at 31 December 2017	**106,695**	**65,231**	**19,944**	**19,944**	**76,577**	**104,393**	**84,449**	**85,970**	**–**
Credit-related commitments	**265,098**	**–**	**–**	**265,098**	**–**	**–**	**–**	**–**	**265,098**

Assets and liabilities are allocated by their remaining contractual maturities, except financial instruments at fair value through profit or loss and certain customer accounts. Securities included in financial instruments at fair value through profit or loss are shown in the "Less than 1 month" category, since management believes that all of these financial instruments could be sold within one month in the normal course of business or the Group could pledge these financial instruments as collateral for loans from the CBR.

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

According to Russian legislation, retail depositors may withdraw their term deposits before contractual maturity. Management believes that diversification of on-demand accounts and deposits by number, type of clients (Note 26), as well as the past experience of the Group during several economic cycles in the Russian Federation indicate that on-demand and term customer accounts provide the most long-term and stable source of funding for the Group.

"No maturity and overdue" column shows current accounts and demand deposits of legal entities because the Group's statistics proves that these accounts can be considered as a stable and long-term source of financing.

The Group has undrawn credit line facilities with the CBR. Accordingly, the Group estimates that the liquidity gaps in the tables above will be covered by the balances of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR.

Credit related commitments are recorded in less than 1 month category since all the undrawn Loan and credit line commitments are included in the time band containing the earliest date it can be drawn down; for issued banking guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

37. Risk management (continued)

Operational risk

Operational risk is the risk that the Bank will incur losses arising from unreliability of and deficiency in internal Group management procedures, actions of employees, failure of information and other systems, or external events affecting the Group's operations.

This definition includes legal risk, risk of concentration of operational risk and information security risk but excludes strategic and reputational risks.

The Group is exposed to the following principal operational risks:

- IT systems and robustness: the risk of financial loss resulting from insufficient IT solution development, implementation or maintenance processes. The robustness of IT solutions and their permanent availability to the Group's customers and employees are of crucial importance for the Group;
- Information security: the risk of data leakage, loss or theft. The overall market level of this risk is growing rapidly due to increasingly sophisticated fraudulent actions and mobility of criminals;
- Third-party and in-house fraud: the risk that the Group and/or its customers will incur a financial loss as a result of third-party or in-house fraud;
- Customer servicing: the risk that new issues will arise or control deficiencies and weaknesses will be identified in existing processes that the Group's customers face as the business continues to evolve.

For the purpose of accounting for concentration risk in assessment and forecast of operational risk, the following indicators are considered:

- Concentration of operational risk events by type of operational risk.

The Group regularly analyses and reviews the management enhancement processes and makes appropriate investments. The Group makes investments in the IT infrastructure. Besides, it makes significant investments to ensure information security, resilience and improvement of the appropriate functions, as the continuity of service to customers is exceptionally important for the Group.

The Group is implementing an annual program for enhancing the technology, processes and manual controls with an emphasis on preventing and detecting fraud in real time. The Group has developed an efficient and robust fraud identification and prevention operating model, including Group-wide policies and operational controls.

Significant operational risks are regularly reported to appropriate committees and are communicated to senior management. The risks are managed through a range of strategies: prevention, mitigation, transfer (including insurance), and acceptance of risks.

38. 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.

The table below shows the total remuneration included in employee benefits (Note 14):

	2018 RUB MM	***2017 RUB MM***
Members of the Supervisory Board	345	352
Management Board	1,332	1,337
	1,677	**1,689**

38. Related party transactions (continued)

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

	Shareholders of the Group[(1)] RUB MM	*JV[(2)] RUB MM*	*KMP[(3)] RUB MM*	*AC[(4)] RUB MM*	*Other[(5)] RUB MM*	*Total RUB MM*
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**

Outstanding balances with related parties as at 31 December 2017 were as follows:

	Shareholders of the Group[(1)] RUB MM	*JV[(2)] RUB MM*	*KMP[(3)] RUB MM*	*AC[(4)] RUB MM*	*Other[(5)] RUB MM*	*Total RUB MM*
Loans	**–**	**502**	**492**	**402**	**2,921**	**4,317**
Allowance for impairment	–	(6)	(9)	(2)	(47)	**(64)**
Loans, net	**–**	**496**	**483**	**400**	**2,874**	**4,253**
Deposits	–	–	73	–	205	**278**
Financial instruments at FVPL	1,775	1,922	–	–	–	**3,697**
Current accounts	43	24	403	1	289	**760**
Other borrowed funds	–	–	461		–	**461**
Subordinated debt	6,799	–	–	–	–	**6,799**
Other liabilities	–	–	1,713	–	–	**1,713**
Commitments and guarantees issued	–	717	120	523	512	**1,872**
Commitments and guarantees received	–	1,004	–	808	10,997	**12,809**

The following table presents related party transactions recorded in the consolidated statement of comprehensive income for the twelve months ended 31 December 2018:

	Shareholders of the Group[(1)] RUB MM	*JV[(2)] RUB MM*	*KMP[(3)] RUB MM*	*AC[(4)] RUB MM*	*Other[(5)] RUB MM*	*Total RUB MM*
Interest income	105	97	67	22	258	**549**
Interest income on financial instruments at FVPL	136	213	–	–	–	**349**
Interest expense on deposits	–	–	(16)	(3)	(31)	**(50)**
Allowances for credit losses	–	3	(3)		37	**37**
Fee and commission income	1	24	3	3	30	**61**
Gains less losses from foreign currencies	(167)	–	7	–	76	**(84)**
General and administrative expenses	–	(14)	(7)	–	–	**(21)**

38. Related party transactions (continued)

The following table presents related party transactions recorded in the consolidated statement of comprehensive income for the twelve months ended 31 December 2017:

	Shareholders of the Group[(1)] ***RUB MM***	***JV***[(2)] ***RUB MM***	***KMP***[(3)] ***RUB MM***	***AC***[(4)] ***RUB MM***	***Other***[(5)] ***RUB MM***	***Total RUB MM***
Interest income	205	65	81	72	358	**781**
Interest income on financial instruments at FVPL	120	158	−	−	−	**278**
Interest expense on deposits	−	−	(7)	(25)	(82)	**(114)**
Interest expense on subordinated debt	(101)	−	−	−	−	**(101)**
Interest expense on other borrowed funds	−	−	(26)	−	−	**(26)**
Allowances for credit losses	−	(6)	(9)	−	(7)	**(22)**
Fee and commission income	−	17	−	9	9	**35**
Gains less losses from foreign currencies	(39)	−	(8)	−	(15)	**(62)**
General and administrative expenses	−	(11)	(18)	−	−	**(29)**

(1) Sovco Capital Partners N.V. is the major shareholder of the Group with ownership of 91.7% (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 a 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.

39. 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.

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.

39. Fair value (continued)

As at 31 December 2018	Fair value measurement using: 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	–	–	3,703	**3,703**
Other financial assets	–	–	883	**883**
Assets for which fair values are disclosed				
Cash and cash equivalents	109,817	–	–	**109,817**
Mandatory cash balances with the CBR	–	–	4,991	**4,991**
Placements with banks and bonds measured at amortized cost	–	30,188	18,531	**48,719**
Loans to customers and bonds measured at amortized cost	–	155,486	389,445	**544,931**
Other assets	–	–	802	**802**
Liabilities measured at fair value				
Subordinated debt	6,993	–	–	**6,993**
Derivative financial liabilities	–	6,846	–	**6,846**
Liabilities for which fair values are disclosed				
Due to the CBR	–	–	859	**859**
Due to banks	–	–	190,134	**190,134**
Due to customers	–	–	598,925	**598,925**
Debt securities issued	–	5,487	3,008	**8,495**
Other borrowed funds	–	–	18,336	**18,336**
Subordinated debt	–	–	7,587	**7,587**
Other liabilities	–	–	11,776	**11,776**

As at 31 December 2017	Fair value measurement using: 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	46,817	302,324	–	**349,141**
Available-for-sale investment securities	–	–	3,935	**3,935**
Investment property	–	–	58	**58**
Property and equipment and intangible assets	–	–	718	**718**
Assets held for sale	–	–	425	**425**
Assets for which fair values are disclosed				
Placements with banks and bonds measured at amortized cost	39,962	–	–	**39,962**
Mandatory cash balances with the CBR	–	–	2,975	**2,975**
Placements with banks	–	32	9,306	**9,338**
Loans to customers and bonds measured at amortized cost	–	18,297	252,730	**271,027**
Other assets	–	–	204	**204**
Liabilities measured at fair value				
Derivative financial liabilities	–	317	–	**317**
Liabilities for which fair values are disclosed				
Due to banks	–	–	194,135	**194,135**
Due to customers	–	–	361,057	**361,057**
Debt securities issued	–	14,489	1,291	**15,780**
Other borrowed funds	–	–	15,381	**15,381**
Subordinated debt	–	–	6,799	**6,799**
Other liabilities	–	–	3,270	**3,270**

39. Fair value (continued)

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.

Fair value of investment property and property and equipment (land and buildings) was determined using the comparative approach since the market where the properties comparable with the ones under assessment are sold, is sufficiently developed. If the market for comparable properties is not developed, the cost approach is used. As at the assessment date of 31 December 2018, the fair value of investment property and property and equipment (land and buildings) is based on assessments made by a qualified independent appraiser.

Changes 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 31 December 2018:

	As at 1 January 2018	*Gains/ (losses) recorded in the statement of profit or loss*	*Gains/ (losses) recorded in other compre-hensive income*	*Business combi-nations*	*Acquisi-tions*	*Sales*	*Settle-ments*	*Transfers from Level 1 and Level 2*	*Reclassi-fication to loans to customers*	*Transfer from investment securities at FVOCI to financial instruments at FVPL*	*As at 31 December 2018*
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**

During the year ended 31 December 2018, the Group transferred certain financial assets at FVPL from Level 2 to Level 3 of the fair value hierarchy. The carrying amount of the financial assets transferred totaled RUB 9,894 MM. The reason for the transfer was that inputs for assessment models ceased being observable on the market, which had led to a change in the method used to determine fair value.

The following table shows a reconciliation of the 2017 opening and closing balances of Level 3 financial assets and liabilities which are recorded at fair value:

	As at 1 January 2017	*Gains/(losses) recorded in the statement of profit or loss*	*Gains/(losses) recorded in other compre-hensive income*	*Acquisitions*	*Sales*	*Settlements*	*Transfers from Level 1 and Level 2*	*Transfers to associates*	*As at 31 December 2017*
Financial assets									
Financial instruments at FVPL	–	1,089	–	5	(1,090)	(4)	–	–	–
Available-for-sale investment securities	7,086	1,024	(977)	2,803	(300)	–	–	(5,701)	3,935
Total Level 3 financial assets	**7,086**	**2,113**	**(977)**	**2,808**	**(1,390)**	**(4)**	**–**	**(5,701)**	**3,935**

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

	2018			*2017*		
	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	106	1,037	**1,143**	394	1,719	**2,113**

39. 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:

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				
Equity securities				
Energy	400	Net assets	Net assets	Not applicable
Electronics	130	The last transaction price	Price of most recent transaction	Not applicable
Rating agencies	111	Net assets	Net assets	Not applicable
Electronics	50	Net assets	Net assets	Not applicable
Investment property	56	Comparative and cost approach	Discount for sale	10%
Property and equipment and intangible assets	3,703	Comparative and cost approach	Discount for sale	10%
Other financial assets	883	Discounted cash flows	Credit risk of the counterparty	20%

31 December 2017	***Carrying amount RUB MM***	***Valuation technique***	***Unobservable inputs***	***Range (weighted average value)***
Financial instruments at FVPL				
Finance	–	Discounted cash flows	Credit risk of the issuer	100%
Available-for-sale investment securities				
Equity securities				
Finance	3,074	Discount to capital	Net assets	70-90%
Energy	400	Net assets	Net assets	Not applicable
IT	300	The last transaction price	Price of the most recent transaction	Not applicable
Rating agencies	111	Net assets	Net assets	Not applicable
IT	50	Net assets	Net assets	Not applicable
Investment property	58	Market and income approach	Discount for sale	10%
Property and equipment and intangible assets	718	Market and income approach	Discount for sale	10%
Assets held for sale	425	Market and income approach	Discount for sale	10%

39. Fair value (continued)

The table below shows the effect of reasonably possible alternative assumptions on the fair value of Level 3 instruments:

	31 December 2018		*31 December 2017*	
	Carrying amount RUB MM	***Effect of reasonably possible alternative assumptions***	***Carrying amount RUB MM***	***Effect of reasonably possible alternative assumptions***
Financial instruments at FVPL				
Metallurgy	1,674	From RUB (34) MM to RUB 34 MM	–	–
Investments securities at FVOCI (2017: investment securities available for sale)				
Equity securities				
Finance	–		3,074	From RUB (121) MM to RUB 589 MM

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 for the years ended 31 December 2018 and 2017:

	2018 RUB MM	***2017 RUB MM***
Financial instruments at FVPL		
Government and municipal bonds	1,685	4,025
State-owned enterprise bonds	1,508	3,909
Corporate bonds	1,031	628
Total transfers from Level 1 to Level 2	**4,224**	**8,562**

The Group transferred financial assets from Level 1 to Level 2 as they ceased to be actively traded. The Group estimated their fair values through valuation techniques using observable market inputs.

	2018 RUB MM	***2017 RUB MM***
Financial instruments at FVPL		
Corporate bonds	48,843	4,245
State-owned enterprise bonds	24,968	4,115
Government and municipal bonds	9,489	1,272
Total transfers from Level 2 to Level 1	**83,300**	**9,632**

Transfers of financial assets from Level 2 to Level 1 were mainly due to the application of a new method used to determine whether a market is active for the financial assets. The Group estimated that these financial assets became actively traded during the reporting period and determined the fair value of these financial assets using observable quoted prices in an active market.

39. Fair value (continued)

Fair values 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 consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2018			*2017*		
	Carrying amount	*Fair value*	*Unrecognized gain/(loss)*	*Carrying amount*	*Fair value*	*Unrecognized gain/(loss)*
Financial assets						
Cash and cash equivalents	109,817	109,817	–	39,962	39,962	–
Mandatory cash balances with the CBR	4,991	4,991	–	2,975	2,975	–
Placements with banks and bonds measured at amortized cost	48,535	48,719	184	9,338	9,338	–
Loans to customers and bonds measured at amortized cost	541,478	544,931	3,453	266,245	271,027	4,782
Other assets	802	802	–	204	204	–
Financial liabilities						
Due to the CBR	859	859	–	–	–	–
Due to banks	190,255	190,134	121	194,135	194,135	–
Due to customers	598,874	598,925	(51)	358,914	361,057	(2,143)
Debt securities issued	8,479	8,495	(16)	15,744	15,780	(36)
Other borrowed funds	16,924	18,336	(1,412)	15,381	16,809	(1,428)
Subordinated debt	7,000	7,587	(587)	6,799	6,799	–
Other liabilities	11,776	11,776	–	3,270	3,270	–
Total unrecognized change in the fair value			**1,692**			**1,175**

40. Business combinations

Acquisition of Rosevrobank JSB

Rosevrobank is a Russian bank specializing in lending and business banking services to small and medium-sized enterprises ("SME").

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

As at 31 December 2017, the Group owned 34.3% share capital of Rosevrobank (24.3% – directly and 10.0% – through REG). As at 31 December 2017, REG was the major 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 to 83.3%. In August 2018, Sovcombank acquired the 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 for a favorable price. Due to this expertise, Rosevrobank generated significant and sustainable net profit for the past 20 years.

40. Business combinations (continued)

Acquisition of Rosevrobank JSB (continued)

Fair value of identifiable net assets and liabilities of JSB Rosevrobank

The Bank determined the fair value of the identifiable net assets and liabilities of Rosevrobank. The fair value of net identifiable assets and liabilities of Rosevrobank was in line with all available data as required by 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 at FVOCI	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
Fair value of identifiable net assets of Rosevrobank JSCB as at the acquisition date	33,817
Non-controlling interest	5,636
Bargain purchase gain (Note 12)	**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**

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

As non-controlling interests entitle their holders to a proportionate share of the entity's net assets in the event of its liquidation, the Group decided to measure the non-controlling interest in Rosevrobank at the proportionate share of non-controlling participants in its identifiable net assets.

From the Acquisition date though 30 September 2018, Rosevrobank has the following key results: interest income of RUB 8,922 MM, non-interest income of RUB 3,334 MM and net profit before tax of RUB 3,657 MM. The Group consolidated net profit of Rosevrobank in the Group's interim consolidated statement of comprehensive income for the nine months ended 30 September 2018.

40. Business combinations (continued)

Acquisition of Sovcomcard LLC

On 5 February 2018 (the "Acquisition date"), Sovcombank acquired 100% in Sovcomcard LLC ("Sovcomcard") from other shareholders for RUB 1,106 MM.

Sovcomcard was incorporated in 2017 to develop Halva installment card project in the Russian Federation.

The Group acquired the company to obtain exclusivity rights for Halva trademark in the Russian Federation due to better that expected results of Halva project.

Fair value of identifiable net assets and liabilities of Sovcomcard LLC

The Bank determined the fair value of the identifiable net assets and liabilities of Sovcomcard and the consideration received is in line with all available data in accordance with IFRS 3 *Business Combinations*.

The fair value of identifiable net assets and liabilities of Sovcomcard at the acquisition date was as follows:

	RUB MM
Assets	
Cash and cash equivalents	13
Property and equipment and intangible assets	868
Other assets	16
Total assets	**897**
Liabilities	
Due to banks	3
Other liabilities	12
Total liabilities	**15**
Identifiable net assets	**882**

	RUB MM
Consideration transferred	1,106
Fair value of identifiable net assets of Sovcomcard LLC as at the acquisition date	882
Goodwill arising on acquisition	**224**

From the date of acquisition, the contribution of Sovcomcard LLC to the Group's interest income was RUB 112 MM and the contribution to the Group's net profit before tax was RUB 78 MM.

As at 31 December 2018, goodwill recognized in the Group's consolidated statement of financial position reflects potential gains from reduced costs and synergies resulting from business integration between Sovcombank and Sovcomcard.

Acquisition of GMCS Management LLC

In August 2018 (the "Acquisition date"), Sovcombank acquired 100% in GMCS Management LLC from GMCS Limited for RUB 500 MM.

GMCS Management LLC was incorporated in 2008. It is mainly engaged in design of specialized software and installation of complex software of third party vendors. The company has staff of 500 employees.

The Bank preliminary determined the fair value of the identifiable net assets and liabilities of GMCS Management LLC and the consideration received is in line with all available data in accordance with IFRS 3 *Business Combinations*.

The main reason for the company's acquisition by the Group is to strengthen the Bank's IT team.

40. Business combinations (continued)

Acquisition of GMCS Management LLC (continued)

The preliminary fair value of identifiable net assets and liabilities of GMCS Management LLC as at the Acquisition date was as follows:

	RUB MM
Assets	
Intangible assets	250
Total assets	**250**
Net identifiable assets and liabilities	**250**
Consideration transferred	500
Preliminary fair value of identifiable net assets of GMCS Management LLC as at the acquisition date	(250)
Goodwill arising on acquisition	**250**

From the date of acquisition, the contribution of GMCS Management LLC to the Group's revenue and other gains from other non-banking business was RUB 458 MM and the contribution to the Group's net profit before tax was RUB (32) MM.

Acquisition of BTE LLC

In October 2018 (the "Acquisition date"), Sovcombank acquired 74.99% in BTE LLC ("BTE") from Maykor Management Company LLC for RUB 329 MM. BTE was established in 2007. The company's core activity is maintenance of specialized IT equipment such as ATM-s and cash-in terminals.

The Bank preliminary determined the fair value of the identifiable net assets and liabilities of BTE LLC and the consideration received is in line with all available data in accordance with IFRS 3 Business Combinations.

BTE repairs NCR, Wincor Nixdorf and Diebold ATMs and self-service systems for several major banks, including Sovcombank, since 2007, through a service network covering 140 communities in the Russian Federation, including towns significantly remote from the centers of the constituent entities of the Russian Federation. The Bank's cooperation with BTE ensured higher availability of equipment while retaining flexibility and low ATM maintenance costs.

The preliminary fair value of identifiable net assets and liabilities of BTE LLC as at the acquisition date was as follows:

	RUB MM
Assets	
Cash and cash equivalents	3
Property and equipment and intangible assets	11
Other assets	202
Total assets	**216**
Liabilities	
Due to banks	7
Other liabilities	172
Total liabilities	**179**
Identifiable net assets	**37**
Consideration transferred	329
Preliminary fair value of identifiable net assets of BTE LLC as at the acquisition date	(37)
Non-controlling interest	9
Goodwill arising on acquisition	**301**

From the date of its acquisition, the contribution of BTE to the Group's revenue and other gains from other non-banking business was RUB 241 MM and the contribution to the Group's net loss before tax was RUB 23 MM.

As at 31 December 2018, goodwill recognized in the Group's consolidated statement of financial position reflects potential gains from further reduction of costs and increase of availability of self-service devices and ATMs of the Bank through deeper integration between Sovcombank and Sovcomcard.

40. Business combinations (continued)

Acquisition of R.E. Factoring LLC

On 26 July 2018, Sovcombank acquired 19% in R.E. Factoring LLC from REG Holding Limited for RUB 25 MM. On 13 December 2018, Sovcombank increased its ownership interest in R.E. Factoring LLC up to 100% through purchasing 81% from an individual for RUB 109 MM.

R.E. Factoring LLC is a specialized factoring company established in 2013 and provides a full range of factoring services being a universal factor for both major companies and small and medium-sized enterprises.

The Bank preliminary determined the fair value of the identifiable net assets and liabilities of R.E. Factoring LLC and the consideration received is in line with all available data in accordance with IFRS 3 Business Combinations.

The preliminary fair value of identifiable net assets and liabilities of R.E. Factoring LLC as at the acquisition date was as follows:

	RUB MM
Assets	
Cash and cash equivalents	41
Loans to customers	5,056
Other assets	1
Total assets	**5,098**
Liabilities	
Due to banks	4,924
Other liabilities	42
Total liabilities	**4,966**
Identifiable net assets	**132**
Consideration transferred	134
Preliminary fair value of identifiable net assets of R.E. Factoring LLC as at the acquisition date	(132)
Goodwill arising on acquisition	**2**

From the acquisition, contribution of R.E. Factoring LLC to the profit of the Group is insignificant.

Merger of subsidiaries with Sovcombank

On 12 November 2018, the Group completed an accession of Rosevrobank JSB and Sovremenny Kommerchesky Innovatsionny Bank LLC to Sovcombank to optimize costs and structure of the Group. Following the request of Sovcombank, the CBR revoked banking licenses of Rosevrobank and Sovremenny Kommerchesky Innovatsionny Bank LLC. All rights and obligations of the merged banks were transferred to Sovcombank.

41. Changes in liabilities arising from financing activities

	Debt securities issued	*Subordinated loans*	*Total liabilities arising from financing activities*
Carrying amount as at 31 December 2016	**7,178**	**1,484**	**8,662**
Proceeds from issue	10,367	1,302	**11,669**
Redemption	(3,032)	(1,470)	**(4,502)**
Reclassification to equity instruments	–	5,412	**5,412**
Translation differences	–	83	**83**
Other	(119)	(12)	**(131)**
Carrying amount as at 31 December 2017	**14,394**	**6,799**	**21,193**
Proceeds from issue	30	15,552	**15,582**
Redemption	(8,777)	(6,022)	**(14,799)**
Translation differences	–	(4,986)	**(4,986)**
Business combinations	–	2,476	**2,476**
Change in fair value	–	(85)	**(85)**
Other	(179)	259	**80**
Carrying amount at 31 December 2018	**5,468**	**13,993**	**19,461**

The “Other” item comprises the effect of interest on debt securities issued and subordination loans that was accrued but not paid. The Group classifies interest paid as cash flows from operating activities.

42. Goodwill

Goodwill recorded in the Group's balance sheet is tested for impairment at least annually as required by IAS 36 *Impairment of Assets*.

Goodwill acquired through combinations of assets is allocated to one cash-generating unit (Treasury).

The carrying amount of goodwill and its changes are allocated the cash-generating units as follows:

	RUB MM
Goodwill as at 31 December 2016	**728**
Acquisitions through business combinations	250
Impairment	(250)
Goodwill as at 31 December 2017	**728**
Acquisitions through business combinations	777
Impairment	–
Goodwill as at 31 December 2018	**1,505**

In August 2017, the Group acquired LAFA, which resulted in the recognition of goodwill of RUB 250 MM that was impaired in 2017.

43. 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 is aimed at covering risks inherent in the activities of the Group, where the Bank is the dominant asset.

The Group's capital adequacy is monitored based on the principles and ratios stipulated in the Basel Capital Accord, as well as ratios established by the CBR.

The primary objective of capital management is monitoring compliance of the Bank's capital with external requirements of the CBR and maintenance of robust credit ratings and capital ratios to ensure the Bank's operation and maximize shareholder value.

The CBR's capital adequacy ratio

According to the requirements of the CBR, banks must maintain a capital adequacy ratio of 8% 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 31 December 2018 and 31 December 2017, 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 31 December 2018, to calculate capital adequacy ratio, the Group applied 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"). Until 2018, capital adequacy ratio was computed in accordance with the Basel Capital Accord 1988.

Basel III sets minimal capital adequacy ratios at 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 when calculating capital adequacy ratio, a standardized Basel II approach is used except for financial instruments, 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).

43. 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 31 December 2018 and 31 December 2017 (comparative data for 2017 was reclassified accordingly to ensure its comparability with current period data).

	2018 RUB MM	*2017. RUB MM*
Common capital	99,021	79,794
Additional capital	19,918	13,084
Tier 1 capital	**118,939**	**92,878**
Tier 2 capital	–	–
Total equity	**118,939**	**92,878**
Risk-weighted assets		
Credit risk	722,267	522,757
Operational risk	97,651	91,071
Market risk	42,163	27,299
Total risk weighted assets	**862,081**	**641,127**
Tier 1 common capital adequacy ratio	11.5%	12.4%
Tier 1 capital adequacy ratio	13.8%	14.5%
Total capital adequacy ratio	13.8%	14.5%

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord as at 31 December 2017, comprised:

	2017 RUB MM
Tier 1 capital	82,170
Tier 2 capital	13,502
Total equity	**95,672**
Risk-weighted assets	**579,649**
Tier 1 capital adequacy ratio	14.2%
Total capital adequacy ratio	16.5%

44. 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 31 December 2018 and 31 December 2017:

		Voting rights	
	Relationship	*2018*	*2017*
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%	–
GMCS Management LLC	Subsidiary	100.0%	–
Fintender JSC	Subsidiary	100.0%	–
R.E. Leasing LLC	Subsidiary	100.0%	–
R.E. Factoring LLC	Subsidiary	100.0%	–
Torgovy Dom LLC	Subsidiary	100.0%	–
BTE LLC	Subsidiary	75.0%	–
RTS-Holding JSC	Subsidiary	50.0%	50.0%
RTS-Tender LLC	Subsidiary	50.0%	100.0%
Sovremenny Kommerchesky Innovatsionny Bank LLC	Subsidiary	–	50.0%
Rosevrobank JSCB	Subsidiary	–	24.3%
Sollers-Finance LLC	Joint venture	50.0%	50.0%
Tsifrovye Tekhnologii Buduschego LLC	Joint venture	50.0%	100.0%
Kostromskoy Zavod Avtokomponentov JSC	Associate	49.6%	49.6%
Cbonds.ru LLC	Associate	24.9%	24.9%

45. Subsequent events

Distribution of dividends

In January 2019, the extraordinary general shareholders' meeting of Sovcombank decided to pay dividends of RUB 3 BN (RUB 0.2 per share). Dividends were paid in January 2019 in full.

Increase of share capital and additional issue of Sovcombank's shares

In January 2019, an extraordinary general shareholders' meeting decided to increase the Bank's share capital by RUB 100 MM to RUB 1,971 MM through a private placement of 1 billion additional ordinary registered uncertified shares with the nominal amount of RUB 0.1 each among a consortium of investors.

Actual placement of additional issue was completed on 5 April 2019.

The price of placement was:

- RUB 6.218307 per ordinary registered share when paying in Russian rubles; and
- USD 0.094764973742041 per ordinary registered share (which equals the above-mentioned RUB-denominated price for an ordinary registered share translated in to US dollars at the CBR rate effective at the date of the decision on the placement value (RUB 65.6182 per US dollar) when paying for the shares in US dollars.

The number of placed securities totaled 979,078,325 (the share of actually placed securities in the total number of shares to be placed was 97.9%). The total amount of funds received by the Bank as a result of the share issue was RUB 6,080 MM.