Independent auditor's report
on the consolidated financial statements of
Sovcombank PJSC
and its subsidiaries
for the year ended 31 December 2019

April 2020

Contents | Page

Report on review of interim financial information		3
Appendices		
Consolidated statement of comprehensive income		10
Consolidated statement of financial position		11
Consolidated statement of cash flows		12
Consolidated statement of changes in equity		13
Notes to the consolidated financial statements		
1.	Background	14
2.	Basis of preparation	16
3.	Significant accounting policies	22
4.	Significant accounting judgments and estimates	35
5.	Reclassifications in the financial statements	36
6.	Segment information	37
7.	Net interest income	42
8.	Fee and commission income	43
9.	Fee and commission expense	43
10.	Allowance for credit losses, other impairment losses and provisions	44
11.	Net gain on foreign exchange and transactions with precious metals and derivative financial instruments	44
12.	Other operating income	45
13.	Other non-banking activity	45
14.	Personnel expenses	45
15.	Other general and administrative expenses	46
16.	Other impairment and provisions	46
17.	Income tax expense	47
18.	Cash and cash equivalents	48
19.	Placements with banks and bank bonds at amortized cost	49
20.	Financial instruments at FVPL	50
21.	Fair value hedge of the portfolio of bonds at amortized cost	52
22.	Loans to customers and bonds at amortized cost	53
23.	Financial instruments at FVOCI	63
24.	Investment property	64
25.	Property and equipment and intangible assets	65
26.	Other assets	66
27.	Due to customers	66
28.	Due to the CBR	67
29.	Due to banks	67
30.	Debt securities issued	68
31.	Other borrowed funds	68
32.	Subordinated debt	69
33.	Other liabilities	70
34.	Equity	70
35.	Commitments	72
36.	Contingencies	73
37.	Risk management	74
38.	Related party transactions	95
39.	Fair value	97
40.	Business combinations	101
41.	Changes in liabilities arising from financing activities	105
42.	Goodwill	105
43.	Capital adequacy	105
44.	Principal consolidated subsidiaries, associates and joint ventures	107
45.	Subsequent events	107

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827
ОГРН: 1027739707203
ИНН: 7709383532

Independent auditor's report

To the Shareholders and the 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 2019, and the consolidated statement of financial position as at 31 December 2019, 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 2019, and its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2019 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 (including International Independence Standards) (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.

Совершенствуя бизнес, улучшаем мир

We have fulfilled the responsibilities described in the Auditor's responsibilities 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 22 "Loans to customers and bonds 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.

Other information included in the 2019 Annual report of Sovcombank PJSC

Other information consists of the information included in the Annual Report of Sovcombank PJSC for 2019, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for other information. We expect to receive the 2019 Annual report of Sovcombank PJSC after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 above 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.

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 2019, we determined:

1) Whether the Banking Group complied as at 1 January 2020 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 2020 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 2019 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 2019 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 2019, 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 2019 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 2019, 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 2019, 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.

Совершенствуя бизнес, улучшаем мир

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

6 April 2020

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 "Sodruzhestvo" Association ("SRO AAS").
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Consolidated statement of comprehensive income
for the year ended 31 December 2019

	Notes	2019 RUB MM	2018 (restated) RUB MM
Interest income calculated using EIR method	7	77,006	62,298
Other interest income	7	25,114	25,125
Interest expense	7	(44,416)	(37,754)
Obligatory deposit insurance		(2,634)	(2,190)
Net interest income		55,070	47,479
Allowances for credit losses	10, 19, 22, 23, 35	(7,839)	(7,468)
Net interest income after allowance for credit losses		47,231	40,011
Fee and commission income	8	32,639	24,535
Fee and commission expense	9	(7,690)	(4,538)
Net fee and commission income		24,949	19,997
Net gain/(loss) on financial instruments at FVPL		4,946	(8,588)
Net gain on derecognition of financial assets at amortized cost		775	-
Net gain/(loss) on derecognition of financial assets at fair value through other comprehensive income		(5)	657
Net gain on foreign exchange and transactions with precious metals and derivative financial instruments	11	1,892	770
Other impairment and provisions	16	(3,634)	(1,222)
Share of profit of joint ventures		256	258
Share of profit of associates		-	287
Other operating income	12	1,386	3,564
Operating income		77,796	55,734
Revenue and other gains from other non-banking business	13	2,652	700
Cost and other losses from other non-banking business	13	(2,639)	(759)
Net gain/(loss) from other non-banking business		13	(59)
Revaluation of buildings and investment property		(211)	(119)
Personnel expenses	14	(23,240)	(19,554)
Other general and administrative expenses	15	(16,032)	(15,177)
Profit before income tax expense		38,326	20,825
Income tax expense	17	(8,183)	(3,276)
Profit for the year		30,143	17,549
Profit for the year attributable to:			
- shareholders of the Bank		29,769	17,437
- non-controlling interests		374	112
Basic and diluted earnings per ordinary share attributable to the Bank's shareholders (RUB per share)	34	1.51	0.97
Other comprehensive income			
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met			
Net change in the fair value of debt instruments at FVOCI, net of tax		(42)	(844)
Change in the allowance for expected credit losses on debt instruments at FVOCI, net of tax		54	-
Amount reclassified to profit or loss due to disposal of debt instruments at FVOCI, net of tax		-	592
Amount reclassified to profit or loss due to reclassification of debt instruments at FVOCI to financial instruments at FVPL, net of tax		-	252
Other comprehensive income not to be reclassified subsequently to profit or loss			
Net losses on financial instruments at FVOCI, net of tax		(40)	(18)
Revaluation of buildings, net of tax		55	227
Other comprehensive income, net of tax		27	209
Total comprehensive income		30,170	17,758
Comprehensive income attributable to:			
- shareholders of the Bank		29,796	17,646
- non-controlling interests		374	112

Approved on 6 April 2020

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 2019

	Notes	2019 RUB MM	2018 (restated) RUB MM
Assets			
Cash and cash equivalents	18	107,761	109,817
Mandatory cash balances with the CBR		6,447	4,991
Placements with banks and bank bonds at amortized cost			
- held by the Group	19	25,326	35,614
- pledged under repo	19	10,535	12,921
Financial instruments at FVPL			
- held by the Group	20	191,906	114,261
- pledged under repo	20	57,696	110,779
Financial instruments at FVOCI			
- held by the Group	23	77,229	691
- pledged under repo	23	36,218	-
Loans to customers and bonds at amortized cost			
- held by the Group	22	548,933	455,413
- pledged under repo	22	36,287	86,065
Change in the fair value of hedged assets	21	(695)	-
Investments in associates		631	424
Investments in joint ventures		243	927
Investment property	24	53	56
Property and equipment and intangible assets	25	10,918	10,650
Right-of-use assets	2	5,408	-
Goodwill	42	1,742	1,505
Current income tax asset		27	3,156
Deferred tax asset	17	895	427
Other assets	26	17,634	19,707
Total assets		1,135,194	967,404
Liabilities			
Due to the CBR	28	785	859
Due to banks	29	125,121	190,255
Due to customers	27	774,038	598,874
Debt securities issued	30	18,662	8,479
Other borrowed funds	31	19,227	16,924
Deferred tax liability	17	56	5,153
Current income tax payable		2,309	77
Subordinated debt	32	26,362	13,993
Other liabilities	33	29,550	18,754
Total liabilities		996,110	853,368
Equity			
Share capital	34	1,969	1,871
Other capital contributions		25,082	19,100
Reserves for financial instruments at FVOCI		(161)	(133)
Perpetual subordinated bonds	34	6,191	6,975
Revaluation reserve for buildings		404	349
Retained earnings		103,568	83,896
Total equity attributable to shareholders of the Bank		137,053	112,058
Non-controlling interests		2,031	1,978
Total equity		139,084	114,036
Total equity and liabilities		1,135,194	967,404

Approved on 6 April 2020

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 2019

	Notes	2019 RUB MM	2018 RUB MM
Cash flows from operating activities			
Interest received		104,024	84,601
Interest paid		(41,191)	(36,201)
Fees and commissions received		33,448	24,633
Fees and commissions paid		(7,689)	(4,522)
Net realized gain/(loss) on financial instruments at FVPL		2,672	7,557
Net realized loss on foreign exchange and transactions with precious metals		14,938	(18,306)
Other operating income received		663	4,785
Net loss from other non-banking business		12	(59)
Personnel and other general and administrative expenses paid		(37,559)	(32,106)
Cash flows from operating activities		**69,318**	**30,382**
(Increase)/decrease in operating assets			
Mandatory cash balances with the CBR		(1,456)	(681)
Placements with banks		932	(9,139)
Financial instruments at FVPL		(32,365)	60,134
Loans to customers		(98,388)	(41,633)
Other assets		2,215	(16,768)
Increase/(decrease) in operating liabilities			
Due to customers		181,378	90,915
Due to the CBR and other banks		(53,995)	(25,303)
Promissory notes issued		46	(861)
Other liabilities		(1,905)	1,169
Net cash flows from operating activities before income tax		**65,780**	**88,215**
Income tax paid		(8,300)	(3,589)
Cash flows from operating activities		**57,480**	**84,626**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash received	40	(1,153)	(4,057)
Acquisition of associates		(206)	(3,206)
Sales of interests in associates		–	394
Acquisition of property and equipment and intangible assets		(954)	(2,847)
Proceeds from sale of property and equipment and intangible assets		32	36
Acquisition of investment property		(2)	–
Proceeds from sale of investment property		–	442
Acquisition of financial instruments at FVOCI		(115,523)	(38,782)
Proceeds from sale and redemption of financial instruments at FVOCI		2,805	73,974
Acquisition of securities at amortized cost		–	(54,575)
Proceeds from sale and redemption of securities at amortized cost		42,460	8,645
Cash flows from investing activities		**(72,541)**	**(19,976)**
Cash flows from financing activities			
Acquisition of non-controlling interests		–	(5,879)
Contributions from shareholders	34	6,080	16,403
Proceeds from bonds issued	41	11,236	30
Redemption of bonds issued	41	(3,216)	(8,777)
Subordinated debt received	41	28,341	15,552
Subordinated debt repaid	41	(14,583)	(6,022)
Perpetual subordinated debt received		2,177	5,355
Perpetual subordinated debt repaid		(2,755)	(6,717)
Settlement of lease liabilities	2	(1,806)	–
Dividends	34	(8,473)	(7,320)
Cash flows from financing activities		**17,001**	**2,625**
Net increase/(decrease) in cash and cash equivalents		**1,940**	**67,275**
Effect of exchange rate changes on cash and cash equivalents		(3,996)	2,580
Cash and cash equivalents at the beginning of the year		109,817	39,962
Cash and cash equivalents at the end of the year	18	**107,761**	**109,817**

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 2019

	Share capital RUB MM	*Other capital contributions RUB MM*	*Revaluation reserve for property RUB MM*	*Reserves for financial instruments at FVOCI RUB MM*	*Perpetual subordinated debt RUB MM*	*Retained earnings RUB MM*	*Total equity attributable to shareholders of the Bank RUB MM*	*Non-controlling interests RUB MM*	*Total equity RUB MM*
As at 1 January 2018	**1,716**	**2,852**	**122**	**806**	**–**	**78,302**	**83,798**	**1,620**	**85,418**
Effect of adopting IFRS 9	–	–	–	–	–	(3,357)	**(3,357)**	–	**(3,357)**
Restated balance as at 1 January 2018 under IFRS 9	**1,716**	**2,852**	**122**	**806**	**–**	**74,945**	**80,441**	**1,620**	**82,061**
Net profit for the period	–	–	–	–	–	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)**
Interest paid on perpetual subordinated loans (Note 34)	–	–	–	–	–	(490)	**(490)**	–	**(490)**
Perpetual subordinated bonds issued	–	–	–	–	5,650	–	**5,650**	–	**5,650**
Revaluation of perpetual subordinated bonds	–	–	–	–	1,325	(1,325)	**–**	–	**–**
Interest accrued 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 net change in fair value of equity instruments on derecognition	–	–	–	(921)	–	921	**–**	–	**–**
Issue of ordinary shares (Note 34)	155	9,531	–	–	–	–	**9,686**	–	**9,686**
Acquisition of a 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**
As at 1 January 2019	**1,871**	**19,100**	**349**	**(133)**	**6,975**	**83,896**	**112,058**	**1,978**	**114,036**
Net profit for the period	–	–	–	–	–	29,769	**29,769**	374	**30,143**
Other comprehensive income for the period	–	–	55	(28)	–	–	**27**	–	**27**
Total comprehensive income	**–**	**–**	**55**	**(28)**	**–**	**29,769**	**29,796**	**374**	**30,170**
Dividends (Note 34)	–	–	–	–	–	(10,250)	**(10,250)**	(423)	**(10,673)**
Perpetual subordinated bonds purchased	–	–	–	–	(2,180)	–	**(2,180)**	–	**(2,180)**
Sale of previously purchased perpetual subordinated bonds	–	–	–	–	2,180	–	**2,180**	–	**2,180**
Revaluation of perpetual subordinated bonds	–	–	–	–	(784)	784	**–**	–	**–**
Interest on perpetual subordinated bonds	–	–	–	–	–	(585)	**(585)**	–	**(585)**
Tax effect recognized in respect of perpetual subordinated bonds	–	–	–	–	–	(46)	**(46)**	–	**(46)**
Issue of ordinary shares (Note 34)	98	5,982	–	–	–	–	**6,080**	–	**6,080**
Acquisition of a subsidiary (Note 40)	–	–	–	–	–	–	**–**	102	**102**
As at 31 December 2019	**1,969**	**25,082**	**404**	**(161)**	**6,191**	**103,568**	**137,053**	**2,031**	**139,084**

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

1. Background

Principal activities

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

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

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

The Group's principal business activity is retail, corporate and investment banking services. These include accepting term deposits and issuing commercial loans denominated in Russian rubles and foreign currencies; providing financial services, including investment banking services; dealing with securities, derivative financial instruments and precious metals. The Group includes a digital public procurement platform comprising www.rts-tender.ru, an online platform for public procurement, and www.fintender.ru, an online platform that provides bank guarantees. The digital platform enables access to public procurement for 482 thousand companies, mostly small and medium businesses. The Group operates primarily in the Russian Federation.

The Group has 2,500 offices located in 1,043 cities and towns across 76 constituent entities of the Russian Federation (31 December 2018: 2,648 offices located in 1,051 cities and towns across 75 constituent entities of the Russian Federation).

The Group's customers can withdraw and deposit cash though 4,822 ATMs and cash-in terminals (31 December 2018: 4,663 ATMs and cash-in terminals).

The Group serves 6.5 million customers: 5.8 million borrowers, 0.5 million depositors, and 0.2 million corporate customers.

The Bank has 15,664 employees (31 December 2018: 15,700 employees).

Shareholders

Shareholders	***Ownership, % 31 December 2019***	***Ownership, % 31 December 2018***
Sovco Capital Partners B.V.	87.1%	91.7%
Other beneficiaries	12.9%	8.3%

As at 31 December 2019 and 2018, no single beneficiary owner ultimately controls the Group (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 B.V., a holding company registered in the Netherlands, which is not controlled by any ultimate beneficial owner.

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

1. Background (continued)

Shareholders (continued)

In August 2018 and March 2019, Sovcombank increased its share capital by RUB 15,766 MM in total by issuing new ordinary non-documentary shares (Note 34) and selling them to third-party investors (“Other beneficiaries”). As a result, Sovco Capital Partners B.V. decreased its ownership of the Group from 100.0% to 87.1%. The table below lists the Other beneficiaries.

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

A short description of other beneficiaries is presented below:

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

Corporate governance

The Bank’s Supervisory Board comprises nine persons:

- Mikhail Kuchment (Chairman of the Bank’s Supervisory Board);
- Anatoly Braverman (First Deputy General Director of RDIF);
- Ilya Brodskiy (President of the Bank);
- Nikolai Varma (an independent director);
- Dmitry Gusev (Chairman of the Management Board);
- 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).

On 2 March 2020, two new independent directors, Regina von Flemming and Joel Lautier, joined the Bank’s Supervisory Board.

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

Mikhail Kuchment, Mikhail Klyukin and Aleksey Fisun are the Bank’s ultimate owners 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 to 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 combination of these factors may have a negative impact on the Group's future financial position, results of operations and business prospects. The Russian Government and the Bank of Russia have taken consistent and effective measures in response to a decline in energy prices. The floating official Russian ruble exchange rate, inflation targeting and active support of the financial sector lowered the inflation rate and relatively stabilized the Russian economy.

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

2. Basis of preparation

General

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, financial instruments at fair value through profit or loss, financial instruments at fair value through other comprehensive income, derivative financial instruments, investment property and buildings have been 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 for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and impact of each amendment are described below:

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

On 26 September 2019, the IASB issued *Interest Rate Benchmark Reform*: Amendments to IFRS 9, IAS 39 and IFRS 7 ("amendments"). This finalizes the first stage of the IASB's addressing the impact of the IBOR reform on the financial statements.

The amendments include certain reliefs, which allow hedging accounting during the uncertainty period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

The amendments are mandatory and, in terms of portfolio hedging applied by the Group under IAS 39, provide for the following:

- For perspective testing of the effectiveness of hedges, the benchmark underlying cash flows of the hedged item (irrespective of whether or not it is indicated in the contract) and/or the benchmark underlying cash flows of the hedging instrument are assumed to remain unchanged after the IBOR reform;
- For retrospective testing of the effectiveness of hedges, hedges may be tested even if the actual results of hedging are temporarily outside the range of 80%-125% during the uncertainty period resulting from the IBOR reform;
- Risk components affected by the IBOR reform must be separately identifiable when hedging relationships arise.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The Group has early applied these amendments in the consolidated financial statements. Information required by these amendments is disclosed in Note 21. As IBOR reform has a high degree of uncertainty, the Group continues to estimate possible effect of its application.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

IFRS 16 Leases

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify all leases using the same classification principles as in IAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 on the effective date of 1 January 2019. The new standard was adopted using the modified retrospective method without the effect to retained earnings at the date of initial application. When using the modified retrospective method of transition, comparative figures were not restated.

The Group elected to use the exemptions proposed by the standard for lease contracts for which the underlying asset is of low value ('low-value assets'), including lease contracts for office equipment of low value, and short-term leases. In the interim financial statements for 2019, the Group considered long-term lease contracts with an early termination option and lease contracts that expire within 12 months from the date of initial application in relation to contracts concluded before 1 January 2019 and from the effective date in relation to contracts concluded after 1 January 2019 with prerogative renewal option, to be short-term, which is a significant judgment. Liabilities under such lease contracts are expensed on a straight-line basis. In December 2019, the IFRIC published its final decision on the determining of the lease term for contracts that contain an early termination option or a renewal option, and clarified that determination of the lease term should be based on the economic substance of the transaction and not on the formal existence of options. In connection with this, the Group revised its accounting policies and recognized right-of-use assets and liabilities as at 1 January 2019 with account of the recommendations of the IFRIC.

The effect of adoption IFRS 16 as at 1 January 2019 (increase) is as follows:

Assets	
Right-of-use assets	6,995
Total assets	**6,995**
Liabilities	
Other liabilities	6,995
Total liabilities	**6,995**

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

<u>Leases previously classified as operating leases</u>

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application.

In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of RUB 6,995 MM were recognized;
- Additional lease liabilities of RUB 6,995 MM (included in Other liabilities) were recognized.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**302**
Add:	
Commitments under renewal options not recognized as at 31 December 2018	7,901
Total operating lease commitments as at 31 December 2018	**8,203**
Weighted average incremental borrowing rate as at 1 January 2019	8.7%
Discounted operating lease commitments as at 1 January 2019	**6,995**

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

i. Group as a lessee

The Group has property leases that it uses in its activities. The lease term is usually 11 months. The Group's commitments under finance leases are secured by the lessor's ownership rights over the leased assets. Generally, the Group may not transfer or sublease leased assets. Lease contracts contain renewal or termination options and allow variable lease payments as described below. The Group also has leases for vehicles with a term of less than 12 months and leases for office equipment with low value. For these leases, the Group applies recognition exemption allowed for short-term leases and leases of low-value assets.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgment in determining the lease term of contracts with renewal options

The Group includes renewal and termination options in its leases in order to flexibly manage its portfolio of leased assets and to ensure satisfying the Group's needs when performing its activities.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of eleven months for any number of times. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group has perpetual lease agreements and lease agreements with prerogative renewal option, which in fact are perpetual as well. For such agreements, the Group determined the lease term in accordance with period it actually intends to lease the respective assets.

Undiscounted potential future lease payments that were not considered when determining the lease term are as follows:

	Within 5 years	*Over 5 years*	*Total*
Options to extend the lease, which are expected not to be executed	1,067	309	**1,376**
Options to terminate the lease, which are expected to be executed	1,533	5	**1,538**

Discounted future lease payments that were considered when determining the lease term are as follows:

	Within 5 years	*Over 5 years*	*Total*
Options to extend the lease, which are expected to be executed	3,378	–	**3,378**
Options to terminate the lease, which are expected not to be executed	5,562	–	**5,562**

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Amounts recognized in the consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of cash flows

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets Buildings	*Lease liabilities*
As at 1 January 2019	**6,995**	**6,995**
Additions	458	458
Depreciation expense	(2,045)	−
Accrual of interest	−	553
Currency revaluation	−	(85)
Repayment of lease principal	−	(1,806)
Repayment of interest	−	(553)
As at 31 December 2019	**5,408**	**5,562**

Some of the Group's leases contain variable payments that comprise monthly compensation to lessor of utility, electricity and other expenses to maintain leased property. The share of variable payments is not more than 5% of total payments (fixed and variable).

For the year ended 31 December 2019, the Group recognized expenses from short-term leases, leases of low-value assets and variable lease payments of RUB 511 MM.

In 2019, total cash outflow related to leases amounted to RUB 2,871 MM (2018: RUB 2,631 MM).

ii. Operating – Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent lease payments are recognized as revenue in the period in which they are earned.

iii. Finance – Group as a 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.

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 *Income Taxes*. It 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:

- 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.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, 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 an 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 had no impact on the Group's consolidated financial statements.

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 the 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. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the Group's consolidated financial statements.

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 clarified that, in applying IFRS 9, an entity does not take account of 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*.

These amendments had no impact on the consolidated financial statements as the Group does not have long term interests in its associate and joint venture.

Annual improvements 2015-2017 cycle

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 applies 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.

IFRS 11 Joint Arrangements

An entity 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 applies 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.

2. Basis of preparation (continued)

Changes in accounting policies (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 recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the 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.

These amendments had no material impact on the Group's 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 applies the 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 applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

3. Significant accounting policies

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

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 change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests 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.

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 interests 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 as at the acquisition date through profit or 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 which is deemed to be an asset or liability, will be recognized in accordance with IFRS 9 either in profit or loss or in 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 purpose of 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 the shareholders' equity.

These 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 are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in profit or loss, and its share of movements in reserves is recognized in other comprehensive income. However, when 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 make further payments to, or on behalf of, the associate.

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 "Financial instruments at FVOCI" or "Financial instruments at FVPL" when significant influence is acquired.

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 carried at fair value through other profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI) and non-financial assets such as investment property, at fair value at each balance sheet date.

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 (land and buildings) 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 liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require 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 their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost;
- FVOCI;
- FVPL.

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

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

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortized cost if both of the following 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 give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- 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.

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 the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the 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).

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

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

The Group measures bonds held for sale 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.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest revenue and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance 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

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 equity 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 of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded 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.

Financial guarantees, letters of credit and undrawn 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's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the consolidated statement of profit or loss, and an ECL provision.

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, these contracts are in the scope of the ECL requirements.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. In 2018, due to the acquisition of Rosevrobank, the Group changed the business model for managing a part of its financial assets.

3. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at CBR bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates.

Changes in the CBR bid prices are recorded as translation differences from precious metals in net gain on foreign exchange and transactions with precious metals.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate.

The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

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 and hedge accounting

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are 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 statement of profit or loss as net gain/(loss) on financial instruments at FVPL or net gain/(loss) from foreign exchange, 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.

Derivatives embedded in liabilities and non-financial host contacts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated statement of profit or loss.

Financial assets are classified based on the business model and SPPI assessments.

3. Significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges

For the purpose of hedge accounting, the Group applied fair value hedges to hedge potential changes in the fair value of recognized asset or liability.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Change in the fair value of the hedging instrument is recognized in the consolidated statement of comprehensive income within net gain/(loss) on financial instruments at FVPL. Change in the fair value of the hedged item attributable to the risk hedged is recorded as “Change in the fair value of hedged assets” in the consolidated statement of financial position and is also recognized in the statement of profit or loss within net gain/(loss) on financial instruments at FVPL.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying amount begins to be amortized through profit or loss as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts 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.

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 amounts due to the CBR, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans.

After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in profit or loss.

Offsetting of financial instruments

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. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

3. Significant accounting policies (continued)

Renegotiated loans

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 purposes, 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 change in cash flows discounted at the original EIR, the Group records a modification gain or loss, presented within interest revenue calculated using EIR in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group also reassesses whether here 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 the result of 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 have been made during at least half of the probation period in accordance with the modified payment schedule.

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 where:

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

As part of its operational activities, the Group securitizes financial assets, generally through the sale of these assets to special purposes 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.

3. Significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Write-off

In respect to the bad debt, the Group uses mechanisms that allow minimization of the expected credit losses: court and enforcement proceedings, distant dispute settlement and visits to customers, and other mechanisms depending on the risk associated with a financial asset and/or a customer.

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 against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

The following factors, among others, confirm that there is no the reasonable expectation of recovering the value of the financial assets:

- Confirmation of the debtor's non-fulfillment of obligations during the period of 1 year or more before the date the decision on write-off is made;
- Reasonable grounds to believe that cost associated with further actions to collect debt on the financial assets will exceed the result of such actions.

Write-off procedures are detailed and disclosed in the separate internal regulations and administrative documents of the Group's participants.

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.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Bank has offices and branches and where its subsidiaries are located.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes, that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Property and equipment and intangible 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.

3. Significant accounting policies (continued)

Property and equipment and intangible assets (continued)

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:

	Years
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 Group’s net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary 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.

For the purpose of 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 purposes; and
- Is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (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.

3. Significant accounting policies (continued)

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 sales 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 a sale at 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 economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from 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.

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 or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are canceled 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.

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 and capital management.

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.

Contingencies

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. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

3. Significant accounting policies (continued)

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 revenue and expense

The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. 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 carrying amount is recorded as interest revenue or expense.

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 assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognized using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit or loss.

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 as the Group discharges the respective obligations under respective agreements. Such income, include, for example, fee and commission income on bank guarantees issued.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as where the Group's performance obligation is 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 certain performance obligations are recognized after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Customer loyalty programs

The Group offers a number of customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. For point-based programs, the Group generally recognizes a liability for the accumulated points that are expected to be utilized by the customers, which is reversed to profit or loss as the points expire. Cashbacks on plastic card transactions reduce fee and commission income.

Dividend income

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

3. Significant accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Russian rubles, which is the Bank'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 net gain on foreign exchange. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at 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 CBR exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates as at 31 December 2019 and 31 December 2018 were RUB 61.9057 and RUB 69.4706 to USD 1, respectively.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

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:

- A specific adaptation for 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 or before the date it first applies IFRS 17. In 2019, the Group will continue to assess the potential effect of IFRS 17 on its consolidated financial statements.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

4. Significant accounting judgments and estimates

Judgments

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

Fee and commission income and expenses

The Group recognizes income for participation in financial protection program as revenue when the service is provided, due to the fact that income is received when the agency services on conclusion of the collective whole turnover insurance contracts are provided. The Group does not act as the beneficiary under this collective contract.

The Group recognizes fee and commission expense arising from transactions in payment systems such as Visa, Mastercard, etc. on a gross basis and accordingly records them in Note 9 because the payment systems are not deemed as customers of the Group.

Estimation uncertainty

In the process of applying the Group's accounting policies, management has 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 consolidated 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 under IFRS 9 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 ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies Elements of the ECL 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 and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations 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 price, RUB effective exchange rate) and their probability weightings, to derive the economic inputs into the ECL models.

The allowance recognized in the consolidated statement of financial position as at 31 December 2019 amounted to RUB 7,371 MM (2018: RUB 7,468 MM). More details are provided in Note 10.

Impairment of goodwill

The Group determines whether goodwill is impaired at least 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. As at 31 December 2019, the carrying amount of goodwill was RUB 1,742 MM (2018: RUB 1,505 MM) More details are provided in Note 42.

4. Significant accounting judgments and estimates (continued)

Judgments (continued)

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. Reclassifications in the financial statements

The data included in the consolidated statement of financial position as at 31 December 2018 have been adjusted as follows to conform to the presentation of data as at 31 December 2019:

	As previously reported RUB MM	***Reclassification RUB MM***	***As adjusted RUB MM***
Other liabilities	18,831	(77)	18,754
Current income tax payable	−	77	77

In 2019, the Group revised presentation of gains on partial settlement of the interbank credit claim of Express-Volga Bank JSC to JSCB Probusinessbank OJSC impaired at initial recognition, received from the insolvency estate on the basis of the resolution of the Arbitration Court during the bankruptcy proceeding related to JSCB Probusinessbank OJSC. Comparatives for the year ended 31 December 2018 were adjusted to ensure comparability.

Effect of the adjustment on the consolidated statement of comprehensive income for the year ended 31 December 2018:

	As previously reported RUB MM	***Reclassification RUB MM***	***As adjusted RUB MM***
Allowances for credit losses	(8,800)	1,332	(7,468)
Other operating income	4,896	(1,332)	3,564

Effect of the adjustment on Note 12 "Other operating income":

	As previously reported RUB MM	***Reclassification RUB MM***	***As adjusted RUB MM***
Bargain purchase gain (Note 40)	3,186	−	3,186
Gain on loan repayment obligations to the DIA	1,332	(1,332)	−
Disposal of foreclosed assets	108	−	108
Income from operating sublease	35	−	35
Other	235	−	235
	4,896	**(1,332)**	**3,564**

5. Reclassifications in the financial statements (continued)

Effect of the adjustment on Note 10 "Allowance for credit losses, other impairment losses and provisions":

	Stage 1	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Placements with banks and bank bonds at amortized cost, as previously reported	(153)	–	–	–	**(153)**
Reclassification	–	–	–	1,332	**1,332**
Placements with banks and bank bonds at amortized cost, as adjusted	(153)	–	–	1,332	**1,179**

Effect of the adjustment on Note 19 "Placements with banks and bank bonds at amortized cost":

As previously reported:

	Stage 1	*Total*
Balance at 1 January 2018	**1**	**1**
Charge/(reversal) for the period	153	**153**
Balance at 31 December 2018	**154**	**154**

As adjusted:

	Stage 1	*POCI assets*	*Total*
Balance at 1 January 2018	**1**	**–**	**1**
Charge/(reversal) for the period	153	(1,332)	**(1,179)**
Gains from settlement of credit claims impaired at initial recognition	–	1,332	**1,332**
Balance at 31 December 2018	**154**	**–**	**154**

Effect of the adjustment on Note 6 "Segment information":

	Treasury – as previously reported	*Reclas-sification*	*Treasury – as adjusted*
Revenue			
Other operating income	5,441	(1,332)	4,109
Expenses			
Allowances for credit losses	(3,463)	1,332	(2,131)

6. Segment information

The Group has three operating segments:

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

6. Segment information (continued)

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

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

Comparative data was adjusted retrospectively for comparability purposes.

			2019		
	Retail RUB MM	***CB RUB MM***	***Treasury RUB MM***	***Adjustments RUB MM***	***Total RUB MM***
Revenue					
Interest income	44,502	20,231	37,387	–	**102,120**
Fee and commission income	23,864	8,589	186	–	**32,639**
Net gain on financial instruments at FVPL	–	667	4,974	–	**5,641**
Net gain on derecognition of financial assets at amortized cost	–	–	775	–	**775**
Net gain on foreign exchange and transactions with precious metals and derivative financial instruments	–	1,404	488	–	**1,892**
Other operating income	9	157	1,476	–	**1,642**
Revenue and other gains on other non-banking business	–	–	2,652	–	**2,652**
Inter-segment revenue	10,321	6,773	–	(17,094)	**–**
Total revenue	**78,696**	**37,821**	**47,938**	**(17,094)**	**147,361**
Expenses					
Interest expense	(24,617)	(14,405)	(5,394)	–	**(44,416)**
Obligatory deposit insurance	(2,294)	(340)	–	–	**(2,634)**
Fee and commission expense	(6,664)	(664)	(362)	–	**(7,690)**
Allowances for credit losses	(8,013)	(1700)	1874	–	**(7,839)**
Net loss on derecognition of financial assets at FVOCI	–	–	(5)	–	**(5)**
Other impairment and provisions	–	(1,335)	(2,299)	–	**(3,634)**
Personnel expenses	(14,398)	(5,206)	(3,636)	–	**(23,240)**
Other expenses	(13,436)	(1,844)	(963)	–	**(16,243)**
Cost and other expenses from other non-banking business	–	–	(2,639)	–	**(2,639)**
Expenses from hedge accounting	–	–	(695)	–	**(695)**
Inter-segment expenses	–	–	(17,094)	17,094	**–**
Total expenses	**(69,422)**	**(25,494)**	**(31,213)**	**17,094**	**(109,035)**
Segment results	**9,274**	**12,327**	**16,725**	**–**	**38,326**
Income tax expense					**(8,183)**
Profit for the period					**30,143**

6. Segment information (continued)

	Retail RUB MM	*CB RUB MM*	*2018 (restated)* *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 gain on foreign exchange and transactions with precious metals and derivative financial instruments	–	722	48	–	**770**
Revenue and other gains from other non-banking business	–	–	700	–	**700**
Other operating income	–	–	4,109	–	**4,109**
Inter-segment revenue	13,114	1,100	–	(14,214)	**–**
Total revenue	**64,449**	**24,686**	**43,273**	**(14,214)**	**118,194**
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)	(2,131)	–	**(7,468)**
Other impairment and provisions	–	(862)	(360)	–	**(1,222)**
Personnel expenses	(12,514)	(4,361)	(2,679)	–	**(19,554)**
Cost and other expenses from other non-banking business	–	–	(759)	–	**(759)**
Other expenses	(11,008)	(1,841)	(2,447)	–	**(15,296)**
Inter-segment expenses	–	–	(14,214)	14,214	**–**
Total expenses	**(54,299)**	**(16,871)**	**(40,413)**	**14,214**	**(97,369)**
Segment results	**10,150**	**7,815**	**2,860**	**–**	**20,825**
Income tax expense					**(3,276)**
Profit for the period					**17,549**

For the liquidity management of the Banking Group, inter-segment revenue and respective inter-segment expenses relate to funding provided by Retail and CB segments to Treasury segment.

6. Segment information (continued)

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

	2019			
	Retail RUB MM	*CB RUB MM*	*Treasury RUB MM*	*Total RUB MM*
Segment assets				
Cash and cash equivalents	19,528	15,756	72,477	**107,761**
Mandatory cash balances with the CBR	2,794	3,653	–	**6,447**
Placements with banks	–	10,978	6,134	**17,112**
Bank bonds at amortized cost	–	–	18,749	**18,749**
Financial instruments at FVPL	–	22,489	227,113	**249,602**
Financial instruments at FVOCI	–	–	113,447	**113,447**
Loans to customers at amortized cost	261,290	209,339	2,396	**473,025**
Bonds at amortized cost	–	–	112,195	**112,195**
Change in the fair value of hedged assets	–	–	(695)	**(695)**
Investments in associates	–	–	631	**631**
Investments in joint ventures	–	–	243	**243**
Investment property	–	53	–	**53**
Property and equipment and intangible assets	4,567	2,395	3,956	**10,918**
Right-of-use assets	–	–	5,408	**5,408**
Goodwill	–	585	1,157	**1,742**
Current income tax asset	–	–	27	**27**
Deferred tax asset	–	–	895	**895**
Other assets	1,604	12,974	3,056	**17,634**
	289,783	**278,222**	**567,189**	**1,135,194**
Segment liabilities				
Due to the CBR	–	785	–	**785**
Due to banks	–	20,615	104,506	**125,121**
Due to customers	402,905	347,998	23,135	**774,038**
Debt securities issued	–	2,990	15,672	**18,662**
Other borrowed funds	–	–	19,227	**19,227**
Deferred tax liability	–	–	56	**56**
Current income tax payable	–	–	2,309	**2,309**
Subordinated debt	–	–	26,362	**26,362**
Other liabilities	–	6,221	23,329	**29,550**
	402,905	**378,609**	**214,596**	**996,110**

6. Segment information (continued)

In 2019, financial instruments at FVPL of CB segment also include bonds of issuers to which the Group rendered issue arrangement services.

	2018			
	Retail RUB MM	*CB RUB MM*	*Treasury RUB MM*	*Total RUB MM*
Segment assets				
Cash and cash equivalents	17,796	23,372	68,649	**109,817**
Mandatory cash balances with the CBR	2,994	1,997	–	**4,991**
Placements with banks	–	12,871	5,659	**18,530**
Bank bonds at amortized cost	–	–	30,005	**30,005**
Financial instruments at FVPL	–	–	225,040	**225,040**
Financial instruments at FVOCI	–	–	691	**691**
Loans to customers at amortized cost	190,800	187,671	3,647	**382,118**
Bonds at amortized cost	–	–	159,360	**159,360**
Investments in associates	–	–	424	**424**
Investments in joint ventures	–	–	927	**927**
Investment property	–	–	56	**56**
Property and equipment and intangible assets	2,167	2,762	5,721	**10,650**
Goodwill	–	585	920	**1,505**
Current income tax asset	–	–	3,156	**3,156**
Deferred tax asset	–	362	65	**427**
Other assets	1,586	12,817	5,304	**19,707**
	215,343	**242,437**	**509,624**	**967,404**
Segment liabilities				
Due to the CBR	–	–	859	**859**
Due to banks	–	5,218	185,037	**190,255**
Due to customers	349,768	249,100	6	**598,874**
Debt securities issued	–	3,011	5,468	**8,479**
Other borrowed funds	–	–	16,924	**16,924**
Deferred tax liability	–	–	5,153	**5,153**
Current income tax payable	–	–	77	**77**
Subordinated debt	–	–	13,993	**13,993**
Other liabilities	–	3,429	15,325	**18,754**
	349,768	**260,758**	**242,842**	**853,368**

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

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

The CB balance sheet items include:

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

The Treasury balance sheet items included the following:

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

7. Net interest income

	2019 RUB MM	*2018 RUB MM*
Interest income calculated using EIR method		
Retail loans	42,928	34,698
Consumer loans	*14,433*	*13,507*
Car loans	*13,140*	*11,030*
Mortgage loans	*9,333*	*7,699*
Installment cards	*6,022*	*2,462*
Corporate loans	20,792	18,471
Bonds at amortized cost	8,562	5,732
Placements with banks and financial institutions	2,769	1,135
Bank bonds at amortized cost	1,358	781
Financial instruments at FVOCI	597	1,481
Total interest income calculated using EIR method	**77,006**	**62,298**
Other interest income		
Financial instruments at FVPL	17,572	22,182
Net gains on foreign currency swaps	7,368	2,943
Finance leases	174	–
Total other interest income	**25,114**	**25,125**
Total interest income	**102,120**	**87,423**
Interest expense		
Due to customers		
Individuals		
Term deposits	*(24,410)*	*(22,917)*
Current accounts and demand deposits	*(1,025)*	*(725)*
Legal entities		
Term deposits	*(10,097)*	*(4,404)*
Current accounts and demand deposits	*(744)*	*(784)*
Amounts payable under repo	*(11)*	*(36)*
Due to banks	(2,631)	(4,264)
Other borrowed funds	(2,510)	(2,329)
Subordinated debt	(1,180)	(1,096)
Promissory notes and bonds issued	(1,255)	(1,199)
Lease liabilities	(553)	–
Total interest expense	**(44,416)**	**(37,754)**
Obligatory deposit insurance	(2,634)	(2,190)
Net interest income	**55,070**	**47,479**

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

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

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

The amount of MRG fees has reached RUB 3.7 BN since the start of sales of this service. The major part of these fees will be recognized as interest income in future periods following the assessment of payments to customers.

8. Fee and commission income

	2019 *RUB MM*	*2018* *RUB MM*
Financial protection program	12,683	10,655
Plastic card operations	8,787	5,285
Settlement operations	3,271	2,448
Issuance of bank guarantees	3,084	3,227
Income from electronic trading platforms	2,474	817
Securities underwriting	629	446
Agent fee for selling insurance products	612	507
Currency control	510	426
Lending operations	233	247
Cash operations	198	222
Agent fees due from pension funds	–	63
Other	158	192
	32,639	**24,535**

In 2019, plastic card operations, among others, include fee and commission income of RUB 4,557 MM (2018: RUB 3,604 MM) from signing up plastic card customers for voluntary accident insurance plans.

9. Fee and commission expense

	2019 *RUB MM*	*2018* *RUB MM*
Agent services	(4,500)	(2,142)
Credit cards operations	(2,549)	(1,176)
Depositary services	(276)	(201)
Settlement operations	(238)	(618)
Banking guarantees and letters of credit	(31)	(28)
Interest expense on subordinated loan issued by the DIA	(1)	(84)
Other	(95)	(289)
	(7,690)	**(4,538)**

Agent services mainly include agency fees for selling financing products of the Group.

Credit cards operations mainly include fee and commission expense arising from transactions in Visa and Mastercard payment systems that involve credit cards issued by the Group.

Depositary services include fees and commissions paid under brokerage and similar transactions, as well as fees and commissions paid at organized stock exchange in respect of the transactions with securities.

Settlement operations include service fees of the correspondent banks and the Bank of Russia for proceeding payments and maintaining correspondent accounts.

Interest expense on subordinated loan issued by the DIA includes the Group's net interest expense (less gains from OFZ received under the DIA loan) from subordinated security loans issued by the DIA. The Group's subordinated security loans issued by the DIA total RUB 6,375 MM (Note 32). In 2018, the Group sold a part of its securities with the nominal value of RUB 6,275 MM and as at the reporting date recorded the respective interest expense in interest expense. The remaining securities with the nominal value of RUB 100 MM are not recorded of the balance sheet of the Group because according to IFRS 9 a securities lending transaction is not recognized and respective interest expense is included in the fee and commission expense line.

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

The table below shows ECL expense on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2019:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Placements with banks	19	(100)	–	–	1,420	**1,320**
Bank bonds at amortized cost	19	87	–	–	–	**87**
Loans to customers	22	(1,430)	(1,493)	(6,496)	(193)	**(9,612)**
Bonds at amortized cost	22	487	–	–	–	**487**
Equity securities at FVOCI	23	(67)	–	–	–	**(67)**
Financial guarantees	35	730	–	–	–	**730**
Loan commitments	35	(784)	–	–	–	**(784)**
Total credit loss expense		**(1,077)**	**(1,493)**	**(6,496)**	**1,227**	**(7,839)**

The table below shows ECL expense on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2018 (restated):

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI assets*	*Total*
Placements with banks	19	(21)	–	–	1,332	**1,311**
Bank bonds at amortized cost	19	(132)	–	–	–	**(132)**
Loans to customers	22	(2,341)	(2,323)	(2,477)	(797)	**(7,938)**
Bonds at amortized cost	22	(665)	–	–	–	**(665)**
Financial guarantees	35	(38)	–	–	–	**(38)**
Loan commitments	35	(6)	–	–	–	**(6)**
Total credit loss expense		**(3,203)**	**(2,323)**	**(2,477)**	**535**	**(7,468)**

11. Net gain on foreign exchange and transactions with precious metals and derivative financial instruments

	2019 RUB MM	*2018 (restated) RUB MM*
Dealing	141	1,564
Net gain on derivative financial instruments	6,234	(10,072)
Foreign exchange differences	(4,483)	9,278
	1,892	**770**

In its other interest income, the Group recognizes net gain on swap transactions with the exchange (Note 7). In 2019, the Group changed its approach to recording net gain on swap transactions with the exchange. Therefore, the following reclassifications were made to 2018 comparatives to conform to the 2019 presentation:

	As previously reported RUB MM	*Adjustment due to change in presentation RUB MM*	*Adjusted amount RUB MM*
Dealing	(15,912)	17,476	1,564
Foreign exchange differences	26,754	(17,476)	9,278

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 derivative financial instruments represent a financial result from OTC transactions with the period exceeding 2 business days (currency and cross currency interest rate swaps, currency forwards and options, credit default swaps and contracts with precious metals and securities).

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

12. Other operating income

	2019 *RUB MM*	*2018* *(restated)* *RUB MM*
Revaluation at fair value of the investment in joint venture (Note 40)	488	–
Disposal of foreclosed assets	264	108
Disposal of property and equipment	148	–
Operations on electronic trading platforms	86	–
Penalties received	80	–
Gains from unclaimed debt write-off	74	–
Income from operating sublease	37	35
Bargain purchase gain (Note 40)	–	3,186
Other	209	235
	1,386	**3,564**

Gain on revaluation of the investment in joint venture at fair value arises from revaluation of the Group's 50% interest in Sollers-Finance LLC to fair value due to the business combination. More details are provided in Note 40.

Bargain purchase gain is a difference between the fair value of net assets of Rosevrobank and the investments in Rosevrobank at the date of the Bank's acquisition of 100% interest in Rosevrobank in August 2018. See Note 40 for details.

13. Other non-banking activity

	2019 *RUB MM*	*2018* *RUB MM*
Revenue and other gains from software implementation and support services	1,567	458
Revenue and other gains from ATM maintenance services	1,085	242
Revenue and other gains from other non-banking business	**2,652**	**700**
Cost and other losses from software implementation and support services	(1,601)	(491)
Cost and other losses from ATM maintenance services	(1,038)	(268)
Cost and other losses from other non-banking business	**(2,639)**	**(759)**
Net (loss)/gains from other non-banking activity	**13**	**(59)**

	2019 *RUB MM*	*2018* *RUB MM*
Assets under contracts of non-banking activity (presented within other assets)	67	60
Deferred income from non-banking activity (presented within other liabilities)	18	19

14. Personnel expenses

	2019 *RUB MM*	*2018* *RUB MM*
Payroll, including bonuses	(18,688)	(15,795)
Payroll-related taxes	(4,552)	(3,759)
	(23,240)	**(19,554)**

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

15. Other general and administrative expenses

	2019 RUB MM	*2018 RUB MM*
Advertising and marketing	(2,842)	(2,933)
Depreciation of right-of-use assets	(2,045)	–
Professional and cash collection services	(2,045)	(1,821)
Amortization of intangible assets	(1,434)	(955)
Telecommunication and postal services	(1,414)	(1,070)
Software support	(1,026)	(1,071)
Transport and business travel	(966)	(796)
Maintenance of property and equipment	(877)	(901)
Inventory	(858)	(1,210)
Leases	(511)	(2,631)
Depreciation of property and equipment	(494)	(475)
Security	(317)	(280)
Taxes other than income tax	(154)	(232)
Property insurance	(136)	(149)
Other	(913)	(653)
	(16,032)	**(15,177)**

16. Other impairment and provisions

	2019 RUB MM	*2018 RUB MM*
Contingencies	(1,211)	(1,091)
Litigations	(666)	(215)
Goodwill impairment (Note 42)	(470)	–
Foreclosed assets	(93)	(26)
Reversal of impairment of investments in associates	–	249
Other assets	(1,194)	(139)
	(3,634)	**(1,222)**

Provisions for contingencies relate 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. Non-financial guarantees portfolio amounted to RUB 125,015 MM as at 31 December 2019 (31 December 2018: RUB 99,330 MM) (Note 35).

Provisions for litigations relate to the following lawsuits:

- Initiated by OJSC Probusinessbank's lenders against its bankruptcy administrator, a representative of the Deposit Insurance Agency, in connection with certain transactions relating to the period before the date on which Probusinessbank was declared bankrupt by the Arbitration court (Note 36);
- Initiated by individuals seeking refunds for fees and commissions they paid;
- Initiated by beneficiaries in respect of the Group's liabilities under bank guarantees issued.

Impairment of goodwill in the amount of RUB 470 MM relates to impairment of goodwill of the Group's subsidiaries, GMCS Management LLC and BTE LLC (RUB 250 MM and RUB 220 MM, respectively) (Note 42).

Provisions for other assets mainly relate to the accounts receivable arising from the Group's payments to beneficiaries under non-finance bank guarantees.

16. Other impairment and provisions (continued)

Movements in other provisions for 2019 and 2018 are as follows:

	Provision for other assets RUB MM	*Provision for litigations RUB MM*	*Provision for contin-gencies RUB MM*	*Impairment of investments in associates RUB MM*	*Provisions for foreclosed assets RUB MM*	*Total RUB MM*
As at 1 January 2018	**542**	**1,043**	**573**	**656**	**19**	**2,833**
Transfer of ECL under IFRS 9	–	–	(120)	–	–	**(120)**
Increase/(decrease)	139	215	1,091	(249)	26	**1,222**
Settlement of liabilities	–	(93)	–	–	(1)	**(94)**
As at 31 December 2018	**681**	**1,165**	**1,544**	**407**	**44**	**3,841**
As at 1 January 2019	**681**	**1,165**	**1,544**	**407**	**44**	**3,841**
Increase/(decrease)	1,194	666	1,210	–	93	**3,163**
Write-off	(645)	–	–	–	–	**(645)**
Settlement of liabilities	–	(1,004)	–	–	–	**(1,004)**
As at 31 December 2019	**1,230**	**827**	**2,754**	**407**	**137**	**5,355**

An increase in provisions for contingencies by RUB 1,210 MM for 2019 and by RUB 1,091 MM for 2018 reflects the Group's projections of losses on bank guarantees calculated based on statistical data and on an individual basis.

17. Income tax expense

Income tax expense comprises:

	2019 RUB MM	*2018 RUB MM*
Current income tax	(13,926)	(2,350)
Origination of temporary differences	5,743	(926)
	(8,183)	**(3,276)**

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:

	2019 RUB MM	*2018 RUB MM*
Net gain/(loss) on financial instruments at FVOCI	7	–
Revaluation of buildings	(14)	(57)
Income tax charged to other comprehensive income	**(7)**	**(57)**

Russian legal entities have to file individual corporate income tax declarations to the tax authorities. Standard corporate income tax rate for companies (including banks) comprised 20% for 2019 and 2018. Corporate income tax rate applicable to interest (coupon) income on state and mortgage-backed bonds in 2019 and 2018 was 15% while corporate income tax rate applicable to interest (coupon) income on municipal bonds in 2019 and 2018 was 9%. Dividends are taxed at the standard corporate income tax rate of 9%, which could be reduced to 0% subject to certain criteria.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2019 RUB MM	*2018 RUB MM*
Profit before tax	**38,326**	**20,825**
Statutory tax rate	20%	20%
Theoretical income tax expenses at the statutory rate	**(7,665)**	**(4,165)**
Tax exempt income	149	1,606
Effect of non-deductible expenses	(523)	(831)
Effect of income on state securities taxed at different rates	420	257
Income recognized for tax purposes only	(400)	–
Other	(164)	(143)
	(8,183)	**(3,276)**

17. Income tax expense (continued)

Movements in temporary differences during the years ended 31 December 2019 and 2018 were as follows:

			Origination and reversal of temporary differences					*Origination and reversal of temporary differences*				
	2017	*Effect of transition to IFRS 9 [and IFRS 15]*	*In the statement of profit or loss*	*In other compre-hensive income*	*Effect of business combi-nation*	*Within equity*	*2018*	*In the statement of profit or loss*	*In other compre-hensive income*	*Effect of business combi-nation*	*Within equity*	*2019*
Tax effect of deductible temporary differences												
Other assets	**168**	–	405	–	74	–	**647**	905	–	–	–	**1,552**
Due to banks	**–**	–	1	–	–	–	**1**	(1)	–	–	–	**–**
Other liabilities	**960**	–	1,911	–	–	–	**2,871**	(16)	–	–	–	**2,855**
Loans to customers and bonds at amortized cost	**(1,339)**	840	(185)	–	(482)	–	**(1,166)**	2,272	–	(134)	–	**972**
Financial instruments at FVOCI	**(202)**	–	–	–	–	235	**33**	13	–	–	7	**53**
Cash and cash equivalents	**(149)**	–	314	–	–	–	**165**	315	–	–	–	**480**
Debt securities issued	**(11)**	–	359	–	–	–	**348**	(338)	–	–	–	**10**
Subordinated debt	**–**	–	(151)	–	–	357	**206**	120	–	–	(37)	**289**
Deferred tax asset	**(573)**	**840**	**2,654**	**–**	**(408)**	**592**	**3,105**	**3,270**	**–**	**(134)**	**(30)**	**6,211**
Tax effect of taxable temporary differences												
Financial instruments at FVPL	**(2,822)**	–	(3,807)	–	18	–	**(6,611)**	3,572	–	–	–	**(3,039)**
Property and equipment and intangible assets	**(187)**	–	(187)	(57)	–	–	**(431)**	89	(14)	–	–	**(356)**
Placements with banks and bank bonds at amortized cost	**(1,243)**	–	381	–	–	–	**(862)**	(1,091)	–	–	–	**(1,953)**
Due to customers	**40**	–	33	–	–	–	**73**	(97)	–	–	–	**(24)**
Deferred tax liability	**(4,212)**	**–**	**(3,580)**	**(57)**	**18**	**–**	**(7,831)**	**2,473**	**(14)**	**–**	**–**	**(5,372)**
Deferred tax asset	**459**	**–**	**(32)**	**–**	**–**	**–**	**427**	**468**	**–**	**–**	**–**	**895**
Deferred tax liability	**(5,244)**	**840**	**(894)**	**(57)**	**(390)**	**592**	**(5,153)**	**5,275**	**(14)**	**(134)**	**(30)**	**(56)**

18. Cash and cash equivalents

Cash comprises:

	2019 RUB MM	*2018 RUB MM*
Due from the CBR	50,913	62,798
Nostro accounts with banks and financial institutions	40,703	27,183
Cash on hand	10,511	11,134
Short-term deposits and reverse repo transactions with banks and financial institutions maturing in less than 90 days	4,462	7,095
Nostro accounts with OECD banks	945	817
Short-term deposits with OECD banks maturing in less than 90 days	227	790
	107,761	**109,817**

The increase in "Nostro accounts with banks and financial institutions" was mainly due to the increase in cash balances deposited to ensure the customers' uninterrupted non-cash payments and to perform settlements on the Group's transactions.

As at 31 September 2019, short-term deposits and reverse repo transactions with banks and financial institutions maturing in less than 90 days primarily include transactions with one non-banking credit institution with a BBB credit rating assigned by Fitch and with one bank with a B credit rating assigned by S&P. Decrease in the item was due to the placement of the Group's temporarily available funds in other high-yield instruments.

Cash on hand includes cash in ATMs and in transit.

19. Placements with banks and bank bonds at amortized cost

	2019 RUB MM	*2018 RUB MM*
Bank bonds and Eurobonds pledged under repo	10,562	12,997
Term deposits with banks	9,574	7,317
Bank bonds and Eurobonds held by the Group	8,232	17,140
Collateral for derivative financial instruments ("DFI")	7,076	5,452
Repo	584	5,783
Total placements with banks and bonds at amortized cost	**36,028**	**48,689**
Less allowance for impairment	(167)	(154)
Placements with banks and bonds at amortized cost, net	**35,861**	**48,535**

Placements with banks and bank bonds at amortized cost bear credit risk, so the Group recognizes the respective allowance for ECL. The tables below presents movements in allowances for ECL, placements with banks and bank bonds at amortized cost for 2018 and 2019:

	Stage 1	*POCI assets*	*Total*
Balance at 1 January 2018	**1**	**–**	**1**
Charge/(reversal) for the period	21	(1,332)	**(1,311)**
Gains from settlement of credit claims impaired at initial recognition	–	1,332	**1,332**
Balance at 31 December 2018	**22**	**–**	**22**
Balance at 1 January 2019	**22**	**–**	**22**
Charge/(reversal) for the period	100	(1,420)	**(1,320)**
Gains from settlement of credit claims impaired at initial recognition	–	1,420	**1,420**
Balance at 31 December 2019	**122**	**–**	**122**

Bank bonds at amortized cost	*Stage 1*	*Total*
Balance at 1 January 2018	**–**	**–**
Charge/(reversal) for the period	132	**132**
Balance at 31 December 2018	**132**	**132**
Balance at 1 January 2019	**132**	**132**
Charge/(reversal) for the period	(87)	**(87)**
Balance at 31 December 2019	**45**	**45**

In 2019 and 2018, there were no defaults in the portfolio of bank bonds at amortized cost.

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

	2019 RUB MM	*2018 RUB MM*
Bank bonds at amortized cost		
Issuers with credit rating from A+ to A-	1,028	2,040
Issuers with credit rating from BBB+ to BBB-	8,884	10,389
Issuers with credit rating from BB+ to BB-	8,882	17,708
Total bank bonds at amortized cost	**18,794**	**30,137**

Decrease in investments in bonds at amortized cost as at 31 December 2019 as compared with 31 December 2018 was due to the redemption of bonds at the offer or redemption date and due to the sale of bonds upon revision of the Group's securities portfolio management strategy.

20. Financial instruments at FVPL

	2019 RUB MM	*2018 RUB MM*
Held by the Group		
Corporate bonds and Eurobonds	99,309	60,551
Bonds and Eurobonds of companies with state participation	55,640	22,010
Russian subfederal and municipal bonds	30,664	22,499
Derivative financial instruments	2,419	5,337
Shares of enterprises with state participation	2,265	99
Foreign government bonds and Eurobonds	1,122	537
Eurobonds of the Russian Federation	388	3,049
Corporate shares	98	126
Russian State bonds (OFZ)	1	53
Total financial instruments at FVPL held by the Group	**191,906**	**114,261**
Pledged under repo		
Corporate bonds and Eurobonds	33,160	59,293
Bonds and Eurobonds of companies with state participation	24,306	45,717
Foreign government bonds	230	−
Russian subfederal and municipal bonds	−	5,768
Shares of enterprises with state participation	−	1
Total financial instruments at FVPL pledged under repo	**57,696**	**110,779**
Total financial instruments at FVPL	**249,602**	**225,040**

Securities at FVPL

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

	2019		*2018 (restated)*	
	RUB MM	*%*	*RUB MM*	*%*
Transport and infrastructure	38,759	15.7%	42,850	19.5%
Government and municipal institutions	32,405	13.1%	31,905	14.5%
Leasing	29,793	12.1%	17,497	8.0%
Banks	29,757	12.0%	26,152	11.9%
Mining	17,435	7.1%	17,266	7.9%
Metallurgy	14,657	5.9%	13,809	6.3%
Petrochemicals	11,699	4.7%	13,304	6.1%
State financial development institutions	9,737	3.9%	7,612	3.5%
Agriculture and food processing	9,015	3.7%	1,099	0.5%
Manufacturing	8,304	3.4%	7,250	3.3%
Energy	8,244	3.3%	2,627	1.2%
Construction and development	7,710	3.1%	7,449	3.4%
Chemical and pharmaceutical industry	6,827	2.8%	11,234	5.1%
Telecommunications	6,758	2.7%	7,344	3.3%
Trade	6,355	2.6%	2,156	1.0%
Other financial institutions	3,728	1.5%	1,553	0.7%
Diversified holdings	2,540	1.0%	2,730	1.2%
Services	2,126	0.9%	4,045	1.8%
Commercial real estate	1,334	0.5%	669	0.3%
Residential real estate	−	−	1,152	0.5%
	247,183	**100.0%**	**219,703**	**100.0%**

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

20. Financial instruments at FVPL (continued)

Securities at FVPL (continued)

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:

	2019 RUB MM	*2018 RUB MM*
Securities at FVPL		
Issuers with credit rating from A+ to A-	487	128
Issuers with credit rating from BBB+ to BBB-	59,534	67,617
Issuers with credit rating from BB+ to BB-	146,562	103,604
Issuers with credit rating from B+ to B-	20,561	25,048
Issuers without ratings of S&P, Fitch or Moody's	20,039	23,306
Total securities at FVPL	**247,183**	**219,703**

Issuers not rated by international rating agencies were assigned the following ratings of the Russian rating agencies:

	2019			*2018*		
Securities at FVPL	***Corporate bonds and bonds of companies with state participation***	***Russian subfederal and municipal bonds***	***Total***	***Corporate bonds and bonds of companies with state participation***	***Russian subfederal and municipal bonds***	***Total***
Issuers with credit rating from AA+ to AA-	6,785	−	**6,785**	3,209	−	**3,209**
Issuers with credit rating from A+ to A-	1,025	1,654	**2,679**	781	294	**1,075**
Issuers with credit rating from BBB+ to BBB-	733	4,178	**4,911**	968	5,340	**6,308**
Issuers with credit rating from BB+ to BB-	−	1,279	**1,279**	−	−	**−**
Unrated issuers	−	4,385	**4,385**	7,397	5,317	**12,714**
	8,543	**11,496**	**20,039**	**12,355**	**10,951**	**23,306**

As at 31 December 2019, maturities of these securities were within the following range: February 2020 − June 2047 (31 December 2018: February 2019 − August 2049).

The coupon rates were from 4.0% to 11.0% for USD-denominated debt securities, from 2.6% to 5.2% for EUR-denominated debt securities, 7.5% for GBP-denominated debt securities, and from 2.0% to 14.3% for RUB-denominated debt securities (31 December 2018: ranged 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).

In 2019 and 2018, there were no defaults in the portfolio of securities at FVPL.

As at 31 December 2019, the share of the largest issuer in the aggregate portfolio of securities at FVPL was 8.6%. The maturity of bonds of this issuer ranged from October 2020 to January 2034; the coupon rate ranged from 4.9% to 11.1% (31 December 2018: the share of the largest issuer was 9.5%, the maturity ranged from March 2019 to April 2041; the coupon rate ranged from 5.7% to 10.5%).

20. Financial instruments at FVPL (continued)

Derivative financial instruments

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

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

	2019			*2018*		
	Notional	*Fair value*		*Notional*	*Fair value*	
	amount RUB MM	*Asset RUB MM*	*Liability RUB MM*	*amount RUB MM*	*Asset RUB MM*	*Liability RUB MM*
Interest rate swaps – foreign banks	135,078	798	5,970	151,585	3,379	1,919
Interest rate swaps – Russian banks	30,953	231	–	50,028	1,898	–
Cross currency interest rate swaps – foreign banks	2,422	22	15	13,894	–	639
Cross currency interest rate swaps – Russian banks	–	–	–	69,471	–	3,037
Currency swaps – Russian banks	7,884	3	89	–	–	–
Currency swaps – foreign banks	16,704	100	49	–	–	–
Currency forwards and options – foreign companies and banks	114	–	–	139	19	–
Currency forwards and options – Russian companies and banks	2,936	68	3	2,003	41	26
Credit default swaps – foreign banks	6,810	290	361	27,094	–	1,226
Precious metals contracts – foreign companies	11,692	17	148	–	–	–
Precious metals contracts – Russian companies	2,200	44	3	–	–	–
Securities contracts – foreign companies	6,973	846	–	–	–	–
Securities contracts – Russian companies	139	–	–	–	–	–
Total derivative assets or liabilities	**223,905**	**2,419**	**6,638**	**314,214**	**5,337**	**6,847**

21. Fair value hedge of the portfolio of bonds at amortized cost

From 1 August 2019, the Group applied the hedge accounting of the fair value of the portfolio of bonds measured at amortized cost under IAS 39. Hedging is required to reduce the volatility of bond portfolio fair value due to changes in the interest rates. The Group hedges its interest rate risk. Fixed interest rates of bonds denominated in US dollars are hedged by floating USD Libor 3m rates through the interest rate swaps. An interest component has a significant weight in estimating the fair value of bonds.

The Group hedges the portfolio of bonds measured at amortized cost and denominated in US dollars. As at 31 December 2019, the carrying amounts of hedged bonds included in "Placements with banks and bank bonds at amortized cost" (Note 19) and "Loans to customers and bonds at amortized cost" (Note 22) were RUB 17,766 MM and RUB 78,871 MM, respectively.

To hedge, the Group applies USD-denominated interest rate swaps (IRS) exchanging fixed interest rates for floating interest rates; the Group applies USD Libor 3m rate. As at 31 December 2019, their nominal value was RUB 86,167 MM, average maturity is 4.8 years.

As at 31 December 2019, the effect of applying the hedge amounted to RUB (695) MM and was recognized within "Change in the fair value of hedged assets" in the consolidated statement of financial position and within "Net gain/(loss) on financial instruments at FVPL" in the consolidated statement of comprehensive income.

To assess the effectiveness of a hedge the Group compares changes in the fair value of hedging instruments with the changes in the fair value of the hedged items arising from the hedged risks. The Group may confirm efficiency of hedge by comparing values less accrued interest income and expense and less accrued interest income and expense together with excluding the effect of revaluation at the commencement of hedge accounting.

21. Fair value hedge of the portfolio of bonds at amortized cost (continued)

A hedge may be ineffective due to the following factors:

- Difference between timing of cash flows associated with the hedged item and the hedging instrument;
- Credit risk of the counterparties that have different effect on changes in the fair value of the hedged item and the hedging instrument.

The effect of the hedging instrument on the statement of financial position as at 31 December 2019 is presented in the table below:

	Nominal value RUB MM	*Carrying amount RUB MM*	*Item of the statement of financial position*
Interest rate swaps	86,167	(1,984)	Financial instruments at FVPL

The effect of the hedged item on the statement of financial position as at 31 December 2019 is presented in the table below:

	Carrying amount RUB MM	*Accumulated fair value adjustments RUB MM*	*Item of the statement of financial position*
Corporate bonds at amortized cost	78,871	(556)	Loans to customers and bonds at amortized cost
Bank bonds at amortized cost	17,766	(139)	Placements with banks and bank bonds at amortized cost
	96,637	**(695)**	

Ineffectiveness of the hedge recognized in the statement of profit or loss for the period was insignificant.

22. Loans to customers and bonds at amortized cost

Loans to customers comprise:

	2019 RUB MM	*2018 RUB MM*
Retail loans		
Car loans	101,943	74,978
Mortgage loans	68,046	57,801
Consumer loans	60,947	47,609
Installment cards	43,206	20,303
Total retail loans	**274,142**	**200,691**
Corporate loans and bonds at amortized cost		
Corporate loans	160,286	149,063
Corporate bonds and Eurobonds	62,539	96,127
Loans to small businesses and other loans to customers*	53,876	42,050
Bonds and Eurobonds of companies with state participation	35,055	48,145
Russian subfederal and municipal bonds	11,803	12,366
Loans to constituent entities and municipalities of the Russian Federation	7,205	6,347
Eurobonds of the Russian Federation	3,223	3,635
Total corporate loans and bonds at amortized cost	**333,987**	**357,733**
Total loans to customers and bonds at amortized cost	**608,129**	**558,424**
Less: allowance for impairment	(22,909)	(16,946)
Loans to customers and bonds at amortized cost, net	**585,220**	**541,478**

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

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

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

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

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

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

As at 31 December 2019, credit and installment cards comprised receivables from customers in the amount of RUB 40,353 MM ("Halva" installment cards) and RUB 2,853 MM (credit cards) (31 December 2018: RUB 16,468 MM and RUB 3,835 MM, respectively). The total number of "Halva" installment cards issued is 4.4 million. Fees and commissions received from the partners under the "Halva" program are recorded in interest income calculated using the EIR method (Note 7).

A decrease in investments in bonds at amortized cost as at 31 December 2019 as compared with 31 December 2018 was due to the redemption of bonds at the offer or redemption date and due to the sale of bonds upon revision of the Group's securities portfolio management strategy.

As at 31 December 2019, the carrying amount of loans issued to the Group's ten largest borrowers was RUB 91,428 MM representing 27.4% of the total loan portfolio, or 8.1% of the Group's total assets. 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 2019, the Group created an allowance for impairment of loans issued to the ten largest borrowers in the amount of RUB 780 MM (31 December 2018: RUB 462 MM).

Analysis of corporate loans and bonds at amortized cost by industry

Corporate loans were provided to companies operating in the following industries:

	2019 *RUB MM*	*2018 (restated)* *RUB MM*
State financial development institutions	38,087	25,142
Manufacturing	28,851	26,040
Transport and infrastructure	16,745	12,362
Trade	14,162	13,328
Commercial real estate	11,459	10,620
Petrochemicals	9,533	11,879
Mining	7,799	12,499
Services	5,366	4,693
Residential real estate	4,350	3,489
Metallurgy	4,211	1,739
Leasing	3,591	3,417
Agriculture and food processing	3,371	4,103
Construction and development	3,102	4,402
Energy	2,693	2,335
Telecommunications	2,665	2,063
Chemical and pharmaceutical industry	1,480	445
Other financial institutions	1,320	3,865
Diversified holdings	–	5,425
Other	1,501	1,217
	160,286	**149,063**

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

Analysis of corporate loans and bonds at amortized cost by industry (continued)

Corporate bonds were issued by Russian and foreign issuers operating in the following industries:

	2019 RUB MM	*2018 (restated) RUB MM*
Metallurgy	22,123	32,525
Mining	16,628	23,582
Transport and infrastructure	9,042	11,045
Manufacturing	5,482	7,460
Construction and development	4,891	6,692
Leasing	3,829	4,927
Diversified holdings	480	480
Telecommunications	64	3,719
Services	−	4,023
Agriculture and food processing	−	1,270
Residential real estate	−	404
	62,539	**96,127**

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

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 2019. The analysis of finance lease receivables is as follows:

	Up to 1 year RUB MM	*From 1 to 2 years RUB MM*	*From 2 to 3 years RUB MM*	*From 3 to 4 years RUB MM*	*From 4 to 5 years RUB MM*	*More than 5 years RUB MM*
Gross investments in finance leases	4,646	2,771	1,204	427	177	251
Unearned future finance income on finance lease	(634)	(799)	(478)	(198)	(71)	(55)
Net investments in finance lease	**4,012**	**1,972**	**726**	**229**	**106**	**196**

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

The tables below show the analysis of movements in allowances for ECL on retail loans for the year ended 31 December 2019:

Consumer loans	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**1,691**	**381**	**2,413**	**4,485**
Transfers to Stage 2	(16)	16	−	**−**
Transfers to Stage 3	(98)	(307)	405	**−**
Increase/(decrease) for the period	388	418	1,323	**2,129**
Write-offs	−	−	(2,219)	**(2,219)**
Recovery of write-offs	−	−	1,241	**1,241**
Balance as at 31 December 2019	**1,965**	**508**	**3,163**	**5,636**

Car loans	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**1,209**	**354**	**1,390**	**2,953**
Transfers to Stage 2	(13)	13	−	**−**
Transfers to Stage 3	(57)	(259)	316	**−**
Increase/(decrease) for the period	132	251	1,784	**2,167**
Write-offs	−	−	(1,683)	**(1,683)**
Recovery of write-offs	−	−	35	**35**
Balance as at 31 December 2019	**1,271**	**359**	**1,842**	**3,472**

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

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

Mortgage loans	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**676**	**159**	**1,111**	**1,946**
Transfers to Stage 2	(5)	5	–	**–**
Transfers to Stage 3	(34)	(89)	123	**–**
Increase/(decrease) for the period	179	123	766	**1,068**
Write-offs	–	–	(774)	**(774)**
Recovery of write-offs	–	–	275	**275**
Balance as at 31 December 2019	**816**	**198**	**1,501**	**2,515**

Installment cards	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**839**	**64**	**356**	**1,259**
Transfers to Stage 2	(7)	7	–	**–**
Transfers to Stage 3	(44)	(44)	88	**–**
Increase/(decrease) for the period	361	192	1,109	**1,662**
Write-offs	–	–	(297)	**(297)**
Recovery of write-offs	–	–	9	**9**
Balance as at 31 December 2019	**1,149**	**219**	**1,265**	**2,633**

The tables below show the analysis of movements in allowances for ECL on corporate loans and bonds at amortized cost for the year ended 31 December 2019:

Corporate loans	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*POCI assets RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**1,588**	**27**	**2,123**	**271**	**4,009**
Transfers to Stage 2	–	–	–	–	**–**
Transfers to Stage 3	–	–	–	–	**–**
Increase/(decrease) for the period	198	36	1,122	208	**1,564**
Write-offs	–	–	–	–	**–**
Recovery of write-offs	–	–	112	–	**112**
Balance as at 31 December 2019	**1,786**	**63**	**3,357**	**479**	**5,685**

Bonds at amortized cost (subfederal and municipal, Eurobonds of the Russian Federation, corporate bonds and bonds of entities with state participation)	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**912**	**–**	**–**	**912**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Increase/(decrease) for the period	(487)	–	–	**(487)**
Write-offs	–	–	–	**–**
Recovery of write-offs	–	–	–	**–**
Balance as at 31 December 2019	**425**	**–**	**–**	**425**

Loans to constituent entities and municipalities of the Russian Federation	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**42**	**–**	**–**	**42**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Increase/(decrease) for the period	1	–	–	**1**
Write-offs	–	–	–	**–**
Recovery of write-offs	–	–	–	**–**
Balance as at 31 December 2019	**43**	**–**	**–**	**43**

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

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

Loans to small businesses and other loans to customers	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*POCI assets RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**694**	**–**	**541**	**105**	**1,340**
Transfers to Stage 2	–	–	–	–	**–**
Transfers to Stage 3	(54)	(2)	56	–	**–**
Increase/(decrease) for the period	171	473	392	(15)	**1,021**
Write-offs	–	–	(35)	–	**(35)**
Recovery of write-offs	–	–	174	–	**174**
Balance as at 31 December 2019	**811**	**471**	**1,128**	**90**	**2,500**

In 2019, the most significant changes in the gross carrying amount of the retail loans portfolio that resulted in significant changes in the allowance for ECL were as follows:

- Development of retail secured lending (car loans and residential mortgages) resulted in the increase of the car loan portfolio by 36%, or RUB 26,965 MM, and the increase of mortgage portfolio by 18%, or RUB 10,245 MM, in 2019. The increase of these portfolios resulted in the respective increase of the amount of allowances for ECL.
- Further development of the Group's unsecured lending in 2019 resulted in the increase of the installment card portfolio by 113%, or RUB 22,903 MM, and the increase of the retail loans portfolio by 28%, or RUB 13,338 MM. Increase in the amount of unsecured loans resulted in the increase in the allowances for ECL.
- Write-off of fully impaired loans for the amount of RUB 4,973 MM against previously accrued allowance. Write-off for consumer loans, car loans and installment cards is made when they are 360 days past due and for mortgage loans when they are 1,080 days past due. The write-off resulted in the decrease in the allowances for ECL on Stage 3 loans.

In 2018, the most significant changes in the gross carrying amount of the loan portfolio that resulted in significant changes in the allowance for ECL were as follows:

- As the result of the acquisition of Rosevrobank, 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 resulted in the respective increase in the amount of allowance for ECL.
- Write-off of fully impaired loans for the amount of RUB 6,808 MM against previously accrued allowance. The write-off resulted in the decrease in the allowances for ECL on Stage 3 loans.
- Reclassification of securities of RUB 136,659 MM to securities at amortized cost. The Group created a respective Stage 1 allowance.
- Reclassification of non-past due corporate loans of RUB 2,902 MM from Stage 1 into Stage 3 due to an increase in the credit risk. This resulted in increase in the respective allowance for ECL.

The tables below show the analysis of movements in allowances for ECL on retail loans for the year ended 31 December 2018:

Consumer loans	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
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	**–**
Decrease/(increase) for the period	227	998	1,193	**2,418**
Write-offs	–	–	(4,394)	**(4,394)**
Recovery of write-offs	–	–	954	**954**
Balance as at 31 December 2018	**1,691**	**381**	**2,413**	**4,485**

Car loans	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
Balance as at 1 January 2018	**958**	**205**	**565**	**1,728**
Transfers to Stage 2	(61)	61	–	**–**
Transfers to Stage 3	(24)	(661)	685	**–**
Decrease/(increase) 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**

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

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

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

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

The tables below show the analysis of movements in allowances for ECL on corporate loans and bonds measured at amortized cost for the year ended 31 December 2018:

Corporate loans	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*POCI assets RUB MM*	*Total RUB MM*
Balance as at 1 January 2018	**2,718**	**–**	**–**	**–**	**2,718**
Transfers to Stage 2	(48)	48	–	–	**–**
Transfers to Stage 3	(2,011)	–	2,011	–	**–**
Decrease/(increase) for the period*	929	(21)	112	271	**1,291**
Write-offs	–	–	–	–	**–**
Recovery of write-offs	–	–	–	–	**–**
Balance as at 31 December 2018	**1,588**	**27**	**2,123**	**271**	**4,009**

Bonds at amortized cost (subfederal and municipal, Eurobonds of the Russian Federation, corporate bonds and bonds of entities with state participation)	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
Balance as at 1 January 2018	**247**	**–**	**–**	**247**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
increase/(decrease) for the period	665	–	–	**665**
Write-offs	–	–	–	**–**
Recovery of write-offs	–	–	–	**–**
Balance as at 31 December 2018	**912**	**–**	**–**	**912**

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

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

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

Loans to small businesses and other loans to customers	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*POCI assets RUB MM*	*Total RUB MM*
Balance as at 1 January 2018	**75**	**12**	**260**	**–**	**347**
Transfers to Stage 2	(5)	5	–	–	**–**
Transfers to Stage 3	(10)	(94)	104	–	**–**
Decrease/(increase) 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**

* Increase in allowance for corporate loans equals to RUB 1,040 MM. This amount represents an allowance for Rosevrobank's loan portfolio charged after the merger with the Group. A gain of RUB 1,188 MM resulting from revaluation of cash flows from the portfolio is recognized as interest income calculated using the EIR method (Note 7).

Credit quality of retail loans

The following table provides information on the credit quality of retail loans as at 31 December 2019:

	Stage 1 RUB MM	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
Consumer loans				
- Not overdue	53,806	–	35	**53,841**
- Overdue less than 30 days	1,672	–	45	**1,717**
- Overdue from 30 to 89 days	–	1,049	144	**1,193**
- Overdue from 90 to 179 days	–	–	1,527	**1,527**
- Overdue from 180 to 360 days	–	–	2,669	**2,669**
Total consumer loans	**55,478**	**1,049**	**4,420**	**60,947**
Allowance for impairment	(1,965)	(508)	(3,163)	**(5,636)**
Consumer loans, net	**53,513**	**541**	**1,257**	**55,311**
Installment cards				
- Not overdue	39,548	–	11	**39,559**
- Overdue less than 30 days	1,085	–	11	**1,096**
- Overdue from 30 to 89 days	–	560	200	**760**
- Overdue from 90 to 179 days	–	–	726	**726**
- Overdue from 180 to 360 days	–	–	1,065	**1,065**
Total installment cards	**40,633**	**560**	**2,013**	**43,206**
Allowance for impairment	(1,149)	(219)	(1,265)	**(2,633)**
Installment cards, net	**39,484**	**341**	**748**	**40,573**
Mortgage loans				
- Not overdue	62,348	–	321	**62,669**
- Overdue less than 30 days	1,700	–	74	**1,774**
- Overdue from 30 to 89 days	–	601	98	**699**
- Overdue from 90 to 179 days	–	–	673	**673**
- Overdue from 180 to 360 days	–	–	863	**863**
- Overdue more than 360 days	–	–	1,368	**1,368**
Total mortgage loans	**64,048**	**601**	**3,397**	**68,046**
Allowance for impairment	(816)	(198)	(1,501)	**(2,515)**
Mortgage loans, net	**63,232**	**403**	**1,896**	**65,531**
Car loans				
- Not overdue	96,715	–	59	**96,774**
- Overdue less than 30 days	1,890	–	40	**1,930**
- Overdue from 30 to 89 days	–	827	98	**925**
- Overdue from 90 to 179 days	–	–	863	**863**
- Overdue from 180 to 360 days	–	–	1,451	**1,451**
Total car loans	**98,605**	**827**	**2,511**	**101,943**
Allowance for impairment	(1,271)	(359)	(1,842)	**(3,472)**
Car loans, net	**97,334**	**468**	**669**	**98,471**
Total retail loans	**258,764**	**3,037**	**12,341**	**274,142**
Allowance for impairment	(5,201)	(1,284)	(7,771)	**(14,256)**
Retail loans, net	**253,563**	**1,753**	**4,570**	**259,886**

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

Credit quality of retail loans (continued)

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

	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 impairment	(1,691)	(381)	(2,413)	**(4,485)**
Consumer loans, net	**41,722**	**436**	**966**	**43,124**
Installment cards				
- Not overdue	19,299	–	3	**19,302**
- Overdue less than 30 days	288	–	3	**291**
- Overdue 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 installment cards	**19,587**	**166**	**550**	**20,303**
Allowance for impairment	(839)	(64)	(356)	**(1,259)**
Installment cards, net	**18,748**	**102**	**194**	**19,044**
Mortgage loans				
- Not overdue	53,714	–	388	**54,102**
- Overdue less than 30 days	943	–	19	**962**
- Overdue 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 mortgage loans	**54,657**	**600**	**2,544**	**57,801**
Allowance for impairment	(676)	(159)	(1,111)	**(1,946)**
Mortgage loans, net	**53,981**	**441**	**1,433**	**55,855**
Car loans				
- Not overdue	71,092	–	37	**71,129**
- Overdue less than 30 days	1,310	–	29	**1,339**
- Overdue 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 car loans	**72,402**	**698**	**1,878**	**74,978**
Allowance for impairment	(1,209)	(354)	(1,390)	**(2,953)**
Car loans, net	**71,193**	**344**	**488**	**72,025**
Total retail loans	**190,059**	**2,281**	**8,351**	**200,691**
Allowance for impairment	(4,415)	(958)	(5,270)	**(10,643)**
Retail loans, net	**185,644**	**1,323**	**3,081**	**190,048**

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

Credit quality of corporate loans and bonds at amortized cost

The following tables provide information on the credit quality of corporate loans and bonds at amortized cost as at 31 December 2019:

Corporate loans	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*POCI assets* RUB MM*	*Total RUB MM*
- Not overdue	208,146	6,190	1,635	821	**216,792**
- Overdue less than 30 days	599	–	–	–	**599**
- Overdue from 30 to 89 days	–	752	145	–	**897**
- Overdue from 90 to 179 days	–	–	591	–	**591**
- Overdue from 180 to 360 days	–	–	215	–	**215**
- Overdue more than 360 days	–	–	1,994	279	**2,273**
Total corporate loans	**208,745**	**6,942**	**4,580**	**1,100**	**221,367**
Allowance for impairment	(2,640)	(534)	(4,485)	(569)	**(8,228)**
Corporate loans	**206,105**	**6,408**	**95**	**531**	**213,139**

Bonds at amortized cost (subfederal and municipal, Eurobonds of the Russian Federation, corporate bonds and bonds of entities with state participation)	*Stage 1 RUB MM*	*Total RUB MM*
- Not overdue	112,620	**112,620**
Total bonds at amortized cost	**112,620**	**112,620**
Allowance for impairment	(425)	**(425)**
Bonds at amortized cost, net	**112,195**	**112,195**

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

Corporate loans	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*POCI assets* RUB MM*	*Total RUB MM*
- Not overdue	191,996	–	1,494	749	**194,239**
- 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	**192,587**	**41**	**3,643**	**1,189**	**197,460**
Allowance for impairment	(2,324)	(27)	(2,664)	(376)	**(5,391)**
Corporate loans, net	**190,263**	**14**	**979**	**813**	**192,069**

* POCI loans (purchased or originated credit-impaired) mostly include loans issued by Rosevrobank at Stage 3 as at the date of the business combination.

Bonds at amortized cost (subfederal and municipal, Eurobonds of the Russian Federation, corporate bonds and bonds of entities with state participation)	*Stage 1 RUB MM*	*Total RUB MM*
- Not overdue	160,273	**160,273**
Total bonds at amortized cost	**160,273**	**160,273**
Allowance for impairment	(912)	**(912)**
Bonds at amortized cost, net	**159,361**	**159,361**

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.

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

Collateral and other credit enhancements (continued)

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 during its review of the adequacy of the allowance for impairment losses.

In the absence of collateral or other credit enhancements, ECL on Stage 3 loans to customers as at 31 December 2019 would have increased by:

	2019 RUB MM	***2018 RUB MM***
Loans to small businesses and other loans to customers	289	21

When estimating the ECL on the corporate loan portfolio, the Group does not include in the model the data on the available collateral. This disclosure is not significant for the portfolio.

The breakdown of loans to customers and bonds at amortized cost (net of impairment) by type of collateral as at 31 December 2019 is presented in the table below:

	Corporate loans	***Loans to small businesses and other loans to customers***	***Consumer loans***	***Installment cards***	***Loans to constituent entities and municipali-ties of the Russian Federation***	***Mortgage loans***	***Car loans***	***Bonds***	***Total***
Real estate	8,463	11,242	–	–	–	65,477	–	–	**85,182**
Motor vehicles	272	7,123	–	757	–	–	98,471	–	**106,623**
Goods and materials	3,559	8,120	–	–	–	–	–	–	**11,679**
Securities and equity investments	8,926	444	–	–	–	–	–	–	**9,370**
Other collateral	4,849	4,142	97	–	–	–	–	–	**9,088**
No collateral	128,533	20,305	55,214	39,816	7,162	54	–	112,194	**363,278**
Total loans to customers	**154,602**	**51,376**	**55,311**	**40,573**	**7,162**	**65,531**	**98,471**	**112,194**	**585,220**

The breakdown of loans to customers and bonds at amortized cost (net of impairment) by type of collateral as at 31 December 2018 is presented in the table below:

	Corporate loans	***Loans to small businesses and other loans to customers***	***Consumer loans***	***Installment cards***	***Loans to constituent entities and municipali-ties of the Russian Federation***	***Mortgage loans***	***Car loans***	***Bonds***	***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	109,186	23,650	43,070	19,045	6,305	346	2,636	159,361	**363,599**
Total loans to customers	**144,769**	**40,994**	**43,125**	**19,045**	**6,305**	**55,855**	**72,024**	**159,361**	**541,478**

As at 31 December 2019 and 2018, 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.

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

Collateral and other credit enhancements (continued)

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 its parent.

Corporate loans	*2019 RUB MM*	*2018 RUB MM*
Customers with credit rating from BBB+ to BBB-	47,135	38,263
Customers with credit rating from BB+ to BB-	17,945	8,656
Customers with credit rating from B+ to B-	4,976	1,300
Customers without credit rating of S&P, Fitch or Moody's	90,230	100,844
Total corporate loans	**160,286**	**149,063**

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

Bonds at amortized cost	*2019 RUB MM*	*2018 RUB MM*
Issuers with credit rating from BBB+ to BBB-	25,806	35,415
Issuers with credit rating from BB+ to BB-	69,556	81,404
Issuers with credit rating from B+ to B-	1,238	12,272
Issuers without credit rating of S&P, Fitch or Moody's	16,020	31,182
Total bonds at amortized cost	**112,620**	**160,273**

Issuers not rated by international rating agencies were assigned the following ratings of the Russian rating agencies:

	2019			*2018*		
Bonds at amortized cost	*Corporate bonds and bonds of companies with state participation*	*Russian subfederal and municipal bonds*	*Total*	*Corporate bonds and bonds of companies with state participation*	*Russian subfederal and municipal bonds*	*Total*
Issuers with credit rating from AA+ to AA-	1,802	–	**1,802**	1,803	–	**1,803**
Issuers with credit rating from A+ to A-	–	945	**945**	–	–	**–**
Issuers with credit rating from BBB+ to BBB-	3,396	4,626	**8,022**	4,033	5,643	**9,676**
Issuers with credit rating from BB+ to BB-	–	658	**658**	–	–	**–**
Issuers without credit rating of Russian rating agencies	1,458	3,135	**4,593**	16,438	3,265	**19,703**
Total bonds at amortized cost	**6,656**	**9,364**	**16,020**	**22,274**	**8,908**	**31,182**

23. Financial instruments at FVOCI

Equity securities at FVOCI

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

	31 December 2019 RUB MM	*31 December 2018 RUB MM*
Shares	491	111
Shares as part of mezzanine lending	530	580
	1,021	**691**

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.

23. Financial instruments at FVOCI (continued)

Debt securities at FVOCI

	2019 RUB MM	*2018 RUB MM*
Held by the Group		
Bonds of companies with state participation	76,208	–
Total debt securities at FVOCI held by the Group	**76,208**	**–**
Pledged under repo		
Bonds of companies with state participation	36,218	–
Total debt securities at FVOCI pledged under repo	**36,218**	**–**
Total debt securities at FVOCI	**112,426**	**–**

The breakdown of bonds at FVOCI by industry is presented in the table below:

	2019		*2018*	
	RUB MM	*%*	*RUB MM*	*%*
State financial development institutions	112,324	99.9%	–	–
Petrochemicals	102	0.1%	–	–
	112,426	**100.0%**	**–**	**–**

The table below presents a breakdown of debt securities at FVOCI 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:

	2019 RUB MM	*2018 RUB MM*
Debt securities at FVOCI		
Issuers with credit rating from BBB+ to BBB-	112,426	–
	112,426	**–**

As at 31 December 2019, the share of the largest issuer in the aggregate portfolio of securities at FVOCI was 99.9%. Maturities of bonds of this issuer ranged from September 2049 to May 2050 and the coupon rates ranged from 9.3% to 12.9% (31 December 2018: no such portfolio).

Analysis of the credit risk on debt securities at FVOCI for which the allowance for ECL is recognized on the basis of the credit risk level as at 31 December 2019 is presented in the table below:

Debt securities at FVOCI	*Stage 1 RUB MM*	*Stage 2 RUB MM*	*Stage 3 RUB MM*	*Total RUB MM*
- Not overdue	112,546	–	–	**112,546**
Total at amortized cost	**112,546**	**–**	**–**	**112,546**
Allowance for credit losses	(67)	–	–	**(67)**
Fair value adjustment from the measurement at amortized cost to the measurement at fair value	(53)	–	–	**(53)**
Total at fair value	**112,426**	**–**	**–**	**112,426**

24. Investment property

The Group owns a number of real estate properties. The Group occupies some of these properties and rents out the excess space. Real estate occupied by the Group is part of property and equipment and intangible assets (Note 25) and the remaining (rented out) real estate is classified as investment property.

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

	2019 RUB MM	*2018 RUB MM*
Fair value at the beginning of the year	56	58
Transfer from/to property and equipment (Note 25)	(1)	6
Additions	2	–
Revaluation	(4)	(8)
Fair value at the end of the year	**53**	**56**

25. Property and equipment and intangible assets

Movements of property and equipment are as follows:

	Land and buildings RUB MM	*Leasehold impro-vements 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 2019	**3,703**	**27**	**529**	**1,411**	**224**	**556**	**30**	**7,370**	**13,850**
Effect of business combination	–	–	–	–	68	–	–	374	**442**
Additions	–	3	113	61	52	57	1,540	123	**1,949**
Disposals	(13)	(6)	(4)	(27)	(41)	(51)	–	(12)	**(154)**
Transfer from investment property (Note 24)	1	–	–	–	–	–	–	–	**1**
Revaluation	(76)	–	–	–	–	–	–	–	**(76)**
Elimination of accumulated depreciation on revalued assets	(74)	–	–	–	–	–	–	–	**(74)**
As at 31 December 2019	**3,541**	**24**	**638**	**1,445**	**303**	**562**	**1,570**	**7,855**	**15,938**
Depreciation and impairment									
As at 1 January 2019	**–**	**(16)**	**(228)**	**(893)**	**(90)**	**(326)**	**–**	**(1,647)**	**(3,200)**
Depreciation charge	(74)	(6)	(116)	(170)	(45)	(83)	–	(1,434)	**(1,928)**
Cost and other losses from other non-banking business	–	–	(4)	–	(3)	–	–	(2)	**(9)**
Disposals	–	6	2	26	23	44	–	3	**104**
Elimination of accumulated depreciation on revalued assets	74	–	–	–	–	–	–	–	**74**
Impairment	(61)	–	–	–	–	–	–	–	**(61)**
As at 31 December 2019	**(61)**	**(16)**	**(346)**	**(1,037)**	**(115)**	**(365)**	**–**	**(3,080)**	**(5,020)**
Carrying amount as at 31 December 2019	**3,480**	**8**	**292**	**408**	**188**	**197**	**1,570**	**4,775**	**10,918**
Carrying amount as at 31 December 2018	**3,703**	**11**	**301**	**518**	**134**	**230**	**30**	**5,723**	**10,650**
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 24)	(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**

Revalued assets

As at 31 December 2019, the Group recognized:

- A negative revaluation of RUB (147) MM in profit or loss (31 December 2018: a negative revaluation of RUB (109) MM);
- A positive revaluation of RUB 71 MM in other comprehensive income and revaluation reserve (31 December 2018: a positive revaluation of RUB 295 MM in other comprehensive income and revaluation reserve).

Had land and buildings not been revalued, their carrying amount would have been RUB 3,366 MM as at 31 December 2019 (31 December 2018: RUB 3,510 MM).

26. Other assets

	2019 RUB MM	2018 (restated) RUB MM
Other financial assets		
Delivery of cash and securities	2,014	883
Other financial assets at FVPL	628	7,830
Cash settlement services	425	168
Security deposit placed with MasterCard Europe	–	267
Other financial assets	27	–
Total other financial assets	**3,094**	**9,148**
Less: allowance for impairment of other financial assets	(971)	(519)
Total other financial assets, net	**2,123**	**8,629**
Other non-financial assets		
Precious metals	12,865	8,648
Other advances	1,692	1,944
Foreclosed assets	495	256
VAT receivable (leasing operations)	226	90
Prepaid taxes other than VAT and income tax	45	98
Settlements with employees	38	6
Other	546	242
Total other non-financial assets	**15,907**	**11,284**
Less: allowance for impairment of other non-financial assets(Note 16)	(396)	(206)
Total other non-financial assets, net	**15,511**	**11,078**
Total other assets	**17,634**	**19,707**

In 2019, the Group revised its approach to presentation of financial and non-financial assets and allowances for foreclosed assets. The changes were made retrospectively.

“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 2019 results from the growth in the volume of services provided.

In 2019, the most significant changes in the carrying amount other assets before allowances that resulted in significant changes in the allowance for ECL were due to the following:

1. Increase in cash settlement services provided to legal entities resulting in the increase of the respective allowances by RUB 218 MM.
2. Increase in the credit risk under loan cession agreements resulting in the charge of allowance of RUB 240 MM.

27. Due to customers

	2019 RUB MM	2018 RUB MM
Individuals		
Term deposits	399,209	361,108
Current accounts and demand deposits	52,794	41,795
Legal entities		
Term deposits	195,459	110,005
Current accounts and demand deposits	103,462	85,954
Amounts due under repo	23,114	12
	774,038	**598,874**

As at 31 December 2019 and 31 December 2018, the ten largest customers of the Group placed the total of RUB 108,329 MM and RUB 50,114 MM current accounts and term deposits, or 14.0% and 8.4% of total due to customers, respectively.

As at 31 December 2019 and 31 December 2018, the Group did not have a customer whose balance with the bank accounted for more than 10% of total due to customers.

28. Due to the CBR

	2019 RUB MM	*2018 RUB MM*
Loans secured by assets	785	859
	785	**859**

29. Due to banks

	2019 RUB MM	*2018 RUB MM*
Repo with banks	97,743	182,059
Deposits	26,285	6,498
Collateral for derivative financial instruments ("DFI")	629	1,291
LORO accounts	464	407
	125,121	**190,255**

As at 31 December 2019, the Group had two counterparties whose balance exceeded 10% of total due to banks (31 December 2018: two counterparties). As at 31 December 2019, respective liabilities amounted to RUB 62,355 MM, or 49.8% of total due to banks (31 December 2018: RUB 159,866 MM, or 84.0% of total due to banks).

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

	2019		*2018*	
	Repo with legal entities RUB MM	*Repo with banks RUB MM*	*Repo with legal entities RUB MM*	*Repo with banks RUB MM*
Financial instruments at FVPL pledged under repo				
Corporate bonds and Eurobonds	20,912	12,248	14	59,279
Bonds and Eurobond of companies with state participation	5,892	18,414	–	45,717
Foreign government bonds	–	230	–	–
Russian subfederal and municipal bonds	–	–	–	5,768
Shares of enterprises with state participation	–	–	–	1
Total carrying amount	**26,804**	**30,892**	**14**	**110,765**
Loans to customers and bonds at amortized cost, pledged under repo				
Corporate bonds and Eurobonds	–	21,985	–	54,870
Bonds and Eurobonds of companies with state participation	–	11,079	–	25,780
Eurobonds of the Russian Federation	–	3,223	–	3,635
Russian subfederal and municipal bonds	–		–	1,780
Total carrying amount	**–**	**36,287**	**–**	**86,065**
Debt securities at FVOCI				
Bonds of companies with state participation	–	36,218	–	–
Total carrying amount	**–**	**36,218**	**–**	**–**
Placements with banks and bank bonds at amortized cost, pledged under repo				
Bonds and Eurobonds of companies with state participation	–	5,894	–	5,900
Corporate bonds and Eurobonds	–	4,641	–	7,021
Total carrying amount	**–**	**10,535**	**–**	**12,921**
Related liabilities	**23,114**	**97,743**	**12**	**182,059**

30. Debt securities issued

	2019 RUB MM	2018 RUB MM
Bonds	15,672	5,468
Promissory notes	2,990	3,008
Savings certificates	–	3
	18,662	**8,479**

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

On 22 November 2019, the Bank placed series FIZL1 stock-exchange bonds for a total of RUB 500 MM (state registration number 4B020200963B001P of 20 November 2019) with a maturity period of 3 years. The coupon rate is set at 7.5% per annum.

On 10 December 2019, the Bank early redeemed a portion of series BO-P05 bonds for a total of RUB 3 BN (state registration number 4B020500963B of 20 January 2014).

31. Other borrowed funds

On 21 September 2015, Sovcombank won an open tender for the financial rehabilitation of EVB.

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

As at 31 December 2019, the Group pledged the rights of claim on loans to individuals and corporate customers totaling RUB 45,243 MM (31 December 2018: RUB 45,371 MM) as a collateral for the DIA loan.

The DIA carries out bankruptcy procedures in respect of Probusinessbank OJSC (the parent bank of EVB, hereinafter, “PBB”) and repays its liabilities to the creditors of PBB, including EVB, with the recovered funds. According to the DIA loan agreement, Sovcombank then repays the respective amount to the DIA. From date of issuance of the DIA loan to 31 December 2019, Sovcombank repaid a part of the DIA loan totaling RUB 9,008 MM.

The DIA loan was issued to Sovcombank at the rate of 0.51% per annum, i.e. significantly below the market rate. According to IAS 9, loans issued with interest rates other than the market interest rates are measured at fair value at the date of issuance. The fair value equals the future interest payments and principal debt discounted with the market interest rate. As at the date of issuance of the DIA loan, the market interest rate for similar loans provided to Sovcombank was 14.9%. As at 31 December 2019, the carrying amount of the DIA loan of RUB 19,225 MM (31 December 2018: RUB 16,923 MM) was recorded within “Other borrowed funds”.

	2019 RUB MM	2018 RUB MM
DIA loan	19,225	16,923
Other borrowed funds	2	1
	19,227	**16,924**

32. Subordinated debt

Type	*Principal, loan currency, MM*	*Currency*	*Counter-party*	*Interest rate*	*Issue date*	*Maturity date*	*2019 RUB MM*	*2018 RUB MM*
Subordinated bonds	300	USD	–	8.00%	7 October 2019	7 April 2025	18,794	–
Subordinated loan	1,255	RUB	DIA	9.57%	27 April 2015	28 April 2032	1,419	1,434
Subordinated loan	1,255	RUB	DIA	9.68%	27 April 2015	26 September 2029	1,413	1,422
Subordinated loan	1,255	RUB	DIA	9.41%	27 April 2015	29 November 2034	1,405	1,427
Subordinated loan	1,255	RUB	DIA	9.74%	27 April 2015	24 February 2027	1,396	1,375
Subordinated loan	1,255	RUB	DIA	9.73%	27 April 2015	22 January 2025	1,380	1,335
Subordinated bonds	9	USD	–	8.25%	7 March 2018	21 February 2029	555	7,000
							26,362	**13,993**

Term subordinated bonds issued

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

In 2019, the Group repurchased subordinated bonds series 2V03 for RUB 14,583 MM and then sold the bonds to investors for RUB 8,966 MM. The total amount of subordinated bonds owned by third parties is RUB 555 MM (see table above).

On 7 October 2019, Sovcombank placed 10.5-year subordinated Eurobonds of USD 300 MM bearing a coupon rate of 8% p.a. (ISIN: REGS XS2010043656 / 144a US84605LAA44). In 5.5 years, a call option is provided in respect of the bonds. Fitch assigned a BB rating to the issue.

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 (OFZ). These tranches have maturities of 12 to 19 years.

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

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

The CBR confirmed that the Bank might include this subordinated loan in the capital of the Bank (as successor of Rosevrobank). The subordinated loan is not shown in the Group balance sheet because in accordance with IAS 9 it is classified as securities borrowed and for this reason the subordinated loan is recorded as an off-balance sheet liability at fair value of RUB 112 MM as at 31 December 2019 (31 December 2018: RUB 111 MM).

33. Other liabilities

	2019 RUB MM	*2018 (restated) RUB MM*
Other financial liabilities		
Derivative financial liabilities (Note 20)	6,638	6,847
Lease liabilities (Note 2)	5,562	–
Payables to personnel	3,495	3,507
Accrued dividends	2,200	–
Payables to suppliers	2,143	1,297
Allowance for credit losses	1,017	962
Settlements on currency conversion transactions	175	18
Settlements on transactions with securities	124	–
Deferred fee and commission on credit-related commitments	101	–
Total other financial liabilities	**21,455**	**12,631**
Other non-financial liabilities		
Provisions for non-financial contingencies (Note 35)	2,412	1,283
Deferred revenues	1,874	1,453
Provision for litigations (Note 36)	827	1,165
Accrued expenses on obligatory deposit insurance	721	544
Advances received from lessees	701	107
Taxes payable other than VAT and income tax	651	535
VAT payable	410	301
Provision for pre-trial proceedings	342	261
Other non-financial liabilities	157	474
Total other non-financial liabilities	**8,095**	**6,123**
Total other liabilities	**29,550**	**18,754**

In 2019, the Group revised its approach to presentation of financial and non-financial liabilities. The changes were made retrospectively.

"Advances received from lessees" include advance payments under lease agreement where the leased asset has not been transferred for the lessee's use and is still being delivered from the supplier.

"Payables to suppliers" mainly include general and administrative expenses accrued in the reporting date.

"Provisions for non-financial contingencies" mainly include provisions for non-financial guarantees issued 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 the Purchases of Goods, Work and Services by Certain Types of Legal Entity*.

"Provision for pre-trial proceedings" includes guarantee provisions arising when customers fail to fulfill their recourse obligations.

As at 31 December 2019, the increase in the obligatory deposit insurance was due to the proportional increase in deposits of individuals.

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

34. Equity

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

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

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

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

34. Equity (continued)

In March 2019, Sovcombank placed 979,078,325 ordinary registered book-entry shares for the total amount of RUB 6,080 MM (558 million shares for RUB 6.218 each and 421 million shares for USD 0.095 each) with a consortium of investors (Note 1).

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 B.V. into the Bank's core capital for ratio calculation purposes. The Bank increased its core capital to RUB 6,717 MM in accordance with the CBR's approval of 2 April 2018. IAS 32 also treats conversion of a perpetual subordinated loan as an increase in equity.

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

In 2019, Sovcombank paid dividends of RUB 8,050 MM, or RUB 0.4 per share (2018: RUB 7,320 MM, or RUB 0.4 per share).

In December 2019, the general shareholders' meeting of Sovcombank decided to pay dividends of RUB 2,200 MM, or RUB 0.1 per share. The Bank paid the full amount of dividends in cash in January 2020.

In 2019, the dividends paid by the Group to non-controlling shareholders totaled RUB 423 MM.

Earnings per share

Basic earnings per share are calculated by dividing profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares. According to IAS 33, in order to calculate profit attributable to ordinary shareholders of the Bank, the Bank should adjust profit for the year attributable to the Bank's shareholders for interest accrued on perpetual subordinated bonds.

The Bank has no potentially dilutive instruments. Therefore, diluted earnings per share equal basic earnings per share.

Basic and diluted earnings per ordinary share attributable to the Bank's shareholders are calculated in the table below:

	2019 RUB MM	***2018 RUB MM***
Profit for the year attributable to the Bank's shareholders	29,769	17,437
Less Interest accrued on perpetual subordinated bonds	(451)	(369)
Profit attributable to ordinary shareholders of the Bank	**29,318**	**17,068**
Weighted average number of ordinary shares in issue (billion)	19.4	17.7
Basic and diluted earnings per ordinary share attributable to the Bank's shareholders (RUB per share)	**1.51**	**0.97**

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 8.75% p.a.; the interest rate for further coupons is determined by the formula:

Ck = R + m + 100 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 the Bank's request to convert subordinated bonds series 1V02 to its additional capital.

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

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

IFRS classifies interest payments related to perpetual subordinated bonds as dividends on the grounds that the Bank may unilaterally halt interest payments. In 2019, Sovcombank paid interest of RUB 577 MM on the perpetual subordinated bonds (2018: RUB 295 MM).

35. Commitments

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

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

The commitments by category were as follows:

*Contractual amount**	*31 December 2019 RUB MM*	*31 December 2018 RUB MM*
Loan and credit line commitments	217,736	216,144
Bank guarantees	143,466	147,650
Commitments to issue bank guarantees	80,947	53,864
	442,149	**417,658**
Provisions for non-financial commitments	(2,413)	(1,283)
Allowance for credit losses	(1,016)	(962)
Provisions for pre-trial proceedings	(341)	(261)
	(3,770)	**(2,506)**

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

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

As at 31 December 2019, bank guarantees included non-financial guarantees (including those issued by the Group to small and medium-sized businesses in accordance with Federal Laws No. 44-FZ and No. 223-FZ) of RUB 125,015 MM in total (31 December 2018: RUB 99,330 MM).

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

	31 December 2019 RUB MM	*31 December 2019 number*	*31 December 2018 RUB MM*	*31 December 2018 number*
Amount				
Less than RUB 0.5 MM	10,313	132,059	11,247	141,292
RUB 0.5 MM – RUB 1 MM	4,677	6,491	4,848	6,782
RUB 1 MM RUB – 10 MM	20,675	7,615	17,686	6,378
RUB 10 MM RUB – 100 MM	40,445	1,279	32,612	1,003
More than RUB 100 MM	48,905	223	32,937	155
	125,015	**147,667**	**99,330**	**155,610**

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

The tables below show the analysis of movements in the allowances for ECL under financial guarantees and loan and credit line commitments for 2019:

Financial guarantees	*Stage 1 RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**956**	**956**
Reversal	(730)	**(730)**
Balance as at 31 December 2019	**226**	**226**

Loan commitments	*Stage 1 RUB MM*	*Total RUB MM*
Balance as at 1 January 2019	**6**	**6**
Charge/(reversal) for the period	784	784
Balance as at 31 December 2019	**790**	**790**

36. Contingencies

Litigations related to Express-Volga Bank JSC

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

In November 2017, the minority creditors of Probusinessbank filed a lawsuit to declare invalid the transfer of RUB 625 MM to EVB from Probusinessbank in August 2015. In October 2018, the Moscow Arbitration Court satisfied the claims of the minority creditors of Probusinessbank. The court ordered the return of RUB 625 MM to Probusinessbank's insolvency estate and recovery of obligations of Probusinessbank to EVB in the same amount. The decision of the Moscow Arbitration Court was upheld by the appeal court (in March 2019) and the cassation court (in July 2019). The decision of the Moscow Arbitration Court dated 9 November 2018 was implemented (against the accrued provision) and RUB 625 MM was returned by EVB to the insolvency estate of Probusinessbank on 16 July 2019. On 3 September 2019, the Bank's cassation appeal was filed with the Judicial Panel for Economic Disputes of the Supreme Court of the Russian Federation. On 5 November 2019, the Supreme Court denied the examination of EVB's cassation appeal. Proceedings in a case were completed.

In November 2019, the bankruptcy administrator of Probusinessbank and the minority creditors filed a claim to the Moscow Arbitration Court seeking to apply the consequences of the void transaction on the transfer of RUB 625 MM to EVB from Probusinessbank in the form of repayment of interest for the use of cash in the amount of approximately RUB 210 MM. On 31 January 2020, the Moscow Arbitration Court issued ruling on the repayment of interest by EVB for the use of cash in the amount of RUB 209 MM. Upon receipt of the reasoned ruling, EVB will appeal the ruling on repayment. As the risk that the court will satisfy the claim on repayment of interest for the use of cash is high, the Group's management accrued a provision in the amount of RUB 210 MM that in the group management's view will cover all possible risks.

In November 2016, Sovcombank won an open auction organized by the DIA to acquire shares of CB Poidem! JSC, previously a member of Probusinessbank group. The funds raised as a result of the auction went into Probusinessbank's insolvency estate and were subsequently allocated to all its creditors. In December 2016, Sovcombank signed an agreement to sell 100% of shares of CB Poidem! JSC to management of this bank. In November 2017, minority creditors of Probusinessbank challenged the sale of shares of CB Poidem! JSC via open auction to Sovcombank. In March 2018, the Moscow Arbitration Court upheld the auction results. The decision of the Moscow Arbitration Court was upheld by the appeal court (in May 2018) and the cassation court (in July 2018). In February 2019, the Supreme Court of the Russian Federation satisfied the claim of minority creditors, canceled all judicial acts of the appeal court and the cassation court and referred the case to the first instance court for retrial, indicating that a thorough examination of evidence presented by the parties was necessary. The hearing of the case was postponed until 12 March 2020. The Group's management believes that the economic effect in case of the unfavorable outcome will be insignificant as currently Sovcombank is not the owner of CB Poidem! JSC's shares. Based on the above, the Group did not make a provision for this claim.

In November 2015, the Moscow Arbitration Court initiated a proceeding on bankruptcy of Life Factoring Company LLC ("Life FC"), one of the subsidiaries of EVB, that were a part of Life Financial Group ("Life FG", parent bank of the group – Probusinessbank). A supervision procedure was commenced, following the results of which Life FC was declared a bankrupt and bankruptcy proceedings were commenced in September 2016. In November 2019, the bankruptcy administrator filed a petition to enforce the vicarious liability of the former CEO of the company. However, in December 2019, minority creditors filed a petition to enforce the vicarious liability of all member banks of the company, that were a part of Life FG, including EVB. The total amount of claims as at the current date is RUB 3.5 BN. According to the Group's management, claims to EVB are frivolous and, considering the specifics of the management structure of Life FC, court practice in similar cases and in cases with participation of defendants and creditors under this proceeding, the probability of enforcing the vicarious liability of EVB, as well as the probability of financial losses are assessed by the Group as low. Based on the above, the Group did not make a provision for this claim.

Tax contingencies

Major part of the Group's business activity is carried out in the Russian Federation. Some provisions in the current Russian tax, currency and customs legislation are not clear enough and quite ambiguous, which often results in their varying interpretation (which, in particular, may apply to legal relations in the past), selective and inconsistent application, as well as frequent and, at times, unpredictable changes. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that 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 not 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 by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

36. Contingencies (continued)

Tax contingencies (continued)

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 2019.

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

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.

As at 31 December 2019, management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions 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.

Corporate governance level

General shareholders' meeting

- Decides whether it is appropriate to change 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.

37. Risk management (continued)

Corporate governance level (continued)

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.
- Ensures compliance with ICAAP and their effectiveness.
- Controls the executive bodies of the Group's members that manage banking risks and ensure compliance with ICAAP and their effectiveness.
- Reviews (at least annually) ICAAP reports and the use of ICAAP data to make management decisions at the Group level, 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.

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.
- Ensures compliance with ICAAP and their effectiveness.
- 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.

37. Risk management (continued)

Executive management level (continued)

- 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 larger risks are made by Sovcombank.

Risk Management Committee of the Supervisory Board

- Preliminary reviews, prepares recommendations and approves matters related to risk and capital management of the parent credit institution / the Group; approves risk and capital management strategy, as well as the procedure for managing significant risks and capital of the parent credit institution / the Group.
- Reviews risk appetite, its indicators and ensures compliance with these indicators.
- Reviews stress-testing scenarios.
- Controls the implementation and due functioning of the risk management system and culture.
- Assesses the effectiveness of the risk management system and its adequacy to the changing operating environment of the entity, develops recommendations for its improvement.
- Reviews reports on the results of the internal capital adequacy assessment procedures.
- Reviews and approves the procedure for application of the credit risk management methods and quantitative assessment of the credit risk components.
- Reviews and approves the results of the application of the credit risk management methods and quantitative assessment of the credit risk components, develops recommendations for the development and improvement of the rating system and its effectiveness.
- Cooperates with the audit committee to communicate all risks inherent in the entity, including potential risks, and to outline the main directions of improving the risk management system.

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.
- Reviews (at least annually) the need to update the methodology to assess and aggregate significant risks.

37. Risk management (continued)

Executive management level (continued)

- Reviews (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.
- 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.
- Approves/updates red flags and indicators limiting significant risks to the risk appetite established 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).
- Approves separate risk concentration sub-limits within the risk appetite established by the Supervisory Board of the parent credit institution and limits to the economic capital established by the Management Board of the parent credit institution.
- Approves the Group's significant risk management procedures.
- Approves stress-testing parameters and reviews stress-testing reports.
- Decides on the initiation of the action plans aimed at improving the situation related to the significant risks, selects certain activities under these plans, appoints responsible divisions and establishes timeframes for these activities; decides on the completion of the plans.
- Approves the composition of the expert group and the timing of the risk identification procedure.
- Reviews the risk map and prepares the final list of the Bank's and the Group's significant risks.
- Makes decision in case of the conflict of interest between the risk and the profitability.

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

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.

37. Risk management (continued)

Executive management level (continued)

Joint 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 Joint Large Credit Committee set credit risk limits.
- Amends terms of transactions, including cancellation of fines on transactions previously approved by the Joint Large Credit Committee.
- Amends terms of loan agreements, regardless of their amounts.

For transactions previously approved by the Joint Large Credit Committee:

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

Limit Credit Committee

Within the established limits, it makes decisions on the following transactions bearing 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 repo.
- 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.

37. Risk management (continued)

Executive management level (continued)

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).

For transactions previously approved by the Limit Credit Committee:

- Extends existing loan agreements, guarantees and sureties.
- Amends terms of transactions.
- Amends the procedure of allocating cash inflows to loan repayment.
- 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.

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.
- Organizes dealing 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.

37. Risk management (continued)

Executive management level (continued)

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.

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 Committee

- Makes decisions to change terms of previously concluded credit transactions, 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 balance sheet of the Bank or the Bank's affiliate, as well as assignment (cession) agreements, including those bearing a loss.
- Coordinates the Bank's units working with problem assets.
- Approves procedures to manage collateral portfolio accepted to the balance sheet of the Bank or the Bank's affiliate, including decisions about their commercial use, disposal and/or encumbrance.
- Prepares recommendations to improve work with the Bank's problem assets.
- Analysis and measurement of efficiency of measures taken in respect of a certain problem asset.
- Approves a selling price for the pledged assets that the Bank will indicate in its claim to the court.
- Makes decisions whether to grant a real estate owner who pledged a real estate with the Bank 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 the Bank (other than IFRS requirements).

37. Risk management (continued)

Control and summary level

At 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.

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.

37. Risk management (continued)

Control and summary level (continued)

Internal Audit Function

- 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/he*r 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.
- Heads 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 parent credit institution considers the following types of risks as significant to the Group:

- Market risk.
- Interest rate risk in the banking book.
- Credit risk.
- Liquidity risk.
- Operational risk.

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:

- Determining the trading portfolio structure.
- Methodologies for market risk assessment and determination of capital requirements for market risk.
- 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.

37. Risk management (continued)

Market risk (continued)

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 in the banking book

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.

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 2019*	*Sensitivity of net gain on financial instruments at FVPL 2019*	*Sensitivity of equity 2019*	*Sensitivity of net interest income 2018*	*Sensitivity of net gain on financial instruments at FVPL 2018*	*Sensitivity of equity 2018*
RUB	100	531	(3,684)	(3,153)	1,773	(3,079)	**(1,306)**
USD	100	198	(1,950)	(1,752)	190	(4,050)	**(3,860)**
EUR	100	185	(39)	146	446	(55)	**391**

Currency	*Decrease in basis points*	*Sensitivity of net interest income 2019*	*Sensitivity of net gain on financial instruments at FVPL 2019*	*Sensitivity of equity 2019*	*Sensitivity of net interest income 2018*	*Sensitivity of net gain on financial instruments at FVPL 2018*	*Sensitivity of equity 2018*
RUB	100	(531)	3,684	3,153	(1,773)	3,079	**1,306**
USD	100	(198)	1,950	1,752	(190)	4,050	**3,860**
EUR	100	(185)	39	(146)	(446)	55	**(391)**

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 20).

37. Risk management (continued)

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 2019 and 2018 was as follows:

	2019 Profit or loss RUB MM	***2018 Profit or loss RUB MM***
20% appreciation of USD vs. RUB	536	(314)
20% depreciation of USD vs. RUB	(536)	314
20% appreciation of EUR vs. RUB	137	100
20% depreciation of EUR vs. RUB	(137)	(100)

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 2019 and 2018, would have been as follows:

	2019 Profit or loss RUB MM	***2018 Profit or loss RUB MM***
20% appreciation of USD vs. RUB	1,774	1,081
20% depreciation of USD vs. RUB	(1,774)	(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 2019:

	RUB and other currencies RUB MM	*USD RUB MM*	*EUR RUB MM*	*Total RUB MM*
Assets				
Cash and cash equivalents	73,310	3,276	31,175	**107,761**
Mandatory cash balances with the CBR	6,447	–	–	**6,447**
Placements with banks and bank bonds at amortized cost:				
- held by the Group	2,078	20,912	2,336	**25,326**
- pledged under repo	1,028	9,507	–	**10,535**
Financial instruments at FVPL:				
- held by the Group	88,647	100,119	3,140	**191,906**
- pledged under repo	19,237	38,459	–	**57,696**
Financial instruments at FVOCI:				
- held by the Group	77,127	102	–	**77,229**
- pledged under repo	36,218	–	–	**36,218**
Loans to customers and bonds at amortized cost	463,642	107,183	14,395	**585,220**
Change in the fair value of hedged assets	–	(695)	–	**(695)**
Investments in associates	631	–	–	**631**
Investments in joint ventures	243	–	–	**243**
Investment property	53	–	–	**53**
Property and equipment and intangible assets	10,918	–	–	**10,918**
Right-of-use assets	5,408	–	–	**5,408**
Goodwill	1,742	–	–	**1,742**
Current income tax asset	27	–	–	**27**
Deferred tax asset	895	–	–	**895**
Other assets	16,470	550	614	**17,634**
Total assets	**804,121**	**279,413**	**51,660**	**1,135,194**
Liabilities				
Due to the CBR	785	–	–	**785**
Due to banks	53,442	67,508	4,171	**125,121**
Due to customers	661,297	85,367	27,374	**774,038**
Debt securities issued	18,534	109	19	**18,662**
Other borrowed funds	19,227	–	–	**19,227**
Deferred tax liability	56	–	–	**56**
Current income tax payable	2,309	–	–	**2,309**
Subordinated debt	7,013	19,349	–	**26,362**
Other liabilities	21,594	7,350	606	**29,550**
Total liabilities	**784,257**	**179,683**	**32,170**	**996,110**
Net balance sheet position as at 31 December 2019	**19,864**	**99,730**	**19,490**	**139,084**
Net off-balance sheet position as at 31 December 2019	109,663	(90,859)	(18,804)	**–**
Net position as at 31 December 2019	**129,527**	**8,871**	**686**	**139,084**
Perpetual subordinated bonds	–	6,191	–	**6,191**
Net position, including perpetual subordinated bonds, as at 31 December 2019	**129,527**	**2,680**	**686**	**132,893**
Credit-related commitments	**287,439**	**28,213**	**1,482**	**317,134**

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

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.

37. Risk management (continued)

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.

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 customer (a group of related customers);
- 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.

37. Risk management (continued)

Credit risk (continued)

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 a change in credit risk (Stage 1 (overdue from 1 to 30 days) and Stage 2 (overdue from 31 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.

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 2019 is shown in the table below.

As at 31 December 2019	*Notes*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, other than cash on hand	18	Stage 1	69,159	28,091	–	–	**97,250**
Placements with banks and bank bonds at amortized cost	19						
Due from banks		Stage 1	7,660	9,452	–	–	**17,112**
Bank bonds at amortized cost		Stage 1	9,907	8,842	–	–	**18,749**
Loans to customers and bonds at amortized cost	22		–	–	–	–	**–**
- Consumer lending		Stage 1	–	51,900	1,613	–	**53,513**
		Stage 2	–	–	541	–	**541**
		Stage 3	–	–	–	1,257	**1,257**
- Installment cards		Stage 1	–	38,429	1,055	–	**39,484**
		Stage 2	–	–	341	–	**341**
		Stage 3	–	–	–	748	**748**
- Mortgage loans		Stage 1	–	61,567	1,665	–	**63,232**
		Stage 2	–	–	403	–	**403**
		Stage 3	–	–	–	1,896	**1,896**
- Car loans		Stage 1	–	95,475	1,859	–	**97,334**
		Stage 2	–	–	468	–	**468**
		Stage 3	–	–	–	669	**669**
- Corporate loans		Stage 1	–	205,524	581	–	**206,105**
		Stage 2	–	–	6,408	–	**6,408**
		Stage 3	–	–	–	95	**95**
		POCI assets	–	–	–	531	**531**
- Bonds at amortized cost		Stage 1	25,784	86,411	–	–	**112,195**
Loan and credit line commitments	35	Stage 1	–	217,736	–	–	**217,736**
Bank guarantees	35	Stage 1	–	18,451	–	–	**18,451**
Commitments to issue bank guarantees	35	Stage 1	–	80,947	–	–	**80,947**
Total			**112,510**	**902,825**	**14,934**	**5,196**	**1,035,465**

The line "Commitments to issue bank guarantees" also include commitments to issue non-financial guarantees.

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*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, other than cash on hand	18	Stage 1	57,418	41,267	–	–	**98,685**
Placements with banks and bank bonds at amortized cost	19						
- Due from banks		Stage 1	11,234	7,296	–	–	**18,530**
- Bank bonds at amortized cost		Stage 1	12,397	17,607	–	–	**30,004**
Loans to customers and bonds at amortized cost:	22						
- 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**
- Mortgage loans		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		Stage 1	–	189,742	521	–	**190,263**
		Stage 2	–	–	14	–	**14**
		Stage 3	–	–	–	979	**979**
		POCI assets	–	–	–	813	**813**
- Bonds at amortized cost		Stage 1	35,323	124,038	–	–	**159,361**
Loan and credit line commitments	35	Stage 1	–	216,144	–	–	**216,144**
Bank guarantees	35	Stage 1	–	48,320	–	–	**48,320**
Commitments to issue bank guarantees	35	Stage 1	–	53,864	–	–	**53,864**
Total			**116,372**	**880,263**	**5,517**	**4,873**	**1,007,025**

Impairment assessment

The Group calculates ECL on the basis of the expected cash shortfalls. A 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.

The Group uses four key indicators to measure ECL:

- The Exposure at Default (EID) is an estimate of the 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.

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.

37. Risk management (continued)

Credit risk (continued)

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 if at least one of the following indicators exists at the level of the loan agreement:

- The borrower failed to make payments under the agreement for more than 90 days (30 days for loans to legal entities according to policies of former Rosevrobank);
- The borrower is undergoing the bankruptcy procedure or is declared a bankrupt;
- Other qualitative factors indicating impairment.

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 bonds of enterprises with state participation), 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 bonds of enterprises with state participation), loans to constituent entities of the Russian Federation and municipalities, interbank loans:

- 31 to 90 days overdue.

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.

ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible 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 to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly 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: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI financial assets are recorded at fair value at initial recognition, and interest revenue 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.

37. Risk management (continued)

Credit risk (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.

Note 22 discloses the credit quality management of loans issued to individuals and corporate customers as at 31 December 2019 and 31 December 2018.

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.

37. Risk management (continued)

Liquidity risk (continued)

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 following elements of concentration are considered to account for concentration risk when estimating and forecasting the liquidity 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 customer);
- When analyzing early repayment of deposits of retail customers, only the amount of deposit in excess of guaranteed by deposit insurance system minimum are accounted.

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 2019	*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	–	–	752	85	–	**837**	**785**
Due to banks	92,326	14,282	15,700	–	3,436	**125,744**	**125,121**
Due to customers	237,533	190,925	231,208	21,604	103,843	**785,113**	**774,038**
Debt securities issued	620	738	3,688	15,827	615	**21,488**	**18,662**
Other borrowed funds	–	52	260	833	40,890	**42,035**	**19,227**
Subordinated debt	–	80	1,991	8,528	29,425	**40,024**	**26,362**
Lease liabilities	201	401	1,793	3,882	–	**6,277**	**5,562**
Other liabilities	15,893	–	–	–	–	**15,893**	**15,893**
Total financial liabilities	**346,573**	**206,478**	**255,392**	**50,759**	**178,209**	**1,037,411**	**985,650**
Credit-related commitments	**317,134**	**–**	**–**	**–**	**–**	**317,134**	**317,134**

37. Risk management (continued)

Liquidity risk (continued)

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	12,631	–	–	–	–	**12,631**	**12,631**
Total financial liabilities	**424,144**	**114,457**	**121,693**	**107,597**	**127,854**	**895,745**	**842,015**
Credit-related commitments	**318,328**	**–**	**–**	**–**	**–**	**318,328**	**318,328**

The line "Credit-related commitments" also includes commitments to issue non-financial guarantees.

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 2019:

	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	105,730	2,031	–	**107,761**	–	–	**–**	–	**107,761**
Mandatory cash balances with the CBR	1,113	1,576	1,868	**4,557**	167	9	**175**	1,715	**6,447**
Placements with banks and bank bonds at amortized cost:									
- held by the Group	6,949	2,153	1,795	**10,897**	11,484	2,945	**14,429**	–	**25,326**
- pledged under repo	10,535	–	–	**10,535**	–	–	**–**	–	**10,535**
Financial instruments at FVPL:									
- held by the Group	191,906	–	–	**191,906**	–	–	**–**	–	**191,906**
- pledged under repo	57,696	–	–	**57,696**	–	–	**–**	–	**57,696**
Financial instruments at FVOCI:									
- held by the Group	76,208	–	–	**76,208**	–	–	**–**	1,021	**77,229**
- pledged under repo	36,218	–	–	**36,218**	–	–	**–**	–	**36,218**
Loans to customers and bonds at amortized cost	21,471	46,219	122,137	**189,827**	298,138	92,897	**391,035**	4,358	**585,220**
Change in the fair value of hedged assets	–	–	(7)	**(7)**	(627)	(61)	**(688)**	–	**(695)**
Current income tax assets	27	–	–	**27**	–	–	**–**	–	**27**
Other assets	1,508	–	–	**1,508**	–	–	**–**	–	**1,508**
Total assets	**509,361**	**51,979**	**125,793**	**687,133**	**309,162**	**95,790**	**404,951**	**7,094**	**1,099,178**
Liabilities									
Due to the CBR	–	–	709	**709**	76	–	**76**	–	**785**
Due to banks	92,221	14,243	15,221	**121,685**	–	3,436	**3,436**	–	**125,121**
Due to customers	133,618	189,222	224,244	**547,084**	20,020	1,027	**21,047**	205,907	**774,038**
Debt securities issued	570	515	2,960	**4,045**	14,185	432	**14,617**	–	**18,662**
Other borrowed funds	–	–	–	**–**	–	19,227	**19,227**	–	**19,227**
Current income tax payable	2,309	–	–	**2,309**	–	–	**–**	–	**2,309**
Subordinated debt	–	–	–	**–**	–	26,362	**26,362**	–	**26,362**
Other liabilities	21,374	394	1,692	**23,460**	3,273	–	**3,273**	–	**26,733**
Total liabilities	**250,092**	**204,374**	**244,826**	**699,292**	**37,554**	**50,484**	**88,038**	**205,907**	**993,237**
Net position as at 31 December 2019	**259,269**	**(152,395)**	**(119,033)**	**(12,159)**	**271,608**	**45,306**	**316,913**	**(198,813)**	**105,941**
Cumulative gap as at 31 December 2019	**259,269**	**106,874**	**(12,159)**	**(12,159)**	**259,449**	**304,755**	**316,913**	**105,941**	**–**
Credit-related commitments	**88,172**	**9,963**	**78,827**	**176,962**	**137,222**	**2,950**	**140,172**	**–**	**317,134**

The line "Credit-related commitments" also includes commitments to issue non-financial guarantees.

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 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 and bank bonds at amortized cost:									
- held by the Group	10,713	3,345	2,579	**16,637**	15,937	3,040	**18,977**	–	**35,614**
- pledged under repo	12,921	–	–	**12,921**	–	–	**–**	–	**12,921**
Financial instruments at FVPL:									
- held by the Group	114,261	–	–	**114,261**	–	–	**–**	–	**114,261**
- pledged under repo	110,779	–	–	**110,779**	–	–	**–**	–	**110,779**
Financial instruments at FVOCI:	–	–	–	**–**	–	–	**–**	691	**691**
Loans to customers and bonds at amortized cost	21,814	22,855	93,770	**138,439**	286,414	110,228	**396,642**	6,397	**541,478**
Current income tax assets	3,156	–	–	**3,156**	–	–	**–**	–	**3,156**
Other assets	1,873	–	–	**1,873**	–	–	**–**	–	**1,873**
Total assets	**386,514**	**27,141**	**97,264**	**510,919**	**303,064**	**113,268**	**416,332**	**8,330**	**935,581**
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**
Current income tax payable	77	–	–	**77**	–	–	**–**	–	**77**
Subordinated debt	–	–	–	**–**	–	13,993	**13,993**	–	**13,993**
Other liabilities	12,505	–	–	**12,505**	–	–	**–**	–	**12,505**
Total liabilities	**337,521**	**113,350**	**116,798**	**567,669**	**90,725**	**34,541**	**125,266**	**149,031**	**841,966**
Net position as at 31 December 2018	**48,993**	**(86,209)**	**(19,534)**	**(56,750)**	**212,339**	**78,727**	**291,066**	**(140,701)**	**93,615**
Cumulative gap as at 31 December 2018	**48,993**	**(37,216)**	**(56,750)**	**(56,750)**	**155,589**	**234,316**	**291,066**	**93,615**	**–**
Credit-related commitments	**60,532**	**17,275**	**85,885**	**163,692**	**143,808**	**10,828**	**154,636**	**–**	**318,328**

* In 2019, the Group changed presentation format of monetary assets and liabilities. Comparative data as at 31 December 2018 was recalculated.

The tables above provide the breakdown of monetary assets and liabilities by their expected maturities, as determined by the Group's management, as at 31 December 2019 and 2018. Assets and liabilities are allocated by their remaining contractual maturities, except financial instruments at FVPL and certain customer accounts. Securities included in financial instruments at FVPL 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 customers (Note 27), 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, information security risk and IT risk, but excludes strategic and reputational risks.

All of the Group's activities and transactions are exposed to operational risk irrespective of the specifics and volume of operations and transactions.

employee of the parent credit institution/member of the Group is responsible for timely communication of operational risk incidents and assistance in investigating reasons and circumstances of such incidents.

The Bank has a database of losses incurred due to the operational risk that is updated on an ongoing basis and contains information on the types of losses, their amount, dates and all significant events resulting in these losses, including circumstances when they arise.

The Bank uses the following instruments to identify and assess operational risks:

- Collection and analysis of data on operational risk events;
- Self-assessment of operational risks and controls (including identification of potential risks);
- Monitoring of key risk indicators, i.e. analysis of factors that characterize the level of the operational risk;
- Operational risk stress-testing in order to assess the Bank's sustainability to internal and external risk factors;
- Scenario analysis to assess losses that arise from extremal operational risk events;
- Analysis of products/processes, including internal regulations, to identify operational risks.

The following measures are taken to mitigate operational risk:

- Standardization of processes and procedures;
- Segregation and limitation of the employees' duties and responsibilities, use of "double check" mechanisms;
- Internal control over the activities of the departments;
- Automation of banking operations;
- Information security;
- Physical security of premises and inventories;
- Measures in order to ensure the ability of the Bank to continue as a going concern.

Indicators of the concentration of operational risk events by type are considered to account for concentration risk when estimating and forecasting the operational risk.

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):

	2019 RUB MM	***2018 RUB MM***
Members of the Supervisory Board	612	345
Management Board	1,026	1,332
	1,638	**1,677**

In 2019, the Bank's Supervisory Board approved the terms of the option program for executives in order to raise their interest in increasing the Bank's financial performance and market value. Participants of the option program have the right to purchase the Bank's shares and/or new shares at fixed price.

38. Related party transactions (continued)

Resolution of the Supervisory Board is not independently binding to the Bank and participants of the option program and does not qualify as preliminary or framework agreement in the meaning of Articles 429 and 429.1 of the Civil Code of the Russian Federation.

Procedure for implementing the option program, as well as specific participation terms for each participant of the option program are established by the Bank's Compensation Committee and will be documented in option agreements with the participants. As at the date of preparation of these financial statements, specific participation terms for each participant of the option program were not established, option agreements with the participants were not signed.

The key terms of the option program are as follows:

1. A list of names of individuals included in the option program is prepared by the Compensation Committee on the basis of recommendation of the Chairman of the Bank's Management Board.
2. Price of the option is one (1) ruble.
3. The number of shares participating in the option program does not exceed six hundred and seventy five million (675,000,000).
4. The option program is effective through 31 December 2023, but not later than the option acceleration date (whichever is earlier). The option acceleration date is the IPO date, i.e. the date of the Bank's IPO (the date when the shares and/or new shares are sold during on-exchange trading for the first time) or the date of the employee's termination of relationships with the Bank (whichever is earlier).
5. The price for shares participating in the option program is eight point two (8.2) rubles, but if during the period from 1 January 2019 to 31 December 2023 or to the option acceleration date, as it is defined in the option program (whichever is earlier) the Bank pays dividends on the shares, the price for one share and/or new share included in the option agreement is determined as 8.2 rubles minus the aggregate amount of all dividends paid during that period per one share.

The Bank plans to add fulfillment conditions to the option agreements with its employees. Such conditions will include employment with the Bank, as well as conditions allowing the Bank to decrease or cease the Bank's liability in case of labor agreement termination during the period of the option program, depending on the date and reasons to terminate the labor agreement.

Outstanding balances with related parties as at 31 December 2019 were as follows:

	SCP B.V.[(1)] *RUB MM*	*JV*[(2)] *RUB MM*	*KMP*[(3)] *RUB MM*	*AC*[(4)] *RUB MM*	*Other*[(4)] *RUB MM*	*Total RUB MM*
Loans	**–**	**–**	**276**	**102**	**2,362**	**2,740**
Allowance for impairment	–	–	(5)	(1)	(1,464)	**(1,470)**
Loans, net	**–**	**–**	**271**	**101**	**898**	**1,270**
Deposits	–	15	1,114	–	463	**1,592**
Current accounts	72	6	408	9	1,707	**2,202**
Other liabilities	–	–	673	–	–	**673**
Commitments and guarantees issued	–	–	151	299	816	**1,266**
Commitments and guarantees received	–	–	215	613	8,998	**9,826**

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

	SCP B.V.[(1)] *RUB MM*	*JV*[(2)] *RUB MM*	*KMP*[(3)] *RUB MM*	*AC*[(4)] *RUB MM*	*Other*[(4)] *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**
Financial instruments at FVPL	1,970	1,558	–	–	–	**3,528**
Deposits	–	98	2,454	–	1,733	**4,285**
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**

38. Related party disclosures (continued)

The following table presents related party transactions recorded in the consolidated statement of comprehensive income for the twelve months ended 31 December 2019:

	SCP B.V.[(1)] *RUB MM*	*JV*[(2)] *RUB MM*	*KMP*[(3)] *RUB MM*	*AC*[(4)] *RUB MM*	*Other*[(5)] *RUB MM*	*Total RUB MM*
Interest income	–	41	49	18	475	**583**
Interest income on financial instruments at FVPL	36	144	–	–	–	**180**
Interest expense on deposits	(2)	(5)	(42)	–	(32)	**(81)**
Credit loss expense			(5)	1	(610)	**(614)**
Fee and commission income	2	37	3	4	12	**58**
Gains less losses from foreign currencies	(49)	–	–	–	9	**(40)**
General and administrative expenses	–	(10)	(10)	(4)	–	**(24)**

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

	SCP B.V.[(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)**
Credit loss expense	–	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)**

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

(2) Joint ventures (JV) are companies where the Group is engaged in joint operations and have equal shares (50/50) with the partners in a JV. JVs include CTB LLC (31 December 2018: 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.

In 2019 and 2018, the Group also conducted purchase and sale of own issued securities with Sovco Capital Partners B.V. These transactions were performed at arm's length.

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: other 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.

39. Fair value (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	Fair value measurement using			
As at 31 December 2019	***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	197,185	52,417	–	**249,602**
Financial instruments at FVOCI	103	112,323	1,021	**113,447**
Investment property	–	–	53	**53**
Property and equipment and intangible assets	–	–	3,480	**3,480**
Other financial assets	–	628	–	**628**
Other non-financial assets	12,865	–	–	**12,865**
Assets for which fair values are disclosed				
Cash and cash equivalents	107,761	–	–	**107,761**
Mandatory cash balances with the CBR	–	–	6,447	**6,447**
Placements with banks and bank bonds at amortized cost	–	19,818	17,112	**36,930**
Loans to customers and bonds at amortized cost	–	117,078	479,613	**596,691**
Other assets	–	–	1,495	**1,495**
Liabilities measured at fair value				
Subordinated debt	7,013	–	–	**7,013**
Derivative financial liabilities	–	6,638	–	**6,638**
Liabilities for which fair values are disclosed				
Due to the CBR	–	–	785	**785**
Due to banks	–	–	124,999	**124,999**
Due to customers	–	–	775,822	**775,822**
Debt securities issued	–	16,078	2,990	**19,068**
Other borrowed funds	–	–	23,706	**23,706**
Subordinated debt	–	–	20,303	**20,303**
Other liabilities	–	–	14,817	**14,817**

	Fair value measurement using			
As at 31 December 2018	***Quoted prices in active markets (Level 1) RUB MM***	***Significant observable inputs (Level 2) RUB MM***	***Significant unobservable inputs (Level 3) RUB MM***	***Total RUB MM***
Assets measured at fair value				
Financial instruments at FVPL	155,832	67,534	1,674	**225,040**
Financial instruments at FVOCI	–	–	691	**691**
Investment property	–	–	56	**56**
Property and equipment and intangible assets	–	–	3,703	**3,703**
Other financial assets	–	6,947	883	**7,830**
Other non-financial assets	8,648	–	–	**8,648**
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 bank bonds at amortized cost	–	30,188	18,531	**48,719**
Loans to customers and bonds 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	–	6,847	–	**6,847**
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**

39. Fair value (continued)

Financial instruments at FVPL 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 country in which the investee operates.

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balances of Level 3 financial assets and liabilities which are recorded at fair value as at 31 December 2019:

	As at 1 January 2019 RUB MM	*Gains/(losses) recorded in the statement of profit or loss RUB MM*	*Gains/(losses) recorded in other comprehensive income RUB MM*	*Acquisitions RUB MM*	*Sales RUB MM*	*Settlements RUB MM*	*Transfers to other items RUB MM*	*Transfers to Level 1 and Level 2 RUB MM*	*As at 31 December 2019 RUB MM*
Financial assets									
Financial instruments at FVPL	1,674	(77)	–	–	–	(31)	–	(1,566)	–
Financial instruments at FVOCI	691	(50)	–	380	–	–	–	–	1,021
Other financial assets	883	–	–	–	–	–	(883)	–	–
Total Level 3 financial assets	**3,248**	**(127)**	**–**	**380**	**–**	**(31)**	**(883)**	**(1,566)**	**1,021**

In 2019, the Group transferred certain financial assets at fair value through profit or loss from Level 3 to Level 1 and Level 2 of the fair value hierarchy, as the market for these assets has become active during the reporting period and since the transfer these assets have been valued using quoted prices in an active market. The carrying amount of the transferred financial assets totaled RUB 1,566 MM.

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

	As at 1 January 2018 RUB MM	*Gains/(losses) recorded in the statement of profit or loss RUB MM*	*Gains/(losses) recorded in other comprehensive income RUB MM*	*Business combinations RUB MM*	*Acquisitions RUB MM*	*Sales RUB MM*	*Settlements RUB MM*	*Transfers from Level 1 and Level 2 RUB MM*	*Reclassification to loans to customers RUB MM*	*Transfer from investment securities at FVOCI to financial instruments at FVPL RUB MM*	*As at 31 December 2018 RUB MM*
Financial assets											
Financial instruments at FVPL	–	1,078	–	–	–	–	(182)	9,894	(10,246)	1,130	1,674
Financial instruments 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**

In 2018, the Group transferred certain financial assets at fair value through profit or loss from Level 2 to Level 3 of the fair value hierarchy. The carrying amount of the transferred financial assets totaled RUB 9,894 MM. The reason for the transfer was that inputs used in the assessment models ceased being observable on the market, which has led to a change in the method used to determine fair value.

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

	For the year ended 31 December 2019			*For the year ended 31 December 2018*		
	Realized gains/(losses) RUB MM	*Unrealized gains/(losses) RUB MM*	*Total RUB MM*	*Realized gains/(losses) RUB MM*	*Unrealized gains/(losses) RUB MM*	*Total RUB MM*
Total gains/(losses) recognized in profit or loss for the period	31	(158)	**(127)**	106	1,037	**1,143**

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 2019	*Carrying amount RUB MM*	*Valuation technique*	*Unobservable inputs*	*Range (weighted average value)*
Financial instruments at FVOCI				
Equity securities				
Energy	400	Net assets	Net assets	Not applicable
IT	380	Net assets	Net assets	Not applicable
Electronics	130	Price of most recent transaction	Price of most recent transaction	Not applicable
Rating agencies	111	Net assets	Net assets	Not applicable
Investment property	**53**	Market and income approach	Discount for sale	10%
Property and equipment and intangible assets (land and buildings)	**3,480**	Market and income approach	Discount for sale	10%

31 December 2018	*Carrying amount RUB MM*	*Valuation technique*	*Unobservable inputs*	*Range (weighted average value)*
Financial instruments at FVPL				
Metallurgy	1,674	Discounted cash flows	Credit risk of the issuer	1-2%
Financial instruments at FVOCI				
Equity securities				
Energy	400	Net assets	Net assets	Not applicable
Electronics	130	Price of most recent transaction	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 (land and buildings)	**3,703**	Comparative and cost approach	Discount for sale	10%
Other financial assets	**883**	Discounted cash flows	Credit risk of the counterparty	20%

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

Transfers between Level 1 and Level 2

The following tables show transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets measured at fair value for 2019 and 2018:

Financial instruments at FVPL	*2019 RUB MM*	*2018 RUB MM*
Bonds of companies with state participation	9,107	1,508
Corporate bonds	953	1,031
Russian subfederal and municipal bonds	487	1,685
Total transfers from Level 1 to Level 2	**10,547**	**4,224**

39. Fair value (continued)

Transfers between Level 1 and Level 2 (continued)

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.

Financial instruments at FVPL	*2019 RUB MM*	*2018 RUB MM*
Russian subfederal and municipal bonds	10,562	9,489
Corporate bonds	9,274	48,843
Bonds of companies with state participation	1,737	24,968
Corporate shares	98	–
Total transfers from Level 2 to Level 1	**21,671**	**83,300**

In 2019, transfers from Level 2 to Level 1 were due to the fact that they became actively traded during the year and fair values were consequently determined using quoted prices in an active market.

In 2018, transfers 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.

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.

	2019			*2018*		
	Carrying amount RUB MM	*Fair value RUB MM*	*Unrecognized gain/(loss) RUB MM*	*Carrying amount RUB MM*	*Fair value RUB MM*	*Unrecognized gain/(loss) RUB MM*
Financial assets						
Cash and cash equivalents	107,761	107,761	–	109,817	109,817	–
Mandatory cash balances with the CBR	6,447	6,447	–	4,991	4,991	–
Placements with banks and bank bonds at amortized cost	35,861	36,930	1,069	48,535	48,719	184
Loans to customers and bonds at amortized cost	585,220	596,691	11,471	541,478	544,931	3,453
Other assets	1,495	1,495	–	802	802	–
Financial liabilities						
Due to the CBR	785	785		859	859	–
Due to banks	125,121	124,999	122	190,255	190,134	121
Due to customers	774,038	775,822	(1,784)	598,874	598,925	(51)
Debt securities issued	18,662	19,068	(406)	8,479	8,495	(16)
Other borrowed funds	19,227	23,706	(4,479)	16,924	18,336	(1,412)
Subordinated debt	19,349	20,303	(954)	7,000	7,587	(587)
Other liabilities	14,817	14,817	–	4,929	4,929	–
Total unrecognized change in fair value			**5,039**			**1,692**

40. Business combinations

Acquisition of Rosevrobank JSB

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 JSB ("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% of shares of Rosevrobank.

In April 2018, the Group increased its 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 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
Financial instruments 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 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.

Acquisition of Sollers-Finance LLC

On 30 December 2019 (the "Acquisition date"), Sovcombank purchased a 50% interest in the Sollers-Finance LLC ("SF") from its second participant SOLLERS PJSC for RUB 1,228 MM.

SF operates in the Russian operating lease market of vehicles and specialized machinery.

Leasing is one of the priority activities of Sovcombank's corporate business. The acquisition will strengthen the Group's positions in the Russian leasing market through the SF's existing portfolio and expertise.

40. Business combinations (continued)

Acquisition of Sollers-Finance LLC (continued)

Fair value of identifiable net assets and liabilities of Sollers-Finance LLC

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

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

	RUB MM
Assets	
Cash and cash equivalents	1
Net investments in leases	5,895
Advances issued to leasing equipment suppliers	19
Assets held for sale	158
Property and equipment	70
Intangible assets	361
Other assets	113
Total assets	**6,617**
Liabilities	
Due to banks	388
Debt securities issued	3,208
Advances from lessees	152
Current income tax liabilities	22
Deferred tax liability	134
Other liabilities	163
Total liabilities	**4,067**
Identifiable net assets	**2,550**

	RUB MM
Cash paid on acquisition	1,228
Fair value of the Group's share as at the date of business combination	1,228
Settlement of pre-acquisition relations	801
Fair value of identifiable net assets of Sollers-Finance LLC as at the Acquisition date	(2,550)
Goodwill arising on acquisition (Note 42)	**707**

Acquisition of Septem Capital IC LLC

On 30 December 2019 (the "Acquisition date"), Sovcombank acquired a 50.1% interest in Septem Capital IC LLC ("Septem") for RUB 44 MM.

Septem is a broker specializing in the bonds market and providing on-line services to individuals.

The main reasons of acquisition of the controlling interest in the company were as follows:

- Substantial expertise in providing on-line services to individuals in the stock market;
- Substantial expertise in organizing bond issue for SME;
- High volume, low concentration and wide diversification of individuals database;
- Effective and easy-to-use software provided by the company to individual customers;
- High quality of assets and technologies.

The acquisition of the company will allow the Bank to enter the market of brokerage services to individuals. Using the company's technologies, the Bank will be able to diversify its passive database of individuals.

40. Business combinations (continued)

Acquisition of Sollers-Finance LLC (continued)

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

	RUB MM
Assets	
Cash and cash equivalents	24
Financial instruments at FVPL	1,048
Intangible assets	14
Right-of-use assets	1
Deferred tax asset	7
Current income tax asset	1
Other assets	6
Total assets	**1,101**
Liabilities	
Due to banks	615
Due to customers	325
Current income tax liabilities	2
Deferred tax liability	7
Other liabilities	6
Total liabilities	**955**
Identifiable net assets	**146**

	RUB MM
Cash paid on acquisition	44
Fair value of identifiable net assets of Septem as at the Acquisition date	(146)
Non-controlling interests	102
Goodwill arising on acquisition	**–**

CentrFinLeasing LLC

In July 2019, the Group acquired 100% share in CentrFinLeasing LLC (CFL), a universal leasing company. The acquisition was made through Sovcom Leasing LLC, the Group's subsidiary, for a subsequent merger with Sovcom Leasing LLC. CFL had a similar business model, customer portfolio and portfolio structure. The acquisition opens up possibilities to expand the Group's customer base and increase size of its lease business, including, among other factors, through a synergy with the auto lease business of the Group.

The CFL merger with Sovcom Leasing LLC was completed in January 2020.

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

	RUB MM
Assets	
Cash and cash equivalents	140
Net investments in leases	801
Other assets	289
Total assets	**1,230**
Liabilities	
Due to banks	1,034
Deferred tax liabilities	14
Other liabilities	137
Total liabilities	**1,185**
Identifiable net assets	**45**

	RUB MM
Cash paid on acquisition	45
Fair value of identifiable net assets of CFL as at the Acquisition Date	(45)
Goodwill arising on acquisition	**–**

If the combination had occurred at the beginning of the year, the Group's profit, interest income, and non-interest income for 2019 would have been RUB 30,555 MM, RUB 103,783 MM and RUB 53,113 MM, respectively.

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 2017	**14,394**	**6,799**	**21,193**
Proceeds from issue	30	15,552	**15,582**
Redemption	(8,777)	(6,022)	**(14,799)**
Foreign exchange differences	–	(4,986)	**(4,986)**
Business combinations	–	2,476	**2,476**
Change in fair value	–	(85)	**(85)**
Other	(179)	259	**80**
Carrying amount as at 31 December 2018	**5,468**	**13,993**	**19,461**
Proceeds from issue	11,236	28,341	**39,577**
Redemption	(3,216)	(14,583)	**(17,799)**
Foreign exchange differences	–	(1,463)	**(1,463)**
Business combinations	2,026	–	**2,026**
Change in fair value	–	15	**15**
Other	158	59	**217**
Carrying amount as at 31 December 2019	**15,672**	**26,362**	**42,034**

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 two cash-generating units (Treasury and CB).

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

	Treasury RUB MM	*CB RUB MM*	*Total RUB MM*
Goodwill as at 31 December 2017	**143**	**585**	**728**
Acquisitions through business combinations	777	–	**777**
Goodwill as at 31 December 2018	**920**	**585**	**1,505**
Acquisitions through business combinations (Note 40)	707	–	**707**
Impairment	(470)	–	**(470)**
Goodwill as at 31 December 2019	**1,157**	**585**	**1,742**

Impairment of goodwill identified in 2019 relate to impairment of non-banking business acquired by the Group in course of business combinations with BTE LLC and GMCS Management LLC in 2018.

43. Capital adequacy

To mitigate risks inherent in the Group's activities, 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.

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

The primary objective of capital management is monitoring compliance with the requirements of the CBR and maintenance of robust credit ratings and capital performance.

43. Capital adequacy (continued)

The CBR's capital adequacy ratio

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

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

Capital adequacy ratio under Basel Capital Accord

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

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 III approach is used except for derivative financial instruments and loan and credit line commitments, which are subject to the requirements of the national regulator (Instruction No. 180-I of the CBR *On Prudential Ratios of Banks* of 28 June 2017).

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

	2019 RUB MM	*2018 (restated) RUB MM*
Common capital	124,349	99,021
Additional capital	6,191	5,814
Tier 1 capital	**130,540**	**104,835**
Tier 2 capital	26,474	14,104
Total equity	**157,014**	**118,939**
Risk-weighted assets		
Credit risk	874,924	722,267
Operational risk	112,675	97,651
Market risk	77,725	42,163
Total risk-weighted assets	**1,065,324**	**862,081**
Tier 1 common capital adequacy ratio	11.7%	11.5%
Tier 1 capital adequacy ratio	12.3%	12.2%
Total capital adequacy ratio	14.7%	13.8%

In 2019, the Group changed its approach to allocation of its term subordinated bonds to capital tiers. Therefore, comparable data for 2018 were adjusted to conform to the presentation of data for 2019.

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 2019 and 31 December 2018:

		Voting rights	
	Relationship	***2019***	***2018***
Express-Volga Bank JSC	Subsidiary	100.0%	100.0%
Komana Holdings LLC	Subsidiary	100.0%	100.0%
Mobilnye Platezhi LLC	Subsidiary	100.0%	100.0%
Sovcomcard LLC	Subsidiary	100.0%	100.0%
GMCS Management LLC	Subsidiary	100.0%	100.0%
Fintender JSC	Subsidiary	100.0%	100.0%
Sovcom Leasing LLC	Subsidiary	100.0%	100.0%
CentrFinLeasing LLC	Subsidiary	100.0%	–
Sovcom Factoring LLC	Subsidiary	100.0%	100.0%
Torgovy Dom LLC	Subsidiary	100.0%	100.0%
Sollers-Finance LLC (Note 40)	Subsidiary	100.0%	50.0%
BTE LLC	Subsidiary	75.0%	75.0%
Septem Capital LLC (Note 40)	Subsidiary	50.1%	–
RTS-Holding JSC	Subsidiary	50.0%	50.0%
RTS-Tender LLC	Subsidiary	50.0%	50.0%
Tsifrovye Tekhnologii Buduschego LLC	Joint venture	50.0%	50.0%
Kostromskoy Zavod Avtokomponentov JSC	Associate	40.1%	40.1%
Aviatsionnye Tekhnologii Svyazi LLC	Associate	25.0%	–
Cbonds.ru LLC	Associate	24.9%	24.9%
VCABANK JSC	Associate	24.8%	–
Investitsionnoye Agentstvo LLC	Subsidiary	–	100.0%

Merger of Investitsionnoye Agentstvo LLC with Sovcombank

On 23 October 2019, the Group completed a merger of Investitsionnoye Agentstvo LLC with Sovcombank PJSC to optimize costs and structure of the Group. All rights and obligations of the merged entity were transferred to Sovcombank PJSC.

45. Subsequent events

Repurchase of shares in Sovcombank PJSC

In February 2020, the Group repurchased 604,291,640 ordinary shares in Sovcombank PJSC from minority shareholders for RUB 4,659 MM, which accounts for 3.068% of the Group's share capital.

Closing of transaction to acquire the insurance company Liberty Insurance JSC

On 23 December 2019, Sovcombank and Liberty Mutual Group, property and accident insurer No. 3 in the USA, signed a binding agreement. On 10 February 2020, Sovcombank declared the closing of the transaction to purchase 99.99% of shares in Liberty Insurance JSC ("Liberty Insurance") for RUB 1,393 MM. The transaction was approved by the Federal Antimonopoly Service and the CBR in January-February 2020.

Acquisition of Liberty Insurance will add a new source of income to the Group.

On 3 April 2020, the company was renamed into Sovcombank Insurance.

The Group is allocating acquisition cost to net assets of Sovcombank Insurance.

Placement of perpetual subordinated Eurobonds

On 6 February 2020, Sovcombank placed perpetual subordinated Eurobonds of USD 300 MM bearing a coupon rate of 7.75% p.a. (ISIN: REGS XS2113968148 / 144a US84605LAB27).

Partial redemption of perpetual subordinated bonds

On 30 March 2020, Sovcombank early repaid part of perpetual subordinated bonds series 1V02 (state registration number 41000963V of 22 January 2018) for USD 43.2 MM.

45. Subsequent events (continued)

Closing of transaction to acquire 91% shares in Volga-Caspian Joint-Stock Bank JSC

In March 2020, Sovcombank closed a transaction to acquire 91% of shares in Volga-Caspian Joint-Stock Bank JSC (VCABANK) from a group of key shareholders and managers of the bank. Previously, the transaction was agreed with the Bank of Russia.

Acquisition of VCABANK is in line with the Group’s longstanding strategy to acquire high quality minor banks at attractive price. The acquisition will help to strengthen the Group’s position in Astrakhan region both in the retail and corporate business segments.

The Group is allocating acquisition cost to VCABANK’s net assets.

Merger of Express-Volga Bank JSC with Sovcombank

In March 2020, the Group decided to reorganize EVB through a merger with Sovcombank. Such reorganization is aimed at simplifying the ownership structure, consolidating capital of the banks, ensuring the most efficient use of their assets, higher competitiveness and quality of service provided in the banking market, improving of management and reducing of costs. All rights and obligations of the merged bank will be transferred to Sovcombank.

Acquisition of interest in Saint-Petersburg Exchange

In the first quarter of 2020, Sovcombank acquired 3.3% shares in PJSC SPB Exchange under open subscription for RUB 1,777 per share. In addition, Sovcombank concluded a two-years option contract with the Association of Financial Market Participants "Nonprofit Partnership for the Development of the RTS Financial Market" to purchase another 15.2% shares of PJSC SPB for the same price (RUB 1,777 per share).

Market uncertainty

Due to the recent rapid spreading coronavirus COVID-19 pandemic, many countries, including the Russian Federation, introduced quarantine measures that significantly affected level and volume of business activity of the market participants. It is expected that both the pandemic and the response measures may negatively affect entities in various industries. The Group considers the pandemic as a non-adjusting event in the subsequent period that now cannot be reliably measured. The Group expects that these events may have a significant effect on revaluation of financial instruments at fair value through profit or loss, as well as on the estimate of the expected credit losses.

Since February 2020, there is a significant volatility on equity, currency and commodity markets, including a decline in oil prices and depreciation of Russian ruble against US dollar and euro. Currently, management analyzing possible impact of changing micro and macroeconomic conditions on the financial position and results of the Group.

In the first quarter of 2020, the Group decided to reorganize its business and reduce active trade in debt securities due to deterioration in the security markets.