Independent auditor's report
on the financial statements of
COMMERZBANK (EURASIJA)
Joint-Stock Company
for 2018

April 2019

Translation of the original Russian version

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on the annual financial statements of
COMMERZBANK (EURASIJA) Joint-Stock Company

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Independent auditor’s report

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To the Shareholder and the Supervisory Board of
COMMERZBANK (EURASIJA) Joint-Stock Company

Report on the audit of the annual financial statements

Opinion

We have audited the annual financial statements of COMMERZBANK (EURASIJA) Joint-Stock Company (hereinafter, the “Bank”), which consist of the balance sheet (published form) for 2018, statement of financial results (published form) for 2018 and appendices thereto comprising the statement of capital adequacy to cover risks, the amount of provisions for possible losses on doubtful loans and other assets (published form) as at 1 January 2019, the statement of changes in equity of the credit institution (published form) as at 1 January 2019, information on mandatory ratios, financial leverage ratio and short-term liquidity ratio (published form) as at 1 January 2019, the statement of cash flows (published form) as at 1 January 2019 and Explanatory Notes to the annual financial statements (Notes 1-14).

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and its cash flows for 2018 in accordance with the rules on preparation of financial statements established in the Russian Federation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the annual financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the annual financial statements in the Russian Federation, and we 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 opinion.

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

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

In preparing the annual financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the annul financial statements

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

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

- Identify and assess the risks of material misstatement of the annual 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

Management of the Bank is responsible for compliance of the Bank with the mandatory 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 Bank with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 Concerning Banks and Banking Activities of 2 December 1990 (hereinafter, the “Federal Law”), during the audit of the Bank’s annual financial statements for 2018, we determined:

1) Whether the Bank complied as at 1 January 2019 with the mandatory ratios established by the Bank of Russia;
2) Whether internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
   - Subordination of the 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 performed by the Supervisory Board and executive management of the Bank in respect of the Bank’s compliance with risk limits and capital adequacy requirements set forth in the Bank’s internal documents, and effectiveness and consistency of the application of the Bank’s risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading 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 Bank with the mandatory ratios established by the Bank of Russia

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

We have not performed any procedures in respect of accounting data of the Bank, except for those procedures we considered necessary to express our opinion on the fair presentation of the Bank's annual financial statements.

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

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2018 the Bank's internal audit division was subordinated and accountable to the Supervisory Board, and the Bank's risk management departments were not subordinated or accountable to the departments that take the respective risks.
- We found that the Bank's internal documents effective as at 31 December 2018 that establish the methodologies for detecting and managing credit, market, operational, reputational, business, compliance and liquidity risks that are significant to the Bank, and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2018, the Bank had a reporting system pertaining to credit, market, operational, reputational, business, compliance and liquidity risks that were significant to the Bank and pertaining to its capital.
- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during 2018 with regard to the management of credit, market, operational, reputational, business, compliance and liquidity risks of the Bank complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies as well as recommendations on their improvement.
- We found that, as at 31 December 2018, the authority of the Supervisory Board and executive management bodies of the Bank included control over compliance of the Bank 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 2018, the Supervisory Board and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division and measures suggested to address the findings.

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 Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

Other information

The audit of the of the Bank's financial statements for 2017 was performed by another auditor who expressed an unmodified opinion in respect of these financial statements on 26 April 2018.

A.F. LAPINA
Partner
Ernst & Young LLC

29 April 2019

Details of the audited entity

Name: Commerzbank (Eurasia) Joint-Stock Company
Record made in the State Register of Legal Entities on 14 August 2002, State Registration Number 1027739070259.
Address: Russia 119017, Moscow, Kadashevskaya naberezhnaya, 14/2.

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

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COMMERZBANK (EURASIA) AO

COMMERZBANK
Group

ANNUAL FINANCIAL STATEMENTS OF “COMMERZBANK (EURASIJA)” AO

At 1 January 2019

CONTENTS

Bank reporting

Territory code	Code of credit institution (branch)	
OKATO	OKPO	Registration number (sequential number)
45286596	18680159	3333

BALANCE SHEET (published form)

As at 1 January 2019

Credit institution **COMMERZBANK (EURASIA), Joint-stock company**
COMMERZBANK (EURASIA) AO

Postal address 119017, Moscow, Kadashevskaya nab., 14/2

OKUD Form Code 0409806
Quarterly (Annual)
RUB'000

Pos. number	Item	Note number	At the reporting date	At the beginning of the reporting year
I. ASSETS				
1.	Cash	4.2., 6.1.1	31,083	33,918
2	Accounts with the Central Bank of the Russian Federation	4.3.	1,332,666	4,466,116
2.1	Mandatory reserves		672,818	330,058
3	Amounts due from credit institutions		5,885,683	1,585,131
4	Financial assets at fair value through profit or loss	4.7., 6.1.2	2,398,471	2,023,072
5	Net loans receivable	4.4., 6.1.6	41,492,022	21,920,559
6	Net investments in securities and other financial assets available for sale	4.5., 6.1.3	9,948,090	6,629,855
6.1	Investments in subsidiaries and associates		–	–
7	Net investments in securities held to maturity		–	–
8	Current income tax receivable		202,146	151,968
9	Deferred tax asset		5,540	–
10	Premises and equipment, intangible assets and inventories	4.5., 6.1.14, 6.1.17	80,163	67,589
11	Non-current assets held for sale		–	–
12	Other assets	6.1.18	2,706,533	1,067,405
13	**Total assets**		**64,082,397**	**37,945,613**
II. LIABILITIES				
14	Loans, deposits and other amounts due to the Central Bank of the Russian Federation		–	–
15	Amounts due to credit institutions	6.1.19	22,186,338	3,242,481
16	Amounts due to customers (non-credit institutions)	6.1.20	28,874,476	21,103,455
16.1	Deposits of (amounts due to) individuals and individual entrepreneurs		16	18
17	Financial liabilities at fair value through profit or loss		476,651	621,935
18	Debt securities issued		–	–
19	Current income tax liability		10,186	6,945
20	Deferred tax liability		348,069	310,031
21	Other liabilities	6.1.24	254,494	227,070
22	Provisions for potential losses on credit-related contingent liabilities, other possible losses and transactions with offshore residents	6.2.	271,196	275,204
23	**Total liabilities**		**52,421,410**	**25,787,121**
III. SOURCES OF EQUITY				
24	Equity of shareholders (participants)	6.1.27	2,155,600	2,155,600
25	Treasury shares (participatory interests) redeemed from shareholders (participants)		–	–
26	Share premium	6.1.27	1,279,671	1,279,671
27	Reserve fund		323,340	323,340
28	Fair value remeasurement of securities available for sale, less deferred tax liability (plus deferred tax asset)	6.1.3	(22,158)	72,381
29	Revaluation of premises and equipment and intangible assets, less deferred tax liability		–	–

Pos. number	Item	Note number	At the reporting date	At the beginning of the reporting year
30	Revaluation of liabilities (receivables) on long-term benefit payments		–	–
31	Revaluation of hedging instruments		–	–
32	Cash from debt-free financing (contributions to property)		–	–
33	Retained earnings (uncovered losses) of previous years		6,327,501	6,980,465
34	Unutilized profit (loss) for the reporting period		1,597,033	1,347,035
35	**Total equity**		**11,660,987**	**12,158,492**
IV. OFF-BALANCE SHEET LIABILITIES				
36	Irrevocable commitments of the credit institution	6.1.25	109,735,502	53,921,690
37	Guarantees and sureties issued by the credit institution	6.1.25	24,695,904	22,247,139
38	Contingent non-credit liabilities		–	–

Acting Chairman of the Board A.V. Mosyagin

Chief Accountant A.A. Gorokhovsky

29 April 2019

Bank reporting

Territory code	Code of the credit institution (branch)	
OKATO	OKPO	Registration number (sequential number)
45286596	18680159	3333

STATEMENT OF FINANCIAL RESULTS (published form)

for 2018

Credit institution **COMMERZBANK (EURASIA), Joint-stock company**
COMMERZBANK (EURASIA) AO

Postal address 119017, Moscow, Kadashevskaya nab., 14/2

Form code under OKUD 0409807
Quarterly (Annual)
RUB’000

Section 1. Statement of Profit or Loss

Pos. No.	Item	Note number	Reporting period	Previous reporting period
1	Total interest income, including:	3.2.	1,826,295	1,697,810
1.1	From placements with credit institutions		418,853	249,231
1.2	From loans to customers other than credit institutions		913,595	981,891
1.3	From financial leases		–	–
1.4	From investments in securities		493,847	466,688
2	Total interest expense, including:		383,398	513,429
2.1	On amounts due to credit institutions		116,401	81,127
2.2	On amounts due to customers other than credit institutions		266,997	432,302
2.3	On debt instruments issued		–	–
3	Net interest income (negative interest margin)		1,442,897	1,184,381
4	Total change in provision for impairment of loans, borrowings and similar debt, amounts placed on correspondent accounts, and interest income accrued, including:	3.2.	241,166	114,935
4.1	Change in provision for potential losses on accrued interest income		(3,625)	156
5	Net interest income (negative interest margin) after provision for potential losses		1,684,063	1,299,316
6	Net income from dealing in financial assets at fair value through profit or loss	3.2.	626,175	(262,445)
7	Net income from dealing financial liabilities at fair value through profit or loss		–	–
8	Net income from dealing in securities available for sale	3.2.	(119)	(211)
9	Net income from dealing in securities held to maturity		–	–
10	Net income from dealing in foreign currencies	3.2.	(1,404,706)	1,339,773
11	Net income from foreign currency translation	3.2.	1,879,726	175,268
12	Net income from trading in precious metals		–	–
13	Income from participation in equity of other legal entities		–	–
14	Fee and commission income	3.2., 6.2.	588,812	513,215
15	Fee and commission expenses	3.2., 6.2.	118,112	98,855
16	Changes in provision for potential losses from securities available for sale		–	–
17	Changes in provision for potential losses from securities held to maturity		–	–
18	Changes in provision for other losses	3.2., 6.2.	17,488	46,813
19	Other operating income		151,548	109,948
20	Net income (expense)	3.2.	3,424,875	3,122,822
21	Operating expenses	3.2., 6.1.16	1,470,470	1,411,612
22	**Profit (loss) before tax**	6.2.	**1,954,405**	**1,711,210**
23	Tax credit (expense)	6.2.	357,372	364,175
24	Profit (loss) from continuing operations	4.2.	1,597,033	1,347,035
25	Profit (loss) from discontinued operations		–	–
26	**Profit (loss) for the reporting period**	3.2., 6.2.	**1,597,033**	**1,347,035**

Section 2. Statement of Other Comprehensive Income

Pos. No.	Item	Note number	Reporting period	Previous reporting period
1	**Profit (loss) for the reporting period**	3.2., 6.2.	**1,597,033**	**1,347,035**
2	Other comprehensive income (loss)		X	X
3	Items not to be reclassified to profit or loss, total, including:		–	–
3.1	change in revaluation reserve for premises and equipment		–	–
3.2	change in revaluation reserve for employee post-employment benefit obligations (liabilities) under defined benefit plans		–	–
4	Income tax relating to items not to be reclassified to profit or loss		–	–
5	Other comprehensive income (loss) not to be reclassified to profit or loss, less income tax		–	–
6	Items to be reclassified to profit or loss, total, including:		(118,174)	72,523
6.1	change in revaluation reserve for financial assets available for sale		(118,174)	72,523
6.2	Change in the reserve for cash flow hedge		–	–
7	Income tax relating to items to be reclassified to profit or loss		(23,635)	14,505
8	Other comprehensive income (loss) to be reclassified to profit or loss, less income tax		(94,539)	58,018
9	Other comprehensive income (loss), less income tax		(94,539)	58,018
10	**Financial result for the reporting period**		**1,502,494**	**1,405,053**

Acting Chairman of the Board A.V. Mosyagin

Chief Accountant A.A. Gorokhovsky

29 April 2019

Bank reporting

Territory code	Code of credit institution (branch)	
OKATO	OKPO	Registration number (/sequential number)
45286596	18680159	3333

STATEMENT OF CAPITAL ADEQUACY TO COVER RISKS, THE AMOUNT OF PROVISION FOR POSSIBLE LOSSES ON DOUBTFUL LOANS AND OTHER ASSETS (published form)

As at 1 January 2019

Credit institution **COMMERZBANK (EURASIA), Joint-stock company**
COMMERZBANK (EURASIA) AO

Postal address 119017, Moscow, Kadashevskaya nab., 14/2

OKUD Form Code 0409808
Quarterly (Annual)

Section 1. Information on capital adequacy

Pos. number	Instrument (item)	Note	Value of the instrument (amount of the item) at the reporting date	Value of the instrument (amount of the item) at the beginning of the reporting year	Reference to the balance sheet items (a published form) used to prepare the statement of capital adequacy
	Sources of tier 1 common equity:				
1	Total charter capital and share premium, including:	6.1.27, 15.1.	3,435,271	3,435,271	24 + 26
1.1	Ordinary shares (interests)		3,435,271	3,435,271	24 + 26
1.2	Preferred shares				
2	Retained earnings (loss):		6,327,501	6,980,465	33 (pos.)
2.1	of prior years		6,327,501	6,980,465	33 (pos.)
2.2	of the reporting year		–	–	
3	Reserve fund		323,340	323,340	27
4	Participatory interests in the charter capital subject to phase out from equity (capital) calculation		N/A	N/A	N/A
5	Common Equity Tier 1 instruments of subsidiaries, held by third parties		N/A	N/A	N/A
6	Sources of Common Equity Tier 1, total (line 1 +/– line 2 + line 3 – line 4 + line 5)		**10,086,112**	**10,739,076**	
	Items decreasing sources of Common Equity Tier 1				
7	Adjustment to trading portfolio				
8	Goodwill less deferred tax liabilities				
9	Intangible assets (except for goodwill and mortgage servicing rights), less deferred tax liabilities		12,762	6,234	10 (pos.)
10	Deferred tax assets that depend on future profit		–	–	
11	Cash flow hedge reserves				
12	Understated provisions for possible losses				
13	Gains on securitization transactions		N/A	N/A	N/A
14	Gains and losses due to changes in credit risk on liabilities at fair value		N/A	N/A	N/A
15	Assets of defined benefit plans		N/A	N/A	N/A
16	Contributions to treasury shares (participatory interests)				
17	Cross shareholding				
18	Immaterial investments in Common Equity Tier 1 instruments of financial institutions				

Pos. number	Instrument (item)	Note	Value of the instrument (amount of the item) at the reporting date	Value of the instrument (amount of the item) at the beginning of the reporting year	Reference to the balance sheet items (a published form) used to prepare the statement of capital adequacy
19	Material investments in Common Equity Tier 1 instruments of financial institutions				
20	Mortgage servicing rights		N/A	N/A	N/A
21	Deferred tax assets independent of future profit		–	–	
22	Aggregate amount of material investments and deferred tax assets, where it exceeds 15% of Common Equity Tier 1, total, including				
23	Material investments in Common Equity Tier 1 instruments of financial institutions				
24	Mortgage servicing rights		N/A	N/A	N/A
25	Deferred tax assets independent of future profit				
26	Other items decreasing sources of Common Equity Tier 1 established by the Bank of the Russia, total, including:				
27	Negative additional capital				
28	**Items decreasing common equity**, total (sum of lines from 7 to 22 and lines 26 and 27)		**12,762**	**6,234**	
29	**Total Common Equity Tier 1** (lines 6-28)		**10,073,350**	**10,732,842**	
	Sources of additional capital				
30	Additional Tier 1 capital instruments and share premium, total, including				
31	equity component				
32	liability component				
33	Additional Tier 1 capital instruments subject to phase out from equity (capital) calculation				
34	Additional Tier 1 capital instruments of subsidiaries held by third parties, total, including:		N/A	N/A	N/A
35	Additional Tier 1 capital instruments of subsidiaries subject to phase out from equity (capital) calculation		N/A	N/A	N/A
36	**Sources of additional Tier 1 capital, total** (line 30 + line 33 + line 34)		–	–	
	Items decreasing sources of additional Tier 1 capital				
37	Investments in own additional Tier 1 capital instruments				
38	Cross shareholding – additional Tier 1 capital instruments				
39	Immaterial investments into additional Tier 1 capital instruments of financial institutions				
40	Material investments into additional Tier 1 capital instruments of financial institutions				
41	Other items decreasing sources of additional Tier 1 capital, established by the Bank of Russia, total, including				
42	Negative Tier 2 capital				
43	**Items decreasing sources of additional Tier 1 capital, total** (sum of lines from 37 to 42)		–	–	
44	**Additional Tier 1 capital, total** (lines 36-43)		–	–	
45	Core capital, total (lines 29 + line 44)		**10,073,350**	**10,732,842**	
	Sources of Tier 2 supplementary capital				
46	Tier 2 capital instruments and share premium	6.2., 15.1.	1,566,791	1,410,223	28 + 33 (pos.) + 34 – 12 (pos.)
47	Tier 2 capital instruments subject to phase out from equity (capital) calculation				
48	Tier 2 capital instruments of subsidiaries held by third parties, total, including		N/A	N/A	N/A

Pos. number	Instrument (item)	Note	Value of the instrument (amount of the item) at the reporting date	Value of the instrument (amount of the item) at the beginning of the reporting year	Reference to the balance sheet items (a published form) used to prepare the statement of capital adequacy
49	Tier 2 capital instruments of subsidiaries subject to phase out from equity (capital) calculation		N/A	N/A	
50	Provisions for potential losses				
51	**Sources of Tier 2 capital, total** (line 46 + line 47 + line 48 + line 50)	15.1.	**1,566,791**	**1,410,223**	
	Items decreasing sources of Tier 2 capital				
52	Investments in own Tier 2 capital instruments				
53	Cross shareholding – Tier 2 capital instruments				
54	Immaterial investments into Tier 2 capital instruments of financial institutions				
55	Material investments into Tier 2 capital instruments of financial institutions				
56	Other items decreasing sources of Tier 2 capital, established by the Bank of Russia, total, including:		–	–	
56.1	receivables more than 30 calendar days overdue				
56.2	excess of the aggregate amount of loans, bank guarantees granted by the bank to its shareholders (participants) and insiders over its maximum amount				
56.3	investments in construction and acquisition of premises and equipment and inventories				
56.4	difference between the actual value of the participatory interest attributable to the withdrawn participant and the value for which the interest was sold to another participant				
57	**Items decreasing sources of Tier 2 capital, total** (sum of lines from 52 to 56)		–	–	
58	**Tier 2 capital, total** (lines 51-43)	15.1.	**1,566,791**	**1,410,223**	
59	**Equity (capital), total** (line 45 + line 58)	15.1.	**11,640,141**	**12,143,065**	
60	**Risk-weighted assets:**				
60.1.	required to calculate Tier 1 capital adequacy	15.1., 15.2.	47,356,202	42,598,846	
60.2	required to calculate core capital adequacy	15.1., 15.2.	47,356,202	42,598,846	
60.3	required to calculate equity (capital) adequacy	15.1., 15.2.	47,356,202	42,598,846	
	Capital adequacy ratios and markups to capital adequacy ratios, % 15.1.				
61	Common Equity Tier 1 ratio (line 26 : line 60.1)	15.1., 15.2.	21.271	25.195	
62	Core capital adequacy ratio (line 45 : line 60.2)		21.271	25.195	
63	Equity (capital) adequacy ratio (line 59 + line 60.3)	15, 1, 15, 2, 25	24.580	28.506	
64	Markups to equity (capital) adequacy ratios, total, including:		1.875	1.250	
65	Markup for supporting capital adequacy		1.875	1.250	
66	Countercyclical buffer		0.000	0.000	
67	Systemic importance buffer		N/A	N/A	N/A
68	Common equity available for supporting markups to equity (capital) adequacy ratio		16.771	20.695	
	Equity (capital) adequacy ratios, %				
69	Common Equity Tier 1 ratio		4.5	4.5	
70	Core capital adequacy ratio		6.0	6.0	
71	Equity (capital) adequacy ratio		8.0	8.0	
	Items that decrease the sources of equity and that are within the established materiality threshold				
72	Immaterial investments in capital instruments of financial institutions				
73	Material investments in common equity instruments of financial institutions				
74	Mortgage servicing rights		N/A	N/A	N/A

Pos. number	Instrument (item)	Note	Value of the instrument (amount of the item) at the reporting date	Value of the instrument (amount of the item) at the beginning of the reporting year	Reference to the balance sheet items (a published form) used to prepare the statement of capital adequacy
75	Deferred tax assets independent of future profit				
	Limitations on inclusion of provisions for potential losses to Tier 2 supplementary capital calculation				
76	Provisions for possible losses included in Tier 2 capital calculation for those items where standardized approach is applied to calculate the credit risk		N/A	N/A	N/A
77	Limitations on inclusion of provisions for possible losses to Tier 2 capital calculation when standardized approach is used		N/A	N/A	N/A
78	Provisions for possible losses included in Tier 2 capital calculation for those items where internal model approach is applied to calculate the credit risk		N/A	N/A	N/A
79	Limitations on inclusion of provisions for possible losses to Tier 2 capital calculation when internal model approach is used		N/A	N/A	N/A
	Instruments subject to phase out from equity (capital) calculation (applied from1 January 2018 to 1 January 2022)				
80	Current limitation on inclusion of instruments subject to phase out of sources of Tier 1 capital from equity calculation				
81	Portion of instruments that are not included into sources of Tier 1 capital due to limitation				
82	Current limitation on inclusion of instruments subject to phase out of sources of Tier 1 capital from equity (capital) calculation				
83	Portion of instruments that are not included into sources of Tier 1 capital due to limitation				
84	Current limitation on inclusion of instruments subject to phase out of sources of Tier 1 capital from equity (capital) calculation				
85	Portion of instruments that are not included into sources of Tier 1 capital due to limitation				

Note:

The banks holding universal licenses may not provide the details of the balance sheet data used to prepare Section 1 of the Statement are given in Note 15.1 *Information on the equity (capital) structure* in tables 15.1.1 and 15.1.2.

Sections 1.1, 2, 3 and "Fore reference" of this Form.

Section 4. Information on leverage ratio

Pos. number	Item	Note number	At the reporting date	At the date one quarter off the reporting date	At the date two quarters off the reporting date	At the date three quarters off the reporting date
1	Core capital, RUB'000		10,073,350	11,075,753	11,080,214	10,732,934
2	Amount of on-balance assets and off-balance claims at risk used to calculate financial leverage, RUB'000	15.11.	89,730,762	83,511,549	76,363,518	65,535,112
3	Basel III financial leverage ratio, %	15.11.	**11.2**	**13.3**	**14.5**	**16.4**

Section 5. Key characteristics of equity instruments

Pos. number	Characteristics	Description	Description	Description
1	Short corporate name of the equity instrument issuer	COMMERZBANK (EURASIA) AO	COMMERZBANK (EURASIA) AO	COMMERZBANK (EURASIA) AO
2	Instrument identification number	Registration number 10103333B	Registration number 10103333B (001D)	Registration number 10103333B (002D)
3	Applicable law	RUSSIAN FEDERATION	RUSSIAN FEDERATION	RUSSIAN FEDERATION
Regulatory framework				
4	Tier of equity in which instrument is included during Basel III transition period	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
5	Tier of capital in which instrument is included after Basel III transition period	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
6	Consolidation for instrument to be included in equity	On individual basis	On individual basis	On individual basis
7	Type of instrument	Ordinary shares	ordinary shares	ordinary shares
8	Value of instrument included in capital calculation	RUB 305,600 thousand	RUB 600,000 thousand	RUB 1,250,000 thousand
9	Nominal value of instrument	RUB 50 thousand per share	RUB 50 thousand per share	RUB 50 thousand per share
10	Classification of instrument for accounting purposes	Share capital	Share capital	Share capital
11	Date of issue (raising, placement) of instrument	10.12.1998	15.11.2004	24.09.2010
12	Term of instrument	Permanent	Permanent	Permanent
13	Maturity date	No stated maturity	No stated maturity	No stated maturity
14	Right to early redemption (repayment) of instrument agreed with the Bank of Russia	No	No	No
15	Initial date (s) of the option to exercise right to early redemption (repayment) of instrument, terms of exercising the right and the amount of redemption (repayment)	N/A	N/A	N/A
16	Subsequent date (dates) of exercising right to early redemption (repayment) of the instrument	N/A	N/A	N/A
Interest / dividends / coupon rate				
17	Type of instrument rate	N/A	N/A	N/A
18	Interest rate	N/A	N/A	N/A
19	Terms for termination of dividend payments on ordinary shares	No	No	No
20	Mandatory nature of dividend payments	Fully at the discretion of the credit institution	Fully at the discretion of the credit institution	Fully at the discretion of the credit institution
21	Terms for increased payments under instrument or other incentives for early redemption (repayment)	No	No	No
22	Nature of payments	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertibility of instrument	Non-convertible	Non-convertible	Non-convertible
24	Terms under which instrument is converted	N/A	N/A	N/A
25	Full or partial conversion	N/A	N/A	N/A
26	Conversion rate	N/A	N/A	N/A
27	Obligation to convert	N/A	N/A	N/A
28	Tier of capital to which instrument is converted	N/A	N/A	N/A
29	Short corporate name of issuer of instrument to which the instrument is converted	N/A	N/A	N/A

Pos. number	Characteristics	Description	Description	Description
30	Option to write off instrument to cover losses	No	No	No
31	Conditions triggering instrument’s write-off	N/A	N/A	N/A
32	Full or partial write-off	N/A	N/A	N/A
33	Permanent or temporary write-off	N/A	N/A	N/A
34	Recovery mechanism	N/A	N/A	N/A
35	Subordinated nature of instrument	N/A	N/A	N/A
36	Compliance with Regulation No. 395-P of the Bank of Russia and Instructive Regulation No. 509-P of the Bank of Russia	Yes	Yes	Yes
37	Description of non-compliances	N/A	N/A	N/A

Acting Chairman of the Board A.V. Mosyagin

Chief Accountant A.A. Gorokhovsky

29 April 2019

Bank reporting

Territory code	Code of the credit institution (branch)	
OKATO	OKPO	Registration number (/sequential number)
45286596	18680159	3333

STATEMENT OF CHANGES IN EQUITY OF THE CREDIT INSTITUTION (published form)

As at 1 January 2019

Credit institution **COMMERZBANK (EURASIA), Joint-stock company**
COMMERZBANK (EURASIA) AO

Postal address 119017, Moscow, Kadashevskaya nab., 14/2

OKUD Form Code 0409810
Quarterly (Annual)
RUB’000

Line	Item	Note	Share capital	Equity redeemed from shareholders (participants)	Share premium	Fair value remeasure-ment of securities available for sale, less deferred tax liability (plus deferred tax asset)	Revaluation of premises and equipment and intangible assets, less deferred tax liability	Increase (decrease) of liabilities (claims) for the payment of long-term post-employment employee benefits on revaluation	Revaluation of hedging instruments	Reserve fund	Funds in the form of debt-free financing (contributions to assets)	Retained earnings (loss)	Total equity
1	**At the beginning of the previous reporting year**		**2,155,600**	**–**	**1,279,671**	**14,363**	**–**	**–**	**–**	**323,340**	**–**	**8,380,465**	**12,153,439**
2	Effect of changes in accounting policies												
3	Effect of correction of errors												
4	At the beginning of the previous reporting year (adjusted)		2,155,600	–	1,279,671	14,363	–	–	–	323,340	–	8,380,465	**12,153,439**
5	Comprehensive income for the previous reporting period:					58,018						1,347,035	**1,405,053**
5.1	Profit (loss)											1,347,035	**1,347,035**
5.2	Other comprehensive income					58,018							**58,018**
6	Issue of shares:												
6.1	Nominal value												
6.2	Share premium												
7	Treasury shares:												

Line	Item	Note	Share capital	Equity redeemed from shareholders (participants)	Share premium	Fair value remeasure-ment of securities available for sale, less deferred tax liability (plus deferred tax asset)	Revaluation of premises and equipment and intangible assets, less deferred tax liability	Increase (decrease) of liabilities (claims) for the payment of long-term post-employment employee benefits on revaluation	Revaluation of hedging instruments	Reserve fund	Funds in the form of debt-free financing (contributions to assets)	Retained earnings (loss)	Total equity
7.1	Acquisitions												
7.2	Disposals												
8	Change in the value of premises and equipment and intangible assets												
9	Dividends declared and other payments to shareholders (participants) on:											(1,400,000)	**(1,400,000)**
9.1	Ordinary shares											(1,400,000)	**(1,400,000)**
9.2	Preferred shares												
10	Other contributions by shareholders (participants) and distribution to shareholders (participants)												
11	Other												
12	**For the corresponding prior year reporting period**		**2,155,600**	**–**	**1,279,671**	**72,381**	**–**	**–**	**–**	**323,340**	**–**	**8,327,500**	**12,158,492**
13	**As at the beginning of the reporting year**		**2,155,600**	**–**	**1,279,671**	**72,381**	**–**	**–**	**–**	**323,340**	**–**	**8,327,500**	**12,158,492**
14	Effect of changes in accounting policies												
15	Effect of correction of errors												
16	At the beginning of the reporting year (adjusted)		2,155,600	–	1,279,671	72,381	–	–	–	323,340	–	8,327,500	**12,158,492**
17	Comprehensive income for the reporting period:					(94,538)						1,597,033	**1,502,495**
17.1	Profit (loss)											1,597,033	**1,597,033**
17.2	Other comprehensive income					(94,538)							**(94,538)**
18	Issue of shares:												
18.1	Nominal value												
18.2	Share premium												
19	Treasury shares:												
19.1	Acquisitions												
19.2	Disposals												
20	Change in the value of premises and equipment and intangible assets												
21	Dividends declared and other payments to shareholders (participants) on:											(2,000,000)	**(2,000,000)**
21.1	Ordinary shares											(2,000,000)	**(2,000,000)**
21.2	Preferred shares												
22	Other contributions by												

Translation of original Russian version

Line	Item	Note	Share capital	Equity redeemed from shareholders (participants)	Share premium	Fair value remeasure-ment of securities available for sale, less deferred tax liability (plus deferred tax asset)	Revaluation of premises and equipment and intangible assets, less deferred tax liability	Increase (decrease) of liabilities (claims) for the payment of long-term post-employment employee benefits on revaluation	Revaluation of hedging instruments	Reserve fund	Funds in the form of debt-free financing (contributions to assets)	Retained earnings (loss)	Total equity
	shareholders (participants) and distribution to shareholders (participants)												
23	Other movements												
24	**Reporting period**	6.3.	**2,155,600**	**–**	**1,279,671**	**(22,157)**	**–**	**–**	**–**	**323,340**	**–**	**7,924,533**	**11,660,987**

Acting Chairman of the Board A.V. Mosyagin

Chief Accountant A.A. Gorokhovsky

29 April 2019

Bank reporting

Territory code	Code of the credit institution (branch)	
OKATO	OKPO	Registration number (/sequential number)
45286596	18680159	3333

INFORMATION ON STATUTORY RATIOS, FINANCIAL LEVERAGE RATIO AND CURRENT LIQUIDITY RATIO (published form)

As at 1 January 2019

Credit institution **COMMERZBANK (EURASIA), Joint-stock company**
COMMERZBANK (EURASIA) AO

Postal address 119017, Moscow, Kadashevskaya nab., 14/2

OKUD Form Code 0409813
Quarterly (Annual)

Section 1. Information on statutory ratios

Pos. code	Item	Explanatory note	Statutory ratio	Actual value as at the reporting date			Actual value as at beginning of the reporting year		
1	Common equity ratio (N1.1)	15.1., 15.11.	4.5	21.3			25.2		
2	Bank's core capital ratio (N1.2)	15.1., 15.11.	6.0	21.3			25.2		
3	Bank's equity (capital) adequacy ratio (N1.0)	15.1., 15.11.	8.0	24.6			28.5		
4	Equity (capital) adequacy ratio of the non-banking credit institution entitled to transfer funds without opening bank accounts and to perform any other related banking transactions (N1.3)								
5	Bank's leverage ratio (N.1.4)	15.1., 15.11.	3.0	11.2			-		
6	Bank's instant liquidity ratio (N2)	15.1., 15.10.,15.11.	15.0	112.0			105.1		
7	Bank's current liquidity ratio (N3)	15.1., 15.10.,15.11.	50.0	96.5			105.2		
8	Bank's long-term liquidity ratio (N4)	15.1., 15.10.,15.11.	120.0	32.7			22.9		
9	Maximum risk per borrower or a group of related borrowers (N6)			Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration
		15.1., 15.11.	25.0	20.9	–	–	21.0	–	–
10	Maximum risk of large credit exposure (N7)	15.1., 15.11.	800.0	202.3			164.4		
11	Maximum risk of credit exposure, bank guarantees and sureties issued by the bank to its participants (shareholders) (N9.1)		50.0				0.0		
12	Aggregate risk on exposure of the bank's insiders ratio (N10.1)		3.0	0.0			0.0		
13	Equity used to acquire shares (participatory interests) in other legal entities ratio (N12)		25.0	0.0			0.0		
14	Liquid assets maturing within 30 calendar days to the amount of liabilities of non-banking settlement credit institutions ratio (RNKO) (N15)								
15	Equity/capital adequacy of non-banking settlement credit institutions (RNKO) (N15.1)								
16	Maximum aggregate loans to customers – participants of settlements – for settlement completion (N16)								

Pos. code	Item	Explanatory note	Statutory ratio	Actual value as at the reporting date			Actual value as at beginning of the reporting year		
17	Ratio of loans granted by non-banking settlement credit institutions (RNKO) on their behalf and on their own account to borrowers, except settlement system participants (N16.1)								
18	Minimum ratio of mortgage coverage to issued bonds with mortgage coverage (N18)								
19	Maximum risk per borrower or a group of related borrowers of the banking group (N21)			Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration
				–	–	–	–	–	–
20	Maximum risk exposure per bank-related entity (group of bank-related entities) (N25)			Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration
			20.0	0.0	–	–	–	–	–

Section 2. Leverage ratio calculation

Subsection 2.1. Calculation of balance sheet assets and off-balance sheet receivables at risk for financial leverage ratio calculation

Pos. number	Item	Note number	Amount
1	Total assets according to the balance sheet (published form):		64,082,397
2	Adjustment of investments in the capital of credit, finance, insurance and other entities whose reporting data is included in consolidated financial statements but excluded from calculation of equity (capital), statutory ratios and amounts (limits) of open currency positions of banking group		Not applicable to the financial statements of a credit institution as a legal entity
3	Adjustment of fiduciary assets recorded in accordance with accounting rules but excluded from calculation of the financial leverage ratio		–
4	Adjustment to derivative financial instruments (derivatives)		775,918
5	Adjustment for securities lending		–
6	Adjustment to discount contingent credit related commitments to the credit equivalent		25,565,379
7	Other adjustments		692,932
8	**Total amount of balance sheet assets and off-balance sheet receivables at risk, including adjustments for financial leverage ratio calculation**	15.11.	**89,730,762**

Subsection 2.2. Calculation of the financial leverage ratio

Pos. number	Item	Note number	Amount
Risk related to balance sheet assets			
1	Total balance sheet assets:	15.11.	61,003,756
2	Diminishing adjustment for the amount of indicators that reduce the amount of core capital sources		12,762
3	Total balance sheet assets at risk, including adjustments (difference between line 1 and line 2):		60,990,994
Risk related to transactions with derivatives			
4	Total current credit risk related to transactions with derivatives (less variable margin received):		2,091,105
5	Total potential credit risk per counterparty related to transactions with derivatives:		1,083,284
6	Adjustment for the nominal amount of collateral provided against transactions with derivatives to be written off the balance sheet in accordance with accounting rules		in accordance with the Russian accounting rules
7	Diminishing adjustment for the amount of the transferred variable margin to the extent applicable		–
8	Adjustment of receivables of a bank – clearing participant to the central counterparty related to execution of clients’ transactions		–
9	Adjustment to incorporate credit risk in relation to the underlying asset on issued credit derivatives		–
10	Diminishing adjustment of issued credit derivatives		–
11	Total amount of risk related to derivatives, including adjustments (sum of lines 4, 5 and 9, excluding lines 7, 8, 10):		3,174,389
Risk related to lending transactions with securities			
12	Total receivables on lending transactions with securities (before netting):		–
13	Adjustment for the amount of netting of the monetary part (receivables and liabilities) on lending transactions with securities		–
14	Credit risk exposure per counterparty related to lending transactions with securities		–
15	Risk exposure related to guarantee lending transactions with securities		–
16	Total receivables on lending transactions with securities, including adjustments (sum of lines 12, 14 and 15 less line 13):		–
Risk related to contingent credit-related commitments			
17	Total nominal amount of risk associated with contingent credit-related commitments:		33,174,626
18	Adjustment related to the credit equivalent ratio		7,609,247
19	Total amount of risk associated with contingent credit related commitments, including adjustments (difference of lines 17 and 18):		25,565,379

Pos. number	Item	Note number	Amount
Capital and risks			
20	Core capital		10,073,350
21	Total amount of balance sheet assets and off-balance sheet receivables at risk to calculate the financial leverage ratio (sum of lines 3, 11, 16, and 19)	15.11.	89,730,762
Financial leverage ratio			
22	**Financial leverage ratio under Basel III (line 20 / line 21), %**	15.11.	**11.2**

Acting Chairman of the Board A.V. Mosyagin

Chief Accountant A.A. Gorokhovsky

29 April 2019

Bank reporting

Territory code	Code of the credit institution (branch)	
OKATO	OKPO	Registration number (/sequential number)
45286596	18680159	3333

STATEMENT OF CASH FLOWS (published form)

At 1 January 2019

Credit institution **COMMERZBANK (EURASIA), Joint-stock company**
COMMERZBANK (EURASIA) AO

Postal address 119017, Moscow, Kadashevskaya nab., 14/2

OKUD Form Code 0409814
Quarterly (Annual)
RUB'000

Pos. number	Item	Note number	Cash flows for the reporting period	Cash flows for the respective previous reporting period
1	**Net cash from / (used in) operating activities**			
1.1	Total cash from (used in) operating activities before changes in operating assets and liabilities, including:		(1,068,892)	2,521,770
1.1.1	Interest received		1,760,262	1,625,497
1.1.2	Interest paid		(368,828)	(519,107)
1.1.3	Fees and commissions received		590,161	514,549
1.1.4	Fees and commissions paid		(118,112)	(98,855)
1.1.5	Gains less losses from available-for-sale financial assets at fair value through profit or loss		105,381	1,546,115
1.1.6	Gains less losses from securities held to maturity		–	–
1.1.7	Gains less losses from dealing in foreign currencies		(1,404,706)	1,339,773
1.1.8	Other operating income		151,574	113,223
1.1.9	Operating expenses		(1,439,151)	(1,376,159)
1.1.10	Tax expense (benefit)		(345,473)	(623,266)
1.2	Total increase (decrease) in net cash from operating assets and liabilities, including:		6,676,623	850,561
1.2.1	Net increase (decrease) in mandatory reserves with the Bank of Russia		(342,760)	(5,661)
1.2.2	Net increase (decrease) in investments in securities at fair value through profit or loss		–	–
1.2.3	Net increase (decrease) in loans receivable		(15,086,232)	(4,182,341)
1.2.4	Net increase (decrease) in other assets		(1,431,133)	648,647
1.2.5	Net increase (decrease) in loans, deposits and other amounts due to the Bank of Russia		–	–
1.2.6	Net increase (decrease) in amounts due to other credit institutions		17,156,119	155,837
1.2.7	Net increase (decrease) in amounts due to customers other than credit institutions		6,406,602	4,178,690
1.2.8	Net increase (decrease) in financial liabilities at fair value through profit or loss		–	–
1.2.9	Net increase (decrease) in debt instruments issued		–	–
1.2.10	Net increase (decrease) in other liabilities		(25,973)	55,389
1.3	**Total for Section 1 (Pos. No. 1.1 + Pos. No. 1.2)**		**5,607,731**	**3,372,331**
2	**Net cash from (used in) investing activities**			
2.1	Acquisition of securities and other financial assets designated as available for sale		(5,511,343)	(5,281,232)
2.2	Proceeds from disposal and redemption of securities and other financial assets designated as available for sale		2,047,913	2,361,621
2.3	Acquisition of securities designated as held to maturity		–	–
2.4	Proceeds from redemption of securities designated as held to maturity		–	–
2.5	Acquisition of premises and equipment, intangible assets and inventories		(37,764)	(14,434)
2.6	Proceeds from sale of premises and equipment, intangible assets and inventories		–	2,373
2.7	Dividends received		–	–
2.8	**Total for section 2 (sum of lines 2.1 to 2.7)**		**(3,501,194)**	**(2,931,672)**

Pos. number	Item	Note number	Cash flows for the reporting period	Cash flows for the respective previous reporting period
3	**Net cash from (used in) financing activities**			
3.1	Contributions of shareholders (participants) to the charter capital		–	–
3.2	Acquisition of treasury shares		–	–
3.3	Sale of treasury shares		–	–
3.4	Dividends paid	3.3.	(2,000,000)	(1,400,000)
3.5	**Total for section 3 (sum of lines 3.1 to 3.4)**		**(2,000,000)**	**(1,400,000)**
4	Effect of changes in official foreign exchange rates of foreign currencies to the ruble set by the Bank of Russia on cash and cash equivalents		714,970	(106,677)
5	**Increase in (use of) cash and cash equivalents**	6.4.	**821,507**	**(1,066,018)**
5.1	Cash and cash equivalents, beginning of the reporting period	6.1.1	5,735,107	6,801,125
5.2	Cash and cash equivalents, end of the reporting period	6.1.1	6,556,614	5,735,107

Acting Chairman of the Board A.V. Mosyagin

Chief Accountant A.A. Gorokhovsky

29 April 2019

EXPLANATORY NOTES

Name of the credit institution:
COMMERZBANK (EURASIJA) AO

Location and address:
119017, Moscow, Kadashevskaya Nab., 14/2

General (universal) banking license:
3333

The specified detailes have not changed since the previous reporting period.

1. Introduction

COMMERZBANK (EURASIJA) AO (hereinafter, the "Bank") presents its 2018 annual financial statements (hereinafter, the "Annual financial statements") prepared in accordance with the accounting and reporting rules currently effective in the Russian Federation.

The Explanatory Notes constitute an integral part of the Bank's annual financial statements.

In accordance with the requirements of paragraph 3.2 of the Bank of Russia's Instruction No. 3081-U, the Bank chose the following form of disclosing its annual financial statements: posting at the Bank's official Internet site http://www.commerzbank.ru.

The Explanatory Notes to the annual financial statements are presented in thousands of Russian rubles, unless otherwise stated.

2. Information on the credit institution's banking group

The Bank is neither a head of any banking (consolidated) group nor a member of any banking holding ("group" and "holding" as defined according to the Russian law). However, the Bank is a 100% subsidiary of Commerzbank AG, one of the largest German banks, which means that the Bank is a member of a foreign banking group. At the end of 2018, Commerzbank AG had the following shareholding structure:

- 15.60% of the shares belong to the Federative Republic of Germany;
- 5.01% of shares belong to Cerberus Capital Management, L.P., USA;
- 4.99% of shares belong to BlackRock Inc., USA;
- Approximately 55% belong to institutional investors with lower ownership share;
- Approximately 20% are owned by individuals, mostly by German residents.

Commerzbank AG and its subsidiaries are hereinafter referred to as "Commerzbank Group".

Commerzbank Group is a major international banking group represented in more than 50 countries. The Group's two business segments (segment of private clients and small businesses and segment of corporate clients) offer a wide range of financial services adapted to their clients' requirements. Commerzbank Group finances 30% of Germany's cross-border turnover, and the Group is the leader in Germany's corporate financing. The Group includes Comdirect in Germany and mBank in Poland, which rank among the most innovative on-line banks worldwide. Also, Commerzbank AG has one of the most significant branch networks (around 1,000 branches) among private German banks. Commerzbank Group serves over 18 million private customers and small business representatives, and more than 70,000 corporate clients, multinational corporations, financial sector companies and institutional clients. Commerzbank Group's revenue was EUR 8.6 billion for 2018, and Commerzbank Group had 49,000 employees (according to the consolidated financial statements).

As of the end of 2018, Commerzbank AG had the following long-term credit ratings: A1 (Moody's), A- (S&P Global), BBB+ (Fitch), and the ratings were unchanged as at the issue date of these annual financial statements.

Consolidated financial statements of Commerzbank Group for 2018 are published on the Group's Internet site www.commerzbank.com.

The Bank's liabilities are secured by a letter of comfort from Commerzbank AG (see the 2018 Annual Report of Commerzbank Group, page 292): https://www.commerzbank.com/media/aktionaere/service/archive/konzern/2019_1/Geschaeftsbericht_2018_Konzern_EN.pdf.

3. Summary of operations of the credit institution

3.1 The bank's profile

Commerzbank AG was among the first foreign banks to open a representative office in Russia. In 1993, Dresdner Bank ZAO, a subsidiary bank of Dresdner Bank AG, started operating in Saint Petersburg. In 1999, Commerzbank (Eurasija), Closed Joint-Stock Company, a 100% subsidiary of Commerzbank AG, obtained a banking license in Moscow. Following the merger of the two banks under the Commerzbank trademark in 2010, Commerzbank (Eurasija) AO (SAO until 2016), with the head office in Moscow and a branch in Saint Petersburg, continues its operations in Russia.

Commerzbank's long-standing experience in the Russian market allowed the bank to develop a profound understanding of this market. Based on its expertise, the Bank offers a wide range of financial services both to German companies operating in the Russian market and international companies entering the German market. The Bank operates as a strategic partner for international businesses.

Managers with the knowledge of German and English who work in the Moscow and Saint Petersburg offices and in the branches located in Germany and other regions worldwide provide an integrated support for companies entering the market. For this purpose, they involve chambers of trade and commerce, legal and consulting firms.

The Bank is a client-oriented entity and closely cooperates with Commerzbank AG's divisions in Germany and worldwide. The Bank's professional staff coordinates service provision to global groups and holding companies tailored to take into account the specifics of the Russian market and local legislation.

The Bank's operations are largely focused on settlement and lending transactions. The Bank also performs conversion transactions; attracts corporate deposits, carries out documentary transactions, transactions with derivatives, stock market operations and settlement transactions, and provides services related to corporate current accounts. The Bank is an active participant of the interbank foreign exchange market and foreign exchange market of the Moscow Exchange.

The Bank is corporate client-oriented. The Bank does not transact with individuals.

In October 2018, Analytical Credit Rating Agency (ACRA) (JSC), assigned the Bank AAA (RU) rating with a "stable" outlook.

3.2 Key performance indicators and factors that had an impact on the financial performance of the credit institution in the reporting year

Changes in the Bank's key performance indicators for the reporting period are provided in the table below:

Table 3.2.1

Item	01.01.2019 (RUB'000)	01.01.2018 (RUB'000)	Change (RUB'000)	(%)
Bank's equity (capital)	**11,640,141**	**12,143,065**	**(502,924)**	**(4.1)**
Total assets	**64,082,397**	**37,945,613**	**26,136,784**	**68.9**
including:				
Net loans receivable	41,492,022	21,920,559	19,571,463	89.3
Including:				
deposits with the Bank of Russia	9,400,000	6,500,000	2,900,000	44.6
credit institutions	8,530,236	2,592,009	5,938,227	229.1
customers	23,561,786	12,828,550	10,733,236	83.7
Investments in securities	9,948,090	6,629,855	3,318,235	50.0
Investments in derivatives	2,398,471	2,023,072	375,399	18.6
Total liabilities	**52,421,410**	**25,787,121**	**26,634,289**	**103.3**
including:				
amounts due to customers	28,874,476	21,103,455	7,771,021	36.8
amounts due to credit institutions	22,186,338	3,242,481	18,943,857	584.2

The Bank's assets increased by RUB 26,136,784 thousand (68.9%) during 2018. Assets increased primarily through the increase in net loans receivable by RUB 19,571,463 thousand (89.3%). This indicator increased due to the growth in the loan portfolio and increased accounts at the interbank market and with the Bank of Russia. Amounts due from credit institutions increased by RUB 4,300,552 thousand, mainly representing correspondent accounts. Balances in correspondent account with the Bank of Russia decreased by RUB 3,133,450 thousand, which approximates the amount of increase of the short-term deposit with the Bank of Russia. The Bank's investments in securities increased by RUB 3,318,235 thousand. Other assets increased by RUB 1,639,128 thousand mainly due to an increase of exchange settlement balances.

An increase on the liability side of the balance sheet is primarily driven by growing amounts due to credit institutions as a result of increased medium-term and long-term liabilities of the Bank, funding the expanding loan portfolio of the Bank, and growing amounts due to customers.

Comparison of income and expense items is provided in the table below:

Table 3.2.2

Item	for 2018 (RUB'000)	for 2017 (RUB'000)	Change (RUB'000)	(%)
Interest income	1,826,295	1,697,810	128,485	7.6
including that from investments in securities	493,847	466,688	27,159	5.8
Interest expense	(383,398)	(513,429)	130,031	25.3
Net interest income	1,442,897	1,184,381	258,516	21.8
Gains/(losses) from changes in loan and interest provisions	241,166	114,935	126,231	109.8
Net interest income less provisions	1,684,063	1,299,316	384,747	29.6
Net income from dealing in securities and other financial assets at fair value through profit or loss, including:	626,175	(262,445)	888,620	338.6
from dealing in securities	–	–	–	0.0
from dealing in derivatives related to foreign-currency denominated assets	626,322	(263,177)	889,499	338.0
from dealing in derivatives without foreign-currency denominated assets (single currency interest rate swaps)	(147)	732	(879)	(120.1)
Net income from dealing in foreign currencies, foreign currency translation	475,020	1,515,041	(1,040,021)	(68.6)
Fee and commission income	588,812	513,215	75,597	14.7
Fee and commission expenses	(118,112)	(98,855)	(19,257)	(19.5)
Gains/(losses) from changes in the provision for other losses	17,488	46,813	(29,325)	(62.6)
Net income (expense)	3,424,875	3,122,822	302,053	9.7
Operating expenses	(1,470,470)	(1,411,612)	(58,858)	(4.2)
Profit before tax	1,954,405	1,711,210	243,195	14.2
Tax accrued (including profit tax)	(357,372)	(364,175)	6,803	1.9
Profit for the reporting period	**1,597,033**	**1,347,035**	**249,998**	**18.6**

In the reporting period, the Bank's net profit increased by RUB 249,998 thousand (by 18.6%) compared to 2017. The Bank's profit grew mostly due to an increase in net interest income (by RUB 258,516 thousand or 21.8%) as a result of growing amounts of funds raised and placed for a particular term. The remaining indicators demonstrated diverse tendencies: net result of foreign-exchange transactions (including net income from dealing in foreign currencies, foreign currency translation and income in dealing in derivatives related to foreign-currency assets) decreased by RUB 150,522 thousand, net income from changes in provision for possible losses (on loans and other loss) increased by RUB 96,906 thousand, net fee and commission income increased by RUB 56,340 thousand. An increase in operating expenses by RUB 58,858 thousand was almost fully offset by a rise in other income by RUB 41,600 thousand.

3.3 Decisions on net profit distribution and dividend payments

In 2018, the Bank made the following decisions:

- In June 2018 – to pay RUB 1,000,000 thousand in dividends to the Sole Shareholder out of net profit for 2017; the other portion of net profit for 2017 remained at the Bank's disposal;
- In December 2018 – to pay RUB 1,000,000 thousand in dividends to the Sole Shareholder out of the retained earnings of previous years.

In 2018, dividends per share amounted to RUB 46 thousand.

Information on decisions to pay dividends and dividends paid after the reporting date is disclosed in Section 5 of these Explanatory Notes:

3.4 Information on the relationship with the external auditor

Ernst & Young LLC was approved as an external auditor of the Bank’s financial statements for 2018 (financial statements subject to statutory audit). Neither this firm nor its employees are affiliated with the Bank or have any property interests in the Bank. Services provided to the Bank by the external auditor and its affiliated parties in addition to the audit were immaterial and did not exceed 3% of the audit fee according to the actual data for 2017-2018.

3.5 Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by fluctuations in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Bank’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank’s business in the current circumstances.

4. Summary of significant accounting policies

The Bank maintains the accounting records and prepares financial statements in accordance with Russian law and regulations of the Bank of Russia. The Bank’s accounting policy is based on Regulation No. 579-P of the Bank of Russia, Concerning the Chart of Accounts for Credit Institutions and the Procedure for its Application, dated 27 February 2017 and other Accounting Regulations of the Bank of Russia. The detailed principles and methods of evaluating and accounting for certain material transactions and events are disclosed below.

4.1 Principles and methods of evaluating and accounting for material transactions and events

The Bank maintains records and prepares its financial statements based on the following principles:

- Separate entity – the Bank’s assets and liabilities exist separately from the assets and liabilities of the owners or other legal entities.
- Going concern – the Bank will continue as a going concern in the foreseeable future and has no intention to curtail the scale of its operations or liquidate its business.
- Consistency – once adopted, the accounting policy is applied consistently from period to period considering changes in legislation.
- Periodicity – economic events are recognized in reporting period in which they occurred, irrespective of the actual cash flows attributable to such events.
- Complete recognition of all economic events.
- Timely recognition of all economic events.
- Prudence – a greater readiness of the Bank to recognize expenses and liabilities rather than possible income and assets, without creating hidden reserves.
- Substance over form – the Bank recognizes economic events based on their economic substance and operating conditions rather than their legal form.
- Rationality – the Bank diligently maintains its accounting records in accordance with operating conditions and the size of the Bank.

4.2 Cash and cash equivalents

Cash and cash equivalents consist of cash, correspondent accounts with the Bank of Russia and amounts due from credit institutions. Cash and cash equivalents do not include mandatory reserves with the Bank of Russia, amounts other than I quality category and restricted cash.

4.3 Amounts due from credit institutions

This item consists balances on correspondent accounts opened by the Bank in correspondent banks, both residents and non-residents of the Russian Federation. The structure of the Bank's correspondent accounts and the list of foreign currencies in which such correspondent accounts are opened enable the Bank to effectively perform both own settlement transactions and address current needs of the Bank's clients.

4.4 Loans receivable

The Bank is engaged in active transactions mainly relating to cash placements in the form of loans issued to commercial banks and legal entities.

The Bank accrues interest receivable/payable on a daily basis and recognizes them in the balance sheet on payment dates and on the last day of each calendar month.

The Bank creates provisions for active transactions, giving rise to loan receivables and equivalent debt, pursuant to Instructive Regulation No. 590-P of the Bank of Russia, *On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans and Similar Debts* dated 28 June 2017. The Bank performs a credit risk assessment, loan classification and measurement, determines the amount of estimated and actual provisions if any reasons exist which are stipulated by the specified Regulation the Bank of Russia, but at least once a month at the reporting date.

The Bank groups individual loans into homogenous loan portfolios whose amount in the total loan receivables is immaterial (below 0.01%).

4.5 Premises and equipment and intangible assets

Premises and equipment

Premises and equipment with the minimum cost of RUB 100,000 (net of VAT) and with a useful life in excess of 12 months are recognized at historical cost that includes initial costs of acquisition, delivery, construction, creation and bringing them to the condition suitable for use (including VAT and less accumulated depreciation of premises and equipment and accumulated impairment losses.

The cost of premises and equipment increases by the amount of incurred capital expenditures in the amount of actual expense including VAT.

Where material, the cost of premises and equipment also includes:

- Maintenance costs, if the costs meet the criteria for recognition of premises and equipment;
- Future liquidation costs of premises and equipment.

Costs of minor or current repairs, and current maintenance are recognized when incurred. Costs of replacement of significant parts of property and equipment are capitalized with a subsequent write-off of the replaced part.

Expenditures on permanent improvements to leased assets under lease agreements which are not reimbursable by a lessor under the terms of the lease and meeting the criteria for recognition of property and equipment are recognized as property and equipment, while those not meeting the criteria are taken to financial results.

Gains and losses on disposals determined by comparing proceeds with the carrying amount are recognized in financial results for the year.

Depreciation and amortization

Depreciation on premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their useful lives as follows. The following useful lives were used for the items recorded within premises and equipment:

	Useful lives, in months (years)
1. Computer hardware	25-120 months (2-10 years)
2. Cashier equipment	37-120 months (3-5 years)
3. Copying machines	37-120 months (3-5 years)
4. Office furniture	61 months (5 years)
5. Non-production interior objects	not accrued
6. Office equipment	61-541 months (5-20 years)
7. Security systems	396 months (33 years)
8. Other office items	37-121 months (3-10 years)
9. Telecommunications equipment	36-85 months (3-7 years)
10. Telephone equipment	61-121 months (5-10 years)
11. Motor vehicles	60 months (5 years)

Useful lives applied to intangible assets vary from 12 to 120 months (1 to 10 years).

4.6 Investments in securities available for sale

This category includes securities which the Bank intends to hold for an indefinite period and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Securities available for sale are measured at fair value. Interest income on debt securities available for sale is recognized in the financial result for the year. Revaluation at fair value is recognized within equity until the security is derecognized or impaired, at which time the cumulative gain or loss is reclassified from equity to financial result for the year. Impairment losses are recognized in the financial result for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of securities available for sale. A significant or prolonged decline in the fair value of a security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognized in the financial result – is reclassified from sources of equity into financial result for the year. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through financial result for the year.

4.7 Derivative financial instruments (derivatives)

Derivatives are initially recognized as at the date of the agreement. Starting from that date, derivatives are measured at fair value.

The fair value of derivatives is measured daily during the term of the agreement, starting from the date of transaction and up to the date of final payment, and is recorded at least at settlement dates and monthly reporting dates.

If there is an active market for this derivative, the Bank uses the market indicators to determine the fair value of such derivative. If the market for this derivative is not active, the Bank determines the fair value of such derivative based on information provided by brokers and other market participants on prices (quotations), the value of derivatives comparable to the derivatives being measured, or applies other valuation techniques.

4.8 Regular way purchases and sales of financial assets

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date, i.e. the date that the Bank commits to purchase the asset or the liability.

4.9 Accounting for impairment provisions

The Bank sets up provisions for impairment of assets and provisions for contingent liabilities based on its internal methodologies developed in accordance with requirements of Regulations of the Bank of Russia No. 590-P and 611-P.

4.10 Customer accounts

In accordance with the current legislation of the Russian Federation and within the limits set by the license issued by the Bank of Russia, the Bank opens and maintains bank accounts, attracts cash from legal entities in the form of a bank transfer to deposits (on demand and term deposits). Interest is accrued and recognized according to the procedure similar to that applied to loans receivable.

4.11 Accounting for income and expense

Income and expenses are recognized using the accrual principle. Income and expenses are recorded in the period to which they relate. Deferred income (expenses) are recognized on accounts for recognition of current year income (expenses) each calendar month. The financial result is determined cumulatively during the reporting year.

Income and expense incurred (generated) in foreign currency are recognized in Russian rubles at the official exchange rate ruling at the date of recognizing income/expense for accounting purposes.

The financial result of disposal of securities and debt obligations is determined using the FIFO methodology. The financial result of sale (disposal) of other assets (premises and equipment, inventories, intangible assets, investments in rights of claim, etc.) is determined based on the initial cost of the respective asset, unless otherwise established by the Bank of Russia.

The Bank determines the probability of receiving interest income on each loan/asset/claim classified into quality category III as high while on those classified into quality categories IV-V as doubtful.

4.12 Nature of assumptions and principal sources of uncertainty at the end of the period

The Bank makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually assessed based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Key sources of estimation uncertainty at the end of the reporting period may result in material adjustments to the carrying amount of assets and liabilities during the next financial year may be as follows:

- Impairment of loans and receivables due to changes in the financial situation of borrowers and counterparties, which will require additional provisions for possible losses. The sensitivity to this factor cannot be reliably estimated, however it is limited due to a significant share of collateral in the total loan receivables (see Note 7.2).
- Impairment of financial instruments carried at fair value available for sale due to market price fluctuations. The sensitivity to this factor is represented in Note 7.3.
- Assessment of derivative financial instruments caused by changes in interest and exchange rates in time. The sensitivity to this factor is represented in Notes 15.7 and 15.9.

Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. If fair value is determined by using valuation techniques (e.g. models), they are approved and regularly reviewed by qualified employees independent from the department/subdivision where the technique was developed.

Fair value measurements are analyzed and broken down by level in the fair value hierarchy as follows:

(i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2 are measurements obtained using valuation techniques with all material inputs observable for the asset or liability either directly or indirectly (that is, as prices), and

(iii) Level 3 measurements are valuations that are not based on observable market data.

Management applies judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, the measurement is a Level 3 measurement. Significance of used inputs is assessed for aggregated fair value measurement.

Repeated fair value measurements are measurements required for the balance sheet purposes at the end of the reporting year. The Bank applies such measurements with respect to the following:

- Investments in securities (balance sheet item "Investments in securities and other financial assets available for sale"), level 1 of the measurement hierarchy; Fair value of such instruments is determined based on the observable market inputs, in particular Moscow Exchange quotes.
- Derivative financial instruments (balance sheet item "Financial assets/liabilities at fair value through profit or loss"), Level 2 of the measurement hierarchy. Fair value of such instruments is determined using valuation techniques based on observable market inputs and calculated using models based on present value calculations. The models incorporate various inputs including counterparties' creditworthiness, foreign exchange forward and spot rates and interest rate curves.

Nonrecurring fair value measurements are measurements required for the balance sheet purposes in particular circumstances (e.g. when the Bank assesses an asset held for sale at the fair value less the cost to sell). The Bank's balance sheet comprises no assets or liabilities that would be recognized based on nonrecurring fair value measurements.

The Bank's accounting policies lack accounting provisions for fair value measurements of a group of financial assets and liabilities based on the Bank's exposure to particular market risk (risks) on a net basis.

Taxation

Russian tax legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of legislation as applied to the Bank's activities may be challenged by the relevant regional or federal authorities. Recently, the Russian tax authorities have been taking a more assertive position in their interpretation of legislation. As a result, the approaches to calculation of taxes that have not been challenged by tax authorities in the past may be challenged during future tax audits.

During 2018, the Bank entered into transactions with various financial instruments. Russian tax legislation in respect of transactions with financial instruments is vaguely drafted and is subject to changes that can occur frequently, which often results in different interpretations of tax norms by the tax authorities and taxpayer. In this regard, management's interpretation of such legislation as applied to procedures to determine taxable income from those transactions, including economic soundness, may be challenged by the tax authorities at any time in the future, which may result in a heavier tax burden on the Bank.

The Russian transfer pricing legislation allows the tax authorities to apply transfer pricing adjustments and impose additional income tax and value-added tax liabilities in respect of "controlled" transactions, where the transaction price differs from the range of market prices. The list of "controlled" transactions includes transactions concluded between related parties (Russian and foreign), as well as certain types of transactions between unrelated parties that are considered to be the same as controlled transactions. Special transfer pricing rules apply to transactions with securities and derivative financial instruments.

Management believes that the Bank complies with the requirements of the Russian transfer pricing legislation with regard to controlled transactions, including proper preparation and presentation of notifications and transfer pricing documentation to the tax authorities, confirming that the Bank used market prices in performing controlled transactions.

As at 31 December 2018, management of the Bank believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions should be supported by relevant authorities and courts.

Related party transactions

In the normal course of business the Bank enters into transactions with related parties. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. In particular, the basis for judgment is pricing for similar types of transactions with unrelated parties.

In accordance with Russian transfer pricing legislation, tax authorities may apply TP adjustments and assess additional tax liabilities with respect to all controlled transactions (related party transactions) if they believe that prices in such transactions are below the market level and in case of inconsistencies with the Bank's methodology of determining market prices for controlled transactions.

The Bank believes that the prices applied by the Bank in 2018 are consistent with market prices and implemented internal controls to comply with the requirements of transfer pricing legislation. However, due to uncertainty and lack of the common practice of application of the transfer pricing rules in the Russian Federation, it is impossible to exclude the risk that the Russian tax authorities may challenge the prices applied by the Bank under the controlled transactions and impose additional taxes if the Bank fails to confirm application of market prices under the controlled transactions and provide the Russian tax authorities with proper documentary evidence. The amount of potential claims from the Russian tax authorities related to transfer pricing cannot be assessed.

4.13 Information on adjusting subsequent events

The Bank has performed the following operations to recognize subsequent events:

1. Assessed (adjusted, changed) taxes and levies for the reporting year (including deferred income tax), being a payer of taxes and levies in accordance with the legislation of the Russian Federation;
2. After the reporting date, received primary documents supporting transactions performed before the reporting date and/or stipulating (specifying) cost of work, services and assets under such transactions, as well as documents specifying income and expense.

4.14 Changes made to the Accounting Policy

No significant changes were made to the Accounting Policy in 2018, which could impact the comparability of the Bank's financial indicators for various reporting periods, except for the following:

In its Regulation No. 4722-U the Bank of Russia introduced the following changes in the accounting rules for foreign currency transactions, other than derivatives, in credit institutions effective from 1 June 2018. In accordance with the new rules, settlements made on the date other than the transaction date are recorded on balance sheet accounts at fair value remeasured for the period from the transaction date to the date of payment. Such a change may affect the comparability of financial results for the periods ending after 1 June 2018 with the financial results of earlier periods. As at 1 January 2019, the net (positive less negative) revaluation of foreign currency financial instruments, other than derivatives, was RUB 44,377 thousand, which indicates a lack of material incomparability of the data for the reporting period with the data for prior periods.

The information on personnel expenses comparability is presented in Note 6.2.

4.15 Nature and amount of material errors of previous periods

No material errors affecting the balance sheet and statement of financial results were identified in the previous periods.

In 2018 and 2017, there were no instances of non-application of accounting rules unless they could not fairly reflect the financial position and performance of the Bank.

5. Information on non-adjusting subsequent events

There were no material non-adjusting events after the reporting date up to the date of this annual report, including that the Bank neither declared nor paid dividends.

The accounting procedure for credit institutions will change in 2019 due to the application of IFRS 9 *Financial Instruments* in Russian accounting standards. In particular, starting from 1 January 2019, Regulation No. 604-P *Concerning the Procedure for Credit Institutions to Account for Transactions to Raise Funds under Bank Deposit Agreements and Loan Agreements, and Transactions to Issue and Redeem Bonds, Promissory Notes, Deposit and Savings Certificates of the Bank of Russia* dated 2 October 2017; Regulation No. 605-P *Concerning the Procedure for Credit Institutions to Account for Transactions to Place Funds under Loan Agreements, Transactions to Purchase Receivables from Third Parties Related to the Performance of Cash Liabilities, Transactions Related to Liabilities under Bank Guarantees Issued and Provision of Funds*; Regulation No. 606-P *Concerning the Procedure for Credit Institutions to Account for Transactions with Securities* become effective, and Regulation No. 579-P of the Bank of Russia dated 27 February 2017 and Regulation No. 446-P of the Bank of Russia dated 22 December 2014 are amended. Therefore, the Bank's Accounting Policy for 2019 was amended as regards accounting for financial assets and financial liabilities, with the major amendments provided below:

- Financial assets and financial liabilities are initially recognized at fair value. Subsequently, they are measured either at amortized cost or at fair value;
- Classification of financial assets in one of the three categories: measured at amortized cost / at fair value through other comprehensive income / at fair value through profit or loss;

- Classification of financial liabilities in one of the two categories: measured at amortized cost / at fair value through profit or loss;
- Classification of transactions related to liabilities under bank guarantees and provision of cash in accordance with IFRS 9;
- The amendments establish the frequency of measuring financial assets and liabilities, the frequency of calculating effective interest rate, determine the materiality criteria for other income, transactions costs, etc.;
- The expected credit loss model is adopted and adjustments are made to the RAS accounting statements before creating provisions, the frequency of adjustments before provisions is established.

The Bank plans to recognize the impact of transition in the current financial results for 2019. The effect is expected to be positive due to the fact the amount of IFRS provisions is significantly below RAS expected losses, however, it is not possible to measure the impact yet.

6. Explanatory notes to the accounting reporting forms

6.1 Explanatory note to the balance sheet

6.1.1 Cash

Table 6.1.1.1
(RUB'000)

	01.01.2019	01.01.2018
Cash on hand	31,083	33,918
Accounts with the Central Bank of the Russian Federation	1,332,666	4,466,116
Less mandatory reserves	659,848	4,136,058
Correspondent accounts with credit institutions in the Russian Federation	100	41,793
Correspondent accounts with credit institutions in other countries	5,865,583	1,523,338
Total cash and cash equivalents	**6,556,614**	**5,735,107**

In the table above, the amount of cash and cash equivalents is presented net of amounts not included in Quality Category 1 and restricted cash. At 1 January 2019, the excluded amount is RUB 20,000 thousand (at 1 January 2018: RUB 20,000 thousand).

6.1.2 Financial assets and liabilities at fair value through profit or loss

This item comprises positive and negative fair values of derivatives open as at the reporting date. The fair value of derivatives is determined in Russian rubles.

The analysis of fair value by type of underlying assets and derivatives based on section II of form 0409155 as at 1 January 2019 is presented in the table below:

Table 6.1.2.1
(RUB'000)

Instrument	Fair value of assets	Fair value of liabilities	Receivable amount	Payable amount
Derivative financial instruments	**2,398,471**	**476,651**	**68,113,870**	**66,263,100**
including				
Forward with underlying asset – foreign currency (deliverable)	44,881	137,275	5,886,672	5,929,576
Option with underlying asset – foreign currency	2,063	2,064	443,886	443,886
Swap with underlying asset – foreign currency (deliverable)	230,144	116,111	48,109,112	48,147,413
Swap with underlying asset – interest rate (non-deliverable)	18,209	15,755	2,842,316	2,842,316
Swap with underlying asset – interest rate and foreign currency (deliverable)	2,103,174	205,446	10,831,884	8,899,909

Analysis of fair value by type of underlying assets and derivatives based on section II of form 0409155 as at 1 January 2018 is presented in the table below:

Table 6.1.2.2
(RUB'000)

Instrument	Fair value of assets	Fair value of liabilities	Receivable amount	Payable amount
Derivative financial instruments	**2,023,072**	**621,935**	**26,651,649**	**24,963,085**
including				
Forward with underlying asset – foreign currency (deliverable)	51,342	34,980	4,276,156	4,228,586
Option with underlying asset – foreign currency	1,665	1,665	141,117	141,117
Swap with underlying asset – foreign currency (deliverable)	131,750	114,311	10,074,207	10,009,587
Swap with underlying asset – interest rate (non-deliverable)	70,102	63,837	3,218,790	3,218,790
Swap with underlying asset – interest rate and foreign currency (deliverable)	1,768,213	407,142	8,941,379	7,365,005

6.1.3 Financial investments in securities and other financial assets available for sale

This item includes only the Bank's investments in Russian government bonds – Federal loan bonds (OFZ) and short-term bonds issued by the Bank of Russia, which form a liquidity portfolio managed by the Treasury only for the purposes of maintaining the Bank's liquidity:

Table 6.1.3.1
(RUB'000)

	2018	2017
Federal loan bonds	6,117,309	6,629,855
Bonds issued by the Bank of Russia	3,830,781	–
Total	**9,948,090**	**6,629,855**

The table below presents investments in securities by circulation period and coupon income:

Table 6.1.3.2
(RUB'000)

	01.01.2019 Circulation period	Coupon income	01.01.2018 Circulation period	Coupon income
Federal loan bonds	from 27/02/2019 to 07/12/2022	from 6.40% up to 8.02%	from 31/01/2018 to 07/12/2022	from 6.20% up to 10.43%
Short-term bonds issued by the Bank of Russia	from 16/01/19 up to 13/03/19	7.75%	–	–

At 1 January 2019 and 1 January 2018, securities recorded within securities available for sale were not pledged to third parties as collateral.

6.1.4 Accounting for fair value of assets and liabilities

The information on accounting for fair value of assets and liabilities is presented in Note 4.2.

6.1.5 Investments in subsidiaries

The Bank has no subsidiaries, entities under common control or affiliates.

6.1.6 Net loans receivable

The structure of loans receivable is as follows:

Table 6.1.6.1
(RUB'000)

	01.01.2019	01.01.2018
Deposits with the Bank of Russia	9,400,000	6,500,000
Interbank loans and deposits:	8,530,236	2,592,009
Overnight	6,530,236	2,592,009
Other	2,000,000	–
Legal entities	23,960,396	13,468,758
Corporate loans	23,300,649	13,326,551
Overdraft loans	659,747	142,207
Individuals – consumer loans	53	3,245
Provision for loan impairment	(398 663)	(643 453)
Total net loans receivable	**41,492,022**	**21,920,559**

Economic sector risk concentrations within loans receivable are as follows:

Table 6.1.6.2
(RUB'000)

	01.01.2019 Amount	%	01.01.2018 Amount	%
Loans to legal entities – Russian residents, including:	**23,960,396**	**100**	**13,468,758**	**99.98**
Metallurgy	9,633,058	40.20	5,715,944	42.43
Financial services other than insurance and pension coverage	5,634,389	23.52	704,957	5.23
Manufacture of motor vehicles, trailers and semitrailers	2,752,891	11.49	3,448,107	25.59
Leases	2,507,119	10.46	1,550,954	11.51
Wholesale and retail trade in motor vehicles, motorbikes, including repair	1,738,482	7.26	80,726	0.60
Whole sale trade other than in motor vehicles and motorbikes	858,921	3.58	135,000	1.00
Manufacture of finished metal products other than machinery and equipment	342,587	1.43	144,001	1.07
Warehousing and auxiliary transportation activities	150,230	0.63	–	0.00
Manufacture of paper and paper products	100,194	0.42	35,369	0.26
Food production	96,000	0.40	140,800	1.05
Manufacture of rubber and plastic products	95,714	0.40	128,571	0.95
Manufacture of PCs, electronic optic products and other equipment	50,811	0.21	55,094	0.41
Production of chemicals and chemical products	–	0.00	1,329,235	9.87
Consumer loans to individuals	**53**	**0.00**	**3,245**	**0.02**
Total loans receivable (*)	**23,960,449**	**100**	**13,472,003**	**100**

(*) Before provisions for possible losses.

Analysis of the geographical concentration within loans receivable is disclosed in paragraph 7.5 of this Explanatory Note.

A maturity analysis of the volume and structure of loans, borrowings and similar debt is disclosed in paragraph 7.4 of this Explanatory Note.

6.1.7 Investments in securities held to maturity

The Bank has no investments in securities held to maturity.

6.1.8 Change in provision for potential losses

Information on change in provision for potential losses by class of assets is presented in paragraph 6.2 of this Explanatory Note.

6.1.9 Financial assets transferred without derecognition

The Bank has no financial assets transferred without derecognition.

6.1.10 Reclassification of derivative financial instruments

In 2018 and 2017, the Bank did not reclassify derivative financial instruments between categories.

6.1.11 Financial assets and liabilities subject to offset

The Bank doesn't have financial assets and liabilities subject to offset and presented in these financial statements on a net basis, except for differed income tax assets and liabilities (Note 6.2 of these Explanatory Notes).

6.1.12 Financial assets pledged (received) as collateral

As at 1 January 2019 and 2018, the Bank did not pledge financial assets as collateral, except for a guarantee deposit on the Moscow Exchange. Information on pledged assets is presented in Note 15.3 of these Explanatory Notes. Bonds designated as available for sale were from time to time pledged to the Bank of Russia under overnight deposits. The Bank had no other assets pledged as at 1 January 2019 and 2018.

As at 1 January 2019 and 2018, the Bank did not receive financial or non-financial assets as collateral with a right to sell them or pledge if the borrower was not in default.

6.1.13 Fair value of financial assets and liabilities, changes in the cost of which are accounted for by creating provisions for potential losses

Information on fair value of each class of financial assets and liabilities recognized not at fair value is provided in the table below:

Table 6.1.13.1
(RUB'000)

	2018 Carrying amount	Fair value	Difference	2017 Carrying amount	Fair value	Difference
Financial assets						
Cash	31,083	31,083	–	33,918	33,918	–
Amounts of credit institutions placed with the Bank of Russia	1,332,666	1,332,666	–	4,466,116	4,466,116	–
Amounts due from credit institutions	5,885,683	5,885,683	–	1,585,131	1,585,131	–
Net loans receivable	41,492,022	41,441,533	(50,489)	21,920,559	21,990,784	70,225
Other financial assets	2,693,399	2,693,399	–	1,060,983	1,060,983	–
Financial liabilities						
Amounts due to credit institutions	22,186,338	22,252,278	65,940	3,242,481	3,418,882	176,401
Amounts due to customers other than credit institutions	28,874,476	28,871,020	(3,456)	21,103,455	21,329,659	226,204
Other financial liabilities	86,340	86,340	–	55,214	55,214	–

Fair value was calculated by discounting using the curve of risk-free interest rates at the reporting date adjusted for average margin accounting for credit risk.

6.1.14 Premises and equipment, intangible assets and inventories

Information on the basis for measurement used to determine carrying amount, amortization techniques and useful lives of premises and equipment and intangible assets is presented in Note 4.5 of these Explanatory Notes.

Below is information on carrying amounts, including changes, for the reporting and previous periods:

Table 6.1.14.1
(RUB'000)

	Computers and office equipment	Investments in construction and purchase of premises and equipment	Total property and equipment	Intangible assets	Inventories	Total
Cost at 1 January 2017	**194,913**	**1,000**	**195,913**	**9,558**	**688**	**206,159**
Accumulated depreciation and amortization	(125,813)	–	**(125,813)**	(1,959)	–	**(127,772)**
Carrying amount At 1 January 2017	**69,100**	**1,000**	**70,100**	**7,599**	**688**	**78,387**
Additions	–	13,852	**13,852**	657	3,510	**18,019**
Transfers	13,866	(13,866)	**–**	–	–	**–**
Disposals (at cost)	(8,571)	–	**(8,571)**	–	(3,584)	**(12,155)**
Disposals (accumulated depreciation/amortization)	6,331	–	**6,331**	–	–	**6,331**
Depreciation and amortization charge	(20,971)	–	**(20,971)**	(2,022)	–	**(22,993)**
Carrying amount At 1 January 2018	**59,755**	**986**	**60,741**	**6,234**	**614**	**67,589**
Cost at 1 January 2018	200,208	986	**201,194**	10,215	614	**212,023**
Accumulated depreciation and amortization	(140,453)	–	**(140,453)**	(3,981)	–	**(144,434)**
Carrying amount At 1 January 2018	**59,755**	**986**	**60,741**	**6,234**	**614**	**67,589**
Additions	–	26,860	**26,860**	8,819	7,324	**43,003**
Transfers	26,860	(26,860)	**–**	–	–	**–**
Disposals (at cost)	(2,788)	–	**(2,788)**	–	(5,239)	**(8,027)**
Disposals (accumulated depreciation/amortization)	2,788	–	**2,788**	–	–	**2,788**
Depreciation and amortization charge	(22,899)	–	**(22,899)**	(2,291)	–	**(25,190)**
Carrying amount At 1 January 2019	**63,716**	**986**	**64,702**	**12,762**	**2,699**	**80,163**
Cost at 1 January 2019	224,280	986	**225,266**	19,034	2,699	**246,999**
Accumulated depreciation and amortization	(160,564)	–	**(160,564)**	(6,272)	–	**(166,836)**

At 1 January 2018, the total contractual obligations related to acquisition of premises and equipment and intangible assets (future obligations to make payments under the contracts for acquisition of premises and equipment and intangible assets, where partial advance payment of future deliveries was made before the reporting date) amounted to RUB 0 (1 January 2018: RUB 14 thousand).

In 2018 and 2917, the Bank did not receive compensation from third parties due to impairment, loss or transfer of premises and equipment.

In 2018 and 2017, the Bank performed an annual revision of the estimates for residual value of premises and equipment and intangible assets, estimated costs of dismantling, moving or restoring premises and equipment, amortization methods and useful lives. The revision had no material impact on the indicators in the reporting or previous periods.

The Bank did not perform revaluation of premises and equipment and intangible assets. The impairment test of premises and equipment performed at December 2017 identified no impairment indicators (December 2017: no impairment indicators).

As at 1 January 2019 and 2018, the Bank had no premises and equipment or intangible assets designated as available for sale.

6.1.15 Property temporarily not used in core activities

In 2018 and 2017, the Bank did not have property, including that temporarily not used in core activities.

6.1.16 Information on leases

Information on the total future minimum payments under operating lease agreements is presented in the table broken down by period:

Table 6.1.16.1
(RUB'000)

	01.01.2019	01.01.2018
Less than 1 year	131,980	46,902
From 1 to 5 years	16,080	36,483
More than 5 years	–	–
Total minimum operating lease commitments	**148,060**	**83,385**

In 2018, the amount of the Bank's operating lease expenses was RUB 145,539 thousand (2017: RUB 136,637 thousand). The expenses do not include contingent rent. The Bank is not issue subleases.

6.1.17 Additional information on intangible assets

The Bank does not have intangible assets with indefinite useful lives.

The Bank does not have intangible assets created by the Bank.

The Bank applied a straight-line amortization method to intangible assets with definite useful lives.

Amortization charges on intangible assets are included in "Operating expense" in the statement of comprehensive income (statement of financial results) of the Bank.

6.1.18 Other assets

Below is a structure of the Bank's other assets:

Table 6.1.18.1
(RUB'000)

	01.01.2019	01.01.2018
Other financial assets		
Settlements with clearing institutions	2,536,379	1,033,002
Interests receivable	111,814	21,855
Fees and commissions receivable	35,511	36,860
Revaluation of receivable / liabilities under spot transactions	45,027	–
Other	2,840	5,900
Provision for possible losses (–)	(38,172)	(36,634)
Total other financial assets	**2,693,399**	**1,060,983**
Other non-financial assets		
Future periods expenses	8,084	9,193
Prepayment for services	683	3,120

	01.01.2019	01.01.2018
Operating lease prepayments	4,374	7,431
Tax settlements with the budget	4,382	2,626
Settlements with employees	669	477
Other	–	26
Provision for possible losses (-)	(5,058)	(16,451)
Total other non-financial assets	**13,134**	**6,422**
Total other assets	**2,706,533**	**1,067,405**

The structure of other assets broken down by currency is presented in the table below:

Table 6.1.18.2
(RUB'000)

	01.01.2018	01.01.2018
Russian rubles	140,260	28,447
US dollar	2,000	2,115
Euro	2,560,625	1,035,891
Other currencies	3,648	952
Total other assets	**2,706,533**	**1,067,405**

A maturity analysis of the volume and structure of other assets is disclosed in Note 7.4 of these Explanatory Notes.

6.1.19 Balances on accounts of credit institutions

Information on amount due to credit institutions is presented in the table below:

Table 6.1.19.1
(RUB'000)

	01.01.2019	01.01.2018
Correspondent accounts	2,633,052	212,471
Loans and deposits "Overnight"	–	–
Other interbank loans and deposits received	19,553,286	3,030,010
Total amounts due to other banks	**22,186,338**	**3,242,481**

The Bank does not have any syndicated loans and liabilities to return borrowed securities to the creditor.

6.1.20 Amounts due to customers (non-credit institutions)

Information on amount due to customer is presented in the below table:

Table 6.1.20.1
(RUB'000)

	01.01.2019	01.01.2018
Legal entities	28,874,460	21,103,437
• Current/settlement accounts	17,061,573	15,122,599
• Term deposits	11,812,887	5,980,838
Individuals	16	18
• Current accounts / demand accounts	16	18
Total amounts due to customers other than credit institutions	**28,874,476**	**21,103,455**

An analysis of customer accounts by economic sector is as follows:

Table 6.1.20.2
(RUB'000)

	01.01.2019		01.01.2018	
	Amount	%	Amount	%
Processing	11,975,955	41.48%	4,509,623	21.37%
Wholesale and retail trade; repair of motor vehicles and motorbikes	11,660,484	40.38%	12,008,754	56.90%
Professional, scientific and technical activities	1,569,697	5.44%	1,569,615	7.44%
Information and telecommunication	1,177,951	4.08%	953,679	4.52%
Finance and insurance	951,722	3.30%	691,266	3.28%
Real estate transactions	657,417	2.28%	657,261	3.11%
Construction	464,936	1.61%	166,349	0.79%
Other	416,298	1.44%	546,890	2.59%
Total amounts due to customers	**28,874,460**	**100%**	**21,103,437**	**100%**

6.1.21 Government grants and other support

In 2018 and 2017, the Bank did not receive any government grants and other support.

6.1.22 Debt securities issued

As at 1 January 2019, the Bank had no issued debt securities (at 1 January 2018: none).

6.1.23 Terms of early repayment of attracted funds

As at 1 January 2019 and 2018, the Bank's term deposit agreements lacked provisions for early repayment of attracted funds in cases not related with the performance by third parties of their obligations to the Bank.

6.1.24 Other liabilities

Below is the structure of the Bank's other liabilities:

Table 6.1.24.1
(RUB'000)

	01.01.2019	01.01.2018
Other financial liabilities		
Accounts payable	63,345	46,410
Interests payable	22,345	7,775
Revaluation of receivable/ liabilities under spot transactions	650	–
Unsettled transactions and transfers	–	1,029
Total other financial liabilities	**86,340**	**55,214**
Other non-financial liabilities		
Accrued employee benefit costs	129,853	128,168
Taxes payable other than income tax	38,299	43,651
Settlements with accountable entities	2	37
Total other non-financial liabilities	**168,154**	**171,856**
Total other liabilities	**254,494**	**227,070**

The structure of other liabilities broken down by currency is presented in the table below:

Table 6.1.24.2
(RUB'000)

	01.01.2019	01.01.2018
Russian rubles	194,127	184,149
US dollar	14,791	3,275
Euro	45,576	39,646
Other currencies	–	–
Total other liabilities	**254,494**	**227,070**

Maturity analysis of the volume and structure of other liabilities is disclosed in Note 7.4 of these Explanatory Notes.

6.1.25 Provisions, contingent liabilities and contingent assets

The item *Irrevocable commitments and guarantees issued by the Bank* comprises:

- Undrawn credit lines (including limits on overdraft loans). Most contracts provide for early credit line termination if financial position of the counterparty (borrower) deteriorates significantly.
- Nominal commitments in open derivative financial instruments, term and cash (spot) deals without counter claims to counterparties. This indicator is generally short term and, therefore, is subject to significant fluctuations.

Information on these items is presented in the table broken down by instrument:

Table 6.1.25.1
(RUB'000)

	01.01.2019	01.01.2018
Total irrevocable commitments, including	**109,735,502**	**53,921,690**
• undrawn credit lines	2,865,533	4,462,835
• unused overdrafts	5,821,487	5,786,194
• commitments under term transactions and derivatives	101,048,482	43,672,661
Total guarantees issued, including	**24,695,904**	**22,247,139**
• bank guarantees	15,461,229	13,915,201
• letters of credit without security	9,234,675	8,331,938
Letters of credit with security	62,898	331,377
Provisions for potential losses on credit-related commitments	(271,196)	(275,204)

6.1.26 Default on obligations

As at 1 January 2019, the Bank had no defaulted obligations (at 1 January 2018: none).

6.1.27 Equity

Share capital of the Bank is represented by ordinary shares. As at 1 December 2019 and 2018, all of the issued ordinary shares were fully paid. The total number of issued and placed shares remained unchanged during the reporting period and totaled 43,112. Each ordinary share carries one vote. More detailed information on share issues is presented in Section 5 of the Statement on capital adequacy level in these annual financial statements.

6.2 Accompanying note to the statement of financial results

Information on the movements in provisions for possible losses is disclosed in Note 4.3 of these Explanatory Notes.

Information on expenses related to provision for potential losses and reversal of respective income recorded as equity in the reporting period, presented broken down by asset type in the table below:

Table 6.2.1
(RUB'000)

	2018 Charged	Reversed	Result	2017 Charged	Reversed	Result
Losses and gains from reversal of provision for potential losses						
• Correspondent accounts	–	–	–	9	9	–
• Loans receivable and interest accrued	944,439	1,185,605	241,166	289,060	403,995	114,935
• Other assets	47,693	61,173	13,480	126,227	121,377	(4,850)
• Credit-related commitments	511,421	515,429	4,008	282,454	334,117	51,663
• Other loss	–	–	–	–	–	–
Total for gains and losses	**1,503,553**	**1,762,207**	**258,654**	**697,750**	**859,498**	**161,748**
Write off of debt and expense against previously made provision for possible losses			–			–
Total change in provisions			**258,654**			**161,748**

Information on fee and commission income and expenses is disclosed in the table below:

Table 6.2.2
(RUB'000)

Description	01.01.2019	01.01.2018
Total fee and commission income, including	**588,812**	**513,215**
Settlement operations and account management	184,651	163,665
Guarantees issued	162,051	138,557
Acting as currency control agent	132,991	115,163
Letters of credit and documentary collections	102,796	90,203
Cash operations	6,280	5,627
Other	43	–

Table 6.2.3
(RUB'000)

Description	01.01.2019	01.01.2018
Total fee and commission expense, including:	**118,112**	**98,855**
Cash and settlement transactions	26,907	20,003
Guarantees received	59,836	40,228
Transactions with securities and foreign currency	26,683	28,858
Letters of credit	–	357
Other	4,686	9,409

In 2018, profit comprised translation differences except for those related to financial instruments at fair value through profit or loss in the amount of RUB 0 thousand (2017: RUB – 728,189 thousand).

In 2018, expenses on employee benefits (including taxes) totaled RUB 677,572 thousand (2017: RUB 754,553 thousand). Since in 2017 changes to the accounting policy were not retrospective as regards recognition of year-end bonuses (transfer to recognition within expenses for the year in which incurred), the specified values are fully comparable with the year-end bonuses for 2016 (RUB 105,466 thousand) recognized in expenses for 2017 along with bonuses for 2017. The Bank plans to apply this approach consistently to recognize year-end bonuses in the future to align these financial statements with the financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

In 2018 and 2017, the Bank:

- Did not have research or development costs;
- Neither wrote down the cost of premises and equipment to their recoverable amount and no reversed written down items;
- Did not restructure activities, create or reverse respective provisions.

Initial cost of accumulated depreciation and amortization of disposed premises and equipment and intangible assets are disclosed in Note 6.1.13 of these Explanatory Notes. Net financial result of disposal of premises and equipment and intangible assets in 2018 was nil (2017: negative result RUB – 245 thousand). This financial result is carried to other operating income in the amount of RUB 0 thousand and operating expenses in the amount of RUB 0 thousand (2017: operating income RUB 145 thousand and operating expenses of RUB 390 thousand).

In 2018, tax expenses comprised current income tax expense of RUB 298,617 thousand and deferred tax of RUB 56,134 thousand (2017: RUB 729,155 and RUB – 367,373 thousand respectively).

Information on reconciliation of income tax expense and the result of multiplying accounting profit by tax rate is presented in the table below:

Table 6.2.4
(RUB'000)

	2018	2017
Profit before tax	**1,954,405**	**1,711,210**
Theoretical tax charge at statutory rate (2018-2017: 20%)	**390,881**	**342,242**
Tax effect of non-taxable income and nondeductible expenses:		
• Administrative and other operating expenses and net changes in provision for potential losses, nondeductible	9,661	43,559
• Income on securities taxed at different rates (15%)	(23,848)	(21,626)
Tax expense for the year	**357,372**	**364,175**

In 2018 and 2017, the Bank had no deferred tax assets related to loss carry forward.

In 2018 and 2017, the Bank had no significant gains and losses arising as a result of changes in tax rates and introduction of new taxes.

6.3 Explanatory Note to the statement on capital adequacy level

Information on the total comprehensive income and equity instrument analysis is presented in respective reporting forms of these annual financial statements.

The Bank neither applied changes to the accounting policies nor corrected errors of prior period retrospectively, therefore opening balances of equity and other comprehensive income remained unchanged.

Information on dividend payments, including per share, is presented in Note 3.3 of these Explanatory Notes.

6.4 Explanatory Note to the statement of cash flows

Information on cash and cash equivalents is presented in Note 6.1.1 of these Explanatory Notes.

The Bank had no significant investment or financial operations that would not require the use of cash.

7. Information on the purposes and policy of derivative instrument risks

7.1 Explanatory Note to the risk management system

The Bank designed and approved a risk management strategy, which is a framework document determining strategical principles of risk management, as well as an integral part of the Bank's corporate governance system. According to the risk management strategy, the Bank is a member of Commerzbank Group and, therefore, its risk management strategy accounts for and complies with the business strategy of the Bank, which, in its turn, is a part of the Group's business strategy (CC-CI segment business strategy). Risk management strategy of the Bank reflects the risk management approaches that are closely integrated with the Group's policy in this regard. Controls/risk management and all internal policies, recommendations and methodologies are set on the level of Commerzbank Group and are obligatory for all Commerzbank Group entities, including the Bank. The Chief Risk Officer (CRO) is responsible for developing and implementing risk policy guidelines laid down by the Board of Managing Directors of Commerzbank Group. The CRO regularly reports to the Risk Committee of the Supervisory Board and the Board of Managing Directors of Commerzbank Group.

The principles described in the Bank’s risk management strategy form the basis of risk and capital management procedures and the Bank’s internal risk management rules. The document covers all significant risks. The Bank’s risk management strategy is based on results of the risk inventory process, which is carried out at least annually or when the Bank’s risk profile changes.

The governing principle of the Bank’s risk management strategy is allocation of the Bank’s risk management resources while ensuring the predetermined levels of risk acceptance and liquidity. A risk appetite analysis is a key element of overall management of the banking operations and of the Bank’s internal capital adequacy assessment procedure (ICAAP).

The risk and capital management process is based on the “no conflict of interests” principle and provides for segregation of duties for the subdivisions responsible for analysis, measurements and control over risks and departments engaged in transactions and deals exposed to risks. The Bank seeks to create its risk culture, where control over risk becomes an objective and responsibility of each and every employee of the Bank.

The risk function is deemed as a strategic partner closely cooperating with the Bank’s subdivisions engaged in primary banking activities. The risk function contributes to this process ensuring an efficient, proactive and comprehensive risk management.

The Bank’s risk management is based on the concept of three lines of defense.

- Each unit (segment or function) forms the first line of defense within its area of operational responsibility and is responsible for identifying and managing risks within it while complying with the prescribed risk standards and policies.
- The risk function forms the second line of defense against credit and market, operational and liquidity risks. Units outside the risk function also operate as the second line of defense for certain risk types. The units submit regular reports on risk monitoring in the area of their responsibility to the head of the risk function. The second line of defense for each type of risk lays down standards for appropriate management of risks of that type, monitors this and ensures the application of such standards, and analyses and evaluates the risks.
- The third line of defense is the internal audit. Its objective is to provide an independent guarantee with regard to risk management processes and actions made by the Bank and, therefore, to measure the efficiency of the first and the second lines of defense.

The risk management cycle includes the following:

- Identification, measurement and determination of acceptable level of risks inherent to the banking operations, identification of standard risks of losses and (or) liquidity deterioration due to adverse events related to internal and (or) external factors of the Bank’s operations.
- Risk monitoring and control. Continuous monitoring of banking risks, review for compliance with the existing limits and criterion, risk management in accordance with the Bank’s approved strategy.
- Allocation of economic capital. Yield measurement considering significant risks, change of the Bank’s activities and approved appetite to risks, including the historical retrospective of risk to yield ratio.
- Providing reports on all the above issues to the executive bodies and the Supervisory Board of the Bank.

The Bank defines risks as a threat of possible losses or profit lost due to internal or external factors. In the course of the risk management, the Bank distinguishes measurable and non-measurable risks. Measurable risks are risks, the amounts of which are disclosed in the financial statements or statutory capital requirements, while non-measurable risks include reputational risk and compliance risk.

Risk controls are intended to ensure compliance with the internal minimal threshold of accepting economic risk with account for the planned portfolio development and realistic fluctuations of risk parameters. Liquidity risk controls are based on the liquidity gap profile that defines the expected future net liquidity position through receipts to Bank’s balance sheet accounts and off-balance sheet accounts. Compliance risk controls are based on the Bank’s expectations that the Bank, its customers and partners will comply with the existing laws, methodological guidelines and market standards (both international and domestic). The Bank understands and acknowledges business risks, in particular risks associated with economic crimes, primarily risks of money-laundering and terrorist financing. The Bank is also aware that its customers might use banking products and services for illegal purposes that is why the Bank regularly assesses risks and follows the Group’s policy in this area, including corporate-wide approaches and controls to mitigate the risks. The Bank will not enter into deals or do business if it is aware of the counterparties’ suspected or actual support of illegal activities, either direct or indirect. This principle covers individuals and legal entities who intentionally participate in illegal activities or behave unlawfully. The Bank shall not tolerate violation of law or failure to comply with methodological guidelines and rules. As a member of the Commerzbank AG Group, the Bank is committed to the spirit and letter of all existing laws, guidelines and market standards. The Bank shall not run business without an adequate system for preventing and identifying illegal activities or restraining from them.

The annual risk inventory, which is a component of the ICAAO procedure, is performed to identify the Bank's risk-accepting capacity and relevant types of risk. While performing the risk inventory procedure in 2018, the Bank used the bottom-up approach, i.e. It assessed the risk profile in respect of all existing departments and business subdivisions of the Bank as well as for all lines of operating activities (trade and sales, commercial banking, clearing and settlements, issuing and serving bank cards) and Bank's activities in general (including non-financial activities). This approach ensures that the risk assessment will be complete, i.e. it will cover all relevant risk factors; it helps to identify risks and assess their significance, as well as determine the risk owners. A report on significant risks identified is presented to the Management Board of the Bank. It forms a basis for determining the Bank's risk management strategy and risk appetite (i.e. acceptable level of exposure).

The risk appetite is determined as the maximum risk that the Bank is ready and able to accept (apart from inherent risks) in order to achieve its business goals without threat to its existence. The maximum risk that the Bank is ready to accept is limited by the following requirements:

- Compliance with the internal minimal standard for accepting the (economic) risk (the risk-acceptance capacity is described in the intrabank regulation "Risk Resilience Policy");
- Ensuring the Bank's solvency and structural liquidity at any time.

According to requirements of the Basel Capital Accord, which are mandatory for all European credit institutions, Commerzbank Group (and the Bank, which is a subsidiary of the Group) has developed and implemented a business strategy aimed at managing all risks that are significant for the Bank. Based on the size and structure of the banking operations, as well as market position of the Bank, its significant risks included financial risks (measurable risks), which are the risks analyzed using mathematical methods, and non-financial risks. Measurable risks are controlled by the structural divisions responsible for the asset management.

Following the risk inventory procedure, the following risks of the Bank have been acknowledged as significant in 2018:

- Credit risk;
- Market risk (including interest rate risk of the bank portfolio);
- Operational risk;
- Business risk;
- Reputation risk;
- Compliance risk;
- Liquidity risk.

Detailed information on types of significant risks to which the Bank is exposed, sources of such risks, structure and operations of risk management subdivisions, and key provision of the risk and capital management strategy are disclosed in Notes 15.1 and 15.4-15.10 of these Explanatory Notes with respect to each significant risk. Information on approaches to manage reputation, business and compliance risks is presented at the end of this Note.

Information on risk-weighted receivables (liabilities) and minimum amount of capital required to cover risks as at 1 January 2019 is presented in the below table:

Table 7.1.1
(Table 2.1 from Regulation 4482-U)

Pos.	Item	Risk-weighted receivables (liabilities) at the reporting date 1 January 2019	At the previous reporting date 1 October 2018	Minimum capital to cover risks at the reporting date 1 January 2019
1	Total credit risk (except for counterparty credit risk), including:	34,673,723	35,859,920	2,773,898
2	under a standardized approach	34,673,723	35,859,920	2,773,898
3	under approach based on internal ratings	N/A	N/A	
4	Total counterparty credit risk, including:	1,554,409	1,609,353	124,353
5	under a standardized approach	1,554,409	1,609,353	124,353
6	Under the approach based on internal models	N/A	N/A	
7	Investments in equity securities (shares, units in mutual funds) and participatory interest in legal entities not included in the trade portfolio, under the market approach	–	–	–
8	Investments in shares, units in mutual funds – a look-through approach	–	–	–
9	Investments in shares, units in mutual funds – a mandate-based approach	–	–	–

Pos.	Item	Risk-weighted receivables (liabilities) at the reporting date 1 January 2019	Risk-weighted receivables (liabilities) At the previous reporting date 1 October 2018	Minimum capital to cover risks at the reporting date 1 January 2019
10	Investments in shares, units in mutual funds – a fall-back approach	–	–	–
11	Settlement risk	N/A	N/A	
12	Total securitization risk (except for securitization risk of trade portfolio), including:	–	–	–
13	under approach based on internal ratings	N/A	N/A	
14	approach based on internal ratings using the supervisory formula approach	N/A	N/A	
15	under a standardized approach	–	–	–
16	Total market risk, including:	2,242,057	1,977,407	179,365
17	under a standardized approach	2,242,057	1,977,407	179,365
18	Under the approach based on internal models	N/A	N/A	
19	Total operational risk, including:	8,886,013	8,886,013	710,881
20	under basic indicator approach	8,886,013	8,886,013	710,881
21	under a standardized approach	N/A	N/A	
22	under advanced (improved) approach	N/A	N/A	
23	Assets (receivables) below the materiality level to be deducted from equity (capital), 250% risk weight	–	–	–
24	Minimum adjustment for lower cap pf credit and operating risk under internal ratings-based and advanced (improved) approach	N/A	N/A	
25	**Total** (sum of lines 1 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 16 + 19 + 23 + 24)	**47,356,202**	**48,332,693**	**3,788,497**

Comparable information as at 1 January 2018 is disclosed in the table below:

Table 7.1.2

Pos.	Item	Risk-weighted receivables (liabilities) at the reporting date 1 April 2018	Risk-weighted receivables (liabilities) At the previous reporting date 1 January 2018	Minimum capital to cover risks at the reporting date 1 April 2018
1	Total credit risk (except for counterparty credit risk), including:	30,758,734	27,325,413	2,460,699
2	under a standardized approach	30,758,734	27,325,413	2,460,699
3	under approach based on internal ratings	N/A	N/A	
4	Total counterparty credit risk, including:	817,321	1,173,856	65,386
5	under a standardized approach	817,321	1,173,856	65,386
6	Under the approach based on internal models	N/A	N/A	
7	Investments in equity securities (shares, units in mutual funds) and participatory interest in legal entities not included in the trade portfolio, under the market approach	–	–	–
8	Investments in shares, units in mutual funds – a look-through approach	–	–	–
9	Investments in shares, units in mutual funds – a mandate-based approach	–	–	–
10	Investments in shares, units in mutual funds – a fall-back approach	–	–	–
11	Settlement risk	N/A	N/A	
12	Total securitization risk (except for securitization risk of trade portfolio), including:	–	–	–
13	under approach based on internal ratings	N/A	N/A	
14	approach based on internal ratings using the supervisory formula approach	N/A	N/A	
15	under a standardized approach	–	–	–
16	Total market risk, including:	1,118,635	1,638,614	89,491
17	under a standardized approach	1,118,635	1,638,614	89,491
18	Under the approach based on internal models	N/A	N/A	
19	Операционный риск, всего, в том числе:	12,460,963	12,460,963	996,877
20	under basic indicator approach	N/A	N/A	
21	under a standardized approach	12,460,963	12,460,963	996,877
22	under advanced (improved) approach	N/A	N/A	
23	Assets (receivables) below the materiality level to be deducted from equity (capital), 250% risk weight	–	–	–
24	Minimum adjustment for lower cap pf credit and operating risk under internal ratings-based and advanced (improved) approach	N/A	N/A	
25	**Total** (sum of lines 1 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 16 + 19 + 23 + 24)	**45,155,653**	**42,598,846**	**3,612,453**

The table comprises risks taken by the Bank and classified as significant in accordance with the Bank of Russia's Instructive Regulation No. 180-I. The list of risks taken by the Bank and classified as significant according to the ICAAP (internal capital adequacy assessment process) may differ from the given list.

The Bank applies the standardized approach to calculate its capital adequacy ratio, therefore all lines for values calculated using other methods are marked as “N/A”.

The Bank is not engaged in transactions with equity instruments and securitization.

The values in table 7.1.2 changed insignificantly in general.

Risk and capital management processes require that management of the Bank continuously monitor compliance with the Bank’s risk profile and availability of the Bank’s resources to cover the risks. Internal management risk reports are regularly prepared by the subdivisions responsible for risk management and presented to the Bank’s management bodies and heads of its structural subdivisions.

The Bank’s reporting system comprises the following:

- With respect to significant risks: reports concerning:
  - The amount of each significant risk and their aggregate amount;
  - Changes in the amount of certain material risks and the impact of these changes on the capital adequacy ratio;
  - Compliance of risk levels with the established limits;
  - Notification on violated limits and relevant actions taken;
  - Information on concentration (if any).
- Results of stress testing (sensitivity of credit, interest and currency risks);
- Information on the current amount of the Bank’s equity and the capital adequacy ratio;
- Information on the Bank’s compliance with mandatory ratios;
- Report on certain indicators of ICCAP, in particular:
  - Compliance with capital limits (minimum acceptable capital adequacy ratio), actual capital adequacy level;
  - Reporting on compliance with the set capital structure; planned levels and structure of risks.

Reports are provided with the following frequency:

- Reports on the ICAAP execution results are provided to the Bank’s Management Board on a monthly basis and to the Supervisory Board – on a quarterly basis;
- Reports on stress test results are provided to the Supervisory Board and Management Board at least;
- Reports on material risks, on compliance with statutory ratios, capital amount and results of capital adequacy assessment are provided to the Supervisory Board on a quarterly basis and to the Management Board of the Bank – on a monthly basis;

Information on reaching the thresholds and non-compliance with the established limits is communicated to the Bank’s Management Board as identified.

Below is information on approaches to significant risk management not included in Notes 15.4-15.10 of these Explanatory Notes.

Reputational risk is a risk of negative perception of the Bank by its customers, counterparties, society, supervising authorities and investors, which may have an adverse effect on the Bank’s ability to maintain existing business relationships and to build up new ones, as well as to maintain access to financial resources on an ongoing basis. When estimating the economical capital and assessing the capital adequacy to cover business and operational risks, the Bank neither uses, nor accounts for the economical capital to cover the unexpected losses from the occurrence of reputational risks.

Reputational risk is a non-financial risk. It is measured on the basis of a reasonable judgment derived from the analysis of the risk occurrence factors. The Bank regularly measures its reputational risk (at least annually) as part of risk inventory carried out by the risk management function. Risk appetite to reputational risk is determined by the Group’s tolerance to such risk. Meanwhile, the Group has zero tolerance to primary reputational risks; the Group understands that the secondary reputational risks may arise as a result of the occurrence of other types of banking risks.

Reputational risk should be managed to reduce potential losses, keep and maintain the business reputation of the Bank with its customers and counterparties, the Group, participants of the financial market, governmental authorities and self-regulated organizations where the Bank holds membership.

The aim of managing the Bank's reputational risk is achieved through the application of an integrated approach, which implies solving the following tasks:

- Obtaining the most recent and unbiased information of status and size of the reputational risk;
- Identification and analysis of the reputational risk arising in the course of the Bank's activities;
- Quantitative and qualitative assessment (measurement) of the reputational risk;
- Establishing correlation among individual risks in order to assess the impact of the actions planned to be taken to limit a particular type of risk on the increase or decrease in the level of other risks;
- Establishing a reputational risk control system at a stage when negative trends arise.

Strategic and business risk

Business risk implies potential financial losses as a result of reduction in the expected income and increase in the expected expenses, that is, due to a mismatch of expected and actual indicators. Business risk consists of operating income and expenses and therefore, it depends on various factors that either directly or indirectly affect their size. Such factors include the overall situation on the market, competitiveness of the Bank, volume of current operations, etc.

Coverage by capital is required only when a business risk exceeds the expected target for the next 12 months (or when the Bank expects a loss during the next 12 months) and the risk is considered significant in the course of the annual risk inventory.

Strategic risk means a mid- or a long-term risk of the adverse effect of various factors on the achievement of goals set by the Bank; this type of risk is reviewed for a period exceeding one year. Therefore, the business risk is a component of strategic risk estimated for a short-term period. The above risks may arise as a result of:

- inability to implement the Bank's business strategy;
- Failure to take effective and timely measures to prevent significant adverse trends, deviations from the initial plans as a result of external factors (market conditions, business and political environment, etc.) or internal factors;
- Making wrong decisions in the course of managing the Bank;
- Errors in development and implementation of the Bank's business strategy.

The strategic risk is a non-financial risk. The estimate of such risk is based on a professional judgement generated from the analysis of risk factors. Such factors include:

- Unclear or unrealistic goals and objectives set for the Bank;
- Making wrong management decisions in the course of implementation of the Bank's strategy development, including those affecting the long-term perspective and causing deterioration of the Bank's financial performance;
- Incorrect/ unsubstantiated definition of the promising business lines, in which the Bank may get the competitive advantage;
- Complete or partial absence of respective organizational measures/management decisions, which may ensure achievement of the Bank's strategic goals;
- Deficiencies in managing the banking risks, high-risk credit, investment and market policies, high level of operational risk, deficiencies in the organization of internal controls, including those designed to prevent the legalization of proceeds of crime (money laundering) and financing of terrorism;
- Deficiencies of the human resource management policy in recruitment and allocation of personnel; lack of necessary qualification of the Bank employees, including for those necessary for making management decisions and the appropriate assessment of threats to the Bank development;
- Complete or partial absence of material, technical and human resources required for the implementation of strategic plans.

Regulatory risk (compliance risk) is a risk that the Bank will incur a financial loss due to a failure to comply with the Russian legislation, the Bank's internal regulations, standards of self-regulatory organizations (if such standards and rules are obligatory for the Bank) and as a result of sanctions and/or other enforcement measures taken by the supervisory authorities. The Bank believes that a compliance risk is significant die to an increased attention of the Russian and international supervisory authorities. Meanwhile, the individual coverage of compliance risk is made from the coverage intended for operational risk rather than from capital.

7.2 Credit risk

Provided below is the information on classification of assets by quality and provision for possible losses in accordance with Regulation No. 590-P of the Bank of Russia *On the Procedure for Creating Provisions for Potential Losses on Loans Receivable and Equivalent Debt by Credit Institutions* of 28 June 2017 and Regulation No. 611-P of the Bank of Russia *On the Procedure for Booking Provisions against Possible Losses by Credit Institutions* of 23 October 2017 and on the amount of restructured and overdue debt as at 1 January 2019:

Table 7.2.1a
(RUB'000)

Description	Amounts due from credit institutions	Loans receivable				Other assets
			Including loans receivable			
		Total	banks	legal entities	individuals	
Quality category I	5,885,683	**19,715,074**	8,530,236	11,184,838	–	2,581,566
Quality category II	–	**3,952,277**	–	3,952,277	–	19,045
Quality category III	–	**8,626,215**	–	8,626,162	53	45,020
Quality category IV	–	**40,000**	–	40,000	–	598
Quality category V	–	**157,119**	–	157,119	–	39,056
Total	**5,885,683**	**32,490,685**	**8,530,236**	**23,960,396**	**53**	**2,685,285**
Total estimated provision	–	**2,109,743**	–	2,109,740	3	–
Total actual provision	–	**398,663**	–	398,660	3	43,230
Receivables less actual provision for possible losses	**5,885,683**	**32,092,022**	**8,530,236**	**23,561,736**	**50**	**2,642,055**

The difference of RUB 9,400,000 thousand shown in table 5.2.1.3 on net loans receivable (RUB 32,092,022 thousand) at 1 January 2019 compared to the corresponding line in the published balance sheet – form 0409806 (RUB 42,492,022 thousand) represents the amount of deposits in the Bank of Russia.

Provided below is the information on classification of assets by quality and provision for possible losses in accordance with Regulation No. 590-P of the Bank of Russia of 28 June 2017 and Regulation No. 611-P of the Bank of Russia of 23 October 2017 and on the amount of restructured and overdue debt as at 1 January 2018:

Table 7.2.1b
(RUB'000)

Description	Amounts due from credit institutions	Loans receivable				Other assets
			Including loans receivable			
		Total	banks	legal entities	individuals	
Quality category I	1,585,131	**9,971,761**	2,592,009	7,379,752	–	1,039,596
Quality category II	–	**2,629,673**	–	2,629,673	–	7,316
Quality category III	–	**2,806,214**	–	2,804,143	2,071	5,818
Quality category IV	–	**104,236**	–	104,236	–	496
Quality category V	–	**552,128**	–	550,954	1,174	52,564
Total	**1,585,131**	**16,064,012**	**2,592,009**	**13,468,758**	**3,245**	**1,105,790**
Total estimated provision	–	**1,260,866**	–	1,259,588	1,278	–
Total actual provision	–	**643,453**	–	642,175	1,278	53,085
Receivables less actual provision for possible losses	**1,585,131**	**15,420,559**	**2,592,009**	**12,826,583**	**1,967**	**1,052,705**

The difference of RUB 6,500,000 thousand shown in table 5.2.1.4 on net loans receivable (RUB 15,420,559 thousand) at 1 January 2018 compared to the corresponding line in the published balance sheet – form 0409806 (RUB 21,920,559 thousand) represents the amount of deposits in the Bank of Russia.

Information assets exposed to credit risk at 1 January 2019 is presented in the table below:

Table 7.2.2a

(RUB'000)

Table 4.1 of Instructive Regulation No. 4482-U of the Bank of Russia

Pos.	Item	Carrying amount of credit claims (liabilities) at default	Carrying amount of credit claims (liabilities) overdue for more than 90 days	Carrying amount of credit claims (liabilities) not at default	Carrying amount of credit claims (liabilities) overdue for less than 90 days	Provisions for possible losses	Net carrying amount of assets (column 3 (4) + column 5 (6) – column 7)
1	Loans	–	157,119	–	32,441,904	402,824	**32,196,199**
2	Debt securities	–	–	–	9,798,242	–	**9,798,242**
3	Off-balance sheet positions	–	–	–	33,445,822	271,196	**33,174,626**
4	**Total**	**–**	**157,119**	**–**	**75,685,968**	**674,020**	**75,169,067**

Indicators for 2017 are not presented in table 7.2.2 as the Bank started to present such data only in 2018.

The table below presents information on credit risk mitigation methods as at 1 January 2019:

Table 7.2.3a

(RUB'000)

(Table 4.3 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Item	Carrying amount of unsecured credit claims	Carrying amount of secured credit claims		Carrying amount of credit claims secured by financial guarantees		Carrying amount of credit claims secured by credit derivatives	
			Total	including secured portion	Total	including secured portion	Total	including secured portion
1	Loans	15,246,468	**16,949,731**	15,464,047	**16,949,731**	15,464,047	**–**	–
2	Debt securities	9,798,242	**9,798,242**	–	**–**	–	**–**	–
3	Total, of which:	25,044,710	**26,747,973**	15,464,047	**16,949,731**	15,464,047	**–**	–
4	Overdue for more than 90 days	–	**–**	–	**–**	–	**–**	–

Indicators for 2017 are not presented in table 7.2.3 as the Bank started to present such data only in 2018.

7.3 Market risk

A sensitivity analysis of the Bank's net assets to the currency risk (30% growth of currency rates against ruble) calculated on the basis of open currency positions determined in accordance with the methodology described in Bank of Russia's Instruction No. 178-I (report prepared in accordance with form 0409634) is as follows:

Table 7.3.1

(RUB'000)

	01.01.2019	01.01.2018
Euro	119,500	108,031
US dollars	42,251	(17 412)
Other currencies, total	11,684	97,056

Sensitivity of the Bank's assets to a 30% decrease of exchange rates against Russia ruble will be approximate in value, but opposite in sign.

Analysis of effect the change in the interest rate risk has on the EVE of the credit institution (Banking Group) by currencies is as follows:

Sensitivity analysis of EVE to 600 b.p. (6%) increase of RUB interest rates and 100 b.p. (1%) increase of EUR and USD interest rate (scenario of parallel shift of the interest rate curve) are as follows: Sensitivity of the Bank's economic capital to a decrease of the interest rates for the same values will be approximate in value, but opposite in sign).

Sensitivity analysis at 1 January 2019:

Table 7.3.2a

(RUB'000)

	Euro	Russian rubles	US dollars	Tenge	Total
Trading portfolio	(21,017)	629,550	(2,216)	58,551	**664,868**
Bank portfolio, except for debt securities	21,774	(465,717)	4,273	(23,465)	**(463,135)**
Bank portfolio in terms of debt securities (liquidity portfolio)	–	(471,246)	–	–	**(471,246)**
Total	**757**	**(307,413)**	**2,057**	**35,086**	**(269,513)**

Sensitivity analysis at 1 January 2018:

Table 7.3.2b
(RUB'000)

	Euro	Russian rubles	US dollars	Total
Trading portfolio	15,553	242,709	(9,410)	**248,852**
Bank portfolio, except for the debt securities	(8,302)	(122,624)	(3,853)	**(134,779)**
Bank portfolio in terms of debt securities (liquidity portfolio)	–	(181,029)	–	**(181,029)**
Total	**7,251**	**(60,944)**	**(13,263)**	**(66,956)**

Sensitivity of the securities portfolio impacts the Bank's capital but not the financial result since the existing portfolio revaluation is taken to capital. Sensitivity of remaining net assets impacts both the financial result and the capital of the Bank.

7.4 Liquidity risk

Information on liquidity risk management methods, including segregation of duties, liquidity risk factors and methodology used to measure the Bank's liquidity position, liquidity risk mitigation techniques, stress-testing, accounting for liquidity risks of assets using active market quotes to manage funding risks, on emergency plan for funding risk management, liquidity risk. Control and reporting is presented in Note 15.10 of these Explanatory Notes.

As at 1 January 2019 and 2018, the Bank had no financial instruments with an option of early termination/ repayment by decision of counterparty without the Bank's consent.

The below tables present a maturity analysis of the Bank's assets and liabilities. The assets are represented only by assets of Quality Categories I and II (the latter less provision for possible losses). Other assets/ liabilities include planned interest receivable/ payable. Transactions with the value date no sooner than on the second business day after the transaction date are presented gross in nominal amounts of receivables and liabilities including planned interests. The calculation is based on the Form 0409125 methodology, including letters of credit/ guarantees, credit lines, term transactions and transaction with the value date no later than the transaction date.

Off-balance instruments are recognized considering the payment probability, including:

- On undrawn loan facilities under loan agreements for current account (overdrafts) – 20%;
- On issued letters of credit and guarantees of quality categories IV and V – 100%.

As at 1 January 2019:

Table 7.4.1
(RUB'000)

	On demand and up to 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Total
ASSETS							
Cash	31,083	–	–	–	–	–	**31,083**
Amounts of credit institutions placed with the Bank of Russia	696,442	–	–	–	–	636,224	**1,332,666**
Including obligatory reserves	36,594	–	–	–	–	636,224	**672,818**
Amounts due from credit institutions	5,865,683	–	–	–	–	20,000	**5,885,683**
Financial assets at fair value through profit or loss (*)	–	–	–	–	–	–	**–**
Net loans receivable	16,497,520	10,002,053	2,785,789	3,702,943	–	–	**32,988,305**
Net investments in securities and other financial assets available for sale	9,828,681	–	–	–	–	–	**9,828,681**
Current income tax receivable	–	–	–	–	–	202,146	**202,146**
Deferred tax asset	–	–	–	–	–	5,540	**5,540**
Premises and equipment, intangible assets and inventories	–	–	–	–	–	80,163	**80,163**
Other assets, including	2,651,198	508,151	312,729	527,011	–	47,841	**4,046,930**
Interests receivable (including coupon income)	109,860	508,151	312,729	527,011	–	–	**1,457,751**
Other liquid assets	2,541,338	–	–	–	–	47,841	**2,589,179**
Total assets	**35,570,607**	**10,510,204**	**3,098,518**	**4,229,954**	**–**	**991,914**	**54,401,197**

	On demand and up to 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Total
Receivables under derivatives and transaction with the value date after the transaction date	35,626,811	52,907,852	6,143,314	4,914,362	–	–	**99,592,339**
LIABILITIES							
Loans, deposits and other amounts due to the Bank of Russia	–	–	–	–	–	–	**–**
Amounts due to credit institutions	7,540,682	5,562,235	6,651,950	2,431,471	–	–	**22,186,338**
Amounts due to customers (non-credit institutions)	28,437,102	437,374	–	–	–	–	**28,874,476**
Including, deposits of individuals	16	–	–	–	–	–	**16**
Financial liabilities at fair value through profit or loss (*)	–	–	–	–	–	–	**–**
Debt securities issued	–	–	–	–	–	–	**–**
Current income tax liability	10,186	–	–	–	–	–	**10,186**
Deferred tax liability	–	–	–	–	–	348,069	**348,069**
Other liabilities, including	226,026	85,773	46,624	181,492	–	650	**540,565**
Interests payable	33,045	85,773	46,624	132,788	–	–	**298,230**
Other liabilities	192,981	–	–	48,704	–	650	**242,335**
Total liabilities	**36,213,996**	**6,085,382**	**6,698,574**	**2,612,963**	**–**	**348,719**	**51,959,634**
Liabilities under derivatives and transaction with the value date after the transaction date	35,599,379	52,065,028	5,840,113	5,072,033	–	–	**98,576,553**

(*) Receivables and liabilities under derivative financial instruments and transactions with the value date after the transaction date recognized at fair value are shown in respective items without discounts on planned maturities.

As at 1 January 2018:

Table 7.4.2
(RUB'000)

	On demand and up to 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Total
ASSETS							
Cash	33,918	–	–	–	–	–	**33,918**
Amounts of credit institutions placed with the Bank of Russia	4,148,238	–	–	–	–	317,878	**4,466,116**
Including obligatory reserves	12,180	–	–	–	–	317,878	**330,058**
Amounts due from credit institutions	1,565,131	–	–	–	–	20,000	**1,585,131**
Financial assets at fair value through profit or loss (*)	–	–	–	–	–	–	**–**
Net loans receivable	9,270,672	2,120,486	5,672,900	1,984,782	–	–	**19,048,840**
Net investments in securities and other financial assets available for sale	6,521,961	–	–	–	–	–	**6,521,961**
Current income tax receivable	–	–	–	–	–	151,968	**151,968**
Deferred tax asset	–	–	–	–	–	–	**–**
Premises and equipment, intangible assets and inventories	–	–	–	–	–	67,589	**67,589**
Other assets, including	1,078,104	359,433	305,821	716,223	–	11,328	**2,470,909**
Interests receivable (including coupon income)	43,867	359,433	305,821	716,223	–	–	**1,425,344**
Other liquid assets	1,034,237	–	–	–	–	11,328	**1,045,565**
Total assets	**22,618,024**	**2,479,919**	**5,978,721**	**2,701,005**	**–**	**568,763**	**34,346,432**
Receivables under derivatives and transaction with the value date after the transaction date	24,246,526	10,234,027	238,779	7,517,358	–	–	**42,236,690**
LIABILITIES							
Loans, deposits and other amounts due to the Bank of Russia	–	–	–	–	–	–	**–**
Amounts due to credit institutions	362,471	–	–	2,880,010	–	–	**3,242,481**
Amounts due to customers (non-credit institutions)	20,507,941	595,514	–	–	–	–	**21,103,455**
Including, deposits of individuals	18	–	–	–	–	–	**18**

	On demand and up to 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Total
Financial liabilities at fair value through profit or loss (*)	–	–	–	–	–	–	**–**
Debt securities issued	–	–	–	–	–	–	**–**
Current income tax liability	6,945	–	–	–	–	–	**6,945**
Deferred tax liability	–	–	–	–	–	310,031	**310,031**
Other liabilities, including	207,733	27,114	30,000	69,439	–	–	**334,286**
Interests payable	16,151	27,114	30,000	34,781	–	–	**108,046**
Other liabilities	191,582	–	–	34,658	–	–	**226,240**
Total liabilities	**21,085,090**	**622,628**	**30,000**	**2,949,449**	**–**	**310,031**	**24,997,198**
Liabilities under derivatives and transaction with the value date after the transaction date	24,383,321	9,575,344	286,926	6,924,939	–	–	**41,170,530**

(*) Receivables and liabilities under derivative financial instruments and transactions with the value date after the transaction date recognized at fair value are shown in respective items without discounts on planned maturities.

7.5 Concentration of assets, liabilities and credit-related commitments by location

The tables below show a concentration analysis of the Bank's assets, liabilities and credit-related commitments by location. The classification is made according to the country in which the counterparty is located. Information on non-resident clients, e.g. branches and representative offices of foreign companies, is presented by country in which a head office is located. Cash on hand and property and equipment have been classified according to the country in which they are physically held. Credit-related commitments (undrawn loan facilities, guarantees and letters of credit issued by the Bank) are measured in the amount of provisions for possible losses with respect to such transactions.

At 1 January 2019:

Table 7.5.1
(RUB'000)

Item	Total	Russian Federation	CIS	Developed countries	including Germany	Other countries
ASSETS						
Cash	31,083	31,083	–	–	–	–
Amounts of credit institutions placed with the Bank of Russia	1,332,666	1,332,666	–	–	–	–
Including obligatory reserves	672,818	672,818	–	–	–	–
Amounts due from credit institutions	5,885,683	40,829	63,494	5,781,360	5,781,360	–
Financial assets at fair value through profit or loss	2,398,471	39,878	–	2,358,593	2,358,593	–
Net loans receivable	41,492,022	34,631,399	330,387	6,530,236	6,530,236	–
Net investments in securities and other financial assets available for sale	9,948,090	9,948,090	–	–	–	–
Premises and equipment, intangible assets and inventories	80,163	80,163	–	–	–	–
Other assets	2,914,219	2,872,364	7,036	34,819	30,966	–
Total assets	**64,082,397**	**48,976,472**	**400,917**	**14,705,008**	**14,701,155**	**–**
LIABILITIES						
Loans from the Bank of Russia	–	–	–	–	–	–
Amounts due to credit institutions	22,186,338	–	–	22,186,338	22,043,480	–
Amounts due to customers (non-credit institutions)	28,874,476	27,401,976	–	1,472,431	1,391,549	69
Including, deposits of individuals	16	13	–	3	3	–
Financial liabilities at fair value through profit or loss	476,651	139,339	–	337,312	337,312	–
Other liabilities	612,749	568,933	–	43,816	43,605	–
Provisions for potential losses on credit related contingent liabilities, other potential losses and transactions with offshore residents	271,196	265,562	4,650	–	–	984
Total liabilities	**52,421,410**	**28,375,810**	**4,650**	**24,039,897**	**23,815,946**	**1,053**

At 1 January 2018:

Table 7.5.2
(RUB’000)

Item	Total	Russian Federation	CIS	Developed countries	including Germany	Other countries
ASSETS						
Cash	33,918	33,918	–	–	–	–
Amounts of credit institutions placed with the Bank of Russia	4,466,116	4,466,116	–	–	–	–
Including obligatory reserves	330,058	330,058	–	–	–	–
Amounts due from credit institutions	1,585,131	61,793	505	1,522,833	1,522,833	–
Financial assets at fair value through profit or loss	2,023,072	121,443	–	1,901,629	1,901,629	–
Net loans receivable	21,920,559	19,215,941	112,609	2,592,009	2,592,009	
Net investments in securities and other financial assets available for sale	6,629,855	6,629,855	–	–	–	–
Premises and equipment, intangible assets and inventories	67,589	67,589	–	–	–	–
Other assets	1,219,373	1,214,135	1,086	4,152	256	–
Total assets	**37,945,613**	**31,810,790**	**114,200**	**6,020,623**	**6,016,727**	**–**
LIABILITIES						
Amounts due to credit institutions	3,242,481	–	–	3,242,481	3,089,624	–
Amounts due to customers (non-credit institutions)	21,103,455	19,771,854		1,331,544	1,272,321	57
Including, deposits of individuals	18	15	–	3	3	–
Financial liabilities at fair value through profit or loss	621,935	36,644	–	585,291	585,291	–
Other liabilities	544,046	514,637	–	29,409	29,323	–
Provisions for potential losses on credit related contingent liabilities, other potential losses and transactions with offshore residents	275,204	259,371	–	–	–	15,833
Total liabilities	**25,787,121**	**20,582,506**	**–**	**5,188,725**	**4,976,559**	**15,890**

8. Information on capital management

The Bank designed and approved a risk management strategy which establishes main principles of risk and capital management. The governing principle of the Bank’s risk management strategy is allocation of the Bank’s risk management resources while ensuring the predetermined levels of risk acceptance and liquidity. The analysis of the risk acceptance level is a key element of overall banking operations management and the Bank’s internal capital adequacy assessment procedure (ICAAP), which is implemented by means of managing the Bank’s capital. The primary objectives of capital management are as follows: (i) to comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) to safeguard the Bank’s ability to continue as a going concern. Internal capital adequacy assessment procedures (ICAAP) comprise the procedure applied by the Bank to assess adequacy of available capital, i.e. internal capital used to cover assumed and potential risks. ICAAP also include capital planning procedures that are based on the Bank’s development strategy, business development targets and the results of a comprehensive current assessment of those risks.

In order to prevent undesirable deviations in the capital adequacy parameter, the Bank sets appropriate limits. In determining the limits, the Bank uses approaches developed by the Group taking into account local specifics. In particular, the Bank is required to comply with capital adequacy requirements set by the Bank of Russia. At the same time, prudential ratios are recorded in the Bank’s ICAAP limits system, which covers – from an economic point of view – all the risks that are relevant to the Bank. Limits represent certain boundaries that must always be complied with. There is an escalation mechanism (i.e. a procedure for passing decisions over to higher level authorities) that defines measures to be taken in case limits are breached. ICAAP limits are revised on an annual basis or when necessary in order to ensure their compliance with the Bank’s business model, willingness to accept the risk, Commerzbank Group’s directives and the regulator’s requirements. Given the above, the risk management function submits proposed limits for approval to the Bank’s Management Board and Supervisory Board.

Risk-bearing capacity is monitored by the Bank on a monthly basis. Capital available to the Bank at the reporting date and economically required capital are reconciled in the process. Commerzbank Group determines its economic risk-bearing capacity, which is based on the principle of ensuring settlement of liabilities to the Group's creditors in extraordinary circumstances; thus, risk-bearing capacity should cover very significant losses and damages. Risk-bearing capacity is managed at the Group level. Certain ICAAP limits are established for the most significant subdivisions, segments and subsidiaries of the Group. Due to the fact that "COMMERZBANK (EURASIJA)" AO is not a significant subsidiary of the Group and based on the principle of proportionality (i.e. the nature and scope of transactions carried out by the Bank, as well as the level and profile of its risks), the Bank uses a standardized approach when developing and implementing ICAAP. This approach is based on the minimum capital adequacy ratio required to cover significant risks set by the regulator, as well as an additional reserve to cover risks that are not fully recognized when determining regulatory capital requirements, for example, interest rate risk, concentration risk, business risk. At the same time, the Bank follows the above principle to assure risk-bearing capacity required by the Group. For ICAAP purposes, the Bank calculates the economically required capital on an individual basis as a separate legal entity within the Group. The Supervisory Board sets the ICAAP limit, being the general risk-bearing indicator, at 15.28%. A red flag was additionally set at 17.65% to prevent breaches of the ICAAP limit.

Information on the Bank's compliance with capital adequacy ratios is presented in Note 15.11 of these Explanatory Notes.

Information on dividends paid to the Sole shareholders is presented in Note 3.3 of these Explanatory Notes.

9. Segment information

The Bank had no placed securities, therefore no information is disclosed.

10. Information on the credit institution's related party transactions

The Bank has neither subsidiaries nor associates. The parent credit institution of the Bank is Commerzbank AG.

The Bank's related parties are the sole shareholder Commerzbank AG, its subsidiary banks and Group companies, and key management of the Bank comprising Chairman and members of the Board.

The outstanding balances with related parties as at 1 January 2019 were as follows (RUB'000):

Table 10.1.

Item	Total	Parent company (Shareholder)	Other related parties (organizations)	Key management (Board)
ASSETS				
Amounts due from credit institutions	**5,781,360**	5,781,360	–	–
Financial assets at fair value through profit or loss	**2,358,593**	2,358,593	–	–
Net loans receivable	**6,530,236**	6,530,236	–	–
Other assets	**20,632**	20,569	63	–
OFF-BALANCE SHEET ASSETS				
Claims on spot transactions and derivative financial instruments	**76,944,112**	76 944 112	–	–
Contingencies on guarantees issued by related parties to the Bank, other than counter guarantees	**32,359,883**	32,359,883	–	–
LIABILITIES				
Amounts due to credit institutions	**22,186,337**	22,046,337	140,000	–
Amounts due to customers (non-credit institutions)	**72,762**	–	72,762	–
Financial liabilities at fair value through profit or loss	**337,312**	337,312	–	–
Other liabilities	**43,718**	43,669	49	–
OFF-BALANCE SHEET LIABILITIES				
Claims on spot transactions and derivative financial instruments	**75,259,839**	75,259,839	–	–
Irrevocable credit lines	**700,000**	700,000	–	–
Guarantees issued by credit institution to third parties under instruction of related parties (counter-guarantee), including relating to counter-guarantees	**6,412,018**	6,084,511	327,507	–

The outstanding balances with related parties as at 1 January 2018 were as follows (RUB’000):

Table 10.2.

Item	Total	Parent company (Shareholder)	Other related parties (organizations)	Key management (Board)
ASSETS				
Amounts due from credit institutions	**1,522,833**	1,522,833	–	–
Financial assets at fair value through profit or loss	**1,901,629**	1,901,629	–	–
Net loans receivable	**2,592,009**	2,592,009	–	–
Other assets	**391**	269	122	–
OFF-BALANCE SHEET ASSETS				
Claims on spot transactions and derivative financial instruments	**29,352,636**	29,352,636	–	–
Contingencies on guarantees issued by related parties to the Bank, other than counter guarantees	**16,977,427**	16,977,427	–	–
LIABILITIES				
Amounts due to credit institutions	**3,242,481**	3,092,481	150,000	–
Amounts due to customers (non-credit institutions)	**124,092**	–	124,092	–
Financial liabilities at fair value through profit or loss	**585,291**	585,291	–	–
Other liabilities	**29,152**	29,081	71	–
OFF-BALANCE SHEET LIABILITIES				
Claims on spot transactions and derivative financial instruments	**27,932,670**	27,932,670	–	–
Irrevocable credit lines	**700,000**	700,000	–	–
Guarantees issued by credit institution to third parties under instruction of related parties (counter-guarantee), including relating to counter-guarantees	**5,491,293**	5,087,988	403,305	–

As of 1 January 2019 and 1 January 2018, the Bank had no:

- Overdue loans of the Bank’s related parties;
- Provisions for potential losses under the Bank’s transactions with related parties;
- Written-off bad debt receivables from the Bank’s related parties.

Below are income and expenses from transactions with related parties for 2018, in RUB’000:

Table 10.3

Item	Total	Parent company (Shareholder)	Other related parties (organizations)	Key management (Board)
Interest income	**161,849**	161,636	213	–
Interest expense	**115,221**	103,905	11,316	–
Fee and commission income	**42,741**	41,440	1,301	–
Fee and commission expenses	**70,270**	70,270	–	–
Other operating income	**108,848**	108,848	–	–
Operating expenses (*)	**566,199**	368,022	145,859	52,318

(*) Here and comparative data for the previous year: operating expenses related to key management are presented as direct costs, i.e. accrued and paid compensation, and take no account for indirect costs (insurance contributions to state funds, changes in provisions for long-term (deferred) payments, etc.).

Below are income and expenses from transactions with related parties for 2017, in RUB’000:

Table 10.4

Item	Total	Parent company (Shareholder)	Other related parties (organizations)	Key management (Board)
Interest income	**104,091**	103,678	413	–
Interest expense	**60,694**	46,733	13,961	–
Fee and commission income	**31,318**	30,819	499	–
Fee and commission expenses	**55,740**	55,740	–	–
Other operating income	**85,710**	85,710	–	–
Operating expenses	**453,713**	264,682	130,110	58,921

Operating expenses relating to key management for 2018 and respective period of 2017 differ by the amount of year-end bonuses for 2016 (see Note 6.2 of these Explanatory Notes).

Detailed information on compensation to key management (Board) is presented in Note 15.12 of these Explanatory Notes.

11. Long-term employee benefits

The Bank has no liabilities relating to long-term employee benefits, including postemployment benefits obligations, except for deferred (up to three years) portion of year-end bonuses applied to the Management Board and other risk-takers.

The table below represents information on remuneration, including long-term obligations, of executives and other risk-takers.

Table 15.12.1
RUB'000, number
(Table 12.1 of Instructive Regulation No. 4482-U of the Bank of Russia)

	2018		2017 (*)		
	Management Board	**Other risk-takers**	**Management Board**	**Other risk-takers**	**Comments**
Headcount at the reporting date, people	3	7	3	7	
Number of employees who received payments of variable component over the reporting period, people	3	7	3	7	
Termination benefits – amount, number	–	0	–	1	
Termination benefits – total amount, RUB'000	–	–	–	–	The amount is not subject to disclosure as individual data on employee benefits
Total deferred employee benefits, stating the form of payment (cash, shares or financial instruments, other), RUB'000	13,641	23,206	7,900	15,404	Data at the reporting date; payments are made only in cash
Total benefits paid in the reporting period, deferred or in installments, and subsequent adjustment, RUB'000	14,351	22,240	10,851	17,640	Includes variable components approved in the reporting period before applying deferral, but including adjustments
Total benefits in the reporting period, by type of payment, RUB'000	52,793	74,386	50,539	72,405	Cash only
fixed component	44,182	61,042	44,569	59,187	
variable component	8,611	13,344	5,970	13,218	
Deferred benefit in the reporting period, RUB'000	5,741	6,480	4,880	6,480	
Total benefit adjustment (decrease in target indicators) in the reporting period, RUB'000	6,698	12,667	11,189	7,896	Adjustments from the level corresponding to 200% performance
Total unpaid, deferred or retained benefits, RUB'000, including	–	–	–	–	
due to predetermined adjustment factors	–	–	–	–	
due to other than predetermined factors	–	–	–	–	

(*) Amounts paid for this period (January-December) of the calendar year, including year-end bonus for the previous year.

12. Share-based payments

All payments relating to variable component are made in cash; payments based on shares or other financial instruments are not applicable.

13. Business combinations

In 2018 and 2017, the Bank was not engaged into business combinations.

14. Earnings per share

The Bank is not a public issuer, therefore basic and diluted earnings per share are not calculated and disclosed in these financial statements.

15. Information on assumed risks, risk assessment procedures, and risk and capital management procedures

Information in this note is not audited.

Information in this note is disclosed in accordance with Instructive Regulation No. 4482-U of the Bank of Russia.

15.1 Information on equity (capital) structure

Information on equity (capital) structure and basic characteristics of equity instruments is presented in sections 1 and 2 of form 0409808 statement of capital adequacy to cover risks, the amount of provisions for possible losses on doubtful loans and other assets of these annual financial statements (hereinafter, the statement of capital adequacy).

The table below presents a reconciliation of balance sheet data used as inputs for section 1 of the statement of capital adequacy with equity (capital) components as at 1 January 2019:

Table 15.1.1
(RUB'000)
(Table 1.1 from Regulation 4482-U)

	Balance Sheet			**Statement of capital adequacy (Section 1)**		
No.	**Item**	**Pos. number**	**At the reporting date**	**Item**	**Pos. number**	**At the reporting date**
1	Equity of shareholders (participants), share premium (taken to common equity)	2426	3,435,271	Total share capital and share premium, including	1	3,435,271
2	Reserve fund (taken to common equity)	27	323,340	Reserve fund	3	323,340
3	Total premises and equipment, intangible assets and inventories, including	10	80,163	X	X	X
3.1	Intangible assets decreasing common equity	X	12,762	Intangible assets less deferred tax liabilities	9	12,762
4	Total deferred tax assets, including:	9	5,540	X	X	X
4.1	Deferred tax assets decreasing common equity	X	–	Deferred tax assets that depend on future profit	10	0
5	Retained earnings and revaluation of securities available for sale, including:	33, 34, 28	7,902,376	Retained earnings, including:	2.1, 46	7,894,292
5.1	Retained earnings of prior years in common equity	33	6,327,501	Retained earnings (loss)	21	6,327,501
5.2	Unutilized profit (loss) for the reporting period in supplementary capital	34	1,597,033	Unutilized profit (loss) for the reporting period	pos. 46	1,588,949
5.3	Retained earnings of prior years in supplementary capital	34	–	Retained earnings of prior years in supplementary capital	pos. 46	–
5.4	Revaluation of securities available for sale less deferred tax liabilities in supplementary capital	28	(22,158)	Unutilized profit (loss) for the reporting period related to securities available for sale and net deferred tax assets	pos. 46	(22,158)
6	X	X	X	"Other amounts decreasing additional paid-in capital"*	56	–

The table below presents a reconciliation of balance sheet data used as inputs for section 1 of the statement of capital adequacy with equity (capital) components as at 1 January 2018:

Table 15.1.2
(RUB'000)

	Balance Sheet			**Statement of capital adequacy (Section 1)**		
No.	**Item**	**Pos. number**	**As at 1 January 2018**	**Item**	**Pos. number**	**As at 1 January 2018**
1	Equity of shareholders (participants), share premium (taken to common equity)	24, 26	3,435,271	Total share capital and share premium, including	1	3,435,271
2	Reserve fund (taken to common equity)	27	323,340	Reserve fund	3	323,340
3	Total premises and equipment, intangible assets and inventories, including	10	67,589	X	X	X
3.1	Intangible assets decreasing common equity	X	6,234	Intangible assets less deferred tax liabilities	9	6,234
4	Total deferred tax assets, including:	9	–	X	X	X
4.1	Deferred tax assets decreasing common equity	X	–	Deferred tax assets that depend on future profit	10	–
5	Retained earnings and revaluation of securities available for sale, including:	33, 34, 28	8,399,881	Retained earnings, including:	2.1, 46	8,390,688
5.1	Retained earnings of prior years in common equity	33	6,980,465	Retained earnings (loss)	2.1	6,980,465
5.2	Unutilized profit (loss) for the reporting period in supplementary capital	34	1,347,035	Unutilized profit (loss) for the reporting period	pos. 46	1,337,842
5.4	Revaluation of securities available for sale less deferred tax liabilities in supplementary capital	28	72,381	Unutilized profit (loss) for the reporting period related to securities available for sale and net deferred tax assets	pos. 46	72,381
6	X	X	X	Other amounts decreasing sources of supplementary capital	56	–

Explanatory Notes to the methodology of calculating indicators for the statement of capital adequacy (form 0409808):

Risk-weighted assets in lines 60.1, 60.2 and 60.3 of Section 1 *Information on capital adequacy* are calculated as the sum of risk-weighted assets and other capital adequacy indicators in accordance with Instructive Regulation No. 180-I of 20 June 2017 of the Bank of Russia.

Current year profit in the last cell of line 5.2 in tables 15.1.1 and 15.1.2 differs from net profit in published forms – statement of financial results and balance sheet due to the use of the methodology for calculation of profit in the Bank's equity (capital) in accordance with Regulation No. 626-P of 4 June 2018 of the Bank of Russia (before 29 September 2018 – No. 395-P of 28 December 2012).

Information on objectives, policy and procedures of capital management is presented in Note 8 of the Explanatory notes to the Bank's financial statements for 2018.

Information on compliance with the capital requirements in the form of mandatory ratios is presented in Note 15.11.

At 1 January 2019, the Bank's core capital made up 87.5% of equity (capital) (1 January 2018 – 88.4%, 1 April 2018 – 87.7%, 1 July 2018 – 95.6%, 1 October 2018 – 90.1%).

Information on capital requirements relating to credit risk by type of counterparty (organizations, banks, state authorities, individual entrepreneurs, individuals) by countries, in which counterparties (baking group participants) are residents, and in which the countercyclical buffer is other than zero: no respective requirements are set.

15.2 Explanatory Note to the risk management system

Information on the risk management system is presented in Note 7.1 of the Explanatory notes to the Bank's financial statements for 2018.

15.3 Reconciliation of the data presented in the financial statements of the credit institution and the data filed by the credit institution to the Bank of Russia for control purposes

Information on the reconciliation of the items of the annual financial statements of the credit institution with regulated approaches to defining capital requirements for certain risk types is presented in the table below:

Table 15.3.1
(RUB'000)
(Table 3.1 from Regulation 4482-U)

Pos.	Item	Carrying amount of assets (liabilities) recognized in the pushed form the balance sheet in the annual financial statements of the credit institution	including: credit risk exposure	counterparty credit risk exposure	Included in securitization transactions	market risk exposure	not subject to capital requirements or deductions
1	2	3	5	6	7	8	9
Assets							
1	Cash and amounts due from Central Banks	1,363,749	19,796	–	–	–	1,343,953
2	Amounts due from credit institutions	5,885,683	5,885,683	–	–	–	–
3	Financial assets at fair value through profit or loss – derivative financial assets	2,398,471	2,398,471	2,398,471	–	2,398,471	–
4	Net investments in securities available for sale	9,948,090	298,443	–	–	–	9,649,647
5	Deposits with the Bank of Russia	9,400,000	282,000	–	–	–	9,118,000
6	Loans to credit institutions	8,530,236	8,530,236	–	–	–	–
7	Loans to legal entities other than credit institutions and individuals	23,561,786	23,561,786	–	–	–	–
8	Current and deferred tax assets	179,638	179,638	–	–	–	–
9	Other assets, premises and equipment, intangible assets and inventories	2,814,744	2,811,371	–	–	–	3,373
10	**Total assets**	**64,082,397**	**43,967,424**	**2,398,471**	**–**	**2,398,471**	**20,114,973**
Liabilities							
11	Amounts due to credit	22,186,338	–	–	–	–	22,186,338

Pos.	Item	Carrying amount of assets (liabilities) recognized in the pushed form the balance sheet in the annual financial statements of the credit institution	including: credit risk exposure	counterparty credit risk exposure	Included in securitization transactions	market risk exposure	not subject to capital requirements or deductions
1	2	3	5	6	7	8	9
	institutions						
12	Amounts due to legal entities other than credit institutions and individuals	28,874,476	–	–	–	–	28,874,476
13	Financial assets at fair value through profit or loss – derivative financial assets	476,651	–	476,651	–	476,651	–
14	Other liabilities, including deferred tax liabilities	612,749	–	–	–	–	612,749
15	**Total liabilities**	**52,150,214**	**–**	**476,651**	**–**	**476,651**	**51,673,563**

Financial assets/liabilities – derivative financial instruments (currency forwards and swaps, interest and cross-currency swaps) in lines 3 and 13 in the table above are recognized through credit risk, market risk and counterparty risk.

Information on main differences between the amount of assets (liabilities) recognized in the annual financial statements of the credit institution and the amount of receivables (liabilities) in which respect the credit institution determines capital adequacy requirements are presented in the table below:

Table 15.3.2
(RUB'000)
(Table 3.2 from Regulation 4482-U)

Pos.	Item	Total, of which:	credit risk exposure	included in securitization transactions	credit risk exposure: counterparty risk exposure	market risk exposure
1	Carrying amount of assets recognized in the published balance sheet of the annual financial statements of the credit institution (cell 3 line 10 table 3.1 of this section)	43,967,424	43,967,424	–	2,398,471	2,398,471
2	Carrying value of assets recognized in the statement of financial position in the consolidated financial statements of the banking group included in the regulated consolidation framework (cell 4 line 13 table 3.1 of this section)	–	–	–	–	–
3	Carrying amount of liabilities recognized in the published balance sheet of the annual financial statements of the credit institution (cell 3 line 15 table 3.1 of this section)	476,651	–	–	476,651	476,651
4	Carrying value of liabilities recognized in the statement of financial position in the consolidated financial statements of the banking group included in the regulated consolidation framework (cell 4 line 22 table 3.1)	–	–	–	–	–
5	Net carrying amount of assets and liabilities of the credit institution (banking group)	43,490,773	43,967,424	–	1,921,820	1,921,820
6	Cost of off-balance sheet receivables (liabilities)	33,445,822	24,787,720	–	–	–
7	Differences in estimates	–	–	–	–	–
8	Differences resulting from differences in netting rules, in addition to line 3 (4)	–	–	–	–	–
9	Differences resulting from assessing provision for possible losses	–	–	–	–	–
10	**Total receivables (liabilities) subject to capital requirements**	**76,936,595**	**68,755,144**	**–**	**1,921,820**	**1,921,820**

The table below summarizes details on encumbered and non-encumbered assets at the end of Q4 2018. Included in the encumbered assets are insurance deposits with the guarantee fund of foreign exchange and stock markets at the Moscow Exchange.

The indicators are calculated as the arithmetic average of related data at the beginning of every month of the quarter. Debt securities (line 3) are represented by Russian federal loan bonds.

Table 15.3.3a
(RUB'000)
(Table 3.3 from Regulation 4482-U)

No.	Item	Carrying amount encumbered assets		Carrying amount non-encumbered assets	
		Total	Including those related to liabilities to the Bank of Russia	Total	Including those appropriate for providing as collateral to the Bank of Russia
1	Total assets, including	**20,000**	–	**61,379,556**	8,812,174
2	equity securities, total, including	**–**	–	**–**	–
2.1	credit institutions				
2.2	legal entities other than credit institutions				
3	debt securities, total, including:	**–**	–	**8,812,174**	8,812,174
3.1	credit institutions, total, including		–	**–**	–
3.1.1	those with long-term credit ratings	**–**	–	**–**	–
3.1.2	those without long-term credit ratings	**–**	–	**–**	–
3.2	legal entities, other than credit institutions, total, including:	**–**	–	**–**	–
3.2.1	those with long-term credit ratings	**–**	–	**–**	–
3.2.2	those without long-term credit ratings	**–**	–	**–**	–
4	Amounts on correspondent accounts with credit institutions	**20,000**	–	**8,932,539**	–
5	Interbank loans (deposits)	**–**	–	**11,797,919**	–
6	Loans to legal entities, other than credit institutions	**–**	–	**23,658,611**	–
7	Loans to individuals	**–**	–	**68**	–
8	Premises and equipment	**–**	–	**65,783**	–
9	Other assets	**–**	–	**1,904,140**	–

The table below summarizes details on encumbered and non-encumbered assets at the beginning of the reporting quarter:

Table 15.3.3b
(RUB'000)

No.	Item	Carrying amount encumbered assets		Carrying amount non-encumbered assets	
		Total	Including those related to liabilities to the Bank of Russia	Total	Including those appropriate for providing as collateral to the Bank of Russia
1	Total assets, including	**20,000**	–	**59,694,590**	6,155,876
2	equity securities, total, including:	**–**	–	**–**	–
2.1	credit institutions	**–**	–	**–**	–
2.2	legal entities other than credit institutions	**–**	–	**–**	–
3	debt securities, total, including:	**–**	–	**6,155,876**	6,155,876
3.1	credit institutions, total, including	**–**	–	**–**	–
3.1.1	those with long-term credit ratings	**–**	–	**–**	–
3.1.2	those without long-term credit ratings	**–**	–	**–**	–
3.2	legal entities, other than credit institutions, total, including:	**–**	–	**–**	–
3.2.1	those with long-term credit ratings	**–**	–	**–**	–
3.2.2	those without long-term credit ratings	**–**	–	**–**	–
4	Amounts on correspondent accounts with credit institutions	**20,000**	–	**11,920,357**	–
5	Interbank loans (deposits)	**–**	–	**8,236,706**	–
6	Loans to legal entities, other than credit institutions	**–**	–	**22,425,765**	–
7	Loans to individuals	**–**	–	**122**	–
8	Premises and equipment	**–**	–	**74,506**	–
9	Other assets	**–**	–	**2,062,512**	–

The Bank balance sheet shows only encumbered assets for which the Bank still has the rights and whose related risks were not fully transferred by the Bank. In the event the Bank loses rights for encumbered assets and transfers all risks associated with such assets, the related assets are subject to writing off from the balance sheet.

In accordance with the Bank's financing model, encumbered may be only the assets associated with the securities (federal loan bonds of the Russian Federation) which can be used as a pledge and/or a subject of repurchase agreements for receiving short-term financing (RUB) from the Bank of Russia for liquidity management purposes.

Encumbered assets remained unchained during the reporting period (tables 15.3.3a and 15.3.3b).

Information of amounts and types of transactions with non-resident counterparties is presented in the table below:

Table 15.3.4
(RUB'000)
(Table 3.4 of Instructive Regulation No. 4482-U of the Bank of Russia)

		01.01.2019	01.10.2018
1	Cash on correspondent accounts with banks	5,844,854	11,261,770
2	Loans to non-resident counterparties, total, including:	6,860,623	2,660,527
2.1	Non-resident banks	6,530,236	2,295,671
2.2	Non-resident legal entities other than credit institutions	330,387	364,856
2.3	Non-resident individuals	–	–
3	Debt securities of non-resident issuers, total, including	–	–
3.1	those with long-term credit ratings	–	–
3.2	Without long-term credit ratings	–	–
4	Non-residents, total, including:	23,650,126	20,246,171
4.1	Non-resident banks	22,177,626	18,898,223
4.2	Non-resident legal entities other than credit institutions	1,472,497	1,347,945
4.3	Non-resident individuals	3	3

According to the information presented in Table 15.3.4, values in lines 1 and 4 changed most significantly during the reporting period. Such changes result from related party transactions with Commerzbank AG. The details are provided in Note 3.2 to these Explanatory Notes.

Information on geographical allocation of credit and market risks used to calculate the countercyclical buffer for capital adequacy ratios of the Bank (banking group):

There are no capital requirements for credit risk in countries, in which counterparties (baking group participants) are residents and in which the countercyclical buffer is other than zero.

15.4 Credit risk

Credit risk is the risk of financial losses that arise from the borrower's or counterparty's failure to fulfill their obligations to the Bank or downgraded credit rating of a counterparty. Credit risk is a significant measurable risk that includes credit sub-risks (the risk of a borrower's default, the counterparty risk, the issuer risk, the country risk, etc.).

Credit risk is managed in the context of the Bank's credit risk strategy. In order to ensure compliance with credit risk policy and limit risk concentration, the parameters of strategically acceptable credit product structure (including country parameters) are established, as well as target risk limits for loan portfolio components and concentration risk at the Group level. For components of loan portfolio that do not comply with the above parameters decision needs to be taken at a higher level.

The responsibility for credit risk management at the Group level lies with the GRM-CRC Department. Credit risk departments of the Commerzbank Group entities, including the Bank, are responsible for managing the respective loan portfolios by complying with the Group's internal credit policy and operating within their credit authority. The general credit risk management is performed by the Group's departments from regional level up to the Board of Directors depending on lending amounts and borrower's internal ratings.

The Bank applies the following methods of credit risk measurement and management: expert credit risk level assessment, internal rating system; forecasting of exposure at default (EAD) and loss given default (LGD); calculation of unexpected losses (usage of economic capital with confidence level of 99.95% during the period of one year).

The internal rating system is one of the most important elements of the risk management policy. The rating procedure includes both quantitative and qualitative assessment of counterparties. The final rating is assigned as a result of these procedures. The rating procedure is based on the assessment of the following indicators: the analysis of financial statements for current and prior periods (including the accounting policies), the analysis of industry and competitive position of the counterparty in this industry, the assessment of the quality of management and business reputation, the review of credit history, the assessment of turnover on the bank accounts, the analysis of risk indicators of a qualitative nature and risk mitigation factors, such as direct debit right, etc. Quasi-rating is determined at each stage of the analysis. The final internal rating is drawn from aggregation of quasi-ratings, the calculation of default probability, loss given default and exposure at default.

Internal financial rating measures the probability of default while credit rating is a measure of loss given default.

The rating procedure varies depending on the customer type: the rating procedure for corporate banking segment focuses on probability of default indicator and the detailed analysis of financial statements; the rating procedure for project and structured financing segment focuses on the analysis of expected losses and scenario simulation. The responsibility for rating assignment lies with GRM-CR and the Credit Department of the Bank.

The correlation between internal financial ratings and comparable Standard&Poor’s ratings, if any, is presented below:

Internal financial rating	1.0-1.2	1.4	1.6	1.8	2.0	2.2	2.4	2.6	2.8
S&P equivalent	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB	BBB-

Internal financial rating	3.0	3.2-3.4	3.6	3.8-4.0	4.2-4.6	4.8-5.0	5.2-5.4	5.6-5.8	>6
S&P equivalent	BB+	BB	BB-	B+	B	B-	CCC+	CCC, CC-	C,D

Direct reconciliation between the ratings is not possible, in particular, due to the fact that external ratings typically predict the expected behavior of companies over the economic cycle, while the Commerzbank Group uses point-in-time rating model, where the rating reflects current creditworthiness in terms of default probability for the next year.

Based on the existing banking group procedures and in view of the requirements of the Bank of Russia, COMMERZBANK (EURASIJA) AO has an internal credit policy document which outlines the areas of the credit policy, principles and approaches to credit risk assessment and monitoring, specifics of credit authority allocation and credit documentation standards.

Overall, risk management (credit risk, in particular) at the Bank’s level is supplemented by continuous monitoring and control over the Bank’s operations by the parent Commerzbank AG (Germany). In most cases, to begin working with new products and implement new applications, it is necessary to obtain authorization not only from the Bank’s management, but also from the parent bank, including an approval of the product by all functional divisions.

Internal reporting on risk-related matters is provided to management and the Supervisory Board on a semi-annual basis. These reports include the information about the volume of accepted risks by risk type, information about capital requirements and projected capital requirements for the foreseeable period.

Detailed information on the degree of concentration of risks associated with various banking transactions by geographical area is disclosed in Note 7.5, by currency – in Note 15.7 and by borrower and borrower’s activity (with respect to loan portfolio) – in Note 6.1.6 of these Explanatory Notes.

The Bank analyses credit risk concentration in accordance with the requirements of N6 and N7 ratios calculated in accordance with Instruction of the Bank of Russia No. 180-I.

Information about assets subject to credit risk as at 1 January 2019 is presented in accordance with Table 4.1 of Instructive Regulation No. 4482-U of the Bank of Russia in Note 7.2 of the Explanatory Notes to the Bank's financial statements for 2018. The same information as at 1 October 2018 is presented in the table.

Table 15.1.1
(thousands of Russian rubles)
(Table 4.1 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Item	Carrying amount of credit claims (liabilities) at default	Carrying amount of credit claims (liabilities) overdue for more than 90 days	Carrying amount of credit claims (liabilities) not at default	Carrying amount of credit claims (liabilities) overdue for less than 90 days	Provisions for possible losses	Net carrying amount of assets (column 3 (4) + column 5 (6) – column 7)
1	Loans		550,954		29,512,160	680,362	29,382,752
2	Debt securities		–		5,995,342	–	5,995,342
3	Off-balance sheet positions		–		31,612,569	276,770	31,335,799
4	**Total**		**550,954**		**67,120,071**	**957,132**	**66,713,893**

Information on securities, the rights to which are certified by depositories and provisions for possible losses on which are charged in accordance with Instructive Regulation No. 2732-U of the Bank of Russia of 17 November 2011 *On the Specifics of Credit Institutions' Loss Provisioning for Transactions with Securities the Rights to Which Are Certified by Depositories.*

The Bank does not perform transactions with securities through such depositories; therefore, information in accordance with Table 4.1.1 of Instructive Regulation No. 4482-U is not presented.

Information on assets and credit-related contingencies as at 1 January 2019 based on the decision of the Bank's authorized management body classified into a higher quality category than that envisaged by formal credit risk assessment criteria set out in Regulations No. 590-P and No. 611-P of the Bank of Russia is presented in the table below:

Table15.4.1.2a
(thousands of Russian rubles)
(Table 4.1.2 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Item	Total claims, RUB thousand	Provision for possible losses accrued in accordance with the minimum requirements of the Bank of Russia's Regulations No. 590-P and 611-P		Provision for possible losses accrued upon decision of an authorized body		Changes in accrued provisions	
			Percent	RUB'000	Percent	RUB'000	Percent	RUB'000
1	Claims to counterparties that show signs indicating they may not be engaged in actual operations (total), including:	**600,000**	50.00	300,000	21.00	126,000	(29.00)	(174,000)
1.1	Loans	**600,000**	50.00	300,000	21.00	126,000	(29.00)	(174,000)
2	Restructured loans	**4,068,909**	0.02	1,002	0.00	–	(0.02)	(1,002)
3	Loans issued to borrowers to repay previously issued loans	**10,915,930**	3.33	363,583	0.00	–	(3.33)	(363,583)
4	Loans used to provide loans to third parties and settle liabilities previously incurred by other borrowers (total), including:	**–**	–	–	–	–	–	–
4.1	Liabilities to the reporting credit institution	**–**	–	–	–	–	–	–
5	Loans used to purchase and/or redeem issuable securities	**–**	–	–	–	–	–	–
6	Loans used to make contributions to the share capital of other legal entities	**–**	–	–	–	–	–	–
7	Loans arising from the termination of liabilities previously incurred by a borrower under a novation or an accord and satisfaction agreement	**–**	–	–	–	–	–	–
8	Credit-related contingent liabilities to counterparties that show signs indicating they may not be engaged in actual operations	**–**	–	–	–	–	–	–

Information on assets and credit-related contingencies as at 1 October 2018 classified based on the decision of the Bank’s authorized management body into a higher quality category than that envisaged by formal credit risk assessment criteria set out in Regulations No. 590-P and No. 611-P of the Bank of Russia is presented in the table below:

Table 15.4.1.2b
(thousands of Russian rubles)

No.	Item	Total claims, RUB thousand	Provision for possible losses accrued: in accordance with the minimum requirements of the Bank of Russia’s Regulations No. 590-P and 611-P, Percent	RUB’000	upon decision of an authorized body, Percent	RUB’000	Changes in accrued provisions, Percent	RUB’000
1	Claims to counterparties that show signs indicating they may not be engaged in actual operations (total), including:	600,000	50.00	300,000	2.00	12,000	(48.00)	(288,000)
1.1	Loans	600,000	50.00	300,000	2.00	12,000	(48.00)	(288,000)
2	Restructured loans	3,593,311	0.08	2,885	0.00	–	(0.08)	(2,885)
3	Loans issued to borrowers to repay previously issued loans	10,654,242	3.61	384,196	0.00	–	(3.61)	(384,196)
4	Loans used to provide loans to third parties and settle liabilities previously incurred by other borrowers (total), including:	–	–	–	–	–	–	–
4.1	Liabilities to the reporting credit institution							
5	Loans used to purchase and/or redeem issuable securities	–	–	–	–	–	–	–
6	Loans used to make contributions to the share capital of other legal entities	–	–	–	–	–	–	–
7	Loans arising from the termination of liabilities previously incurred by a borrower under a novation or an accord and satisfaction agreement	–	–	–	–	–	–	–
8	Credit-related contingent liabilities to counterparties that show signs indicating they may not be engaged in actual operations	–	–	–	–	–	–	–

Changes in indicators in table 8.4.1.2 are due to the application of formal criteria of the Bank of Russia to determine restructuring and purpose in accordance with Regulation No. 590-P.

The table below presents information about changes in the carrying amount of loan receivables and debt securities at default (overdue for more than 90 days at the beginning and at the end of the reporting period):

Table 15.4.2
(thousands of Russian rubles)
(Table 4.2 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Item	Carrying amount of loan receivables and debt securities
1	Loan receivables and debt securities at default at the end of the prior reporting period (loan receivables and debt securities overdue for more than 90 days at the end of the prior reporting period)	550,954
2	Loan receivables and debt securities recognized to be at default during the reporting period (loan receivables and debt securities overdue for more than 90 days during the reporting period)	
3	Loan receivables and debt securities recognized not to be at default during the reporting period and recorded within assets at default as at the beginning of the reporting period (loan receivables and debt securities recognized as not overdue during the reporting period and recorded within assets overdue for more than 90 day during the reporting period)	393,835
4	Loan receivables and debt securities written off	
5	Other changes in the carrying amount of loan receivables and debt securities in the reporting period	
6	Loan receivables and debt securities at default at the end of the reporting period (loan receivables and debt securities overdue for more than 90 days at the end of the reporting period) (line 1 + line 2 – line 3 – line 4 +/- line 5)	157,119

Information on credit risk mitigation methods (Table 4.3 of Instructive Regulation No. 4482-U of the Bank of Russia) as at 1 January 2019 is presented in Note 7.2 of the Explanatory Notes to the Bank's financial statements for 2018. The same information as at 1 October 2018 is presented in the table.

Table 15.4.3

(thousands of Russian rubles)

(Table 4.3 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Item	Carrying amount of unsecured credit claims	Carrying amount of secured credit claims		Carrying amount of credit claims secured by financial guarantees		Carrying amount of credit claims secured by credit derivatives	
			Total	including secured portion	Total	including secured portion	Total	including secured portion
1	Loans	14,016,131	**15,366,621**	14,067,417	**15,366,621**	14,067,417	–	–
2	Debt securities	5,995,342	**5,995,342**	–	–	–	–	–
3	Total, of which:	20,011,473	**21,361,963**	14,067,417	**15,366,621**	14,067,417	–	–
4	Overdue for more than 90 days	–	–	–	–	–	–	–

Security instruments accepted by the Bank may not be in strict compliance with the formal requirements of the Bank of Russia to the collateral, the amount of which may reduce estimated provisions for possible losses; however, all accepted collateral irrespective of quality category performs one or several functions:

- Collection: collateral is regarded as the source of loan repayment in case of borrower's default. Enforcing rights to the collateral results in collection of the Bank's funds.
- Motivation: collateral is used as a mechanism motivating a customer to repay borrowed funds. It restricts customer's ability to use and dispose of the collateral or to enforce the rights to the collateral and thus motivates the customer to repay borrowed funds to the Bank.
- Restriction: it restricts customer's ability to increase the amount of secured borrowed funds. Documenting collateral in favor of one creditor is restricted by the necessity to execute similar deal in favor of another one. It ensures the Bank's priority among other creditors in case of borrower's default by limiting third parties' ability to collect debt not in the order of priority (if a debt is secured by a pledge of property).
- Information: monitoring and analysis of information about collateral allows the Bank to receive information on the customer's overall activities. Identification of negative factors in the customer's activities in the course of collateral control enables the Bank to prevent bad debt.

The Bank's procedure for collateral valuation, regularity of valuation for different types of collateral, fair value estimation of collateral realized or repledged, as well as existence of the Bank's obligation to return collateral are included in the internal instruction on the administration of secured transactions. Under the instruction, valuation of property accepted as collateral is a set of measures aimed at determining market value or other special value of the pledged property.

The primary objective of valuation of property accepted as collateral is timely identification and determination of qualitative and quantitative parameters of property pledged as collateral, consideration of its legal status and storage or operation conditions. All this forms the basis for the set of measures aimed to protect the Bank's interests in the area of securing loans with collateral.

Valuation of property accepted as collateral is performed before/after execution of the collateral agreement depending upon Loan Approval terms.

Pledged property is revalued at least once a year.

The Bank's assets in the amount recorded in Table 15.4.3 in line "Carrying amount of credit claims secured by financial guarantees (including secured portion)" of these Explanatory Notes are largely secured by guarantees of Commerzbank AG. In addition, there is another security for the above assets, which was accepted from the borrowers with adequate solvency position in line with the procedures effective in the Bank. Commerzbank AG's credit ratings are investment grade and their values are available on the website www.commerzbank.com and in Note 2 of these Explanatory Notes. Therefore, the Bank believes that the collateral concentration risk with respect to Commerzbank AG is acceptable.

Information on credit risk when the standardized approach is applied and on the effectiveness of credit risk mitigation tools used to determine the capital requirements as at the end of the reporting quarter is presented in the following table:

Table15.4.4a

(thousands of Russian rubles)

(Table 4.4 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Credit claim (liability) portfolio	Amount of credit claims (liabilities), RUB’000				Risk-weighted claims (liabilities), RUB’000	Credit risk concentration ratio (weight) by claim (liability) portfolio, %
		without taking into account the conversion ratio and credit risk mitigation tools		taking into account the conversion ratio and credit risk mitigation tools			
		balance sheet	off-balance sheet	balance sheet	off-balance sheet		
1	Central banks or governments of countries, including those secured with guarantees of these countries	14,598,007	–	416,823	–	416,823	1.20
2	Russian Federation constituents, municipalities and other organizations	6,117,309	–	183,520	–	183,520	0.53
3	Development banks	–	–	–	–	–	–
4	Credit institutions (except for development banks)	14,399,042	8,345,273	2,935,821	2,543,659	5,479,480	15.80
5	Professional players on the securities market engaged in securities dealing and brokerage	–	–	–	–	–	–
6	Legal entities	16,061,039	24,829,353	5,289,801	12,103,725	17,393,526	50.16
7	Retail borrowers (counterparties)	50	–	50	–	50	0.00
8	Claims (liabilities) secured by residential property	–	–	–	–	–	–
9	Claims (liabilities) secured by commercial property	–	–	–	–	–	–
10	Equity investments	–	–	–	–	–	–
11	Overdue claims (liabilities)	–	–	–	–	–	–
12	Claims (liabilities) with increased risk ratios	7,580,973	–	10,486,724	–	10,486,724	30.24
13	Other	2,925,694	–	713,600	–	713,600	2.06
14	**Total**	**61,682,114**	**33,174,626**	**20,026,339**	**14,647,384**	**34,673,723**	**100**

Indicators at the beginning of the reporting quarter:

Table 15.4.4b

(thousands of Russian rubles)

(Table 4.4 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Credit claim (liability) portfolio	Amount of credit claims (liabilities), RUB’000				Risk-weighted claims (liabilities), RUB’000	Credit risk concentration ratio (weight) by claim (liability) portfolio, %
		without taking into account the conversion ratio and credit risk mitigation tools		taking into account the conversion ratio and credit risk mitigation tools			
		balance sheet	off-balance sheet	balance sheet	off-balance sheet		
1	Central banks or governments of countries, including those secured with guarantees of these countries	8,760,597	–	482,813	–	482,813	1.35
2	Russian Federation constituents, municipalities and other organizations	6,166,403	–	369,985	–	369,985	1.03
3	Development banks	–	–	–	–	–	0.00
4	Credit institutions (except for development banks)	16,403,792	9,153,776	3,386,689	2,525,470	5,912,159	16.49
5	Professional players on the securities market engaged in securities dealing and brokerage	–	–	–	–	–	–
6	Legal entities	15,737,451	22,182,023	5,267,518	11,123,656	16,391,174	45.71
7	Retail borrowers (counterparties)	105	–	105	–	105	0.00
8	Claims (liabilities) secured by residential property	–	–	–	–	–	–
9	Claims (liabilities) secured by commercial property	–	–	–	–	–	–
10	Equity investments	–	–	–	–	–	–
11	Overdue claims (liabilities)	–	–	–	–	–	–
12	Claims (liabilities) with increased risk ratios	8,503,283	–	11,906,269	–	11,906,269	33.20
13	Other	2,417,292	–	797,415	–	797,415	2.22
14	**Total**	**57,988,923**	**31,335,799**	**22,210,794**	**13,649,126**	**35,859,920**	**100**

Credit claims (liabilities) of a credit institution (banking group) measured using the standardized approach by portfolio and risk ratio as at the end of the reporting quarter are presented in the following table:

Table 15.4.5a
(thousands of Russian rubles)
(Table 4.5 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Credit claim (liability) portfolio	Carrying amount of credit claims (liabilities) of which with risk ratio: 0%	20%	35%	50%	70%	75%	100%	110%	130%	140%	150%	170%	200%	250%	300%	600%	1250%	Other	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1	Central banks or governments of countries, including those secured with guarantees of these countries	14,181,184						416,823												**416,823**
2	Russian Federation constituents, municipalities and other organizations	5,933,789						183,520												**183,520**
3	Development banks																			
4	Credit institutions (except for development banks)	0	21,441,044					1,303,271												**5,479,480**
5	Professional players on the securities market engaged in securities dealing and brokerage																			
6	Legal entities	7,776,587	20,190,124					12,923,681												**17,393,526**
7	Retail borrowers (counterparties)							50												**50**
8	Claims (liabilities) secured by residential property																			
9	Claims (liabilities) secured by commercial property																			
10	Equity investments																			
11	Overdue claims (liabilities)																			
12	Claims (liabilities) with increased risk ratios								1,637,475	1,148,724		4,794,774								**10,486,724**
13	Other							348,586											2,577,108	**713,600**
14	**Total**	**27,891,560**	**41,631,168**	**–**	**–**	**–**	**–**	**15,175,931**	**1,637,475**	**1,148,724**	**–**	**4,794,774**	**–**	**–**	**–**	**–**	**–**	**–**	**2,577,108**	**34,673,723**

Indicators at the beginning of the reporting quarter:

Table 15.4.5b
(thousands of Russian rubles)
(Table 4.5 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Credit claim (liability) portfolio	Carrying amount of credit claims (liabilities) of which with risk ratio: 0%	20%	35%	50%	70%	75%	100%	110%	130%	140%	150%	170%	200%	250%	300%	600%	1250%	Other	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1	Central banks or governments of countries, including those secured with guarantees of these countries	8,277,784						482,813												**482,813**
2	Russian Federation constituents, municipalities and other organizations	5,796,418						369,985												**369,985**
3	Development banks																			
4	Credit institutions (except for development banks)	1,020,000	23,141,762					1,395,806												**5,912,159**
5	Professional players on the securities market engaged in securities dealing and brokerage																			
6	Legal entities	6,608,123	19,224,251					12,087,100												**16,391,174**
7	Retail borrowers (counterparties)							105												**105**
8	Claims (liabilities) secured by residential property																			
9	Claims (liabilities) secured by commercial property																			
10	Equity investments																			
11	Overdue claims (liabilities)																			
12	Claims (liabilities) with increased risk ratios								1,652,400	938,474		5,912,409								**11,906,269**
13	Other		–					461,010											1,956,282	**797,415**
14	**Total**	**21,702,325**	**42,366,013**	**–**	**–**	**–**	**–**	**14,796,819**	**1,652,400**	**938,474**	**–**	**5,912,409**	**–**	**–**	**–**	**–**	**–**	**–**	**1,956,282**	**35,859,920**

For the capital adequacy purposes, the Bank does not apply an approach based on internal ratings; therefore, it does not provide disclosures in Tables 4.6-4.8 of Instructive Regulation No. 4482-U of the Bank of Russia.

15.5 Counterparty credit risk

Pursuant to the Bank's risk strategy and the nature of operations performed, the Bank does not define counterparty credit risk as a separate significant risk. In the course of ICAAP, the credit risk component includes the amount covering the risk of change in the amount of a credit claim due to deterioration in the counterparty's credit quality calculated in accordance with Instruction No. 180-I of the Bank of Russia dated 28 June 2017. Counterparty credit risk is controlled and managed in the course of credit risk management. Information about counterparty credit risk management objectives and policies is presented in Note 15.4 of these annual financial statements.

Information on approaches used to measure counterparty credit risk as at the end of the reporting quarter is presented in the following table.

Table 15.5.1a

(thousands of Russian rubles)

(Table 5.1 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Approach	Current credit risk	Potential credit risk	Effective expected positive amount of risk	Ratio used to calculate the exposure	Exposure after the application of credit risk mitigation tools	Risk-weighted exposure to counterparty credit risk
1	Standardized approach (for derivatives)	2,398,471	1,027,066		1.4	3,425,537	770,863
2	Approach based on internal models (for derivatives and financing transactions secured by securities)						
3	Simplified standardized approach when using credit risk mitigation tools (for financing transactions secured by securities)						
4	Comprehensive standardized approach when using credit risk mitigation tools (for financing transactions secured by securities)						
5	Value at risk (VaR) (for financing transactions secured by securities)						
6	**Total**						**770,783**

Indicators at the beginning of the reporting quarter:

Table 15.5.1b

(thousands of Russian rubles)

(Table 5.1 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Approach	Current credit risk	Potential credit risk	Effective expected positive amount of risk	Ratio used to calculate the exposure	Exposure after the application of credit risk mitigation tools	Risk-weighted exposure to counterparty credit risk
1	Standardized approach (for derivatives)	2,089,649	629,332		1.4	2,718,981	937,008
2	Approach based on internal models (for derivatives and financing transactions secured by securities)						
3	Simplified standardized approach when using credit risk mitigation tools (for financing transactions secured by securities)						
4	Comprehensive standardized approach when using credit risk mitigation tools (for financing transactions secured by securities)						
5	Value at risk (VaR) (for financing transactions secured by securities)						
6	**Total**						**768,684**

The risk of changes in the amount of credit claims due to deterioration in the counterparty’s credit quality for OTC derivative transactions as at 1 January 2019 is presented in the following table:

Table15.5.2a
(thousands of Russian rubles)
(Table 5.2 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Item	Exposure after the application of credit risk mitigation tools	Risk-weighted exposure to the risk of deterioration in the counterparty’s credit quality
1	Capital requirements in accordance with advanced approach to risk measurement (total), including:		
2	Value at risk (VaR) (including 3.0 ratio)	–	–
3	Value at risk determined using the data for the crisis period (Stressed VaR) (including 3.0 ratio)	–	–
4	Capital requirements in accordance with standardized approach to risk measurement	62,684	783,546
5	**Total capital requirements with respect to claims subject to the risk of deterioration in the counterparty’s credit quality for OTC derivative transactions**	**62,684**	**783,546**

Indicators at the beginning of the reporting quarter:

Table 15.5.2b
(thousands of Russian rubles)
(Table 5.2 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Item	Exposure after the application of credit risk mitigation tools	Risk-weighted exposure to the risk of deterioration in the counterparty’s credit quality
1	Capital requirements in accordance with advanced approach to risk measurement (total), including:		
2	Value at risk (VaR) (including 3.0 ratio)	–	–
3	Value at risk determined using the data for the crisis period (Stressed VaR) (including 3.0 ratio)	–	–
4	Capital requirements in accordance with standardized approach to risk measurement	53,788	672,345
5	**Total capital requirements with respect to claims subject to the risk of deterioration in the counterparty’s credit quality for OTC derivative transactions**	**53,788**	**672,345**

Counterparty credit risk exposure by portfolio (types of counterparties) and risk ratios using the standardized approach to measure counterparty credit risk is presented in the following table:

Indicators at the end of the reporting quarter:

Table 15.5.3a
(thousands of Russian rubles)
(Table 5.3 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Portfolios (types of counterparties)	Counterparty credit risk exposure of which with risk ratio:							
		0%	20%	50%	100%	130%	150%	Other	Total
1	Central banks or governments of countries								
2	Russian Federation constituents and municipalities								
3	Development banks								
4	Credit institutions (except for development banks)		3,359,571						**3,359,571**
5	Professional players on the securities market engaged in securities dealing and brokerage								
6	Legal entities				65,966				**65,966**
7	Retail borrowers (counterparties)								
8	Other								
9	**Total**	**–**	**3,359,571**	**–**	**65,966**	**–**	**–**	**–**	**3,425,537**

Indicators at the beginning of the reporting quarter:

Table 15.5.3b
(thousands of Russian rubles)
(Table 5.3 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Portfolios (types of counterparties)	Counterparty credit risk exposure of which with risk ratio:							
		0%	20%	50%	100%	130%	150%	Other	Total
1	Central banks or governments of countries								
2	Russian Federation constituents and municipalities								
3	Development banks								
4	Credit institutions (except for development banks)		2,416,510						**2,416,510**

No.	Portfolios (types of counterparties)	Counterparty credit risk exposure of which with risk ratio: 0%	20%	50%	100%	130%	150%	Other	Total
5	Professional players on the securities market engaged in securities dealing and brokerage								
6	Legal entities				306,455				**306,455**
7	Retail borrowers (counterparties)								
8	Other								
9	**Total**	**–**	**2,416,510**	**–**	**306,455**	**–**	**–**	**–**	**2,722,965**

For the capital adequacy purposes, the Bank does not apply an approach based on internal ratings; therefore, it does not provide disclosures in Table 5.4 of Instructive Regulation No. 4482-U of the Bank of Russia.

Information per Table 5.5 of Instructive Regulation No. 4482-U ("The structure of collateral used to determine the capital requirements with respect to counterparty credit risk") is not presented due to the absence of such collateral.

The Bank does not perform transactions with credit derivatives; therefore, information per Table 5.6 of Instructive Regulation No. 4482-U ("Information on transactions with credit derivatives") is not presented.

The Bank does not perform transactions with foreign exchange derivatives; therefore, information per Table 5.8 of Instructive Regulation No. 4482-U ("Counterparty credit risk for transactions performed through the principal counterparty") is not presented.

15.6 Securitization risk

The Bank does not perform securitization transactions; therefore, information per section VI "Securitization risk" of Instructive Regulation No. 4482-U (Chapters 7-9) is not presented.

15.7 Market risk

Market risk represents a possibility of financial loss as a result of changes in current (fair) value of financial instruments and in foreign exchange rates and/or official prices for precious metals. Financial losses from changes in the fair value may have a direct effect on the total financial result, for instance, in the assessment of trading positions. Losses for the bank portfolio may be recorded through revaluation provisions or latent liabilities/provisions.

The Bank has developed a market risk management strategy that defines a framework basis aimed at maintaining resources sufficient to cover risks at the adequate level and ensuring an effective use of the Bank's equity for reaching current and forward-looking balance between profitability and risks. Therefore, the market risk management strategy establishes:

- Conditions for raising risk awareness by defining the nature of market risk, expanding the risk culture and determining risk tolerance relevant to the risk level acceptable to the Bank (risk appetite)
- Management structure that establishes clear and independent obligations to manage market risk on the basis of the three line of defense concept
- The market risk management process that combines quantitative and qualitative measures and guidelines, including methods, models and fundamental processes that determine internal procedures for the market risk management functions that ensure effective risk management. Business strategies of segments that are allowed to accept the market risk include market risk management strategies for certain segments. As the first line of defense, that business segments are owners of their positions and are responsible for risk identification and management in accordance with the existing policy and management structure.

Risk appetite for the market risk is reflected quantitatively as a tolerance to this type of risk, in the form of a comprehensive system of limits, and qualitatively through an acceptable risk structure formed by the Bank's current positions. As per the Group-wide risk strategy, the Group's market risk management committees (GRMC and SMRC) are key units responsible for control, analysis and setting of market risk limits, including the risk for counterparties and issuers, both for the entire Group and its individual branches, subsidiaries and certain segments (including the segment of Corporate Clients and the Treasury).

Due to changing market conditions and regulatory requirements, the market risk management department and business units are responsible for managing risks within established risk appetite and approved strategy. The entire risk management process, including risk mitigation measures, may be divided into two stages: pre-trading stage and post-trading stage. Pre-trading risk mitigating measures provide a clear and transparent basis for risk management, starting from the Bank's strategy up to the time of entering into an individual deal.

To maintain the set risk appetite and foster the risk attitude culture, the Bank also uses all available post-trading risk management tools. In this respect, the aims of the risk management function are determined in two directions. On the one hand, risk management units set the aim of optimizing and assessing the portfolio by analyzing the adequacy and relevance of applied processes and methods as well as by ensuring an in-depth analysis of the ways to improve the balance between risks and returns for the whole portfolio of the Bank, classes of assets and products. On the other hand, the aim is the implementation of warning indicators to identify risks and avoid their undesirable concentration at an early stage. The portfolio analysis and its further optimization highlight the regulatory function of risk management units as well as their function of risk adviser to support and formulate perspective strategies that would improve effectiveness of capital use. Risk mitigation measures are developed based on the time-to-market approach to achieve effectiveness and expected result, with adequate resources immediately considered and more complex issues escalated. These measures complement monitoring and reporting processes.

The adequate decision-making authority structure that is based on the three lines of defense concept ensures that the Bank's market risk is managed effectively:

- Business units form the first line of defense;
- Controlling units acting as the second line of defense comprise the risk management function, including the risk management function, the financial department (BUC), the compliance function and controllers of transactions on financial markets.
- The internal audit function is the only unit responsible for the third line of defense as it performs an independent analysis and review of processes and systems used to manage market risk.

The above system is supported by the Code of Conduct and ComWerte; it forms a basis of the risk culture and is in line with the main mission of the Risk Management Department – to form, to manage and to protect.

The existing organizational structure ensures an efficient management of the market risk and helps the system to combine flexibility and sustainability at each management level. The Bank has a segregation of duties, in accordance with which controlling functions, such as identification, assessment and control of the accepted market risks, are performed by the Bank's units, which are independent from units making decisions to enter into deals.

Within the Bank's market risk management structure, market risks are managed by the following bodies, with their competencies and responsibilities clearly determined:

- The Supervisory Board determines priorities for the Bank's operations, approves the main principles of the risk management strategy, determines risk appetite and sets overall maximum risk exposures.
- The Chairman of the Management Board and the Management Board of the Bank ensure conditions for an efficient realization of the risk management policy, are responsible for implementation of and compliance with internal standards in respect of market risk control, implementation of the risk management strategy set by the Supervisory Board and compliance with the Group's limits, and approve the market risk management strategy.
- The Group's market risk management department (GRM-MR) maintains the centralized control and management of market risks by setting market risk limits and implementing consistent market risk assessment and management policies and approaches for the entire Group.
- The risk management function monitors the use of set market risk limits, prepares reports on the exposure to the market risk and provides them to the Bank's executive bodies and units responsible for control and management of the market positions of the Bank.
- The internal audit function, within the scope of its authorities and responsibilities in accordance with Regulation No. 242-P of the Bank of Russia No. 242-P *Concerning Organization of Internal Control in Credit Institutions and Banking Groups* of 16 December 2003 and Instructive Regulation No. 3624-U of the Bank of Russia *Concerning Requirements for Risk and Capital Management in Credit Institutions and Banking Groups* of 15 April 2015, exercises control over compliance with set internal risk control procedures.
- The Treasury and the Department for Trading Operations on Financial Markets, as the first line of defense, are responsible for managing the market risk by active position management in order to ensure that the portfolios comply with market risk limits.
- The Risk Management Committee that reports to the Board of Directors of the Group monitors implementation of the risk management strategy, reviews internal risk management reports and controls capital adequacy for the entire Group.

Market risk management is aimed at not only compliance with the regulatory requirements, but also higher efficiency of the Bank's operations and early identification and elimination of key risks. With the developed risk culture, market risk management covers all types of market risks, ensures a comprehensive management of the entire portfolio and provides an opportunity to observe, analyze and monitor the market trends. These interactive and regular processes comprise three main phases: 1) identification and assessment, 2) risk management and mitigation and 3) risk monitoring and reporting.

For the purposes of efficient market risk management and introduction of common terminology in the Bank, bank operations are grouped into two proposed portfolios as described below:

A bank portfolio is an aggregate of financial operations, including corporate and interbank loans/deposits that were entered into with the aim of holding them on the Bank's balance sheet until mutual claims/obligations are completely settled.

A trading portfolio is an aggregate of operations with instruments of currency, money (except for interbank loans) and securities markets as well as derivatives aimed at receiving profit from changes in market prices. The trading portfolio may also include derivative transactions entered into to hedge/insure risks. Instruments included in the trading portfolio are taken into account when calculating equity within the market risk component.

Positions of the Bank's trading portfolio are mainly the responsibility of the Treasury and the Department for Trading Operations on Financial Markets. The market risk profile is diversified for all classes of assets. According to the current structure of the Bank's portfolio, the principal classes of assets are exposed to the following risk factors: interest rate risk and credit spread risk followed by currency risk.

In accordance with the Bank's current business strategy, the risk management strategy and the list of approved products (instruments) for the Bank, in 2017-18 key instruments in the Bank's trading portfolios were as follows:

- Foreign exchange deals (FX spot, FX swap, FX forward);
- Cross-currency and interest rate swaps (CCS);
- Interest rate swaps (IRS);
- Currency options;
- Purchase/sale of bonds (this type of activity is limited and is performed by the Treasury only for the purposes of managing the Bank's liquidity portfolio).

When new products are introduced into operating activity of the Bank, they are subject to the internal approval procedure. This procedure identifies potential risks specific to this particular type of operations as well as analyzes availability of a methodology to assess market risks that are taken in connection with the new operations of the Bank and whether internal systems and business processes are ready to account for and process the new type of products.

When determining capital requirements to cover the market risk, the Bank uses the standardized approach to its assessment. For these purposes, the following components are identified and calculated:

- Interest rate risk is the risk of financial loss due to adverse changes in interest rates on the Bank's assets, liabilities and off-balance sheet instruments included in the Bank's trading portfolio; the interest rate risk for the trading portfolio includes risks at two levels – general and specific;
- Equity risk is the risk of loss as a result of unfavorable changes in market prices for securities (including those that provide rights for participation in management) on the trading portfolio and derivative financial instruments due to the effect of factors related either to the issuer of securities and derivatives or general fluctuations of market prices for financial instruments;
- Commodity risk is the risk of loss as a result of unfavorable changes in commodity prices;
- Currency risk is the risk of loss as a result of unfavorable changes in the prevailing foreign exchange rates and/or prices for precious metals under the Bank's open positions in foreign currencies and/or precious metals.

Market risk exposure when using the standardized approach as at the end of the reporting quarter is presented in the following table.

Table 15.7.1a
(thousands of Russian rubles)
(Table 7.1 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Item	Risk-weighted amount
Financial instruments (except options):		
1	Interest rate risk (general or specific)	128,046
2	Equity risk (general or specific)	–
3	Currency risk	51,319
4	Commodity risk	–
Options:		
5	Simplified approach	–
6	Delta-plus method	336
7	Scenario approach	–
8	Securitization	–
9	**Total**	**2,242,057**

Indicators at the beginning of the reporting quarter:

Table 15.7.1b
(thousands of Russian rubles)
(Table 7.1 of Instructive Regulation No. 4482-U of the Bank of Russia)

No.	Item	Risk-weighted amount
Financial instruments (except options):		
1	Interest rate risk (general or specific)	107,477
2	Equity risk (general or specific)	–
3	Currency risk	50,094
4	Commodity risk	–
Options:		
5	Simplified approach	–
6	Delta-plus method	621
7	Scenario approach	–
8	Securitization	–
9	**Total**	**1,977,407**

Analysis of the sensitivity of the Bank's net assets to the currency risk as at 1 January 2019 is presented in Note 7.3 of the Explanatory Notes to the Bank's financial statements for 2018. The same information as at 1 October 2018 is presented in the table.

Table 15.7.2
(thousands of Russian rubles)

	Euro	RUB	USD	KZT	Total
Trading portfolio	(4,684)	723,410	(17,901)	7,665	**708,490**
Bank portfolio, except for the debt securities	49,427	(517,111)	5,174	(28,530)	**(491,040)**
Bank portfolio in terms of debt securities (liquidity portfolio)	–	(527,171)	–	–	**(527,171)**
Total	**44,743**	**(320,872)**	**(12,727)**	**(20,865)**	**(309,721)**

Simultaneously with the use of the standardized approach the Bank, as a Group member, uses the standard value-at-risk model (VaR) for internal market risk management purposes. The VaR model measures potential loss from a financial instrument due to changes in the market conditions within a certain time horizon and the stated probability level. The VaR market risk model of the Group is based on the historic simulation with a one-year interval of retrospective market data. The retrospective simulation distributes profit or loss from the current portfolio by revaluation of retrospective changes in the market rates, prices and volatility. This is based on the independent market information the quality of which is confirmed on a daily basis and that is loaded into the central information database in the standard specified moment of time. Market information is provided for all existing positions of Bank's asset classes, interest rates, credit spreads, foreign currencies and goods. Market information is provided for all existing positions of the Bank's asset classes, interest rates, credit spreads, foreign currencies and goods. The concept of proxy amounts is used if market information is unavailable for certain positions. In such cases prices are based on prices of comparable instruments.

For management purposes when the internal VaR model is used for risk assessment, confidence level is 97.5% and the holding period is one day. The VaR concept allows to compare the scope of accepted risks in various business areas as well as to combine positions in different types of assets taking into account the correlation between them. This provides a consolidated view on the level of market risk at any time. The complex system of limits set in the Bank is an important element of the market risk management system. All positions exposed to the market risk are allocated between the trading and bank portfolios, however all positions are managed together.

Internal models (VaR models) for risk assessment were formally approved by competent supervisory authorities of the parent bank (BaFin – Germany's Federal Financial Supervisory Authority) and in 2011 accepted to be used for the market risk analysis, determination of risk limits, risk control and management within the Group. Individual components of the internal model are regularly reviewed in terms of their relevance for the risk measurement. The review addresses underlying model assumptions, parameters and proxy amounts used. Validation (the process of model review) is performed using the priority principle and a risk-oriented approach in accordance with the plan adopted by the Group (Market Risk Model Validation Panel). The application efficiency and reliability of internal models is a mandatory subject of a review performed by the Group's internal audit function.

For the capital adequacy purposes, the Bank does not apply an approach based on internal ratings, therefore, it does not provide disclosures in accordance with Chapter 12 of Instructive Regulation No. 4482-U of the Bank of Russia.

The Bank regularly prepares reports containing the following information:

- Aggregate amount of the market risk accepted by the Bank and types of accepted markets risks (currency risk, interest rate risk, credit spread risk) calculated in accordance with the standardized approach and using VaR-analysis methodology;
- Change of the market risk and effect the above changes have on the capital adequacy;
- Level of market risk accepted by the Bank's structural units (Department for Trading Operations on Financial Markets and the Treasury);
- Use of limits allocated for the Bank's operating units;
- Facts of failure to comply with set limits and adjustment measures by the Bank's units;
- Results of stress testing (including sensitivity analysis of the bank and trading portfolios).

Independent units (the risk management function and the Market Risk Department) prepare the reports and present them as follows:

Market risk reports in terms of scope of the market risks accepted by the Bank, the use of (failures to comply with) the set limits, VaR stress testing, interest rate sensitivity analysis	On a daily basis – to the heads of structural units that accept risks and manage the Bank's positions, to the Chairman of the Bank's Management Board and Chief Financial Officer
	At least monthly – to the Management Board of the Bank
	On a quarterly basis – to the Supervisory Board
Reporting about the failure to comply with the limits	T+1: To the head of the business unit that failed to comply with the set limits and to the Chairman of the Management Board of the Bank
	T+5: To the Management Board of the Bank, to the head of the respective department of the Group to which the business unit of the Bank, which failed to comply with the established limits, reports On a quarterly basis – to the Supervisory Board and the Management Board of the Bank.

15.8 Operational risk disclosure

Operational risk means the risk of losses due to the Bank's inadequate or defective internal management procedures, failures of information or other systems or the impact of external events on the Bank's activities. Operational risk includes outsourcing risk, IT risk (including cyber security risk), legal risk, tax risk, supplier risk, as well as business processes risk and organizational risk. Reputational and strategic risks are not included in the operational risk, however, the reputational risk is closely related to the operational risk.

The Bank is part of Commerzbank AG’s CC-CI segment, and in this capacity it operates within the risk appetite range set for the CC-CI segment and relies on the applicable principles for accepting risk and resilience to risk. The Group has the Operational Risk Committee, which is the chief operating decision maker and the body defining the operational risk management strategy at the Group’s level. The Committee reports to the Board of Directors of the Group. The Committee approves approaches and methods used to assess the operational risk as well as standards and principles for the Group’s internal controls operation. The CC-CI segment has several committees whose functions include, but are not limited to operational risk management. The Bank has established the Operational Committee, which is supported by the Regional Operational Committee of the CC-CI segment.

The Group establishes a clear segregation of duties and defines the main approaches to effective management of operational risk and respective control. The Bank’s position in overall organizational structure of the Group’s operational risk management is determined by the Bank’s position as part of the CC-CI segment. The Group sets certain requirements for segments that include direct responsibility for:

- Identification of operational risk at the segment level;
- Ensuring effective and timely approach to operational risk management;
- Reporting on the identified risks to management of the segment and/or the respective committee;
- Clear documentation of decisions concerning the acceptance of risk.

Operational risk management is a part of the risk and capital adequacy management system of the Bank (ICAAP). Operational risk management is performed on a regular basis and it covers all levels and all subdivisions of the Bank. Operational risk management includes the identification of risks the Bank is exposed to, measurement of such risks, ensuring availability of a program for planning and monitoring of capital, continuous monitoring of risks and respective capital requirements, taking measures to control or mitigate risks as well as presenting operational risk reports and reports on the status of the Bank’s capital to the Supervisory Board and executive bodies of the Bank. Internal control procedures are applied on a daily basis in the course of the Bank’s operations; they are aimed at ensuring efficiency of the Bank’s performance, reliability, timeliness and completeness of the received information as well as the Bank’s compliance with the existing laws and regulations. Identification, monitoring and assessment of operational risk are closely related to one another and the difference between them is less important than achieving goals set for each of them.

The main aim and task of operational risk management is a significant decrease of possible losses from the risk. In addition, consistent improvement of the Bank’s internal controls is also vital to decrease/prevent the operational risk. Such processes include the following:

- Improvement of a system of timely identification and mitigation of the operational risk;
- Compliance with the laws governing the operational risk;
- Improvement of existing processes/procedures on the basis of identified operational risk events in order to mitigate such instances in the future;
- Analysis of new products/business lines of the Bank in order to mitigate the inherent operational risk.

In order to ensure continuous operations and to minimize losses arising from failures in banking operations, the Bank has a business continuity plan and policy, which are approved by the Bank’s management and agreed with the Operational Risk Committee of the Commerzbank Group.

Operational risk management is based on the Code of Conduct that sets obligatory minimal standards of corporate responsibility accepted within the Group and standards of business relations with customers, business partners and one another in the course of banking operations. Respect for the existing laws, regulations, industry standards and internal rules are the matters of course and, therefore, is the main aspect of the risk culture. Management of the Group and the Bank have a key role in forming a proper behavioral model. Responsible, consistent and proper behavior of management is encouraged, whereas inconsistency in management is sanctioned (consistent management principle). Operational risk management provides for the clear segregation of tasks and responsibilities thus ensuring a consistent, focused and efficient operational risk management and control.

Operational risk management is based on the three line of defense principle. Three lines of defense work simultaneously thus ensuring compliance with the internal rules and regulations. One of the most important aspects is proper interaction between operational risk management (the first line of defense), operational risk control (the second line of defense) and auditors (the third line of defense):

- Management, business units and service functions comprise the first line of defense. They perform direct identification and risk management within their responsibilities that are in line with the existing rules and standards.
- The second line of defense sets standards for managing certain risks, exercises control, ensures compliance with these standards as well as performs risk analysis and assessment.
- The third line of defense is an independent analysis and review of processes, systems and control of the Bank’s operational risk management performed by internal and external auditors. Such analysis and review cover processes of the first and the second lines of defense thus ensuring their proper execution. The third line of defense is represented only by internal audit.

Operational risk is classified as a significant risk that needs allocation of a certain portion of capital to cover it. Due to the Bank’s scale of operations and amount of assets, the Bank uses basic indicative approach to measure its operational risk. According to this approach, the operational risk is measured by the amount of loss (expected and unexpected) that should be covered by the respective amount of capital allocated to the operational risk. Operational risk is calculated in accordance with Regulation No. 652-P of the Bank of Russia *Concerning the Procedure for Calculating Operational Risk Exposure* of 3 September 2018, where operational risk is determined as a fixed percentage (15%) of annual average net interest income and net non-interest income for the last three years. Main principles of the operational risk measurement are agreed with the risk management department of the parent and are described in the risk and capital management strategy of COMMERZBANK (EURASIJA) AO approved by the Supervisory Board of the Bank.

The amount of capital requirements as regards operational risk based on the approaches used by the Bank to measure operational risk (basic indicative approach, standardized approach and advanced measurement approach) is presented in Table 7.1.2 of the Explanatory Notes to the Bank’s financial statements for 2018.

At the Group’s level, the operational risk is measured on the basis of the bottom-up and top-down analysis principles using advanced measurement approaches (“AMA”) developed by the Group in accordance with the Basel Committee recommendations (known as Basel II). The AMA method the Group uses to measure the operational risk was approved by BaFin (German supervisory authority) and was allowed for the risk measurement in the course of determining the capital adequacy of the Group. Operational risk is measured using the mathematical and statistical risk models. Based on the loss data derived from internal and external sources, economic capital and regulatory capital are determined within VaR with a one-year time horizon and a 99.91% confidence interval for the economic capital and a 99.9% confidence interval for the regulatory capital of the Group.

In the course of continuous operational risk monitoring and management, on the basis of collected information about operational risk events, the risk management function provides the following reports to the Chairman of the Bank’s Management Board and to the heads of the Bank’s structural units:

- List of operational risk events and report on incurred losses (on a quarterly basis);
- Analytical report on operational risks (at least annually).

At least semi-annually, the risk management function provides the Supervisory Board of the Bank with quarterly reports on significant risks inherent to the Bank, including the operational risk disclosures.

15.9 Disclosure of the interest rate risk of the bank portfolio

Interest rate risk is one of the most significant financial risks, which bank operations can be exposed to. In particular, it includes the risk of changes in the value of instruments resulting from interest rate fluctuations during a period of time. Both the Bank’s bank portfolio and trading portfolio are exposed to the interest rate risk. The joint position for both portfolios reflects the interest rate risk for the Bank in general.

The interest rate risk is a risk of the deterioration of the Bank’s financial position due to the decrease in equity, yield, value of the assets and liabilities as a result of interest rate fluctuations. The interest rate risk shows the sensitivity of the Bank’s financial position to unfavorable market changes, namely interest rates.

The key sources of interest rate risk may include the following:

- Mismatch of maturities of assets, liabilities, off-balance sheet claims and commitments related to instruments with fixed interest rates;
- Mismatch of maturities of assets, liabilities, off-balance sheet claims and commitments related to instruments with floating interest rates (risk of interest rate revision);
- Changes in the yield curve for long and short positions on financial instruments of the same issuer, which create the risk of losses resulting from the excess of potential expenses over income when the positions are closed (the yield curve risk);
- For financial instruments with a fixed interest rate provided that the maturity dates are the same – mismatch of the changes in interest rates on resources raised and placed by the Bank; for financial instruments with a floating interest rate provided that the periods of floating interest rates revision are the same – mismatch of the extent of interest rate changes (basis risk);
- The possibility of the Bank’s customers exercising embedded options in the financial instruments sensitive to changes in interest rates (option risk).

The interest risk management includes managing both assets and liabilities of the Bank. However, the asset management is limited by maintaining liquidity and by the level of credit risk appropriate for the Bank as well as by the price competition of other banks. Liabilities management is complicated as the selection and size of debt instruments is limited as well as due to the price competition of other banks.

The main aim of interest rate risk management is to achieve a sustainable financial result of the Bank in the course of transactions with instruments that are sensitive to the interest rate fluctuations provided that the Bank maintains liquidity and appropriate capital adequacy.

Interest rate risk of the bank portfolio is a significant risk for the Bank; management of the respective risk is incorporated into the market risk management procedures. Interest risk of the Bank’s bank portfolio mostly arises from corporate lending. The interest rate risk arises when positions formed within the portfolio are hedged partially or not hedged at all. The Treasury of the Group is responsible for managing the interest rate risk in accordance with the approved business strategy. In addition to the general positions of the Group, the Treasury also accounts for the operations of the branches and all subsidiaries of the Group. The main tasks of the Treasury include managing the structure of the balance sheet and liquidity risk. Its aim is to obtain positive interest margin from interest income and refinancing of expenses. If the Bank’s positions are not refinanced by comparable maturities and matching currencies, this gives rise to the interest rate risk.

The Group set consistent standards to ensure efficient management of the interest rate risk across all portfolios (including the Bank’s portfolios), which are sensitive to the interest rate risk. The GRM-MR department acts as a single coordinator of the interest rate risk of the bank portfolio as well as the key developer of the respective risk management policy. As it is significant for the Bank, the interest rate risk of the bank portfolio is included and reflected in internal capital adequacy assessment procedures (ICAAP) to ensure a proper level of the capital adequacy both at present and in the future.

The interest rate risk of the bank portfolio is reviewed from the perspective of the economic value estimation (hereinafter, “EVE”) and net interest income (hereinafter, “NII”).

EVE: EVE is an estimated economic value of the Bank’s capital that is treated as residual value if the Bank’s operations are discontinued. Current value is calculated by discounting of cash flows resulting from assets and liabilities of the Bank. EVE components that relate to the interest rate risk of the bank portfolio are calculated separately for each instrument, e.g., a basis spread (including foreign currency spreads), in addition to the risk-free interest rates. The commercial margin is not included in calculation of EVE as, from the economic perspective, the hedging may contradict the general aim of maintaining and managing stable margin. Therefore, the Group’s Eve calculation is based on market rates. The Bank applies a granular separation of time intervals for the cash flows and respective discount curves for the EVE calculation. EVE is one of the main factors in making business and management decisions as well as risk management decisions. From the EVE perspective, the Bank’s main aim is to maintain positive economic value and its stability. Every day the Group calculates the interest rate risk from the IR VaR perspective, which is based on historical modeling for a one-year period. IR VaR is calculated during the estimation of the value of assets exposed to the market risk (VaR). IR VaR is calculated for the bank and trading portfolios within one-week horizon and with a 97.5% confidence level (for internal reporting purposes).

NII: NII is the Bank's income for a certain time perspective. NII is determined as a difference between the gross interest income and gross interest expenses (going concern). NII components that relate to the interest rate risk of the bank portfolio include the risk-free rate, basis spreads (including currency spreads), funding spreads and interest rates, both sensitive and non-sensitive. NII assessment shows the Bank's yield from the external perspective and considers a possible change in the margin. NII covers short-term and mid-term time horizons and fixes effects from changes in interest rates on the short-term yield. The time horizon is selected in accordance with the business strategy of the Bank and planning of its finance income. NII calculation is based on the granulated separation of time intervals. The main aim of NII is to sustain high and stable income.

In the course of managing the interest rate risk, the following approaches are applied:

- Hedging: hedging against the trading books is one of traditional approaches the Commerzbank Group uses. The main focus is on changes in EVE and sensitivity to the interest rate fluctuations, whereas NII that includes net interest flows and potential risks of adverse scenarios is managed separately.
- Balance sheet structure management: the Bank extensively monitors and manages the structure of the balance sheet and, therefore, its position sensitive to the interest rate of the bank portfolio. It ensures adequate combination of assets and liabilities to determine the interest margin.
- Adjustment of models and methods: when fine-tuning models and methods, the Group constantly adjusts the models and methods it uses.

According to the Group's approaches, the Bank manages interest rate risk for trading portfolio and bank portfolio together. Such strategic approach relies on the consistent policies and global system of limits effective for the entire Group. All risks are consolidated and managed on a centralized basis. As part of the risk management function, the centralized risk management is supplemented by the risk management block for the Treasury. Interest rate risks of the bank portfolio are managed in accordance with the business strategy through the refinancing of instruments with matching maturities and currency as well as through the use of derivative financial instruments. Interest rate swaps that have sufficient market liquidity, for example, help to promptly address changes in management. However, some products with no fixed maturities, such as saving deposits or equity, are available for the Bank in the long-term perspective only. In such case, the Bank uses appropriate models to manage the interest rate risk and stabilize the profit. The Group's models are controlled and reviewed on a regular basis.

Analysis of the effect the change in the interest rate risk has on the EVE of the Bank by currencies is provided in Note 7.3 of the Explanatory Notes to the Bank's financial statements for 2018.

In the course of ICAAP, to determine the capital required to cover the interest rate risk of the bank portfolio the Bank measures its interest rate risk using a gap analysis combined with stress testing for changes in interest rate levels by 200 basis points in accordance with the Procedure for Preparing Reporting Form 0409127 *Information on Interest Rate Risk* provided in Instructive Regulation No. 4927-U of the Bank of Russia of 8 October 2018 *Concerning the List, Forms and Procedure for Preparation and Presentation of Reporting Forms of Credit Institutions to the Central Bank of the Russian Federation.* As at 1 January 2019, estimated interest rate risk amounted to RUB 246,257 thousand (1 October 2018: RUB 378,377 thousand), which is the maximum net interest income (gap) in all currencies over a one-year horizon provided that interest rate changes by 200 basic points.

The Group has established uniform control and reporting processes for the interest rate risk of the bank portfolio to ensure transparency and the availability of information to respective users, given that the interest rate risk is actively managed across the Group. At the local level, interest rate risk assessment is fully integrated in daily control procedures for assessing and monitoring the Bank's risks. The Group regularly analyzes sensitivity to interest rate risk, which is the main component for assessing the interest rate risk of the bank portfolio both from the economic perspective and profitability.

15.10 Liquidity risk disclosure

The Bank has developed a strategy for managing the liquidity risk, which is considered an integral part of the Bank's Risk Management Strategy approved by the Bank's Supervisory Board. The fundamental principle underlying the liquidity risk management strategy is to ensure the Bank's solvency at any time, which should guarantee its performance of current obligations in applicable currencies and the Bank's continuous engagement in its principal activities, subject to compliance with regulations. The secondary aim of the strategy is effective use of liquidity resources and prevention of the "conflict of interests" between liquidity and profitability when net interest income can negatively impact the security of the Bank's operations.

The Commerzbank Group defines liquidity risk as the risk of the Bank's inability to meet its payment obligations to a third party in full or in time (structural liquidity risk). Furthermore, risk exists that assets are sold in the market at a discount or in parts resulting from unfavorable economic factors (market liquidity risk). The main aim of liquidity risk management is to mitigate the risk of an unexpected increase in the cost of funding (funding risk).

In particular, the Bank identifies the following factors that have a direct impact on its structural liquidity risk:

- Term risk means the risk of differences in cash flows maturities occurring in the event of overdue repayment and (or) payment of interest.
- Prolongation risk is attributable to an unforeseen and inevitable need for the renewal of assets driven by contractual, economic or reputational factors.
- Contingency risk represents sudden or unexpected liabilities arising in connection with an increase in "liquidity cushion", or the so-called "liquidity buffer portfolio" consisting of highly liquid assets used to cover for unexpected outflow of cash in stressful situations ("liquidity buffer portfolio" or "LBP").

Based on the generally accepted definition of risk, the Group sets the following definitions of liquidity risk for the purpose of the centralized risk management for the Group as a whole:

Intraday liquidity risk

Intraday liquidity risk management is aimed to ensure the Bank's ability to discharge intraday payment obligations in full and in all currencies. Intraday liquidity risk is primarily managed through the use of a special liquidity buffer portfolio (LBP) comprising highly liquid assets, namely, securities which can be used as collateral for receiving a lombard loan from the Bank of Russia. The liquidity portfolio is managed by the Treasury. The internal LAB-model does not include intraday liquidity portfolio.

Short-term liquidity risk

Short-term liquidity risk is analyzed for a time interval of up to three months. This period is defined by the Group as the minimum stressful period during which the Bank using the LBP is capable to cover the liquidity gap resulting from an unforeseen outflow of cash (that is, in a stressful situation). It is also important to determine the extent of the possible liquidity gap caused by the unforeseen reduction of cash inflow or an increase in cash outflow. The short-term liquidity gap should be covered using an adequate liquidity buffer. Thus, in addition to the intraday liquidity portfolio, the Bank builds a LBP, which is designed for covering a liquidity gap during the established period of time defined as stressful period. The fundamental principle of the Group when building the LBP is the Bank's ability to provide necessary liquidity in a stressful situation without changing its business model at least within three months.

Structural liquidity risk

The structural liquidity risk means the Bank's potential inability to provide for future payment obligations in full and in a required currency, i.e. the Bank's inability to raise cash for discharging its mid-term and long-term obligations. The aim of managing this type of risk, including the funding risk, is to ensure consistency between cash inflows and cash outflows both by time structure and by separate currencies. The structural liquidity risk is managed through the internal LAB-model, which is based on the modeling of five levels of cash flows consistent with the Bank's expected liquidity portfolio in a normal business situation. The funding risk relates to the probability of a decrease in the Bank's profitability driven by increased expenses related to the attraction of additional funds and placement of the Bank's idle cash in low-income assets.

Market liquidity risk

The risk of market liquidity is the risk connected with inability to buy/sell assets in the market in a desirable amount or through repurchase agreements at quoted market prices or within the desirable term. In particular, this risk can materialize in the over-the-counter market (OTC), or when it is necessary to dispose of (sell) the portfolio securities in the market whose volume significantly exceeds sales volumes in the respective market. This means that large deals cannot be carried out at fair value or the market is not capable to take the desirable volume in the short-term perspective. The Group manages the market liquidity risk by controlling its assets and setting certain assumptions with respect to the discount and selling time of available assets. In this context, the materialization of risk means the Bank's declining ability to sell or finance assets using funds borrowed from professional market participants or private investors. The market liquidity risk is managed through establishing the market risk limits calculated using the VaR-model.

Model risk

The model risk is the risk arising from an incorrect understanding of complexity of the current state of affairs within the applied model. Risk factors can include both application of inadequate calculation parameters and use of incorrect assumptions concerning behavior of clients or counterparties, and incorrect portfolio segmentation. The model risk cannot be measured directly but its effect can be mitigated by model validation and establishing clear procedures to measure model parameters. In addition, due consideration is given to qualitative conservative adjustments related to concentration risk, regulatory requirements and business planning. For the purpose of model risk mitigation, any forecast assumptions are considered only with a discount.

Liquidity risk mitigation process includes four major stages, which comprise the following:

- Risk identification and assessment: identification of risk factors related to activities of all the business units of the Bank, determination of links between risk factors and assessment of their effect on the Bank's liquidity;
- Risk assessment: liquidity risk is assessed and managed based on two approaches:
  - For the purpose of compliance with regulatory requirements, mandatory liquidity ratios are constantly calculated and controlled and daily control procedures also include current liquidity ratio calculation.
  - The Group manages liquidity risk based on the internal liquidity risk assessment model (hereinafter, LAB) based on gap analysis (i.e., determining the deficit of the Bank's liquidity). The LAB model establishes an acceptable level of liquidity gap, which does not lead to violation of regulatory requirements imposed by the regulator. The LAB model uses basic and stress scenarios reflected in a multilevel system of liquidity deficit limits. Term structure of liquidity is determined on a time horizon from one day to infinity.
- The acceptable level of liquidity risk (risk appetite) of the Bank is based through selection of acceptable parameters for the internal model, determination of a minimal period for refinancing the liquidity gap arising under stress conditions and establishing upper thresholds (limits) on cash outflow.
- The structure of the Group's liquidity risk limits includes three levels of thresholds ensuring adequate liquidity structure taking into account terms of payments and currencies.
- Risk management and mitigation: management covers the risk related to daily and short-term liquidity and liquidity structure. Finance sources are diversified for certain types of instruments, countries, maturities, currencies and counterparties.
- Systemic indicators and inputs used in the LAB model serve as basis for internal transfer pricing (FTP), thus ensuring close interconnection between liquidity risk and transfer pricing method. Methodology for liquidity cost allocation (LCA) is a core component of asset and liability management since it facilitates the process of risk transfer, ensures profitability assessment and distribution of capital and stimulates performance of individual business units of the Bank.
- In order to ensure early identification of a possible liquidity crisis, the bank developed an action plan to restore liquidity, adopted early warning and monitoring indicators. The process of liquidity recovery implies clear allocation of duties, objectives and actions in case of emergency (this process is fully integrated into the action plan aimed to ensure the business continuity and (or) business recovery in case of emergencies of COMMERZBANK (EURASIJA) AO (hereinafter, the "BC/DR plan")).
- Risk monitoring and reporting: The report on current risk level also includes information on breaches of limits and escalation process initiated by Risk Management Function or the GRM-MR LR business units of the Group.
- Liquidity risk reporting covers various areas, for example, provides analysis by type of product, currency and funding sources.
- Liquidity cost allocation report is prepared by the Group's Financial Department (GM-F FTP & BSM).

The Bank segregate risk management duties as follows:

- The Bank's Supervisory Board prioritizes the Bank's activities, approves key principles of risk management strategy, determines the acceptable risk level and sets limits on the Bank's risk appetite.
- The Chairman of the Management Board and the Management Board of the Bank ensure effective implementation of risk management policy, are responsible for implementation and compliance of the business strategy and the risk management strategy with objectives and principles established by the Supervisory Board and the Group.

- The risk management function is an independent unit responsible for monitoring compliance with limits and escalation in case of the breach of the limits. The risk management function provides regular risk reports to the Bank's Management Board, Treasury and business units. At the level of the Group, GRM-MR LR Department performs risk management and control functions, which includes identification, analysis, monitoring (assessment and supervision), reporting on liquidity risk and setting respective limits, as well as launching escalation and transfer of issuer to a higher level. Additionally, the financial department reports on liquidity cost allocation and calculates mandatory liquidity ratios.
- The internal audit monitors the implementation of internal procedures developed in the Bank and related to liquidity control within its authority and duties in accordance with Regulation No. 242-P of the Bank of Russia.
- The Bank's Treasury division (hereinafter, the "Treasury") is responsible for liquidity management and compliance with mandatory liquidity ratios to ensure the Bank's effective operation when meeting payment obligations at any time. At the level of the Group, the Treasury can submit to the Group's ALCO strategic and tactical liquidity management measures within the scope of assigned authority.

The Bank's liquidity risk management relies on compliance with the concept of three lines of defense.

- The first line of defense: the Treasury and business segments involved in day-to-day risk management. The Treasury and the business segments identify risk factors, assess and promptly respond to changes in day-to-day activities related to liquidity risk management. These departments create certain conditions for risk monitoring and control.
- The second line of defense: GRM-MR LR and RMF at the local level continue the line of defense and perform controlling functions comprising the second line of defense. This defense line sets minimum risk management standards, in particular, the system of limits, implementation of basic risk management principles. This function includes supervision, which in its turn includes development and implementation of risk assessment procedures.
- The third line of defense: the third line of defense is the internal audit, which ensures independent objective assessment and improves baking transactions based on consultations. Thus, the Group's internal audit function is responsible for determining overall direction of audits that assess adequacy and relevancy of the Group's methods and processes related to liquidity risk management. The internal audit functions of the subsidiaries are responsible for assessment of compliance with certain requirements related to liquidity risk management in their respective subsidiary structures, which ensures review within the scope of the entire Group.

The assessment of liquidity risk management involves the daily liquidity gap analysis (LAB) based on multilevel assessment of cash flows (seven types of cash flows) covering an unlimited time range. Separate cash flows are generated for different future time periods to ensure effective liquidity management. The multilevel assessment implies establishing and analyzing various cash flows: cash flows arising from existing contractual obligations (balance sheet and off-balance sheet), modeled cash flows from perpetual instruments and cash flows modeled on customer behavior and types of financial instruments. The LAB model generates accumulated cash flows in Euros and separates cash flows in other currencies. The flows are modeled for the base case scenario (normal market conditions) and for several stressful scenarios. The modeling ultimately results in a predictable liquidity profile summarizing cash flows from all levels, which is the key indicator for managing the liquidity gap risk.

Risk appetite for liquidity risk is determined based on a system of quantitative indicators that combines liquidity limits and assumptions used in the scenarios, and the minimum period, during which the Bank, using the Portfolio of Reserve Liquidity, can cover the liquidity gap resulting from an unforeseen outflow of cash. Commerzbank Group applies conservative approach to determining risk appetite and assumes that key assets will be renewed, whereas keeping the sufficient buffer of liquidity to cover the potential outflow of deposits or any other financing resources.

The Bank applies the following principles to determine risk appetite for liquidity risk:

- The Bank's risk appetite represents minimal period when the Bank can guarantee an appropriate liquidity position in a stressful scenario;
- Possibility to operate in markets under partially stressful conditions, while taking into consideration restrictions on operations. This, in particular, relates to money market, capital market, repo market and foreign exchange market;
- Maximum liquidity gap has been set for stressful scenarios to be recovered using a specially created reserve to maintain a certain level of principal (credit) activity;
- Assessment covers negative impact on the liquidity profile and structure of cash flows in case the Bank's long-term credit rating is downgraded by two grades;
- Risk appetite covers the entire outflow of the volatile part of financing resources within one month;
- Credit operations are grouped into key and non-key assets. For key activities, risk appetite is set depending

on partial renewal of assets that enables the Bank to continue as a going concern under stressful conditions. For non-key types of activity, an asset can be disposed of under a crisis response plan approved by the Bank’s management;

- Partial drawdown of open credit lines.

Liquidity risk assessment is based on the conservative approach and considers stress scenarios that include adverse factors. The Group’s business model and Bank’s current business strategy are exposed to existential threats, which are reflected in the Bank’s risk management strategy as existential risks. These risks may have a significant effect on the Bank’s activities, and the Bank voluntary accepts these risks. At the same time, liquidity operational management does not consider existential threats because they are unpredictable.

The Bank has a centralized liquidity risk limitation system based on the following principles:

- Establishing a consistent multilevel limit system based on various decision-making levels at the level of the Group;
- Setting limits based on risk appetite (risk proneness) of the Group considering the going concern assumption and stress-testing scenarios;
- Existence of a standardized process for establishing limits (including requesting, submitting, monitoring and reporting, and escalation).

Limits are established based in the Group’s general policy on liquidity risk management that takes into account legal and regulatory restrictions, as well as the possibility to transfer cash within the Group and between various jurisdictions. All the established limits are subject to regular control, analysis and disclosure in risk reports.

Analysis of assets and liabilities of the Bank broken down by remaining maturities is presented in Note 7.4 of these Explanatory Notes.

With respect to calculation of short-term liquidity ratio (STLR):

The Bank is not among the credit institutions that are required to comply with the level of STLR set out by Regulation No. 510-P of the Bank of Russia of 3 December 2015. Therefore, the Bank does not disclose information of Section 3 “Information on short-term liquidity ratio” of form 0409813 and does not substantiate this ratio.

To comply with statutory requirements, the Bank calculates liquidity ratios on a daily basis. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 days;
- Long term liquidity ratio (N4), which is calculated as the ratio of non-current assets maturing with one year to long-term liabilities and equity.

Information on estimates of liquidity ratios is provided in Section 2 of form 0409813 of these annual financial statements. The Bank was in full compliance with all the mandatory liquidity ratios.

With respect to structural liquidity ratio (net stable funding ratio, NSFR):

The Bank is not among the credit institutions that are required to comply with the level of NSFR set out by Regulation No. 596-P of the Bank of Russia of 26 July 2017. Therefore, the Bank does not disclose NSFR calculation per Table 10.1 of Instructive Regulation No. 4482-U of the Bank of Russia.

Liquidity risk reports are prepared based on reliable and aggregated data, thus ensuring transparency required to effectively manage cash flows and general liquidity of the Bank. Liquidity risk reports include clear relevant information on liquidity status, which is regularly communicated to respective units. The implemented procedures for continuous monitoring ensure identification of negative trends and potential threats to liquidity on an early stage and helps prevent the liquidity gap from widening to critical proportions. In addition, liquidity risk reports are an integral part of the established process of risk and capital management applied to model cash flows and directly when managing liquidity.

Liquidity risk management function of the Group (GRM-MR LR) oversees the preparation of consolidated liquidity reports of the Group. The reports provide the basis for management, assessment and analysis of liquidity and liquidity risk control. Liquidity risk reports are prepared both at the level of the Group and individually for all members of the Group. The risk management function controls the use of liquidity limits established for the Bank on a daily basis. The use of limits is daily reported to the Bank’s management and subdivisions responsible for liquidity management: the Bank’s Treasury, GRM-MR LR, members of the Management Board. Information disclosed in liquidity risk reports focuses on the level of the Bank’s exposure to liquidity risk, compliance with liquidity limits based on LAB model. Additionally, the Bank prepares monthly liquidity profiles submitted to the Bank’s Management Board and containing information on current liquidity status of the Bank, analysis of the financing structure and mandatory liquidity ratios. The reports are prepared using an application developed by the Group for liquidity risk analysis (ComARA and Active Pivot) that presents cash flows by separate product, segment and currency.

7.1. Financial leverage and mandatory ratios

Information on the estimated financial leverage ratio and its components is presented in section 4 of Form 0409808 and section 2 of Form 0409813 included in these annual financial statements. Information on the mandatory ratios is presented in section 1 of Form 0409813 included in these annual financial statements.

As regards mandatory ratios:

During the reporting period, the Bank complied with the requirements to mandatory ratios in accordance with Instruction of the Bank of Russia No. 180-I *Concerning Mandatory Ratios for Banks* of 28 June 2017. Capital adequacy and liquidity ratios are high, whereas long-term liquidity ratios and maximum exposure to large credit risks are significantly lower than the limits established by the Bank of Russia (maximum values).

The Bank calculates all mandatory ratios using official exchange rates of the Bank of Russia effective at the reporting date.

As regards the financial leverage ratio and the respective methodology:

The financial leverage ratio is calculated in accordance with the methodology used to calculate N1.4 ratio (financial leverage ratio) set out in Instruction No. 180-I of the Bank of Russia of 28 June 2017.

In Q4 2018, financial leverage ratio decreased by 2.1% (from 13.3% to 11.2%), which was attributable to a growth in assets used to calculate the ratio, which, in its turn, was driven by an increase in the Bank’s balance sheet assets.

As at 1 January 2019, the difference between the amount of assets determined in accordance with the balance sheet and the amount of assets used to calculate the financial leverage ratio was RUB 3,078,641 thousand and comprised the fair value of derivative financial instruments representing an asset in the amount of RUB 2,398,471 thousand and other differences related to the calculation methodology in the amount of RUB 680,170 thousand.

7.2. Information on the compensation system of the credit institution

Information on the special body of the credit institution responsible for compensation

The Bank’s Supervisory Board annually resolves issues related to the structure, monitoring and control of the Bank’s compensation system, assesses its compliance with the Bank’s strategy, nature and scale of transactions, the Bank’s performance, level and structure of assumed risks. The Remuneration Committee was set up under the Supervisory Board to draft decisions to address compensation issues. The Chairman of the Supervisory Board is a member of the Remuneration Committee. Other members of the Committee are elected by members of the Supervisory Board by a majority vote, and their number shall not be less than 2 (two). The Chairman of the Remuneration Committee is elected from its members by the members of the Supervisory Board by a majority vote. Members of the Remuneration Committee have necessary experience and expertise in managing bank risks and developing compensation plans. The Remuneration Committee’s activity (including frequency of its meetings) is governed by the Regulations on the Remuneration Committee approved by the Bank’s Supervisory Board. No compensation was paid to the members of the Remuneration Committee and Supervisory Board.

Independent assessment of the compensation system

The Bank did not perform any independent assessments of the compensation system.

Scope of the compensation system

The Bank’s compensation system covers all employees in all units, including its branch in Saint Petersburg.

Key performance indicators and objectives of the compensation system

According to the Bank’s compensation strategy approved by the Supervisory Board, the Bank’s compensation system is designed to achieve the following objectives: 1) motivate the Bank’s employees to pursue short-term and long-term goals of the Bank and the Commerzbank Group in view of the focused growth strategy, cost control, capital optimization, compliance culture improvement in the Bank; 2) set up attractive environment for recruiting best employees in the labor market; 3) provide the required level of employee motivation in the environment where there are no drivers for accepting unreasonable risks.

Key indicators used in the Bank’s compensation system are as follows: fixed and variable compensation ratio; bonus target. Key efficiency indicators used to assess performance of the Bank’s and/or its structural units are as follows: EVA (economic value added), RoE (return on equity used to cover accepted risks), net profit, RWA (risk-weighted assets), CIR (cost and income ratio), operational, market risk to revenue ratio, provisions for possible losses and the dynamics of such indicators considering the effect of external economic factors.

Compensation system in internal control and risk management units

Compensation for employees of internal control and risk management units (the “controlling units”) is based on the Bank’s general compensation principles considering the restrictions imposed by Regulation No.154-I of the Bank of Russia, including a limitation of the variable component in the total compensation of each employee in this category. The amount of controlling units’ compensation does not depend on the financial result of the units that accept risks. This is achieved through organizational and management measures to segregate reporting lines and budgets for controlling units’ compensation and reporting lines and budgets for compensation of employees of the units that accept risks.

Description of risk accounting methods, Bank’s performance assessment, adjustment of variable compensation component

The Bank uses key performance indicators stated in Note 1.4 as an analytical basis to decide on variable compensation payment considering quantitative and qualitative indicators of the Bank’s performance, i.e. level and correlation of assumed risks. The total integral performance indicator is measured from 0 to 200%. Performance of risk-takers is measured over a period of three years, while other employees – over a calendar year.

If actual performance deviates from targets, the variable part of compensation is adjusted. If the Bank’s risks are:

- Within the acceptable level, no additional special adjustment to the variable part of compensation is required;
- Beyond the acceptable level, the Bank’s Supervisory Board may additionally adjust the variable part of compensation depending on the amount and nature of such deviations.

In the reporting period, the Bank’s risks were within the acceptable level and no additional adjustments to the variable part of compensation were made.

The parameters of bonus target adjustment are determined based on a liner dependence between the Bank’s integral performance and variable compensation budgets. In accordance with the specified model, the Bank’s performance for 2018 was assessed at 79% on a scale of 0 to 200% (2017: 115%).

Form of variable compensation payment

All payments relating to variable component are made in cash; remuneration plans based on shares or other financial instruments are not applicable.

Remuneration for executives and other risk-takers

Information on remuneration for executives and other risk-takers in accordance with table 12.1 from Instructive Regulation No. 4482-U of the Bank of Russia is presented in Note 11 of the Explanatory Notes to the financial statements of the Bank for 2018.

The Bank's compensation system does not provide for hiring incentives and guaranteed bonuses.

Acting Chairman of the Management Board A.V. Mosyagin

Chief Accountant A.A. Gorokhovsky

29 April 2019

COMMERZBANK (EURASIA) AO

Kadashevskaya nab, 14/2
119017 Moscow

Tel. +7 495 797-4800
Fax +7 495 797-4827

www.commerzbank.ru