

Independent auditor's report  
on the annual financial statements of  
**"COMMERZBANK (EURASIJA)" AO**  
for 2019

*April 2020*

**Translation of the original Russian version**

**Independent auditor's report  
on the annual financial statements of  
"COMMERZBANK (EURASIJA)" AO**

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**Translation of the original Russian version**

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**Independent auditor's report**  
**Translation of the original Russian version**

To the Shareholder and Supervisory Board  
of "COMMERZBANK (EURASIJA)" AO

**Report on the audit of the annual financial statements**

***Opinion***

We have audited the annual financial statements of "COMMERZBANK (EURASIJA)" AO (hereinafter, the "Bank"), which comprise the balance sheet (published form) for 2019, statement of financial results (published form) for 2019 and appendices to the balance sheet and statement of financial results including report on capital adequacy to cover the risks (published form) as at 1 January 2020, statement of changes in equity of the credit institution (published form) as at 1 January 2020, information on mandatory ratios, financial leverage ratio and short-term liquidity ratio (published form) as at 1 January 2020, statement of cash flows (published form) as at 1 January 2020 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 2019 and its financial performance and its cash flows for 2019 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 (including International Independence Standards) (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.

## **Translation of the original Russian version**

### ***Responsibilities of management and 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 annual financial statements established in the Russian Federation, and for such internal control as management determines is necessary to enable the preparation of 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.

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

### ***Auditor's responsibilities for the audit of the annual 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 ISAs, 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.

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We communicate with 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 Activities of 2 December 1990**

Management of the Bank is responsible for the compliance of the Bank with the mandatory prudential ratios established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia"), and for the conformity of internal control and organization of the risk management systems of the 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 2019, we determined:

- 1) Whether the Bank complied as at 1 January 2020 with the obligatory ratios established by the Bank of Russia;
- 2) Whether internal control and organization of the risk management systems of the 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.

## **Translation of the original Russian version**

### ***Compliance by the Bank with the obligatory ratios established by the Bank of Russia***

We found that the values of the obligatory ratios of the Bank as of 1 January 2020 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 2019 the Bank's internal audit division was subordinated and accountable to the Supervisory Board, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- ▶ We found that the Bank's internal documents effective as at 31 December 2019 that establish the methodologies for detecting and managing credit, market, operational, 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 2019, 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 2019 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 2019, 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 2019, the Supervisory Board and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division and measures suggested to address the findings.

## **Translation of the original Russian version**

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.

A.F. LAPINA  
Partner  
Ernst & Young LLC

30 April 2020

### ***Details of the audited entity***

Name: "COMMERZBANK (EURASIJA)" AO  
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-regulatory organization of auditors Association "Sodruzhestvo".  
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Translation of the original Russian version

“COMMERZBANK (EURASIJA)” AO

**COMMERZBANK**   
Group

# ANNUAL FINANCIAL STATEMENTS OF “COMMERZBANK (EURASIJA)” AO

As at 1 January 2020



# Translation of the original Russian version

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

# BALANCE SHEET

## (published form)

**For 2019**

Name of credit organization **COMMERZBANK (EURASIJA), joint-stock company**  
**"COMMERZBANK (EURASIJA)" AO**

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

OKUD Form Code 0409806  
 Quarterly (Annual)  
 RUB'000

Line	Item	Note	At the reporting date	At the beginning of the reporting year
<b>I. ASSETS</b>				
1	Cash	6.1.1.	25,576	31,083
2	Accounts with the Central Bank of the Russian Federation		2,631,350	1,332,666
2.1	Mandatory reserves		612,858	672,818
3	Amounts due from credit institutions		15,642,109	5,885,683
4	Financial assets at fair value through profit or loss	3.2., 6.1.2	2,250,449	2,398,471
5	Net loans receivable at amortized cost	3.2., 6.1.7	27,453,103	0
5a	Net loans receivable	3.2., 6.1.7	0	41,599,473
6	Net investments in financial assets at fair value through profit or loss	6.1.3.	8,339,871	0
6a	Net investments in securities and other financial assets available for sale	6.1.3	0	9,948,090
7	Net investments in securities and other financial assets at amortized cost (except for loans)		0	0
7a	Net investments in securities held to maturity		0	0
8	Investments in subsidiaries and associates		0	0
9	Current income tax receivable		168,034	202,146
10	Deferred tax asset		119,081	5,540
11	Premises and equipment, intangible assets and inventories	6.1.14, 6.1.17	63,093	80,163
12	Non-current assets held for sale		0	0
13	Other assets	6.1.18	2,173,156	2,598,880
<b>14</b>	<b>Total assets</b>		<b>58,865,822</b>	<b>64,082,195</b>

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Annual financial statements of "COMMERZBANK (EURASIJA)" AO as at 1 January 2020

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Line	Item	Note	At the reporting date	At the beginning of the reporting year
<b>II. LIABILITIES</b>				
15	Loans, deposits and other amounts due to the Central Bank of the Russian Federation		0	0
16	Amounts due to customers at amortized cost		45,935,435	51,083,159
16.1	Amounts due to credit institutions	6.1.19	9,586,984	22,200,169
16.2	Amounts due to customers other than credit institutions	6.1.20	36,348,451	28,882,990
16.2.1	Deposits of (amounts due to) individuals, including individual entrepreneurs		14	16
17	Financial liabilities at fair value through profit or loss	6.1.2	1,188,496	476,651
17.1	Deposits of (amounts due to) individuals, including individual entrepreneurs		0	0
18	Debt securities issued		0	0
18.1	At amortized cost through profit or loss		0	0
18.2	At amortized cost		0	0
19	Current income tax liability		41,771	10,186
20	Deferred tax liabilities		18,404	348,069
21	Other liabilities	6.1.25	277,699	231,947
22	Provisions for possible losses on credit-related commitments, other possible losses and transactions with offshore residents	6.1.26	15,819	271,196
<b>23</b>	<b>Total liabilities</b>		<b>47,477,624</b>	<b>52,421,208</b>
<b>III. EQUITY</b>				
24	Equity of shareholders		2,155,600	2,155,600
25	Treasury shares		0	0
26	Share premium		1,279,671	1,279,671
27	Reserve fund		323,340	323,340
28	Fair value remeasurement of financial assets at fair value through other comprehensive income, less deferred tax liability (plus deferred tax asset)		73,618	(22,158)
29	Revaluation of premises and equipment and intangible assets, less deferred tax liability		0	0
30	Revaluation of liabilities (assets) on long-term benefit payments		0	0
31	Revaluation of hedging instruments		0	0
32	Cash from debt-free financing (contributions to assets)		0	0
33	Change in fair value of financial liability due to changes in credit risk		0	0
34	Provisions for expected credit losses		6,933	0
35	Unutilized profit (loss)		7,549,036	7,924,534
<b>36</b>	<b>Total equity</b>		<b>11,388,198</b>	<b>11,660,987</b>

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Annual financial statements of "COMMERZBANK (EURASIJA)" AO as at 1 January 2020

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Line	Item	Note	At the reporting date	At the beginning of the reporting year
<b>IV. OFF-BALANCE SHEET LIABILITIES</b>				
37	Irrevocable commitments of the credit institution	6.1.26	105,247,648	109,735,502
38	Guarantees and sureties issued by the credit institution	6.1.26	27,077,846	24,695,904
39	Contingent non-credit liabilities		0	0

Chairman of the Management Board

M. Roscher

Chief Accountant

A. Gorokhovsky

30 April 2020

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Annual financial statements of "COMMERZBANK (EURASIJA)" AO as at 1 January 2020

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Territory code	Code of credit institution (branch)	
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45286596	18680159	3333

# STATEMENT OF FINANCIAL RESULTS

## (published form)

for 2019

Name of credit organization **COMMERZBANK (EURASIJA), joint-stock company**  
**"COMMERZBANK (EURASIJA)" AO**

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

OKUD Form Code 0409807

Quarterly (Annual)

RUB'000

### Section 1. Statement of profit or loss

Line	Item	Note	Reporting period	Previous reporting period
1	Total interest income, including:	3.2	1,993,906	1,826,295
1.1	From placements with credit institutions		238,260	418,853
1.2	From loans to customers other than credit institutions		1,147,545	913,595
1.3	From financial leases		0	0
1.4	From investments in securities		608,101	493,847
2	Total interest expense, including:		772,851	383,398
2.1	On amounts due to credit institutions		196,393	116,401
2.2	On amounts due to customers other than credit institutions		576,458	266,997
2.3	On securities issued		0	0
3	Net interest income (negative interest margin)		1,221,055	1,442,897
4	Total change in provision for possible losses and provision for expected credit losses on loans and similar debt, amounts placed on correspondent accounts, and interest income accrued, including:	3.2, 6.2	414,639	241,166
4.1	Change in provision for possible losses and provision for expected credit losses on accrued interest income	6.2	34,876	(3,625)
5	Net interest income (negative interest margin) after provision for possible losses		1,635,694	1,684,063
6	Net income from financial assets at fair value through profit or loss	3.2	(1,625,220)	626,175
7	Net income from financial liabilities at fair value through profit or loss		0	0
8	Net income from securities at fair value through other comprehensive income		(539)	
8a	Net income from securities available for sale	3.2		(119)
9	Net income from securities at amortized cost		0	
9a	Net income from securities held to maturity			0
10	Net income from dealing in foreign currencies	3.2	2,213,709	(1,404,706)
11	Net income from foreign currency translation	3.2	(152,743)	1,879,726
12	Net income from trading in precious metals		0	0
13	Income from participation in equity of other legal entities		0	0
14	Fee and commission income	3.2, 6.2	586,936	588,812
15	Fee and commission expense	3.2, 6.2	155,600	118,112
16	Change in provision for possible losses and provision for expected credit losses on securities at fair value through other comprehensive income		(6,933)	
16a	Change in provision for possible losses on securities available for sale			0
17	Change in provision for possible losses and provision for expected credit losses on securities at amortized cost		0	

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Annual financial statements of "COMMERZBANK (EURASIJA)" AO as at 1 January 2020

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Line	Item	Note	Reporting period	Previous reporting period
17a	Changes in provision for possible losses on securities held to maturity			0
18	Change in provision for other losses	3.2, 6.2	225,606	17,488
19	Other operating income		218,201	151,548
20	Net income (expense)	3.2	2,939,111	3,424,875
21	Operating expenses	3.2, 6.1.16	1,530,054	1,470,470
<b>22</b>	<b>Profit (loss) before tax</b>	<b>6.2</b>	<b>1,409,057</b>	<b>1,954,405</b>
23	Tax credit (expense)	6.2	284,554	357,372
24	Profit (loss) from continuing operations		1,124,503	1,597,033
25	Profit (loss) from discontinued operations		0	0
<b>26</b>	<b>Profit (loss) for the reporting period</b>	<b>6.2</b>	<b>1,124,503</b>	<b>1,597,033</b>

### Section 2. Other comprehensive income

Line	Item	Note	Reporting period	Previous reporting period
<b>1</b>	<b>Profit (loss) for the reporting period</b>	<b>6.2</b>	<b>1,124,503</b>	<b>1,597,033</b>
2	Other comprehensive income (loss)		X	X
3	Items not to be reclassified to profit or loss, total, including:		0	0
3.1	Change in revaluation reserve for premises and equipment and intangible assets		0	0
3.2	Change in revaluation reserve for post-employment benefit liabilities (assets) under defined benefit plans		0	0
4	Income tax relating to items not to be reclassified to profit or loss		0	0
5	Other comprehensive income (loss) not to be reclassified to profit or loss, less income tax		0	0
6	Items to be reclassified to profit or loss, total, including:		126,653	(118,174)
6.1	Change in revaluation reserve for financial assets at fair value through other comprehensive income		126,653	
6.1a	Change in revaluation reserve for financial assets available for sale			(118,174)
6.2	Change in revaluation reserve for financial assets at fair value through profit or loss		0	
6.3	Change in cash flow hedge reserve		0	0
7	Income tax relating to items to be reclassified to profit or loss		23,944	(23,635)
8	Other comprehensive income (loss) to be reclassified to profit or loss, less income tax		102,709	(94,539)
9	Other comprehensive income (loss), less income tax		<b>102,709</b>	<b>(94,539)</b>
<b>10</b>	<b>Financial result for the reporting period</b>		<b>1,227,212</b>	<b>1,502,494</b>

Chairman of the Management Board

M. Roscher

Chief Accountant

A. Gorokhovskiy

30 April 2020

## Translation of the original Russian version

Annual financial statements of "COMMERZBANK (EURASIJA)" AO as at 1 January 2020

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

# REPORT ON CAPITAL ADEQUACY TO COVER THE RISKS

## (published form)

As at 1 January 2020

Name of credit organization **COMMERZBANK (EURASIJA), joint-stock company**  
**"COMMERZBANK (EURASIJA)" AO**

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

OKUD Form Code 0409808

Quarterly (Annual)

### Section 1. Capital adequacy

Line	Instrument (item)	Note	Value of instrument (amount of item) at the reporting date	Value of instrument (amount of item) at the beginning of the reporting year	Item of balance sheet (published form) used to prepare statement of capital adequacy
<b>Common equity Tier 1 capital</b>					
1	Total share capital and share premium, including:	15.1	3,435,271	3,435,271	24+26
1.1	Ordinary shares		3,435,271	3,435,271	24+26
1.2	Preferred shares				
2	Retained earnings (loss):		6,424,533	6,327,501	35 (part)
2.1	Of prior years		6,424,533	6,327,501	35 (part)
2.2	Of the reporting year		0	0	
3	Reserve fund		323,340	323,340	27
4	Participatory interests in share capital to be gradually excluded from equity (capital) calculation			N/A	N/A
5	Common equity Tier 1 capital instruments of subsidiaries held by third parties			N/A	N/A
6	<b>Common equity Tier 1 capital, total</b> (line 1 +/- line 2 + line 3 – line 4 + line 5)		<b>10,183,144</b>	<b>10,086,112</b>	
<b>Items decreasing common equity Tier 1 capital</b>					
7	Adjustment to value of financial instrument				
8	Goodwill less deferred tax liabilities				
9	Intangible assets (except for goodwill and mortgage servicing rights), less deferred tax liabilities		14,579	12,762	11 (part)
10	Deferred tax assets that depend on future profit		0	0	
11	Cash flow hedge reserves				
12	Understated provisions for possible losses				
13	Gain on securitization transactions			N/A	N/A
14	Gains and losses due to changes in credit risk on liabilities at fair value			N/A	N/A



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Line	Instrument (item)	Note	Value of instrument (amount of item) at the reporting date	Value of instrument (amount of item) at the beginning of the reporting year	Item of balance sheet (published form) used to prepare statement of capital adequacy
15	Defined benefit plan assets			N/A	N/A
16	Investments in treasury shares				
17	Cross shareholding — common equity Tier 1 capital instruments				
18	Immaterial investments in common equity Tier 1 capital instruments of financial institutions				
19	Material investments in common equity Tier 1 capital instruments of financial institutions				
20	Mortgage servicing rights			N/A	N/A
21	Deferred tax assets independent of future profit		0	0	
22	Aggregate amount of material investments and deferred tax assets, where it exceeds 15% of common equity Tier 1 capital, total, including:				
23	Material investments in common equity Tier 1 capital instruments of financial institutions				
24	Mortgage servicing rights			N/A	N/A
25	Deferred tax assets independent of future profit				
26	Other items decreasing common equity Tier 1 capital, established by the Bank of the Russia, total, including:				
27	Negative additional Tier 1 capital				
28	<b>Items decreasing common equity Tier 1 capital, total</b> (sum of lines 7 to 22 and lines 26 and 27)		<b>14,579</b>	<b>12,762</b>	
29	<b>Total common equity Tier 1 capital</b> (lines 6-28)		<b>10,168,565</b>	<b>10,073,350</b>	
	<b>Additional Tier 1 capital</b>				
30	Additional Tier 1 capital instruments and share premium, total, including:				
31	Equity component				
32	Liability component				
33	Additional Tier 1 capital instruments to be gradually excluded 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 to be gradually excluded from equity (capital) calculation		N/A	N/A	N/A
36	<b>Additional Tier 1 capital, total</b> (line 30 + line 33 + line 34)		<b>0</b>	<b>0</b>	
	<b>Items decreasing additional Tier 1 capital</b>				
37	Investments in own additional Tier 1 capital instruments				
38	Cross shareholding — additional Tier 1 capital instruments				
39	Immaterial investments in additional Tier 1 capital instruments of financial institutions				
40	Material investments in additional Tier 1 capital instruments of financial institutions				

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Line	Instrument (item)	Note	Value of instrument (amount of item) at the reporting date	Value of instrument (amount of item) at the beginning of the reporting year	Item of balance sheet (published form) used to prepare statement of capital adequacy
41	Other items decreasing additional Tier 1 capital, established by the Bank of Russia				
42	Negative Tier 2 capital				
43	<b>Items decreasing additional Tier 1 capital, total</b> (sum of lines 37-42)		0	0	
44	<b>Additional Tier 1 capital, total</b> (lines 36-43)		0	0	
45	<b>Core capital, total</b> (line 29 + line 44)		10,168,565	10,073,350	
	<b>Tier 2 capital</b>				
46	Tier 2 capital instruments and share premium	6.2, 15.1	481,050	1,566,791	28 + 34 + 35 (part)
47	Tier 2 capital instruments to be gradually excluded from equity (capital) calculation				
48	Tier 2 capital instruments of subsidiaries held by third parties		N/A	N/A	N/A
49	Tier 2 capital instruments of subsidiaries to be gradually excluded from equity (capital) calculation		N/A	N/A	
50	Provisions for possible losses				
51	<b>Tier 2 capital, total (line 46 + line 47 + line 48 + line 50)</b>	15.1	481,050	1,566,791	
	<b>Items decreasing Tier 2 capital</b>				
52	Investments in own Tier 2 capital instruments				
53	Cross shareholding — Tier 2 capital instruments				
54	Immaterial investments in Tier 2 capital instruments and other instruments contributing to total loss-absorbing capacity of financial institutions				
54a	Investments in other instruments contributing to total loss-absorbing capacity of financial institutions				
55	Material investments in Tier 2 capital instruments and other instruments contributing to total loss-absorbing capacity of financial institutions				
56	Other items decreasing Tier 2 capital, established by the Bank of the Russia, total, including:		0	0	
56.1	Receivables more than 30 calendar days overdue				
56.2	Excess of the aggregate amount of loans, bank guarantees and sureties granted to shareholders and insiders over the 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 withdrawn participants and the value for which the interest was sold to another participant				
57	<b>Items decreasing Tier 2 capital, total</b> (sum of lines 52-56)		0	0	

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Line	Instrument (item)	Note	Value of instrument (amount of item) at the reporting date	Value of instrument (amount of item) at the beginning of the reporting year	Item of balance sheet (published form) used to prepare statement of capital adequacy
58	<b>Tier 2 capital, total</b> (lines 51-57)	15.1	<b>481,050</b>	<b>1,566,791</b>	
59	<b>Equity (capital), total</b> (line 45 + line 58)	15.1	<b>10,649,615</b>	<b>11,640,141</b>	
60	<b>Risk-weighted assets:</b>				
60.1	Required to determine common equity Tier 1 capital adequacy	15.1, 15.2	44,399,058	47,356,202	
60.2	Required to determine Tier 1 capital adequacy	15.1, 15.2	44,399,058	47,356,202	
60.3	Required to determine equity (capital) adequacy	15.1, 15.2	44,399,058	47,356,202	
<b>Equity (capital) adequacy ratios and markups to equity (capital) adequacy ratios, %</b>					
61	Common equity Tier 1 capital adequacy ratio (line 29 : line 60.1)	15.1, 15.2	22.903	21.271	
62	Core capital adequacy ratio (line 45 : line 60.2)		22.903	21.271	
63	Equity (capital) adequacy ratio (line 59 : line 60.3)	15.1, 15.2	23.986	24.580	
64	Markups to common equity Tier 1 capital adequacy ratio, total, including:		2.250	1.875	
65	Capital conservation buffer		2.250	1.875	
66	Countercyclical buffer		0.000	0.000	
67	GSIB surcharge		N/A	N/A	N/A
68	Common equity Tier 1 capital available for supporting markups to equity (capital) adequacy ratios		18.403	16.771	
<b>Equity (capital) adequacy ratios, %</b>					
69	Common equity Tier 1 capital adequacy ratio		4.5	4.5	
70	Core capital adequacy ratio		6.0	6.0	
71	Equity (capital) adequacy ratio		8.0	8.0	
<b>Items not decreasing equity that are within established materiality thresholds</b>					
72	Immaterial investments in capital instruments of financial institutions				
73	Material investments in common equity Tier 1 capital instruments of financial institutions				
74	Mortgage servicing rights		N/A	N/A	N/A
75	Deferred tax assets independent of future profit				
<b>Limitations on inclusion of provisions for possible losses in Tier 2 capital calculation</b>					
76	Provisions for possible losses included in Tier 2 capital calculation for items where standardized approach is applied to calculate credit risk		N/A	N/A	N/A
77	Limitations on inclusion of provisions for possible losses in Tier 2 capital calculation when standardized approach is applied		N/A	N/A	N/A
78	Provisions for possible losses included in Tier 2 capital calculation for items where internal models approach is applied to calculate credit risk		N/A	N/A	N/A
79	Limitations on inclusion of provisions for possible losses in Tier 2 capital calculation when internal models approach is applied		N/A	N/A	N/A

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Line	Instrument (item)	Note	Value of instrument (amount of item) at the reporting date	Value of instrument (amount of item) at the beginning of the reporting year	Item of balance sheet (published form) used to prepare statement of capital adequacy
<b>Instruments to be gradually excluded from equity (capital) calculation (effective from 1 January 2018 to 1 January 2022)</b>					
80	Current limitation on inclusion of instruments to be gradually excluded from equity (capital) calculation in common equity Tier 1 capital				
81	Portion of instruments not included in common equity Tier 1 capital due to limitation				
82	Current limitation on inclusion of instruments to be gradually excluded from equity (capital) calculation in additional Tier 1 capital				
83	Portion of instruments not included in additional Tier 1 capital due to limitation				
84	Current limitation on inclusion of instruments to be gradually excluded from equity (capital) calculation in Tier 2 capital				
85	Portion of instruments not included in Tier 2 capital due to limitation				

Note: details of the balance sheet data used to prepare Section 1 of this Statement are provided in Note 15.1 *Equity (capital) structure* in Tables 15.1.1 and 15.1.2.

Banks holding universal licenses are not required to complete Sections 1.1, 2, 3 and *For reference* hereof.

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### Section 4. Key characteristics of capital instruments

Line	Characteristics	Description	Description	Description
1	Short corporate name of the capital instrument issuer	"COMMERZBANK (EURASIJA)" AO	"COMMERZBANK (EURASIJA)" AO	"COMMERZBANK (EURASIJA)" AO
2	Instrument identification number	Registration number 10103333B	Registration number 10103333B (001D)	Registration number 10103333B (002D)
3	Law applicable to capital instruments	RUSSIAN FEDERATION	RUSSIAN FEDERATION	RUSSIAN FEDERATION
3a	To other instruments contributing to total loss-absorbing capacity			
<b>Regulatory framework</b>				
4	Tier of capital in which the instrument is included during Basel III transition period	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital
5	Tier of capital in which the instrument is included after Basel III transition period	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital
6	Level of consolidation for the instrument to be included in capital	On an individual basis	On an individual basis	On an 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 capital instrument for accounting purposes	Share capital	Share capital	Share capital
11	Date of issuing (raising, placing) the 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 (dates) on which the right to early redemption (repayment) of instrument may be exercised, terms of exercising the right and amount of redemption (repayment)	N/A	N/A	N/A
16	Subsequent date (dates) of exercising the right to early redemption (repayment) of instrument	N/A	N/A	N/A
<b>Interest / dividends / coupon income</b>				
17	Type of instrument rate	N/A	N/A	N/A
18	Interest rate	N/A	N/A	N/A
19	Terms for terminating 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 increasing payments under instrument or other incentives for early redemption (repayment) of the instrument	No	No	No
22	Nature of payments	Non-cumulative	Non-cumulative	Non-cumulative
23	Instrument convertibility	Non-convertible	Non-convertible	Non-convertible

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Line	Characteristics	Description	Description	Description
24	Terms for converting the instrument	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 the instrument is converted	N/A	N/A	N/A
29	Short corporate name of an issuer of an instrument to which the instrument is converted	N/A	N/A	N/A
30	Option to write off the instrument to cover losses	No	No	No
31	Triggers for instrument 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
34a	Type of subordination			
35	Subordinated nature of the instrument	N/A	N/A	N/A
36	Compliance with Regulation No. 646-P of the Bank of Russia and Regulation No. 509-P of the Bank of Russia	Yes	Yes	Yes
37	Description of non-compliances	N/A	N/A	N/A

Chairman of the Management Board

M. Roscher

Chief Accountant

A. Gorokhovskiy

30 April 2020

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Bank reporting forms

Territory code OKATO	Code of credit institution (branch)	
	OKPO	Registration number (sequential number)
452866596	18680159	3333

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

As at 1 January 2020

Name of credit organization **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	Share premium	Fair value remeasurement of securities available for sale, less deferred tax liability (plus asset)	Revaluation of premises and equipment and intangible assets, less deferred tax liability	Increase (decrease) in liabilities (assets) on long-term post-employment benefit payments on revaluation	Revaluation of hedging instruments	Reserve fund	Cash from debt-free financing (contributions to assets)	Change in fair value of financial liability due to change in credit risk	Provisions for expected credit losses	Retained earnings (loss)	Total equity
1	At the beginning of the previous reporting year		2,155,600	0	1,279,671	72,381	0	0	0	323,340	0	0	0	8,327,500	12,158,492
2	Effect of changes in accounting policies														
3	Effect of correction of errors														

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Line	Item	Note	Share capital	Equity redeemed from shareholders	Share premium	Fair value remeasurement 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) in liabilities (assets) on long-term post-employment benefit payments on revaluation	Revaluation of hedging instruments	Reserve fund	Cash from debt-free financing (contributions to assets)	Change in fair value of financial liability due to change in credit risk	Provisions for expected credit losses	Retained earnings (loss)	Total equity
4	At the beginning of the previous reporting year (adjusted)		2,155,600	0	1,279,671	72,381	0	0	0	323,340	0	0	0	8,327,500	12,158,492
5	Comprehensive income for the previous reporting period:					(94,538)								1,597,033	1,502,495
5.1	Profit (loss)													1,597,033	1,597,033
5.2	Other comprehensive income					(94,538)									(94,538)
6	Issue of shares:														
6.1	Nominal value														
6.2	Share premium														
7	Treasury shares														
7.1	Acquisitions														
7.2	Disposals														
8	Change in value of premises and equipment and intangible assets														
9	Dividends declared and other payments to shareholders on:													(2,000,000)	(2,000,000)
9.1	Ordinary shares													(2,000,000)	(2,000,000)
9.2	Preferred shares														
10	Other contributions by shareholders and distribution to shareholders														
11	Other movements														
12	<b>For the corresponding prior year reporting period</b>		<b>2,155,600</b>	<b>0</b>	<b>1,279,671</b>	<b>(22,157)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>323,340</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,924,533</b>	<b>11,660,987</b>



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Line	Item	Note	Share capital	Equity redeemed from shareholders	Share premium	Fair value remeasurement 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) in liabilities (assets) on long-term post-employment benefit payments on revaluation	Revaluation of hedging instruments	Reserve fund	Cash from debt-free financing (contributions to assets)	Change in fair value of financial liability due to change in credit risk	Provisions for expected credit losses	Retained earnings (loss)	Total equity
<b>13</b>	<b>At the beginning of the reporting year</b>		<b>2,155,600</b>	<b>0</b>	<b>1,279,671</b>	<b>(22,157)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>323,340</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,924,533</b>	<b>11,660,987</b>
14	Effect of changes in accounting policies														
15	Effect of correction of errors														
16	At the beginning of the reporting year (adjusted)		<b>2,155,600</b>	<b>0</b>	<b>1,279,671</b>	<b>(22,157)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>323,340</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,924,533</b>	<b>11,660,987</b>
17	Comprehensive income for the reporting period:														
17.1	Profit (loss)					95,775							6,933	1,124,503	1,227,211
17.2	Other comprehensive income					95,775							6,933	1,124,503	1,131,436
18	Issue of shares:														
18.1	Nominal value														
18.2	Share premium														
19	Treasury shares														
19.1	Acquisitions														
19.2	Disposals														
20	Change in value of premises and equipment and intangible assets														
21	Dividends declared and other payments to shareholders on:													(1,500,000)	(1,500,000)
21.1	Ordinary shares													(1,500,000)	(1,500,000)
21.2	Preferred shares														
22	Other contributions by shareholders and distribution to shareholders														
23	Other movements														

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Line	Item	Note	Share capital	Equity redeemed from shareholders	Share premium	Fair value remeasurement 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) in liabilities (assets) on long-term post-employment benefit payments on revaluation	Revaluation of hedging instruments	Reserve fund	Cash from debt-free financing (contributions to assets)	Change in fair value of financial liability due to change in credit risk	Provisions for expected credit losses	Retained earnings (loss)	Total equity
24	Reporting period	6.3	2,155,600	0	1,279,671	73,618	0	0	0	323,340	0	0	6,933	7,549,036	11,388,198

Chairman of the Management Board

M. Roscher

Chief Accountant

A. Gorokhovskiy

30 April 2020



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Line	Item	Note	01.01.2020 Reporting date	4	4.1	4.2	4.3	5	5.1	5.2	5.3	6	6.1	6.2	6.3	7	7.1	7.2	7.3	8	8.1	8.2	8.3	
					Maximum value	Number of breaches	Period of breaches	01.10.2019 One quarter before the reporting date	Maximum value	Number of breaches	Period of breaches	Two quarters before the reporting date	Maximum value	Number of breaches	Period of breaches	Three quarters before the reporting date	Maximum value	Number of breaches	Period of breaches	01.01.2019 Four quarters before the reporting date	Maximum value	Number of breaches	Period of breaches	
1	2	3	4																					
	Common equity Tier 1 capital, subject to application of expected credit loss model and excluding the effect of transitional measures		10,168,565				10,970,551					10,969,815				10,073,333								
3			10,168,565				10,970,551					10,969,815				10,073,333								
4	Core capital		10,168,565				10,970,551					10,969,815				10,073,333								
	Core capital, subject to application of expected credit loss model		10,168,565				10,970,551					10,969,815				10,073,333								
5			10,168,565				10,970,551					10,969,815				10,073,333								
6	Equity (capital)		10,649,615				11,843,351					11,434,419				11,801,185								
	Equity (capital), subject to application of expected credit loss model		11,355,637				12,220,486					11,813,110				12,353,927								
7			11,355,637				12,220,486					11,813,110				12,353,927								
8	<b>RISK-WEIGHTED ASSETS, RUB'000</b>																							
9	Risk-weighted assets		44,399,058				47,939,724					47,341,434				46,085,137								
10	<b>CAPITAL ADEQUACY RATIOS, %</b>																							
	Common equity Tier 1 capital adequacy ratio H1.1 (N20.1)		22.903				22.884					23.172				21.858								
11			22.903				22.884					23.172				21.858								
	Common equity Tier 1 capital adequacy ratio subject to application of expected credit loss model		22.129				22.592					22.815				21.401								
12			22.129				22.592					22.815				21.401								
	Core capital adequacy ratio N1.2 (N20.2)		22.903				22.884					23.172				21.858								
13			22.903				22.884					23.172				21.858								
	Core capital adequacy ratio subject to application of expected credit loss model		22.129				22.592					22.815				21.401								
14			22.129				22.592					22.815				21.401								
	Equity (capital) adequacy ratio N1.0 (N1cc, N1.3, N20.0)		23.986				24.705					24.153				25.653								
15			23.986				24.705					24.153				25.653								

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Line	Item	Note	01.01.2020 Reporting date	01.10.2019 One quarter before the reporting date	5	5.1	5.2	5.3	6	6.1	6.2	6.3	7	7.1	7.2	7.3	8	8.1	8.2	8.3	
				Maximum value	Number of breaches	Period of breaches	Two quarters before the reporting date	Maximum value	Number of breaches	Period of breaches	Three quarters before the reporting date	Maximum value	Number of breaches	Period of breaches	Four quarters before the reporting date	Maximum value					
1	2	3	4																		
	Equity (capital) adequacy ratio subject to application of expected credit loss model		24.712	25.166			24.569				26.291										
16	<b>MARKUPS TO COMMON EQUITY TIER 1 CAPITAL (as percentage of risk-weighted assets), %</b>																				
17	Capital conservation buffer		2.250	2.125			2.000				1.875						1.875				
18	Countercyclical buffer		0.000	0.000			0.000				0.000						0.000				
19	GSIB surcharge		0.000	0.000			0.000				0.000						0.000				
20	Markups to equity (capital) adequacy ratios, total (line 8 + line 9 + line 10)		2.250	2.125			2.000				1.875						1.875				
21	Common equity Tier 1 capital available for supporting markups to equity (capital) adequacy ratios		18.403	18.384			18.672				17.358						16.771				
22	<b>LEVERAGE RATIO</b>																				
23	Balance sheet and off-balance sheet assets at risk to calculate leverage ratio, RUB'000		86,508,971	82,981,329			89,007,715				92,550,222						89,730,762				
24	Leverage ratio of the bank (N1.4) or the banking group (N20.4), %		11.8	13.2			12.3				10.9						11.2				
25	Leverage ratio subject to application of expected credit loss model, %		11.8	13.2			12.3				10.9						-				
26	<b>LIQUIDITY COVERAGE RATIO</b>																				
27																					

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Line	Item	Note	01.01.2020 Reporting date	01.10.2019 One quarter before the reporting date	01.07.2019 Two quarters before the reporting date	01.04.2019 Three quarters before the reporting date	01.01.2019 Four quarters before the reporting date	8	7.3	7.2	7.1	8.1	8.2	8.3
			4	5	6	7	8							
28	Highly liquid assets, RUB'000	3												
29	Net expected cash outflow, RUB'000													
30	Liquidity coverage ratio N26 (N27), %													
31	<b>STRUCTURAL LIQUIDITY RATIO (NET STABLE FUNDING RATIO)</b>													
32	Available stable funding (ASF), RUB'000													
33	Required stable funding (RSF), RUB'000													
34	Structural liquidity ratio (net stable funding ratio) N28 (N29), %													
35	<b>RATIOS LIMITING CERTAIN TYPES OF RISKS, %</b>													
36	Instant liquidity ratio N2		142.1	157.7	145.1	112	122.6							
37	Current liquidity ratio N3		100.3	116.4	119.8	96.5	118.5							
38	Long-term liquidity ratio N4		47.9	34.5	29.7	32.7	32.6							
39	Maximum risk per borrower or group of related borrowers N6 (N21)					19.1	19.5	20.9						
40	Maximum amount of large credit risk N7 (N22)		237.7	224.3	190.0	202.3	185.4							
41	Aggregate risk on insiders N10.1		0.0	0.0	0.0	0.0	0.0							
42	Equity (capital) used to acquire shares in other legal entities N12 (N23)													

# Translation of the original Russian version

Annual financial statements of "COMMERZBANK (EURASIA)" AO as at 1 January 2020

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Line	Item	Note	01.01.2020 Reporting date	01.10.2019 One quarter before the reporting date	5	4.3	4.2	4.1	0.0	5.1	5.2	5.3	6	01.07.2019 Two quarters before the reporting date	6.1	6.2	6.3	7	01.04.2019 Three quarters before the reporting date	7.1	7.2	7.3	8	01.01.2019 Four quarters before the reporting date	8.1	8.2	8.3		
				Maximum value	Number of breaches	Period of breaches	Number of breaches	Maximum value	0.0	Maximum value	Number of breaches	Period of breaches	Number of breaches	Maximum value	Number of breaches	Period of breaches	Maximum value	Number of breaches	Period of breaches	Maximum value	Number of breaches	Period of breaches	Maximum value	Number of breaches	Period of breaches	Maximum value	Number of breaches	Period of breaches	
1	2	3	4																										
	Maximum risk per bank's related party (group of related parties) N25																												
43				0.0				0.0							0.0					0.0						0.0			
44	Central counterparty's total resources adequacy ratio N2cc																												
45	Central counterparty's individual clearing collateral adequacy ratio N3cc																												
46	Central counterparty liquidity ratio N4cc																												
47	Maximum concentration risk																												
48	Liquidity ratio of non-banking credit institution entitled to transfer funds without opening bank accounts and to perform other related banking transactions N15.1																												
49	Maximum aggregate loans to customers — parties to settlements — to complete settlements N16																												
50	Ratio of loans granted by non-banking settlement credit institution on its behalf and for its account to borrowers other than parties to settlements N16.1																												
51	Maximum amount of promissory notes issued by non-banking settlement credit institution N16.2																												
52	Minimum ratio of mortgage coverage and mortgage-backed bonds issued N18																												

## Section 2. Leverage ratio calculation

### Subsection 2.1. Balance sheet and off-balance sheet assets at risk for leverage ratio calculation (N1.4)

Line	Item	Note	Amount
1	Total assets according to the balance sheet (published form):		58,865,822
2	Adjustment for 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), prudential ratios and amounts (limits) of open currency positions of banking group		Not applicable to financial statements of a credit institution as a legal entity
3	Adjustment for fiduciary assets recorded in accordance with accounting rules but excluded from leverage ratio calculation		0
4	Adjustment for derivative financial instruments (derivatives)		571,657
5	Adjustment for securities lending		0
6	Adjustment to discount credit-related commitments to the credit equivalent		28,006,871
7	Other adjustments		627,437
8	<b>Total balance sheet and off-balance sheet assets at risk after adjustments, used for leverage ratio calculation</b>	15.11	86,816,913

### Subsection 2.2. Calculation of the leverage ratio (N1.4)

Line	Item	Note	Amount
<b>Risk related to balance sheet assets</b>			
1	Total balance sheet assets:	15.11	57,557,035
2	Downward adjustment for indicators that reduce Tier 1 capital		14,579
3	Total balance sheet assets at risk after adjustment (difference between line 1 and line 2):		57,542,456
<b>Risk related to transactions with derivatives</b>			
4	Total current credit risk related to transactions with derivatives (less variation margin received) and (or) after netting, where applicable:		289,116
5	Total potential credit risk per counterparty related to transactions with derivatives:		670,528
6	Adjustment for the nominal amount of collateral provided against transactions with derivatives to be written off the balance sheet		Not applicable
7	Downward adjustment for variation margin transferred, as applicable		0
8	Adjustment for receivables of the bank — clearing participant — from central counterparty related to execution of clients' transactions		0
9	Adjustment for credit risk related to underlying asset on credit derivatives issued		0
10	Downward adjustment for credit derivatives issued		0
11	Total risk related to derivatives after adjustments (sum of lines 4, 5 and 9 less lines 7, 8 and 10)		959,644
<b>Risk related to securities lending</b>			
12	Total receivables from securities lending (before netting):		0
13	Adjustment for cash netting (assets and liabilities) on securities lending		0
14	Credit risk per counterparty on securities lending		0
15	Risk related to guarantee securities lending		0
16	Total receivables from securities lending after adjustments (sum of lines 12, 14 and 15 less line 13)		0
<b>Risk related to credit-related commitments</b>			
17	Total nominal risk associated with credit-related commitments:		36,344,949
18	Adjustment for credit equivalent ratios		8,338,078
19	Total risk related to credit-related commitments after adjustments (difference between lines 17 and 18)		28,006,871
<b>Capital and risks</b>			



Line	Item	Note	Amount
20	Tier 1 capital		<b>10,168,565</b>
21	Total balance sheet and off-balance sheet assets at risk used to calculate leverage ratio (sum of lines 3, 11, 16, and 19)	15.11	<b>86,508,971</b>
<b>Leverage ratio</b>			
22	Leverage ratio of the bank (N1.4), banking group (N20.4), % (line 20 : line 21)	15.11	<b>11.8</b>

### Section 3. Calculation of the liquidity coverage ratio

Not applicable

Chairman of the Management Board

M. Roscher

Chief Accountant

A. Gorokhovskiy

30 April 2020

Bank reporting forms

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

## STATEMENT OF CASH FLOWS

(published form)

At 1 January 2020

Name of credit organization **COMMERZBANK (EURASIJA), joint-stock company**  
**"COMMERZBANK (EURASIJA)" AO**

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

OKUD Form Code 0409814

Quarterly (Annual)  
RUB'000

Line	Item	Note	Cash flows for the reporting period	Cash flows for the respective previous reporting period
<b>1</b>	<b>Net cash from (used in) operating activities</b>			
1.1	Total cash from (used in) operating activities before changes in operating assets and liabilities, including:		<b>3,062,561</b>	<b>(1,068,892)</b>
1.1.1	Interest received		1,909,714	1,760,262
1.1.2	Interest paid		(724,677)	(368,828)
1.1.3	Fees and commissions received		615,979	590,161
1.1.4	Fees and commissions paid		(155,600)	(118,112)
1.1.5	Gains less losses from financial assets at fair value through profit or loss, through other comprehensive income		1,134,032	105,381
1.1.6	Gains less losses from securities at amortized cost		0	0
1.1.7	Gains less losses from dealing in foreign currencies		2,213,709	(1,404,706)
1.1.8	Other operating income		218,153	151,574
1.1.9	Operating expenses		(1,462,732)	(1,439,151)
1.1.10	Tax expense (benefit)		(686,017)	(345,473)
1.2	Total increase (decrease) in net cash from operating assets and liabilities, including:		<b>11,427,861</b>	<b>6,676,623</b>
1.2.1	Net increase (decrease) in mandatory reserves with the Bank of Russia		59,960	(342,760)
1.2.2	Net increase (decrease) in investments in securities at fair value through profit or loss		(160,667)	0
1.2.3	Net increase (decrease) in loans receivable		12,491,026	(15,086,232)
1.2.4	Net increase (decrease) in other assets		211,967	(1,431,133)
1.2.5	Net increase (decrease) in loans, deposits and other amounts due to the Bank of Russia		0	0
1.2.6	Net increase (decrease) in amounts due to other credit institutions		(10,832,058)	17,156,119
1.2.7	Net increase (decrease) in amounts due to customers		9,615,459	6,406,602

Line	Item	Note	Cash flows for the reporting period	Cash flows for the respective previous reporting period
	other than credit institutions			
1.2.8	Net increase (decrease) in financial liabilities at fair value through profit or loss		0	0
1.2.9	Net increase (decrease) in debt instruments issued		0	0
1.2.10	Net increase (decrease) in other liabilities		42,174	(25,973)
<b>1.3</b>	<b>Total (sum of lines 1.1 and 1.2)</b>		<b>14,490,422</b>	<b>5,607,731</b>
<b>2</b>	<b>Net cash from (used in) investing activities</b>			
2.1	Acquisition of financial assets at fair value through other comprehensive income		(10,950,955)	(5,511,343)
2.2	Proceeds from disposal and redemption of financial assets at fair value through other comprehensive income		10,973,877	2,047,913
2.3	Acquisition of securities at amortized cost		0	0
2.4	Proceeds from redemption of securities at amortized cost		0	0
2.5	Acquisition of premises and equipment, intangible assets and inventories		(7,629)	(37,764)
2.6	Proceeds from sale of premises and equipment, intangible assets and inventories		828	0
2.7	Dividends received		0	0
<b>2.8</b>	<b>Total (sum of lines 2.1 and 2.7)</b>		<b>16,121</b>	<b>(3,501,194)</b>
<b>3</b>	<b>Net cash from (used in) financing activities</b>			
3.1	Contributions of shareholders to share capital		0	0
3.2	Acquisition of treasury shares		0	0
3.3	Sale of treasury shares		0	0
3.4	Dividend paid	3.3	(1,500,000)	(2,000,000)
<b>3.5</b>	<b>Total (sum of lines 3.1-3.4)</b>		<b>(1,500,000)</b>	<b>(2,000,000)</b>
4	Effect of changes in foreign currency rates set by the Bank of Russia on cash and cash equivalents		(1,896,980)	714,970
<b>5</b>	<b>Increase (decrease) in cash and cash equivalents</b>		<b>11,109,563</b>	<b>821,507</b>
5.1	Cash and cash equivalents, beginning of the reporting year	6.1.1	6,556,614	5,735,107
5.2	Cash and cash equivalents, end of the reporting year	6.1.1	17,666,177	6,556,614

Chairman of the Management Board

M. Roscher

Chief Accountant

A. Gorokhovskiy

30 April 2020

# 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 details have not changed since the previous reporting period.

## 1. Introduction

"COMMERZBANK (EURASIJA)" AO (hereinafter, the "Bank") presents its 2019 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 Directive No. 4983-U of the Bank of Russia, the Bank decided to disclose its annual financial statements 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 by 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 2019, Commerzbank AG had the following shareholding structure:

- 15.60% of the shares belong to the Federal Republic of Germany.
- 5.01% of the shares belong to Cerberus Capital Management, L.P., USA.
- 4.99% of the shares belong to BlackRock Inc., USA.
- Approximately 55% of the shares belong to institutional investors with a smaller ownership share.
- Approximately 20% of the shares 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 (the segment of private clients and small businesses and the segment of corporate clients) offer a wide range of financial services adapted to clients' requirements. Banking transactions of Commerzbank Group account for 30% of Germany's cross-border turnover, and the Group is the leader in Germany's corporate banking. The Group includes Comdirect in Germany and mBank in Poland — innovative on-line banks. In addition, Commerzbank AG has one of the most significant branch networks (around 800 branches) among German banks. Commerzbank Group serves over 11 million individuals and small businesses in Germany, and more than 70,000 corporate clients, multinational corporations, financial sector companies and institutional clients the world over. A subsidiary of Commerzbank AG, mBank S.A., serves about 5.6 million private and corporate clients in Poland, Czech Republic and Slovakia. Commerzbank Group's revenue was EUR 8.6 billion for 2019, with a headcount of about 48,500 employees (according to the consolidated financial statements).

At the date of preparing these annual financial statements, Commerzbank AG had the following long-term credit ratings: A1 (Moody's), BBB+ (S&P Global), BBB (Fitch).

The consolidated financial statements of Commerzbank Group for 2019 are published on the Group's Internet site [www.commerzbank.com](http://www.commerzbank.com).

The Bank's liabilities are secured by a letter of comfort from Commerzbank AG (see the 2019 Annual Report of Commerzbank Group, page 272):

[https://www.commerzbank.com/media/aktionaere/service/archive/konzern/2020\\_4/Geschaeftsbericht\\_2019\\_Konzern\\_EN.pdf](https://www.commerzbank.com/media/aktionaere/service/archive/konzern/2020_4/Geschaeftsbericht_2019_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 bank 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 (ZAO until 2016), with the headquarters in Moscow and a representative office (a branch until November 2019) in Saint Petersburg, continues its operations in Russia.

Commerzbank's long-standing experience in the Russian market allowed it 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.

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, bond 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 and does not transact with individuals.

In October 2019, Analytical Credit Rating Agency (JSC), confirmed the Bank's AAA (RU) credit 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	01.01.2020 (RUB'000)	01.01.2019 (RUB'000)	Change (RUB'000)	(%)
<b>Bank's equity (capital)</b>	<b>10,649,615</b>	<b>11,640,141</b>	<b>(990,526)</b>	<b>(8.5)</b>
<b>Total assets</b>	<b>58,865,822</b>	<b>64,082,195</b>	<b>(5,216,373)</b>	<b>(8.1)</b>
Including:				
Net loans receivable	27,453,103	41,599,473	(14,146,370)	(34.0)
Including:				
Deposits with the Bank of Russia	5,800,000	9,400,000	(3,600,000)	(38.3)
Receivable from credit institutions	371,431	8,557,662	(8,186,231)	(95.7)
Receivable from customers	21,281,672	23,641,811	(2,360,139)	(10.0)
Investments in securities at fair value through other comprehensive income	8,339,871	9,948,090	(1,608,219)	(16.2)
Financial assets at fair value through profit or loss	2,250,449	2,398,471	(148,022)	(6.2)
Including:				
Securities	1,862,462	0	1,862,462	0.0
Derivative financial instruments	387,987	2,398,471	(2,010,484)	(83.8)
<b>Total liabilities</b>	<b>47,477,624</b>	<b>52,421,208</b>	<b>(4,943,584)</b>	<b>(9.4)</b>
Including:				
Amounts due to customers	36,348,451	28,882,990	7,465,461	25.8
Amounts due to credit institutions	9,586,984	22,200,169	(12,613,185)	(56.8)

During the reporting period, the Bank's assets decreased by RUB 5,216,373 thousand, or 8.1%. Certain balance sheet items changed most significantly, namely, net loans receivable, including deposits with banks and the Bank of Russia, reduced by RUB 14,146,370 thousand, and amounts on correspondent accounts with credit institutions increased by

RUB 9,756,426 thousand (to RUB 15,642,109 thousand). Other changes to significant balance sheet items included a RUB 2,010,484 thousand decrease in the positive fair value of derivatives due to a scheduled disposal of the instruments (final settlements on maturity). Total investments in securities changed insignificantly. Changes to liabilities included an increase in amounts due to customers and a decrease in amounts due to banks. Securities recorded within the *Financial assets at fair value through profit or loss* balance sheet line represent securities reclassified from *Financial assets at fair value through other comprehensive income* starting 1 January 2019 in accordance with IFRS 9; see Note 4 hereof.

Development of income and expense items is provided in the table below.

Table 3.2.2

Item	For 2019 (RUB'000)	For 2018 (RUB'000)	Change	
			(RUB'000)	(%)
Interest income	1,993,906	1,826,295	167,611	9.2
Including from investments in securities	608,101	493,847	114,254	23.1
Interest expense	(772,851)	(383,398)	389,453	101.6
Net interest income	1,221,055	1,442,897	(221,842)	(15.4)
Gains (losses) from changes in loan and interest provisions	414,639	241,166	173,473	71.9
Net interest income less provisions	1,635,694	1,684,063	(48,369)	(2.9)
Net income from securities and other financial assets at fair value through profit or loss, including:				
From securities	18,824	0	18,824	0.0
From derivatives related to foreign-currency denominated assets	(1,649,411)	626,322	(2,275,733)	(363.3)
From derivative single-currency financial instruments (single-currency interest rate swaps)	5,367	(147)	5,514	3,751.0
Net income from dealing in foreign currencies and foreign currency translation	2,060,966	475,020	1,585,946	333.9
Fee and commission income	586,936	588,812	(1,876)	(0.3)
Fee and commission expense	(155,600)	(118,112)	37,488	31.7
Gains (losses) from changes in provision for other losses	225,606	17,488	208,118	1,190.1
Net income (expense)	2,939,111	3,424,875	(485,764)	(14.2)
Operating expenses	(1,530,054)	(1,470,470)	59,584	4.1
Profit before tax	1,409,057	1,954,405	(545,348)	(27.9)
Tax accrued (including income tax)	(284,554)	(357,372)	(72,818)	(20.4)
<b>Profit for the reporting period</b>	<b>1,124,503</b>	<b>1,597,033</b>	<b>(472,530)</b>	<b>(29.6)</b>

During the reporting period, the Bank's net profit decreased, primarily due to a RUB 689,787 thousand decrease in net total income from dealing in foreign currencies and derivatives (from RUB 1,101,342 thousand to RUB 411,555 thousand) resulting from a decrease in the fair value of derivatives hedging the interest rate risk of the securities portfolio and RUB-denominated commercial loans. Hedged securities are mainly revalued to other comprehensive income (the Bank's result for this portion of other comprehensive income was positive), while commercial loans are not revalued. The revaluation is temporary (until settlements under the transactions are completed) and relates to a decrease in ruble interest rates during 2019. Net profit for 2019 was also significantly impacted by the positive effect of the transition to IFRS 9, namely, adjustment of provisions for possible losses to provisions for expected credit losses. The effect is disclosed in Note 4.14 and Note 7.4 hereof.

### 3.3 Decisions on net profit distribution and dividend payments

In 2019, the the following decisions were made:

In June 2019 — to pay dividend of RUB 700,000 thousand to the sole shareholder out of net profit for 2018 (actually paid in June 2019), with the remaining portion of net profit for 2018 staying at the Bank's disposal

In November 2019 — to pay dividend of RUB 800,000 thousand to the sole shareholder out of retained earnings for previous years (actually paid in December 2019)

Total dividend per share paid in 2019 amounted to RUB 35 thousand.

### 3.4 Relationship with the external auditor

Ernst & Young LLC was approved as an external auditor of the Bank's financial statements for 2019 (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 2019.

### 3.5 Economic 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. 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.

The effect of the pandemic and the market volatility in 2020 is disclosed in Note 5 *Non-adjusting events after the reporting date* hereof.

## 4. Summary of accounting policies

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The Bank maintains its accounting records and prepares financial statements in accordance with Russian laws and regulations of the Bank of Russia. The Bank's accounting policies are based on Regulation No. 579-P of the Bank of Russia, *On 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. 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 its accounting records and prepares its financial statements based on the following principles:

- Separate entity. The Bank's assets and liabilities exist separately from assets and liabilities of their 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 policies are applied consistently from period to period considering changes in legislation.
- Periodicity. Economic events are recognized in the 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 quality category I and restricted cash.



### 4.3 Amounts due from credit institutions

This item includes balances on correspondent accounts opened by the Bank with 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 asset 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 possible losses on active transactions, giving rise to loans and similar debt, pursuant to Regulation No. 590-P of the Bank of Russia, *On the Procedure for Making Loss Provisions by Credit Institutions for Loans and Similar Debt* dated 28 June 2017. The Bank performs a credit risk assessment, loan classification and measurement, determines the amount of estimated and actual provisions on the grounds stipulated by the specified Regulation of the Bank of Russia, but at least once a month at the reporting date.

Starting 2019, provisions for possible losses are adjusted to provisions for expected credit losses under IFRS 9. Provisions for expected credit losses are detailed in Notes 4.14, 7.1 and 7.4 hereof.

### 4.5 Premises and equipment and intangible assets

#### Premises and equipment and intangible assets

Premises and equipment of more than RUB 100 thousand (net of VAT) with a useful life in excess of 12 months and intangible assets 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), 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 expenses including VAT.

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

- Maintenance costs, if they 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 premises and equipment are capitalized with a subsequent write-off of the replaced part.

Expenditures on inseparable improvements to leased assets under lease agreements which are not reimbursable by lessors and meet the criteria for recognition of premises and equipment are recognized as premises 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 of premises and equipment is calculated using the straight-line method by allocating their cost to their residual values over their useful lives. The following useful lives were used for items recorded within premises and equipment:

	Useful lives, months (years)
1. Computer hardware	25-120 months (2-10 years)
2. Cashier equipment	34-172 months (3-15 years)
3. Copying machines	37 months (3 years)
4. Office furniture	61-120 months (5-10 years)
5. Non-production interior objects	Not accrued



6. Office equipment	61-180 months (5-15 years)
7. Security systems	244-400 months (20-33 years)
8. Other office items	37-121 months (3-10 years)
9. Telecommunications equipment	50-85 months (5-7 years)
10. Telephone equipment	61 months (5 years)
11. Motor vehicles	60 months (5 years)

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

#### **4.6 Investments in securities**

Investments in securities represent the Bank's liquidity portfolio and are managed within a single business model which involves investments in most liquid bonds with the lowest credit risk and volatility. Therefore, the portfolio comprises instruments at fair value through other comprehensive income or through profit or loss depending on whether the 'solely payment of principal and interest' criterion is met. Details are provided in Note 4.12 hereof.

#### **4.7 Derivative financial instruments (derivatives)**

Derivatives are initially recognized 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 the 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 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 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 Estimating and 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 the requirements of Regulations No. 590-P and 611-P of the Bank of Russia. Starting 2019, those provisions for financial instruments are adjusted to provisions for expected credit losses under IFRS 9. Provisions for expected credit losses are detailed in Notes 4.14, 7.1 and 7.4 hereof.

#### **4.10 Amounts due to customers**

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 expenses**

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

Income and expenses incurred (generated) in foreign currency are recognized in Russian rubles at the official exchange rate ruling at the date of recognizing income/expenses 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 cost of the respective asset, unless otherwise established by the Bank of Russia.

Before 2019, the Bank determined 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. In 2019, the Bank changed its interest income accounting policies to align them with IFRS 9 — in certain cases, interest income is accounted for using the effective interest rate, for credit-impaired financial assets it is accrued at the rate adjusted for credit risk.

#### 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 professional judgments and estimates 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 total loan receivables (see Note 7.2 hereof).
- Impairment of financial instruments carried at fair value due to market price fluctuations. The sensitivity to this factor is disclosed in Note 7.3 hereof.
- Assessment of derivative financial instruments caused by changes in interest and exchange rates in time. The sensitivity to this factor is disclosed in Notes 15.7 and 15.9 hereof.

#### 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 (unadjusted) prices in active markets for identical assets or liabilities.
- (ii) Level 2 are measurements obtained using valuation techniques with all material inputs observable 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. The significance of used inputs is assessed for the aggregate fair value measurement.

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

- Investments in securities, Level 1 of the measurement hierarchy. Fair value of such instruments is determined based on observable market inputs, in particular, Moscow Exchange quotes.
- Derivative financial instruments, 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 fair value less the cost to sell). The Bank's balance sheet at the reporting date comprises no assets or liabilities that are recognized based on nonrecurring fair value measurements.

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

## Taxation

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the Bank's transactions activities, including economic justification of certain transactions, may be challenged by the relevant regional or federal authorities. Taxpayers' positions often differ from the interpretations of tax regulations by tax authorities; therefore, taxpayers have to resort to court proceedings to defend their position. It should be noted that the Russian tax legislation includes regulations to counter abuse of law, whereby the tax authorities, in interpreting the Bank's activities, may disallow the deduction of expenses for income tax purposes.

During 2019, 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 taxpayers. In this regard, management's interpretation of such legislation as applied to procedures to determine taxable income from those transactions, including economic justification, 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 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.

Currently, the Russian tax legislation stipulates that foreign entities receiving income from Russian sources must own an actual right to such income. Overall, the introduction of this concept increases the administrative and, sometimes, tax burden on Russian taxpayers. In some cases, the Bank paid income to foreign entities using a Russian withholding tax exemption based on the provisions of international tax treaties concluded by the Russian Federation. Due to the fact that the current common practice in respect of the confirmation of ownership of actual right for income has not yet stabilized, there is uncertainty regarding the procedure for the application of these rules and their possible interpretation by the Russian tax authorities and the effect on the amount of the Bank's tax liabilities. Management regards the Bank's tax position that is based on the applicable tax legislation and clarifications of the tax authorities to be reasonable and supported by appropriate documents; therefore, management believes that its interpretation of the relevant tax legislation is appropriate as at 31 December 2019.

Recent trends in the Russian law enforcement practice suggest that the tax authorities and courts may be taking a more assertive position in their interpretation of legislation and in performing tax reviews. It is therefore possible that the Bank's transactions, activities and accounting methods that have not been challenged in the past may be challenged in the future. However, it is not possible to determine their amounts or evaluate the probability of a negative outcome in the event of taxes, penalties and fines assessed by the tax authorities.

Fiscal periods remain open to review for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is made. Under certain circumstances, reviews may cover longer periods.

As at 31 December 2019, 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 course of its business, the Bank enters into transactions with related parties. Judgment is applied in determining whether transactions are priced at market or non-market interest rates, where there is no active market for such transactions. In particular, a possible basis for judgment is pricing for similar types of transactions with unrelated parties.

In accordance with Russian transfer pricing (TP) 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 differ from the market level and in case of inconsistencies with the Bank's methodology for determining market prices in controlled transactions.

The Bank believes that the prices it applied in 2019 are consistent with market prices and implemented internal controls to comply with the requirements of the 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 in controlled transactions and impose additional taxes if the Bank fails to confirm the application of market prices in 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 Adjusting events after the reporting date

The Bank 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 expenses

### 4.14 Changes in accounting policies

No significant changes were made to the accounting policies in 2019, which could impact the comparability of the Bank's financial indicators for various reporting periods, except for the following:

The accounting procedure for credit institutions changed 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 of the Bank of Russia *On 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* dated 2 October 2017; Regulation No. 605-P *On 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 *On the Procedure for Credit Institutions to Account for Transactions with Securities* became 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 were amended. Therefore, the Bank's accounting policies for 2019 were 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.
- Financial assets are classified in one of the three categories: measured at amortized cost / at fair value through other comprehensive income / at fair value through profit or loss.
- Financial liabilities are classified in one of the two categories: measured at amortized cost / at fair value through profit or loss.
- Transactions related to liabilities under bank guarantees and provision of cash are classified in accordance with IFRS 9.
- The amendments establish the frequency of measuring financial assets and liabilities, the frequency of calculating the 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 RAS accounting statements before creating provisions, the frequency of adjustments before provisions is established.

Given the above, the Bank analyzed financial assets and financial liabilities and performed the following procedures:

- Derivative financial instruments were classified as at fair value through profit or loss.
- Securities were classified as at fair value through other comprehensive income, except for federal loan bonds with a coupon rate indexed to RUONIA. As per the Bank's estimates, cash flows from those bonds do not qualify for the 'solely payments of principal and interest' criterion; therefore, they were classified as at fair value through profit or loss.
- Other financial assets and financial liabilities (including loans to customers, customers deposits, inter-bank loans and deposits) are classified as measured at amortized cost.
- Starting 2019, acquisition costs of securities are accounted for as follows: for securities at fair value through other comprehensive income, they are immaterial and expensed as incurred, for securities at fair value through profit or loss, they are treated as required by the regulatory accounting rules.
- At initial recognition of financial instruments, the Bank does not make any value adjustments to reflect the non-arms-length nature of the instruments, as it has daily procedures in place to comply with market conditions and control transaction prices.
- The Bank established a materiality threshold to accrue interest income/expense using the effective interest rate method. During the reporting period, the materiality threshold was not exceeded in any of the Bank's transactions; therefore, the Bank accrued interest income on a straight-line basis.
- The Bank calculates provisions for expected credit losses on financial instruments and makes adjustments to align provisions for possible losses with such provisions. Adjustments are made to the following types of instruments; loans to customers (including current account overdrafts utilized), inter-bank loans, nostro accounts, funds placed at the stock exchange, and securities (at fair value through other comprehensive income).
- Off-balance sheet instruments, such as undrawn loan commitments (including unused limits on overdrafts), liabilities under financial guarantees and letters of credit are also classified within the scope of IFRS 9 and reflect adjustments to provisions for possible losses to provisions for expected credit losses. Non-financial guarantees are not within the scope of IFRS 9, but within the scope of IAS 37; the Bank, however, calculates the related provisions and records an adjustment to provisions for possible losses in a way similar to financial guarantees, which is in line with the clarifications of the Bank of Russia.

The Bank does not hold any instruments designated as at fair value through profit or loss in order to eliminate the accounting mismatch as per paragraph 4.1.5 of IFRS 9.

Following the incorporation of the requirements of IFRS 16 into the Russian accounting rules (Regulation No. 659-P of the Bank of Russia), the Bank amended its 2020 accounting policies with respect to leases.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees — for leases of low-value assets (for example, personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e. a lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. a right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

#### 4.15 Nature and amount of changes in accounting estimates

During the reporting period, the Bank changed the estimated useful lives of certain items of premises and equipment relating to the Saint Petersburg branch following the reorganization of the branch into a representative office. The change resulted in an insignificant increase in depreciation expenses in 2019 and 2020. There were no other changes in accounting estimates during the reporting period.

#### 4.16 Reclassification of comparatives

The table below shows changes the Bank made to reclassify accrued interest and percentage commissions receivable from other assets to total loans receivable. The changes to previous period comparatives in these financial statements were made to ensure comparability with the approach applied to reporting year amounts.

Table 4.16.1  
(RUB'000)

Adjustments to the 2018 amounts	Before adjustments	Interest and percentage commissions receivable (payable)	Provisions for interest and percentage commissions	Adjustments to other credit commissions payable	Total adjustments	After adjustments
Net loans receivable (Form 806)	<b>41,492,022</b>	142,806	(35,153)	(202)	107,451	<b>41,599,473</b>
Other assets (Form 806)	<b>2,706,533</b>	(142,806)	35,153		(107,653)	<b>2,598,880</b>
Provision for impairment of loan portfolio and expected credit losses	<b>398,663</b>		35,153		35,153	<b>433,816</b>
Amounts due to credit institutions (Form 806)	<b>22,186,338</b>	13,831			13,831	<b>22,200,169</b>
Amounts due to customers (Form 806)	<b>28,874,476</b>	8,514			8,514	<b>28,882,990</b>
Other liabilities (Form 806)	<b>254,494</b>	(22,345)		(202)	(22,547)	<b>231,947</b>

#### 4.17 Nature and amount of material errors from prior periods

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

In 2019 and 2018, there were no instances where a particular accounting rule has not been followed owing to the fact that it would not provide a reliable reflection of the Bank's financial position and financial results.

## 5. Non-adjusting events after the reporting date

The current pandemic caused by the coronavirus and its impact on the global and Russian economy will lead to a significant slump in economic development, especially in the first half of 2020. This has also been confirmed by the Economic Research department of Commerzbank AG, our parent company. How serious this economic slump will be and how long it will last will depend on the duration and severity of the actions taken to contain the pandemic and the effectiveness of economic policy measures. It is currently not clear how fast and to what extent the economy will be able to recover.

Since March 2020, equity, currency and commodity markets have shown extreme volatility, as well as a drop in oil prices and depreciation of the Russian ruble against the US dollar and the euro. According to management, the Bank's risk management system allows mitigating the negative impact of the volatilities on the Bank's financial results.

The effects of the pandemic and the increased market volatility in combination are likely to impair our financial performance in 2020. However, it is not possible to reliably estimate these effects at present. Management believes it is taking appropriate measures to support the financial results and sustainability of the Bank's business in the current circumstances.

## 6. Accompanying information to the reporting forms

### 6.1 Accompanying information to the balance sheet

#### 6.1.1 Cash

Table 6.1.1.1  
(RUB'000)

	01.01.2020	01.01.2019
Cash on hand	25,576	31,083
Accounts with the Central Bank of the Russian Federation	2,631,350	1,332,666
Less mandatory reserves	2,018,492	659,848
Correspondent accounts with credit institutions of the Russian Federation	3,066	100
Correspondent accounts with credit institutions in other countries	15,619,244	5,865,583
Provisions for expected credit losses	(201)	0
<b>Total cash and cash equivalents</b>	<b>17,666,177</b>	<b>6,556,614</b>

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. As at 1 January 2020, the excluded amount is RUB 20,000 thousand (1 January 2019: RUB 20,000 thousand).

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

This balance sheet item comprises positive and negative fair values of derivatives open at the reporting date, and investments in securities (federal loan bonds) classified as at fair value through profit or loss, as stipulated in Note 3.2 hereof. Fair values of those instruments are determined in Russian rubles.

Amounts of instruments, per category (securities/derivatives), are provided in Note 3.2 hereof.

The analysis of fair values of derivatives, by type of underlying assets and type of instruments, based on Section II of Form 0409155 as at 1 January 2020 is presented in the table below.

Table 6.1.2.1a  
(RUB'000)

Instrument	Fair value of assets	Fair value of liabilities	Amount receivable	Amount payable
Derivative financial instruments	387,986	1,188,496	94,396,256	94,850,966
<i>Including</i>				
Forward with underlying asset — foreign currency (deliverable)	234,787	263,200	8,787,852	8,816,264
Option with underlying asset — foreign currency	176	176	118,812	118,812
Swap with underlying asset — foreign currency (deliverable)	68,685	163,430	43,600,387	43,695,133
Swap with underlying asset — interest rate (non-deliverable)	18,545	13,458	31,055,707	31,055,707
Swap with underlying asset — interest rate and foreign currency (deliverable)	65,793	748,232	10,833,498	11,165,050

The analysis of fair values of derivatives, by type of underlying assets and type of instruments, based on Section II of Form 0409155 as at 1 January 2019 is presented in the table below.

Table 6.1.2.1b  
(RUB'000)

Instrument	Fair value of assets	Fair value of liabilities	Amount receivable	Amount payable
Derivative financial instruments	2,398,471	476,651	68,113,870	66,263,100
<i>Including</i>				
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



Instrument	Fair value of assets	Fair value of liabilities	Amount receivable	Amount payable
Swap with underlying asset — interest rate and foreign currency (deliverable)	2,103,174	205,446	10,831,884	8,899,909

### 6.1.3 Financial investments in securities and other financial assets at fair value through other comprehensive income

This item includes only the Bank's investments in federal loan bonds and (at the beginning of the year) 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 and meet the classification criteria in IFRS 9.

Table 6.1.3.1  
(RUB'000)

	01.01.2020	01.01.2019
Russian government bonds	5,314,911	6,117,309
Bonds issued by the Bank of Russia	3,024,960	3,830,781
<b>Total</b>	<b>8,339,871</b>	<b>9,948,090</b>

Circulation periods and coupon rates of the debt securities are detailed below.

Table 6.1.3.2  
(RUB'000)

	01.01.2020		01.01.2019	
	Circulation period	Coupon rate	Circulation period	Coupon rate
Russian government bonds	From 29/01/2020 to 17/07/2024	From 6.40% to 8.52%	From 27/02/2019 to 07/12/2022	From 6.40% to 8.02%
Bonds issued by the Bank of Russia	Up to 12/02/20	6.25%	From 16/01/19 to 13/03/19	7.75%

As at 1 January 2020 and 1 January 2019, securities recorded within securities at fair value through other comprehensive income were not pledged to third parties as collateral.

### 6.1.4 Fair value measurement methods for assets and liabilities

Fair value measurement methods for assets and liabilities are presented in Note 4.12 hereof.

### 6.1.5 Investments in subsidiaries

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

### 6.1.6 Financial assets at amortized cost

Financial assets at amortized cost are specified in Note 4 hereof. The amount of loans and similar debt, less the provision for expected credit losses, is provided in Note 6.1.7 hereof. The amount of other financial assets, less the provision for expected credit losses, is provided in Note 6.1.18 hereof.

The credit quality of investments in financial assets at amortized cost is disclosed in Note 7.1 hereof.

Movements in the provision for possible losses are disclosed in Note 6.2 hereof.

As at 1 January 2020, overdue receivables within the net carrying amount of financial assets at amortized cost were RUB 0 thousand.

### 6.1.7 Net loans receivable at amortized cost

The structure of loans receivable is as follows:

Table 6.1.7.1  
(RUB'000)

	01.01.2020	01.01.2019
Deposits with the Bank of Russia	5,800,000	9,400,000
Interbank loans and deposits:	371,434	8,557,662



	01.01.2020	01.01.2019
Overnight	371,434	6,530,236
Other	0	2,000,000
Interest and percentage commissions receivable (*)	0	27,426
<b>Legal entities</b>	<b>21,300,617</b>	<b>24,075,574</b>
Corporate loans	19,934,263	23,300,649
Overdraft loans	1,203,949	659,747
Interest and percentage commissions receivable (*)	162,405	115,178
Consumer loans to individuals	0	53
Provision for impairment of loan portfolio and expected credit losses	(18,948)	(433,816)
<b>Total net loans receivable</b>	<b>27,453,103</b>	<b>41,599,473</b>

(\*) In the annual financial statements as at 1 January 2019, interest and interest-related fees receivable were classified within the *Other assets* balance sheet line.

Economic sector concentrations of loans receivable from legal entities are as follows:

Table 6.1.7.2

Economic sector	01.01.2020		01.01.2019	
	(RUB'000)*	(%)	(RUB'000)*	(%)
<b>Loans to legal entities</b>	<b>21,300,617</b>	<b>100</b>	<b>24,075,574</b>	<b>100</b>
Financial services other than insurance and pension coverage	7,038,562	33.0	5,668,583	23.5
Production of beverages	6,617,963	31.1	0	0.0
Production of metals	3,746,471	17.6	9,637,324	40.0
Wholesale and retail trade in motor vehicles and motorbikes and related repairs	1,619,514	7.6	1,743,829	7.2
Production of motor vehicles, trailers and semi-trailers	1,029,857	4.8	2,769,358	11.5
Wholesale trade other than in motor vehicles and motorbikes	692,442	3.3	861,303	3.6
Production of finished metal products other than machinery and equipment	301,393	1.4	342,664	1.4
Production of computers, electronic optical goods and other equipment	146,435	0.7	50,945	0.2
Production of rubber and plastic products	79,845	0.4	97,617	0.4
Warehouse facilities and support transportation activities	27,941	0.1	150,453	0.6
Production of chemicals and chemical products	194	0.0	0	0.0
Leases	0	0.0	2,555,766	10.6
Production of paper and paper products	0	0.0	101,682	0.4
Food production	0	0.0	96,050	0.4
<b>Consumer loans to individuals</b>	<b>0</b>	<b>0.0</b>	<b>53</b>	<b>0.0</b>
<b>Total loans receivable (*)</b>	<b>21,300,617</b>	<b>100</b>	<b>24,075,627</b>	<b>100</b>

(\*) Before loan loss provisions

The geographical concentration of loans receivable is disclosed in Note 7.5 hereof.

The amount and structure of loans and similar debt, by maturity, is disclosed in Note 7.3 hereof.

### 6.1.8 Change in provision for expected credit losses

At the beginning of the reporting period, provisions were not recorded in the financial statements; instead, the Bank recognized, for the first time, adjustments to provisions for possible losses; therefore, movements (changes) in provisions for expected credit losses are actually represented by their balances (amounts) at the end of the reporting period. See the related disclosures in Note 6.2 hereof.

Changes in the provision for expected credit losses on impaired financial assets, by class, are disclosed in Note 6.2 hereof.

### 6.1.9 Financial assets transferred without derecognition

The Bank has no financial assets transferred without derecognition.

### 6.1.10 Reclassification of financial instruments between measurement categories

During the reporting period and the same prior year period, the Bank did not reclassify financial instruments between recognition and measurement categories.

### 6.1.11 Financial assets and liabilities subject to offset

The Bank does not have any financial assets and liabilities subject to offset and presented in these financial statements on a net basis, except for deferred income tax assets and liabilities.

### 6.1.12 Financial assets pledged (received) as collateral

As at 1 January 2020 and 1 January 2019, the Bank did not pledge financial assets as collateral, except for a guarantee deposit on the Moscow Exchange. Bonds in the Bank's portfolio were from time to time pledged to the Bank of Russia under overnight deposits. The Bank had no other significant assets pledged as at 1 January 2020 and 1 January 2019.

During the reporting period and the same prior year period, the Bank did not receive financial or non-financial assets as collateral with a right to sell or subsequently pledge them if the borrower is 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 expected credit losses

Differences between fair values and carrying amounts 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)

	01.01.2020			01.01.2019		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
<b>Financial assets</b>						
Cash	25,576	25,576	-	31,083	31,083	-
Amounts of credit institutions placed with the Bank of Russia	2,631,350	2,631,350	-	1,332,666	1,332,666	-
Amounts due from credit institutions	15,642,109	15,642,109	-	5,885,683	5,885,683	-
Net loans receivable	27,453,103	27,565,122	112,019	41,492,022	41,441,533	(50,489)
Other financial assets	2,160,964	2,160,964	-	2,693,399	2,693,399	-
<b>Financial liabilities</b>						
Amounts due to credit institutions	9,586,984	9,551,510	(35,474)	22,186,338	22,252,278	65,940
Amounts due to customers other than credit institutions	36,348,451	36,310,511	(37,940)	28,874,476	28,871,020	(3,456)
Other financial liabilities	111,926	111,926	-	86,340	86,340	-

Fair value was calculated by discounting using the curve of risk-free interest rates at the reporting date adjusted for the 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 amounts, amortization techniques and useful lives of premises and equipment and intangible assets is presented in Note 4.5 hereof.

During the reporting period, the carrying amount of premises and equipment, intangible assets and inventories changed insignificantly. As at 1 January 2020 and 1 January 2019, the Bank had no premises and equipment or tangible assets classified as held for sale.

Below is the 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 premises and equipment	Intangible assets	Inventories	Total
Cost at 1 January 2018	200,208	986	201,194	10,215	614	212,023

	Computers and office equipment	Investments in construction and purchase of premises and equipment	Total premises and equipment	Intangible assets	Inventories	Total
Accumulated depreciation and amortization	(140,453)	0	(140,453)	(3,981)	0	(144,434)
<b>Carrying amount at 1 January 2018</b>	<b>59,755</b>	<b>986</b>	<b>60,741</b>	<b>6,234</b>	<b>614</b>	<b>67,589</b>
Additions		26,860	<b>26,860</b>	8,819	7,324	<b>43,003</b>
Transfers	26,860	(26,860)	<b>0</b>			<b>0</b>
Disposals (at cost)	(2,788)		<b>(2,788)</b>	0	(5,239)	<b>(8,027)</b>
Disposals (accumulated depreciation and amortization)	2,788		<b>2,788</b>	0		<b>2,788</b>
Depreciation and amortization charge	(22,899)		<b>(22,899)</b>	(2,291)		<b>(25,190)</b>
<b>Carrying amount at 1 January 2019</b>	<b>63,716</b>	<b>986</b>	<b>64,702</b>	<b>12,762</b>	<b>2,699</b>	<b>80,163</b>
Cost at 1 January 2019	224,280	986	225,266	19,034	2,699	246,999
Accumulated depreciation and amortization	(160,564)	0	(160,564)	(6,272)	0	(166,836)
<b>Carrying amount at 1 January 2019</b>	<b>63,716</b>	<b>986</b>	<b>64,702</b>	<b>12,762</b>	<b>2,699</b>	<b>80,163</b>
Additions		2,865	<b>2,865</b>	4,950	1,172	<b>8,987</b>
Transfers	2,865	(2,865)	<b>0</b>	0		<b>0</b>
Disposals (at cost)	(14,346)		<b>(14,346)</b>	0	(1,358)	<b>(15,704)</b>
Disposals (accumulated depreciation and amortization)	14,171		<b>14,171</b>	0		<b>14,171</b>
Depreciation and amortization charge	(21,391)		<b>(21,391)</b>	(3,133)		<b>(24,524)</b>
<b>Carrying amount at 1 January 2020</b>	<b>45,015</b>	<b>986</b>	<b>46,001</b>	<b>14,579</b>	<b>2,513</b>	<b>63,093</b>
Cost at 1 January 2020	212,799	986	213,785	23,984	2,513	240,282
Accumulated depreciation and amortization	(167,784)	0	(167,784)	(9,405)	0	(177,189)

As at 1 January 2020, total contractual obligations related to the acquisition of premises and equipment and intangible assets (future obligations to make payments under contracts for the acquisition of premises and equipment and intangible assets, where a partial advance payment for future deliveries was made before the reporting date) amounted to RUB 0 thousand (1 January 2019: RUB 0 thousand).

In 2019 and 2018, the Bank did not receive compensation from third parties due to impairment, loss or transfer of premises and equipment.

In 2019 and 2018, the Bank performed an annual revision of estimated residual values of premises and equipment and intangible assets, estimated costs of dismantling, moving or restoring premises and equipment, depreciation and amortization methods and useful lives. The revision had no material impact on the indicators for the reporting or previous periods.

The Bank did not perform the revaluation of premises and equipment and intangible assets. The impairment test of premises and equipment and intangible assets performed in December 2019 identified no impairment indicators (December 2018: no impairment indicators).

As at 1 January 2020 and 1 January 2019, the Bank had no premises and equipment or tangible assets classified as held for sale.

#### 6.1.15 Real estate property temporarily not used in core activities

During the reporting period and the same prior year period, the Bank did not have any real estate properties, including those temporarily not used in its core activities.

#### 6.1.16 Leases

Total future minimum lease payments under operating lease agreements, by period, is presented in the table below.

Table 6.1.16.1  
(RUB'000)

01.01.2020

01.01.2019

Less than 1 year	83,014	131,980
From 1 to 5 years	0	16,080
More than 5 years	0	0
<b>Total minimum operating lease commitments</b>	<b>83,014</b>	<b>148,060</b>

### 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 finite useful lives.

Amortization charges on intangible assets are included in operating expenses in the statement of comprehensive income (statement of financial results) of the Bank.

### 6.1.18 Other assets

Below is the structure of the Bank's other assets.

	01.01.2020	01.01.2019
<b>Other financial assets</b>		
Settlements with clearing institutions	2,149,559	2,536,379
Fees and commissions receivable	7,349	4,519
Revaluation of receivables/payables under spot transactions	0	45,027
Unexplained proceeds on correspondent accounts	5,614	2,840
Provision for possible losses (-)	(1,558)	(3,019)
<b>Total other financial assets</b>	<b>2,160,964</b>	<b>2,585,746</b>
<b>Other non-financial assets</b>		
Prepaid services	32,301	8,767
Prepaid operating lease	5,163	4,374
Tax settlements with the budget	10,839	4,382
Settlements with employees	299	669
Accrued receivables for provided services	0	0
Provision for possible losses (-)	(36,410)	(5,058)
<b>Total other non-financial assets</b>	<b>12,192</b>	<b>13,134</b>
<b>Total other assets</b>	<b>2,173,156</b>	<b>2,598,880</b>

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

	01.01.2020	01.01.2019
Russian ruble	11,524	59,312
US dollar	800	299
Euro	2,160,832	2,539,238
Other currencies	0	31
<b>Total other assets</b>	<b>2,173,156</b>	<b>2,598,880</b>

The amounts and structure of other assets, by maturity, are disclosed in Note 7.4 hereof.

### 6.1.19 Balances on accounts of credit institutions

Information on amounts due to credit institutions is presented in the table below.

	01.01.2020	01.01.2019
Correspondent accounts	183,648	2,633,052
Overnight loans and deposits	0	0
Other interbank loans and deposits received	9,357,270	19,553,286
Interest payable	46,066	13,831

<b>Total amounts due to other banks</b>	<b>9,586,984</b>	<b>22,200,169</b>
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The Bank does not have any syndicated loans nor any liabilities to return borrowed securities to the lending bank.

### 6.1.20 Amounts due to customers other than credit institutions

Information on amounts due to customers is presented in the table below.

Table 6.1.20.1  
(RUB'000)

	01.01.2020	01.01.2019
<b>Legal entities</b>	<b>36,348,437</b>	<b>28,882,974</b>
• Current/settlement accounts	17,645,653	17,061,573
• Term deposits	18,678,331	11,812,887
• Interest payable	24,453	8,514
<b>Individuals – liabilities payable on demand</b>	<b>14</b>	<b>16</b>
<b>Total amounts due to customers other than credit institutions</b>	<b>36,348,451</b>	<b>28,882,990</b>

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

Table 6.1.20.2  
(RUB'000)

	01.01.2020		01.01.2019	
	Amount	%	Amount	%
Processing	16,154,066	44.44%	11,975,955	41.46%
Wholesale and retail trade; repair of motor vehicles and motorbikes	12,762,384	35.11%	11,660,484	40.37%
Professional, scientific and technical activities	1,842,113	5.07%	1,569,697	5.43%
Information and telecommunication	1,676,981	4.61%	1,177,951	4.08%
Construction	1,315,638	3.62%	464,936	1.61%
Finance and insurance	884,070	2.43%	951,722	3.30%
Real estate transactions	692,619	1.91%	657,417	2.28%
Mining	509,283	1.40%	39,188	0.14%
Other	511,283	1.41%	385,624	1.34%
<b>Total amounts due to customers</b>	<b>36,348,437</b>	<b>100%</b>	<b>28,882,974</b>	<b>100%</b>

### 6.1.21 Government grants and other support

In 2019 and 2018, the Bank did not receive any government grants or other support.

### 6.1.22 Issued debt obligations at fair value

As at 1 January 2020, the Bank had no issued debt obligations (1 January 2019: none).

### 6.1.23 Issued debt obligations at amortized cost

As at 1 January 2020, the Bank had no issued debt obligations (1 January 2019: none).

### 6.1.24 Terms of early repayment of attracted funds

As at 1 January 2020 and 2019, 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 towards the Bank.

### 6.1.25 Other liabilities

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

Table 6.1.25.1  
(RUB'000)

	01.01.2020	01.01.2019
<b>Other financial liabilities</b>		
Accounts payable	103,662	63,143

	01.01.2020	01.01.2019
Revaluation of receivables/payables under spot transactions	303	650
Unsettled transfers and settlements	7,961	0
<b>Total other financial liabilities</b>	<b>111,926</b>	<b>63,793</b>
<b>Other non-financial liabilities</b>		
Accrued employee benefit costs	123,042	129,853
Taxes payable other than income tax	42,728	38,299
Settlements with accountable entities	3	2
<b>Total other non-financial liabilities</b>	<b>165,773</b>	<b>168,154</b>
<b>Total other liabilities</b>	<b>277,699</b>	<b>231,947</b>

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

Table 6.1.25.2  
(RUB'000)

	01.01.2020	01.01.2019
Russian ruble	178,644	186,266
US dollar	2,232	104
Euro	96,823	45,577
Other currencies	0	0
<b>Total other liabilities</b>	<b>277,699</b>	<b>231,947</b>

The amount and structure of other liabilities, by maturity, are disclosed in Note 7.4 hereof.

#### 6.1.26 Provisions — estimated liabilities, 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 the 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 below broken down by instrument.

Table 6.1.26.1  
(RUB'000)

	01.01.2020	01.01.2019
<b>Total irrevocable commitments, including</b>	<b>105,247,648</b>	<b>109,735,502</b>
• Undrawn credit lines	4,490,143	2,865,533
• Unused limits on overdraft loans	5,047,792	5,821,487
• Commitments under term transactions and derivatives	95,709,713	101,048,482
<b>Total guarantees issued, including</b>	<b>27,077,846</b>	<b>24,695,904</b>
• Bank guarantees	18,780,322	15,461,229
• Unsecured letters of credit	8,297,524	9,234,675
Secured letters of credit	<b>68,591</b>	<b>62,898</b>
Provisions for expected credit losses (1 January 2019: provisions for possible losses) on credit-related commitments	(15,819)	(271,196)

#### 6.1.27 Default on obligations

As at 1 January 2020, the Bank had no defaulted obligations (1 January 2019: none).

#### 6.1.28 Equity

The share capital of the Bank is represented by ordinary shares. As at 1 January 2020 and 2019, 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. Detailed information on share issues is presented in Section 5 of the statement of capital adequacy in these annual financial statements.

## 6.2. Accompanying information to the statement of financial results

Information on movements in items of the statement of financial results is disclosed in Note 3.2 hereof.

Included in interest income from investments in securities is interest income from financial assets at fair value through other comprehensive income for 2019 in the amount of RUB 0 thousand (2018: not applicable) calculated using the effective interest rate method.

Net result before tax on financial assets at fair value excluding the effect of the provision for expected credit losses amounted to RUB 119,720 thousand in 2019 (2018: not applicable), including RUB 106,515 thousand (net) recognized in other comprehensive income for 2019 and RUB 13,205 thousand reclassified upon derecognition from other comprehensive income to profit (loss) for the reporting period.

In 2019, 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 (2018: RUB 0 thousand).

Information on expenses related to provisions for possible losses and reversal of the respective income recorded as equity in the reporting period is presented in the table below by type of assets.

Table 6.2.1  
(RUB'000)

	2019			2018		
	Charged	Reversed	Result	Charged	Reversed	Result
Gains and losses on provisions for possible losses and provisions for expected credit losses						
· Loans receivable, correspondent accounts and interest accrued	2,184,127	2,598,766	414,639	944,439	1,185,605	241,166
· Change in provisions for securities (at fair value through other comprehensive income)	9,936	3,003	(6,933)	0	0	0
· Other assets	134,995	105,148	(29,847)	47,693	61,173	13,480
· Credit-related commitments	1,042,064	1,297,516	255,452	511,421	515,429	4,008
· Other losses			0	0	0	0
<b>Total gains and losses</b>	<b>3,371,122</b>	<b>4,004,433</b>	<b>633,311</b>	<b>1,503,553</b>	<b>1,762,207</b>	<b>258,654</b>
Change in the nominal value of impaired financial assets			(223,473)			0
<b>Total change in provisions</b>			<b>409,838</b>			<b>258,654</b>

The increase in gains and losses on this item in 2019 is due to the fact that the above table includes turnovers to create provisions for possible losses and transactions to adjust such provisions to provisions for expected credit losses, and these transactions are frequently similar, but opposite in nature. The result in the table above comprises net gains that include the effect of transition to IFRS 9 on 1 January 2019.

The structure of fee and commission income and expense is disclosed in the tables below.

Table 6.2.2a  
(RUB'000)

Item	01.01.2020	01.01.2019
<b>Total fee and commission income</b>	<b>586,936</b>	<b>588,812</b>
Including		
Settlement operations and account management	194,888	184,651
Documentary business	253,403	264,847
Result of acting as currency control agent	132,808	132,991
Cash operations	5,826	6,280
Other	11	43



Table 6.2.2b  
(RUB'000)

Item	01.01.2020	01.01.2019
<b>Total fee and commission expense</b>	<b>155,600</b>	<b>118,112</b>
Including		
Settlement and cash operations	31,952	26,907
Guarantees received	81,028	59,836
Transactions with securities and foreign currency	40,587	26,683
Other	2,033	4,686

In 2019, expenses on employee benefits (including taxes) totaled RUB 694,623 thousand (2018: RUB 677,572 thousand). These expenses are primarily short-term (payroll, year-end bonuses and associated taxes).

In 2019 and 2018, the Bank:

- Had no research or development costs
- Did not write down the cost of premises and equipment to their recoverable amount and did not reverse items written down
- Did not restructure activities, create or reverse respective provisions

Net loss on disposal of premises and equipment for 2019 amounted to RUB 39 thousand (2018: RUB 0 thousand).

In 2019, tax expenses comprised current income tax expense of RUB 749,531 thousand and deferred tax of RUB 467,151 thousand (2018: RUB 298,617 thousand and RUB 56,134 thousand, respectively).

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

Table 6.2.3  
(RUB'000)

	2019	2018
<b>Profit before tax</b>	<b>1,409,057</b>	<b>1,954,405</b>
Theoretical tax charge at statutory rate (2018-2017: 20%)	281,811	390,881
Tax effect of non-taxable income and non-deductible expenses:		
· Administrative and other operating expenses and net changes in provisions for possible losses, non-deductible/non-taxable	32,990	(9,661)
· Income on securities taxed at different rates (15%)	(30,247)	(23,848)
<b>Tax expense for the year</b>	<b>284,554</b>	<b>357,372</b>

In 2019 and 2018, the Bank had no deferred tax assets related to losses carried forward.

On 1 January 2019, the VAT rate was increased from 18% to 20%. This change had no significant impact on the Bank's operating expenses and did not exceed RUB 15 million in 2019. The VAT procedure for electronic services provided by foreign entities was also changed in 2019. As a result, estimated additional operating expenses of the Bank for 2018 rose by RUB 50 million. In 2019 and 2018, the Bank had no other significant gains or losses arising from changes in tax rates and the introduction of new taxes.

### 6.3. Accompanying information to the statement of changes in equity

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

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

Information on dividend payments, including per share, is presented in Note 3.3 hereof.



#### 6.4. Accompanying information to the statement of cash flows

Information on cash and cash equivalents is presented in Note 6.1.1 hereof.

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

## 7. Information on the objectives and policy for managing risks arising from financial instruments

Information on the risk management system is disclosed in Note 15.2 hereof.

### 7.1. Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. Generally, credit risk arises from commercial loans and advances, as well as credit-related commitments resulting from lending transactions. Credit risk may also arise from other lending instruments, such as financial guarantees and letters of credit.

The Bank is also exposed to other types of credit risk that relate to its trading activities (trading portfolio risk), including transactions with derivatives and settlements with counterparties.

Credit risk is the most significant for the Bank's operations; management therefore carefully manages its exposure to credit risk. Detailed information on the risk management objectives and policies is disclosed in Note 15.4 hereof.

According to IFRS 9, impairment of loans and securities exposed to credit risk and not measured at fair value through profit or loss is recognized using a three-stage model based on ECL. The Bank includes the following financial instruments in the scope of the impairment model:

- Financial instruments in the form of loans and advances as well as debt instruments measured at amortized cost
- Financial assets in the form of loans and advances as well as debt instruments measured at fair value through profit or loss (FVPL)
- Irrevocable credit-related commitments, which are not measured at fair value through profit or loss in accordance with IFRS 9
- Financial guarantees within the scope of IFRS 9 that are not measured at fair value through profit or loss

The ECL model application mechanism is summarized below:

- Stage 1. 12-month ECL are calculated as a part of lifetime ECL (LTECL) and represent the ECL arising from defaults on a financial instrument that may occur within 12 months after the reporting date. When calculating the 12-month ECL, the Bank relies on the expectation of a default within the 12 months following the reporting date. The probability of default for the 12 months is applied to exposure at default (EAD) and multiplied by the expected loss given default (LGD) and then discounted by an approximation to the original EIR.
- Stage 2. When a loan has shown a significant increase in credit risk since origination, the Bank records a provision for impairment in the amount equal to LTECL. The calculation principles are similar to those explained above, including a possibility to use multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3. For credit-impaired loans, the Bank recognizes a provision for impairment in the amount equal to LTECL. The calculation method is similar to that used for Stage 2 assets, with the PD set at 100%. The criterion for this classification is the definition of a default in accordance with Article 178 of the Capital Requirements Regulation. The following events may indicate that a customer is not able to perform its obligations:
  - The Bank is imminently insolvent (with payments that are 90 days past due).

- The Bank participates in the financial recovery/restructuring of a customer and either pays or does not pay the restructuring contributions.
- The Bank demanded immediate discharge of liabilities.
- The customer is subject to bankruptcy procedures.
- POCI. Purchased or originated credit-impaired financial assets are assets that are credit-impaired at initial recognition. For such assets, the Bank recognizes the cumulative changes in LTECL since initial recognition, based on four probability-weighted scenarios, discounted at the EIR adjusted for credit risk.

Loan commitments and letters of credit. When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then calculated as the present value of the expected cash shortfalls if the loan is drawn down, based on four probability-weighted scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving credit facilities that include both a loan and an undrawn loan commitment, ECL are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL are recognized within provisions.

Financial guarantee contracts. The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in profit or loss and the ECL provision. For this purpose, the Bank estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The cash shortfalls are discounted at the risk-adjusted interest rate relevant to the exposure. The calculation is made using four probability-weighted scenarios. The ECL related to financial guarantee contracts are recognized within provisions.

#### *Probability of default*

In accordance with IFRS 9, credit risk (probability of default) is calculated for each transaction on the date of acquisition. There are detailed requirements to determine the acquisition date (e.g., transfer of the acquisition date of the credit facility to the date of drawdowns under this credit facility). When assigning a loan to a certain stage, it is necessary to consider all information available as at the reporting date, including all expected future events, for example, expectations for macroeconomic developments.

The system of ratings comprises 25 levels for loans in default and five default classes.

The rating assigning methods are subject to regular testing and review in order to reflect the up-to-date forecasts in the light of all actual defaults.

The internal ratings scale and mapping of external ratings are as follows:

<b>Internal financial rating</b>	<b>1.0-1.2</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>2.0</b>	<b>2.2</b>	<b>2.4</b>	<b>2.6</b>	<b>2.8</b>
S&P equivalent	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB	BBB-
<b>Internal financial rating</b>	<b>3.0</b>	<b>3.2-3.4</b>	<b>3.6</b>	<b>3.8-4.0</b>	<b>4.2-4.6</b>	<b>4.8-5.0</b>	<b>5.2-5.4</b>	<b>5.6-5.8</b>	<b>&gt;6</b>
S&P equivalent	BB+	BB	BB-	B+	B	B-	CCC+	CCC,CC-	C, D

#### *Write-off*

The write-off of a financial asset, for which the Bank no longer expects repayment, is considered to be derecognition of the asset.

#### *Modification of loan terms*

The Bank sometimes makes concessions or modifies the original terms of loan agreements due to financial difficulties encountered by a borrower, rather than forecloses or otherwise enforces collection of collateral. The Bank

treats a loan as restructured if such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and to which the Bank would not have agreed if the borrower was financially solvent. Evidence of financial difficulties includes failure to comply with covenants or significant concerns expressed by the credit risk department. Loan restructuring may involve extension of contractual payment terms and arrangement of new lending conditions. Once the contractual terms have been renegotiated, any impairment losses are measured using the original EIR, as calculated before the modification of contractual terms. The Bank's policy provides for continuous monitoring of restructured loans to analyze the probability of payments in the future. Decisions to derecognize or reclassify loans to another stage are made on a case-by-case basis. If, as a result of such procedures, the Bank identifies a loss event in relation to a loan, it will be disclosed and managed as an impaired restructured asset until it is repaid or written off.

LTECL are usually used as an amount of impairment required for Stage 3 defaulted financial instruments.

Financial instruments which were credit-impaired at initial recognition in accordance with the above definition (purchased or originated credit-impaired, or POCI) are outside the three-stage model and, therefore, are not assigned to any of the three stages. At initial recognition, such financial instruments are recognized at fair value before impairment, using an EIR adjusted for credit risk. Impairment recognized in subsequent periods corresponds to the cumulative change in LTECL since the initial recognition in the balance sheet. LTECL remain the basis for the measurement, even if the value of the financial instrument grows.

#### *Exposure at default*

EAD is based on the amounts that are expected to be payable at the time of default. For loans, such an amount will be their nominal value. For credit-related commitments, the Bank includes amounts of all drawdowns plus the amount of all funds that may be used in the future by the time of default, if it occurs.

#### *Loss given default*

Loss given default (LGD) is an expected extent of loss arising on default. LGD is expressed as a loss percentage per unit of exposure. LGD depends on the type of counterparty, type of liability and existence of collateral or other credit enhancements.

#### *Determination of expected credit losses*

The Bank calculates LTECL as the probability-weighted, unutilized expected value of future credit losses over the total remaining life of the respective financial instrument, i.e. the maximum contractual term (including any renewal options) during which the Bank is exposed to credit risk. 12-month ECL used for the recognition of impairment at Stage 1 comprise a portion of LTECL that result from default events, which are possible within 12 months after the reporting date. ECL for Stage 1 and Stage 2, as well as for insignificant financial instruments at Stage 3 are calculated on an individual basis, taking into account statistical risk parameters. These parameters are determined using the Basel approach based on internal ratings (IRB) and are adjusted to meet the requirements of IFRS 9.

LGD is the forecast loss given default that is expressed as a percentage of EAD, taking into account collateral and the potential of capital recovery on the unsecured portion. The Bank's estimates, which are made specifically for different types of collateral and customer groups, are determined using historical portfolio data and diverse external information, such as indices and other data regarding the increase in the purchasing power. EAD is calculated based on expected utilization of a loan as at the default date, taking into account a (partial) drawdown of open credit facilities. All risk parameters derived from the Bank's internal models are adjusted to meet the specific requirements of IFRS 9, and the forecast horizon is extended accordingly to cover the entire life of a financial instrument. For example, the forecast for the development of the exposure over the entire life of the financial instrument also includes, in particular, contractual and statutory termination rights.

For loan products that consist of a utilized amount of the loan and an open credit facility and for which an exposure to credit risk in normal business circumstances is not limited by the contractual notification period (this mostly relates to the Bank's revolving products without a contractually agreed repayment structure, e.g. overdrafts and credit cards),

LTECL are calculated using a period that reflects the Bank's expectations in respect of the customer's behavior and typically exceeds the maximum contractual period. LTECL for these products are calculated on the basis of actual historical losses to ensure that the calculation is empirically correct in accordance with IFRS 9. As a rule, the Bank estimates risk parameters in accordance with IFRS 9 based not only on historical default information but also on the current economic environment (at a certain point in time) and forecast information. Such estimates usually involve the analysis of the effect the Bank's macroeconomic forecasts will have on the amount of ECL and the inclusion of this effect in the calculation of ECL. For this purpose, the Bank uses a baseline scenario, which relies on the applicable consensus forecast (forecasts of different banks in respect of significant macroeconomic factors, such as the GDP growth and the unemployment rate). The baseline scenario is then supplemented with macroeconomic parameters that are relevant for the model. The transformation of the baseline macroeconomic scenario into the scenario considering the effects on the risk parameters is based on statistically derived models. Where necessary, expert-based assumptions are added to these models. Potential effects of non-linear correlations between different macroeconomic scenarios and ECL are mitigated by using a separately determined adjustment factor. All parameters used when calculating ECL are regularly validated by an independent department (usually once a year). If needed, they are adjusted accordingly.

#### *Significant increase in the risk of default*

According to the Bank's rating system, the PD includes all available quantitative and qualitative information relevant to the forecast of the risk of default. As a rule, the metric is based on a statistical sample and available weighted indicators. The PD adjusted in accordance with IFRS 9 takes into account not only historical information and the current economic environment, but also, inter alia, forecast information such as the expected changes in macroeconomic conditions. Consequently, the Bank uses the PD only as a reference for determining whether the risk of default on a financial instrument has risen significantly since the date of its initial recognition. The analysis of the respective transition criteria forms a basis for the Group-wide robust credit risk management processes and procedures (in particular, early identification of credit risk, control over amounts due and the re-rating process) and allows the Bank to identify the risk of default on a timely basis and in a reliable manner based on objective criteria. To determine whether the risk of default increased significantly from the date of initial recognition, as at the end of the reporting period the Bank performs an analysis, which includes a comparison of the observable probability of default over the remaining life of the financial instrument (lifetime PD) and the lifetime PD expected as at the date of initial recognition. In accordance with IFRS, for certain sub-portfolios, the initial and current PD are compared based on the probability of default within 12 months after the reporting date (12-month PD). In these cases, the Bank uses the equivalence analysis to demonstrate that no significant fluctuations took place as compared with an assessment using the lifetime PD. To determine whether the PD increased significantly from the date of initial recognition, the Bank sets thresholds that are based on a statistical procedure. These thresholds are differentiated by rating models and represent a maximal degree of deviation from the average change of the PD. In order to ensure that classification to a certain stage is economically correct, the Bank takes into account factors specific to the transaction, including the PD at the date of initial recognition, the term to date and the remaining term of the transaction.

The table below shows liabilities under financial instruments with credit risk as at 1 January 2020 by type of financial instrument, credit rating and stage of credit risk assessment in accordance with IFRS 9.

Table 7.1.1

(RUB'000)

	Stage	Ratings				Total
		1.0-1.9	2.0-2.9	3.0-3.9	4.0-6.5	
Amounts of credit institutions placed with the Bank of Russia	Stage 1	-	2,631,350	-	-	2,631,350
Amounts due from credit institutions	Stage 1	15,602,219	80	39,810	-	15,642,109
Financial assets at fair value through profit or loss	Stage 1	-	2,250,449	-	-	2,250,449
Net loans receivable	Stage 1	371,626	22,824,569	2,976,314	382,131	26,554,640
	Stage 2	-	-	868,230	30,233	898,463
Net investments in financial assets at fair value through other comprehensive income	Stage 1	-	8,339,871	-	-	8,339,871
Settlements with clearing institutions	Stage 2	-	-	2,149,559	-	2,149,559
Letters of credit	Stage 2	-	7,356,989	940,535	-	8,297,524
Guarantees	Stage 1	-	578,500	-	-	578,500
	Stage 2	4,789,341	4,748,104	8,646,377	18,000	18,201,822
Credit lines	Stage 1	1,200,000	4,885,792	3,277,143	-	9,362,935
	Stage 2	-	-	175,000	-	175,000
<b>Total</b>		<b>21,963,186</b>	<b>53,615,704</b>	<b>19,072,968</b>	<b>430,364</b>	<b>95,082,222</b>

Data as at 1 January 2019 is not presented since the transfer to IFRS 9 was completed after this date.

Information for Tables 7.1.2-7.1.5 below was prepared based on data from the IFRS financial statements given the reclassification of individual items in accordance with Russian statutory accounting standards.

The table below shows changes in provisions for ECL on loans receivable from legal entities for the year ended 31 December 2019.

Table 7.1.2  
(RUB'000)

Loans receivable from legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
<b>ECL at 1 January 2019</b>	<b>20,214</b>	-	-	<b>10,127</b>	<b>30,341</b>
New assets originated or purchased	12,156	18	-	-	12,174
Redeemed assets	(9,881)	-	-	(10,127)	(20,008)
Changes to models or inputs used for ECL calculations	(3,587)	25	-	-	(3,562)
<b>ECL at 1 January 2020</b>	<b>18,902</b>	<b>43</b>	-	-	<b>18,945</b>

The table below shows changes in provisions for ECL on investments in bonds at fair value through other comprehensive income for the year ended 31 December 2019.

Table 7.1.3  
(RUB'000)

Bonds at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI	Total
<b>ECL at 1 January 2019</b>	<b>9,603</b>	-	-	-	<b>9,603</b>
New assets originated or purchased	4,336	-	-	-	4,336
Redeemed assets	(757)	-	-	-	(757)
Changes to models or inputs used for ECL calculations	(6,249)	-	-	-	(6,249)
<b>ECL at 1 January 2020</b>	<b>6,933</b>	-	-	-	<b>6,933</b>

The table below shows changes in provisions for ECL on undrawn credit lines and overdrafts for the year ended 31 December 2019.

Table 7.1.4  
(RUB'000)

Undrawn credit lines	Stage 1	Stage 2	Stage 3	POCI	Total
<b>ECL at 1 January 2019</b>	<b>5,619</b>	-	-	-	<b>5,619</b>
New assets originated or purchased	5,478	100	-	-	5,578
Redeemed assets	(3,647)	-	-	-	(3,647)
Changes to models or inputs used for ECL calculations	(1,429)	-	-	-	(1,429)
<b>ECL at 1 January 2020</b>	<b>6,021</b>	<b>100</b>	-	-	<b>6,121</b>

The table below shows changes in provisions for ECL on commitments under guarantees issued and issued/accepted letters of credit for the year ended 31 December 2019.

Table 7.1.5  
(RUB'000)

Guarantees and letters of credit	Stage 1	Stage 2	Stage 3	POCI	Total
<b>ECL at 1 January 2019</b>	-	<b>30,066</b>	-	-	<b>30,066</b>
New assets originated or purchased	-	12,015	-	-	12,015
Redeemed assets	-	(16,471)	-	-	(16,471)
Changes to models or inputs used for ECL calculations	-	(15,912)	-	-	(15,912)
<b>ECL at 1 January 2020</b>	-	<b>9,698</b>	-	-	<b>9,698</b>

Tables 7.1.2-7.1.5 present no data for 2018 due to the first-time adoption of IFRS 9 in 2019.

#### Collateral

The Bank employs a range of policies and procedures to mitigate credit risk. The Bank implements certain guidelines on the acceptability of specific types of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Guarantees and warranties
- Pledged property, including real estate property

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 is presented in Note 15.4 hereof (Table 15.4.4).

Information on credit risk mitigation methods as at 1 January 2020 is presented in the following table:

Table 7.1.6a  
(RUB'000)

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

No.	Item	Carrying amount of unsecured loans receivable		Carrying amount of secured loans receivable		Carrying amount of loans receivable secured by financial guarantees		Carrying amount of loans receivable secured by credit derivatives	
		Total	Including secured portion	Total	Including secured portion	Total	Including secured portion	Total	Including secured portion
1	Loans	5,194,787	16,092,945	14,299,539	16,092,945	14,299,539	-	-	-
2	Debt securities	10,202,333	10,202,333	-	-	-	-	-	-
3	Total, of which:	<b>15,397,120</b>	<b>26,295,278</b>	<b>14,299,539</b>	<b>16,092,945</b>	<b>14,299,539</b>	-	-	-
4	Overdue for more than 90 days	-	-	-	-	-	-	-	-

Information on credit risk mitigation methods as at 1 January 2019 is presented in the following table:

Table 7.1.6b  
(RUB'000)

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

No.	Item	Carrying amount of unsecured loans receivable	Carrying amount of secured loans receivable		Carrying amount of loans receivable secured by financial guarantees		Carrying amount of loans receivable 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	-	-	-	-	-	-	-

When calculating prudential ratios and determining its equity (capital), the Bank takes into account provisions for possible losses on financial assets accrued pursuant to Regulations No. 590-P and 611-P of the Bank of Russia, as well as Directive No. 2732-U of the Bank of Russia. Information on the amount of provisions for possible losses, their changes and impact on the credit risk amount is disclosed in accordance with paragraph 1.2 of Directive No. 4983-U of the Bank of Russia of 27 November 2019.

## 7.2. Market risk

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

Table 7.2.1  
(RUB'000)

	01 January 2020	01 January 2019
Euro	85,870	119,500
US dollar	73,428	42,251
Other currencies, total	32,808	11,684

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

The analysis of the effect changes in interest rate risk have on the EVE of the credit institution (banking group) by currency is presented below.

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

The sensitivity analysis at 1 January 2020:

Table 7.2.2a  
(RUB'000)

	Euro	Russian ruble	US dollar	Tenge	Total
Trading book	(22,428)	1,562,459	(18,037)	70,447	1,592,441
Banking book except for debt securities	(16,393)	(1,196,721)	25,028	(51,085)	(1,239,171)
Banking book in terms of debt securities (liquidity portfolio)	-	(636,734)	-	-	(636,734)
<b>Total</b>	<b>(38,821)</b>	<b>(270,996)</b>	<b>6,991</b>	<b>19,362</b>	<b>(283,464)</b>

## The sensitivity analysis at 1 January 2019:

Table 7.2.2b  
(RUB'000)

	Euro	Russian ruble	US dollar	Tenge	Total
Trading booko	(21,017)	629,550	(2,216)	58,551	<b>664,868</b>
Banking book except for debt securities	21,774	(465,717)	4,273	(23,465)	<b>(463,135)</b>
Banking booko in terms of debt securities (liquidity portfolio)	-	(471,246)	-	-	<b>(471,246)</b>
<b>Total</b>	<b>757</b>	<b>(307,413)</b>	<b>2,057</b>	<b>35,086</b>	<b>(269,513)</b>

Sensitivity of the portfolio of securities at FVOCI 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.

### 7.3. Liquidity risk

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

As at 1 January 2020 and 2019, the Bank had no financial instruments with an option of early termination/repayment by decision of a counterparty without the Bank's consent.

The tables below 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 the 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 assets and liabilities including planned interest. The calculation is based on the Form 0409125 methodology, including letters of credit/guarantees, credit lines, term transactions and transactions with the value date after the transaction date.

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

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

As at 1 January 2020:

Table 7.3.1a  
(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
<b>ASSETS</b>							
Cash	25,576	0	0	0	0	0	25,576
Amounts of credit institutions placed with the Bank of Russia	2,027,578	0	0	0	0	603,772	2,631,350
Including mandatory reserves	9,086	0	0	0	0	603,772	612,858
Amounts due from credit institutions	15,622,109	0	0	0	0	20,000	15,642,109
Financial assets at fair value through profit or loss (*)	1,821,679	0	0	0	0	428,770	2,250,449
Net loans receivable	6,242,087	4,926,497	2,293,175	7,596,649	184,118	6,210,577	27,453,103
Net investments in securities and other financial assets available for sale	8,224,789	0	0	0	0	115,082	8,339,871
Current income tax receivable	0	0	0	0	0	168,034	168,034
Deferred tax asset	0	0	0	0	0	119,081	119,081
Premises and equipment, intangible assets and inventories	0	0	0	0	0	63,093	63,093
Other assets	2,163,408	0	0	0	0	9,748	2,173,156
<b>Total assets</b>	<b>36,127,226</b>	<b>4,926,497</b>	<b>2,293,175</b>	<b>7,596,649</b>	<b>184,118</b>	<b>7,738,157</b>	<b>58,865,822</b>



	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 under derivatives and transactions with the value date after the transaction date	44,436,697	7,249,007	1,513,682	11,171,936	0	0	64,371,322
<b>LIABILITIES</b>							
Loans, deposits and other amounts due to the Bank of Russia	0	0	0	0	0	0	0
Amounts due to credit institutions	1,183,648	0	0	8,403,336	0	0	9,586,984
Amounts due to customers other than credit institutions	34,395,253	1,933,198	20,000	0	0	0	36,348,451
Including deposits of individuals	14	0	0	0	0	0	14
Financial liabilities at fair value through profit or loss (*)	0	0	0	0	0	1,188,496	1,188,496
Debt obligations issued	0	0	0	0	0	0	0
Current income tax liability	6,490	35,281	0	0	0	0	41,771
Deferred tax liability	0	0	0	0	0	18,404	18,404
Other liabilities	228,615	0	0	49,084	0	0	277,699
<b>Total liabilities</b>	<b>35,814,006</b>	<b>1,968,479</b>	<b>20,000</b>	<b>8,452,420</b>	<b>0</b>	<b>1,206,900</b>	<b>47,461,805</b>
Liabilities under derivatives and transactions with the value date after the transaction date	44,348,753	7,268,160	2,080,976	12,517,610	0	0	66,215,499

- (\*) Assets 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 and are not discounted to the planned settlement date.

As at 1 January 2019:

Table 7.3.1b  
(RUB'000)

	On demand and up to than 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
<b>ASSETS</b>							
Cash	31,083	0	0	0	0	0	31,083
Amounts of credit institutions placed with the Bank of Russia	696,442	0	0	0	0	636,224	1,332,666
Including mandatory reserves	36,594	0	0	0	0	636,224	672,818
Amounts due from credit institutions	5,865,683	0	0	0	0	20,000	5,885,683
Financial assets at fair value through profit or loss (*)	0	0	0	0	0	0	0
Net loans receivable	16,497,520	10,002,053	2,785,789	3,702,943	0	0	32,988,305
Net investments in securities and other financial assets available for sale	9,828,681	0	0	0	0	0	9,828,681
Current income tax receivable	0	0	0	0	0	202,146	202,146
Deferred tax asset	0	0	0	0	0	5,540	5,540
Premises and equipment, intangible assets and inventories	0	0	0	0	0	80,163	80,163
Other assets, including	2,651,198	508,151	312,729	527,011	0	47,841	4,046,930
Interest receivable (including coupon income)	109,860	508,151	312,729	527,011	0	0	1,457,751
Other liquid assets	2,541,338	0	0	0	0	47,841	2,589,179
<b>Total assets</b>	<b>35,570,607</b>	<b>10,510,204</b>	<b>3,098,518</b>	<b>4,229,954</b>	<b>0</b>	<b>991,914</b>	<b>54,401,197</b>
Assets under derivatives and transactions with the value date after the transaction date	35,626,811	52,907,852	6,143,314	4,914,362	0	0	99,592,339
<b>LIABILITIES</b>							
Loans, deposits and other amounts due to the Bank of	0	0	0	0	0	0	0

	On demand and up to than 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
Russia							
Amounts due to credit institutions	7,540,682	5,562,235	6,651,950	2,431,471	0	0	22,186,338
Amounts due to customers other than credit institutions	28,437,102	437,374	0	0	0	0	28,874,476
Including deposits of individuals	16	0	0	0	0	0	16
Financial liabilities at fair value through profit or loss (*)	0	0	0	0	0	0	0
Debt obligations issued	0	0	0	0	0	0	0
Current income tax liability	10,186	0	0	0	0	0	10,186
Deferred tax liability	0	0	0	0	0	348,069	348,069
Other liabilities, including	226,026	85,773	46,624	181,492	0	650	540,565
Interest payable	33,045	85,773	46,624	132,788	0	0	298,230
Other liabilities	192,981	0	0	48,704	0	650	242,335
<b>Total liabilities</b>	<b>36,213,996</b>	<b>6,085,382</b>	<b>6,698,574</b>	<b>2,612,963</b>	<b>0</b>	<b>348,719</b>	<b>51,959,634</b>
Liabilities under derivatives and transactions with the value date after the transaction date	35,599,379	52,065,028	5,840,113	5,072,033	0	0	98,576,553

(\*) Assets 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 and are not discounted to the planned settlement date.

#### 7.4. Effect of initial application of IFRS 9

The adjustment of provisions for possible losses to provisions for expected credit losses under IFRS 9 due to the first application of IFRS 9 in 2019 (see Note 4 hereof) had key impact on the financial performance of the Bank in the reporting period.

Balances of the provisions for possible losses, adjustments and resulting provisions for expected credit losses as at 1 January 2020 are presented in the following table:

	Provisions for possible losses	Adjustment of provisions for possible losses to provisions for expected credit losses	Provisions for expected credit losses
Loans receivable, including:	631,928	(612,980)	18,948
Interbank loans and deposits	0	3	3
Loans receivable from customers, including interest accrued	631,928	(612,983)	18,945
Amounts due from credit institutions	0	201	201
Securities at fair value through other comprehensive income	0	6,933	6,933
Other assets	37,922	(46)	37,876
Credit-related commitments, including:	339,423	(323,604)	15,819
Loan facilities	256,905	(250,784)	6,121
Guarantees issued	23,027	(23,027)	0
Letters of credit	59,491	(49,793)	9,698
<b>Total</b>	<b>1,009,273</b>	<b>(929,496)</b>	<b>79,777</b>

Significant excess of the total amount of regulatory provisions for possible losses (the Bank of Russia's Regulations No. 590-P and 611-P) over total amount of provisions for expected credit losses (IFRS 9) is due to more conservative approach in the regulatory method when provisioning rates should be significantly increased if certain formal indications are available while accounting for the economic factors is limited.

Changes in classification and assessment of the balance sheet items upon transition to IFRS 9 (as at 1 January 2019) are disclosed in the table below:

Table 7.4.2  
(RUB'000)

	Measurement category under RAS at 1 January 2019	Measurement category under IFRS (IFRS 9)	Carrying amount at 1 January 2019	Reclassification	Change in measurement and off-balance sheet interest recognition	Reversal (charge) of provisions	Carrying amount under IFRS 9
<b>ASSETS</b>							
Cash	Loans and receivables	At amortized cost	31,083				31,083
Accounts with the Central Bank of the Russian Federation	Loans and receivables	At amortized cost	1,332,666				1,332,666
Amounts due from credit institutions	Loans and receivables	At amortized cost	5,885,683			(2,910)	5,882,773
Financial assets at fair value through profit or loss	At fair value through profit or loss	At fair value through profit or loss	2,398,471				2,398,471
Securities at fair value through profit or loss	At fair value through profit or loss	At fair value through profit or loss (mandatory)	0	1,739,082			1,739,082
Net loans receivable	Loans and receivables	At amortized cost	41,599,473		103,209	272,195	41,974,877
Including recognition of interest previously recorded on off-balance sheet accounts					103,209		103,209
Including recognition of the provision for interest previously recorded on off-balance sheet accounts						(96,127)	(96,127)
Including: charge of provisions						368,322	368,322
Net investments in securities and other financial assets available for sale	Available-for-sale	At fair value through other comprehensive income	9,948,090	(1,739,082)	(907)		8,208,101
Current income tax assets			202,146				202,146
Deferred tax asset			5,540				5,540
Premises and equipment, intangible assets and inventories			80,163				80,163
Other assets			2,598,880				2,598,880
<b>Total assets</b>			<b>64,082,195</b>	<b>0</b>	<b>102,302</b>	<b>269,285</b>	<b>64,453,782</b>
<b>LIABILITIES</b>							
Amounts due to credit institutions	Financial liabilities	At amortized cost	22,200,169				22,200,169
Amounts due to customers other than credit	Financial liabilities	At amortized cost	28,882,990				28,882,990

	Measurement category under RAS at 1 January 2019	Measurement category under IFRS (IFRS 9)	Carrying amount at 1 January 2019	Reclassification	Change in measurement and off-balance sheet interest recognition	Reversal (charge) of provisions	Carrying amount under IFRS 9
institutions							
Financial liabilities at fair value through profit or loss	At fair value through profit or loss	At fair value through profit or loss (mandatory)	476,651				476,651
Current income tax liability			10,186				10,186
Deferred tax liability			348,069				348,069
Other liabilities			231,947				231,947
Provisions for ECL and provisions for possible losses on credit-related commitments, other potential losses and transactions with offshore residents			271,196			(235,511)	35,685
<b>Total liabilities</b>			<b>52,421,208</b>	<b>0</b>	<b>0</b>	<b>(235,511)</b>	<b>52,185,697</b>
<b>EQUITY</b>							
Equity of shareholders			2,155,600				2,155,600
Share premium			1,279,671				1,279,671
Reserve fund			323,340				323,340
Revaluation of securities available for sale at fair value decreased by deferred tax liability (increased by deferred tax asset)			(22,158)	13,028			(9,130)
Provisions for expected credit losses			0			9,603	9,603
Unutilized profit (loss)			7,924,534	0	0	0	7,924,534
Profit (loss) for the current year			0	(13,028)	102,302	495,193	584,467
<b>Total equity</b>			<b>11,660,987</b>	<b>0</b>	<b>102,302</b>	<b>504,796</b>	<b>12,268,085</b>

Provisions for expected credit losses in the table above correspond to the amounts of provisions in the IFRS financial statements as at 1 January 2019.

## 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 premises and equipment have been classified by 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 impairment and expected credit losses (1 January 2019: provisions for possible losses) with respect to such transactions.

As at 1 January 2020:

Table 7.5.1a  
(RUB'000)

Item	Total	Russian Federation	CIS	Developed countries	including Germany	Other countries
<b>ASSETS</b>						
Cash	25,576	25,576				
Accounts with the Central Bank of the Russian Federation	2,631,350	2,631,350				
Including mandatory reserves	612,858	612,858				
Amounts due from credit institutions	15,642,109	22,972	16,918	15,602,219	15,602,219	
Financial assets at fair value through profit or loss	2,250,449	2,174,357		76,092	76,092	
Net loans receivable	27,453,103	26,204,449	877,023	371,631	371,631	
Net investments in securities at fair value through other comprehensive income	8,339,871	8,339,871				
Premises and equipment, intangible assets and inventories	63,093	63,093				
Other assets	2,460,271	2,441,105	9,268	9,898	3,961	
<b>Total assets</b>	<b>58,865,822</b>	<b>41,902,773</b>	<b>903,209</b>	<b>16,059,840</b>	<b>16,053,903</b>	<b>0</b>
<b>LIABILITIES</b>						
Loans from the Bank of Russia	-	-				
Amounts due to credit institutions	9,586,984	1,000,174	0	8,586,810	8,583,953	
Amounts due to customers other than credit institutions	36,348,451	33,992,692	0	2,355,698	1,916,156	61
Including deposits of individuals	14	11	0	3	3	
Financial liabilities at fair value through profit or loss	1,188,496	106,948		1,081,548	1,081,548	
Other liabilities	337,874	233,077	0	104,797	104,770	
Provisions for impairment and expected credit losses, other possible losses and transactions with offshore residents	15,819	15,779	0	40	39	
<b>Total liabilities</b>	<b>47,477,624</b>	<b>35,348,670</b>	<b>0</b>	<b>12,128,954</b>	<b>11,686,466</b>	<b>61</b>

As at 1 January 2019:

Table 7.5.1b  
(RUB'000)

Item	Total	Russian Federation	CIS	Developed countries	Including Germany	Other countries
<b>ASSETS</b>						
Cash	31,083	31,083				
Accounts with the Central Bank of the Russian Federation	1,332,666	1,332,666				
Including mandatory 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	
<b>Total assets</b>	<b>64,082,397</b>	<b>48,976,472</b>	<b>400,917</b>	<b>14,705,008</b>	<b>14,701,155</b>	<b>0</b>
<b>LIABILITIES</b>						
Loans from the Bank of Russia	-	-				
Amounts due to credit institutions	22,186,338	0	0	22,186,338	22,043,480	
Amounts due to customers other than credit institutions	28,874,476	27,401,976	0	1,472,431	1,391,549	69
Including deposits of individuals	16	13	0	3	3	
Financial liabilities at fair value through	476,651	139,339		337,312	337,312	

Item	Total	Russian Federation	CIS	Developed countries	Including Germany	Other countries
profit or loss						
Other liabilities	612,749	568,933	0	43,816	43,605	
Provisions for potential losses on credit-related commitments, other potential losses and transactions with offshore residents	271,196	265,562	4,650	0	0	984
<b>Total liabilities</b>	<b>52,421,410</b>	<b>28,375,810</b>	<b>4,650</b>	<b>24,039,897</b>	<b>23,815,946</b>	<b>1,053</b>

## 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 reflected in the Bank's ICAAP limits system, which covers - from the 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 also 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 and minimum permissible markup value for maintaining capital adequacy imposed by the regulator. At the same time, the Bank follows the above principle to assure risk-bearing capacity required by the Group, i.e. the capital available should exceed the amount of the economically required capital. 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 12.1%. A red flag was additionally set at 13.2% 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 dividend paid to the Sole shareholder is presented in Note 3.3 of these Explanatory Notes.

## 9. Segment information

The Bank had no public offerings of 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 2020 were as follows (RUB'000):

Table 10.1a

Item	Total	Parent company (Shareholder)	Other related parties (organizations)	Key management personnel (Management Board)
<b>ASSETS</b>				
Amounts due from credit institutions	15,602,219	15,602,219		
Financial assets at fair value through profit or loss	76,092	76,092		
Net loans receivable	371,432	371,432	-	-
Other assets	9,388	6,515	2,873	-
<b>OFF-BALANCE SHEET ASSETS</b>				
Assets under spot transactions and derivative financial instruments	46,347,995	76,944,112		
Contingencies on guarantees issued by related parties to the Bank, other than counter guarantees	24,277,192	24,277,192	-	-
<b>LIABILITIES</b>				
Amounts due to credit institutions	8,586,810	8,586,810		
Amounts due to customers other than credit institutions	97,074	0	97,074	
Financial liabilities at fair value through profit or loss	1,081,548	1,081,548		
Other liabilities	107,266	107,266		-
<b>OFF-BALANCE SHEET LIABILITIES</b>				
liabilities under spot transactions and derivative financial instruments	47,199,623	47,199,623		
Irrevocable credit lines	700,000	700,000		
Guarantees issued by the credit institution to third parties under instruction of related parties (counter-guarantee), including relating to counter-guarantees	4,789,341	4,351,428	437,913	

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

Table 10.1b

Item	Total	Parent company (Shareholder)	Other related parties (organizations)	Key management personnel (Management Board)
<b>ASSETS</b>				
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	-
<b>OFF-BALANCE SHEET ASSETS</b>				
Assets under 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	-	-
<b>LIABILITIES</b>				

Item	Total	Parent company (Shareholder)	Other related parties (organizations)	Key management personnel (Management Board)
Amounts due to credit institutions	22,186,337	22,046,337	140,000	
Amounts due to customers other than 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	-
<b>OFF-BALANCE SHEET LIABILITIES</b>				
Liabilities under spot transactions and derivative financial instruments	75,259,839	75,259,839		
Irrevocable credit lines	700,000	700,000		
Guarantees issued by the 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	

As at 1 January 2020 and 1 January 2019, the Bank had no:

- Overdue loans receivable from 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 2019, in RUB'000:

Table 10.2a

Item	Total	Parent company (Shareholder)	Other related parties (organizations)	Key management personnel (Management Board)
Interest income	157,319	157,257	62	0
Interest expense	183,997	170,107	13,890	0
Fee and commission income	45,957	43,646	2,311	0
Fee and commission expenses	87,851	87,851	0	0
Other operating income	122,176	122,176	0	0
Operating expenses (*)	595,704	448,656	147,048	67,797

(\*) Here and in comparative data for the previous year: operating expenses related to key management personnel are presented in the amount of 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 2018, in RUB'000:

Table 10.2b

Item	Total	Parent company (Shareholder)	Other related parties (organizations)	Key management personnel (Management Board)
Interest income	161,849	161,636	213	0
Interest expense	115,221	103,905	11,316	0
Fee and commission income	42,741	41,440	1,301	0
Fee and commission expenses	70,270	70,270	0	0
Other operating income	108,848	108,848	0	0
Operating expenses	566,199	368,022	145,859	60,732

Detailed information on compensation to key management personnel (Management Board) is presented in Note 15.12 hereof.



## 11. Long-term employee benefits

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

## 12. Share-based payments

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

## 13. Business combinations

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In 2019 and 2018, the Bank was not engaged in business combinations.

## 14. Earnings per share

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The Bank has no public offerings of securities; therefore, basic and diluted earnings per share are not calculated and disclosed in these financial statements.

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

Information in this note is not audited.

Information in this note is disclosed in accordance with Directive No. 4482-U of the Bank of Russia of 7 August 2017 (hereinafter, Directive No. 4482-U).

### 15.1. Information on the equity (capital) structure

Information on the equity (capital) structure and basic characteristics of equity instruments is presented in sections 1 and 5 of Form 0409808 "Statement of capital adequacy to cover risks, the amount of provisions for possible losses on loans and other assets" of these annual financial statements (hereinafter, the statement of capital adequacy).

The table below presents a comparison of balance sheet data used as inputs for Section 1 of the statement of capital adequacy with equity (capital) components as at 1 January 2020.

Table 15.1.1a  
(RUB'000)  
(Table 1.1 of Directive No. 4482-U)

No.	Balance sheet			Statement of capital adequacy (Section 1 of Form 0409808)		
	Item	Line	At the reporting date	Item	Line	At the reporting date
1	Equity of shareholders, Share premium, total, including	24, 26	3,435,271	X	X	X
1.1	Classified as common equity Tier 1 capital	X	3,435,271	Total share capital and share premium, including contributed:	1	3,435,271
1.2	Classified as additional Tier 1 capital	X		Additional Tier 1 capital instruments and share premium classified as equity	31	0
1.3	Classified as Tier 2 capital	X		Tier 2 capital instruments and share premium	46	481,050
2	Amounts due to customers at amortized cost, Financial liabilities at fair value through profit or loss	16, 17		X	X	X
3	Premises and equipment, intangible assets and inventories, total, including:	11	63,093	X	X	X
3.1	Intangible assets deducted from common equity Tier 1 capital, total, of which	X	14,579	X	X	X
3.1.1	Goodwill less deferred tax liabilities (line 5.1 of this table)	X		Goodwill less deferred tax liabilities (line 5.1 of this table)	8	
3.1.2	Other intangible assets (other than goodwill), less deferred tax liabilities (line 5.2 of this table)	X	14,579	Intangible assets (other than goodwill and mortgage loan service rights), less deferred tax liabilities (line 5.2 of this table)	9	14,579
4	Deferred tax asset, total, including:	10	119,081	X	X	X
4.1	Deferred tax assets dependent on future profit	X	119,081	Deferred tax assets dependent on future profit	10	0
4.2	Deferred tax assets independent of future profit	X		Deferred tax assets independent of future profit	21	0
5	Deferred tax liabilities, total, of which:	20	18,404	X	X	X
5.1	Deducted from goodwill (line 3.1.1 of this table)	X		X	X	X
5.2	Deducted from other intangible assets (line 3.1.2 of this table)	X		X	X	X
6	Treasury shares (interests) purchased from shareholders (participants), total, including:	25		X	X	X

6.1	Deducted from common equity Tier 1 capital	X		Contributions to treasury shares (interests)	16	
6.2	Deducted from additional Tier 1 capital	X		Investments in own additional Tier 1 capital instruments, Other items decreasing additional Tier 1 capital	37, 41	
6.3	Deducted from Tier 2 capital	X		Investments in own Tier 2 capital instruments	52	
7	Amounts due from credit institutions, Net loans receivable at amortized cost, Net investments in financial assets at fair value through other comprehensive income, Net investments in securities and other financial assets at amortized cost (except for loans), total, including:			X		
		3, 5, 6, 7	51,435,083		X	X
7.1	Immaterial investments in common equity Tier 1 capital of financial institutions	X		Immaterial investments in common equity Tier 1 capital instruments of financial institutions	18	
7.2	Material investments in common equity Tier 1 capital of financial institutions	X		Material investments in common equity Tier 1 capital instruments of financial institutions	19	
7.3	Immaterial investments in additional Tier 1 capital of financial institutions	X		Immaterial investments in additional Tier 1 capital instruments of financial institutions	39	
7.4	Material investments in additional Tier 1 capital of financial institutions	X		Material investments in additional Tier 1 capital instruments of financial institutions	40	
7.5	Immaterial investments in Tier 2 capital of financial institutions	X		Immaterial investments in Tier 2 capital instruments and other instruments contributing to total loss-absorbing capacity of financial institutions	54	
7.6	Material investments in Tier 2 capital of financial institutions	X		Material investments in Tier 2 capital instruments and other instruments contributing to total loss-absorbing capacity of financial institutions	55	

The table below presents a comparison 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 15.1.1b  
(RUB'000)  
(Table 1.1 of Directive No. 4482-U)

No.	Balance sheet			Statement of capital adequacy (Section 1 of Form 0409808)		
	Item	Line	At the reporting date	Item	Line	At the reporting date
1	Equity of shareholders, Share premium, total, including	24, 26	3,435,271	X	X	X
1.1	Classified as common equity Tier 1 capital	X	3,435,271	Total share capital and share premium, including contributed:	1	3,435,271
1.2	Classified as additional Tier 1 capital	X		Additional Tier 1 capital instruments and share premium classified as equity	31	
1.3	Classified as Tier 2 capital	X		Tier 2 capital instruments and share premium	46	
2	Amounts due to customers at amortized cost, Financial liabilities at fair value through profit or loss	16, 17		X	X	X

3	Premises and equipment, intangible assets and inventories, total, including:	11	80,163	X		X	X
3.1	Intangible assets deducted from common equity Tier 1 capital, total, of which	X	12,762	X		X	X
3.1.1	Goodwill less deferred tax liabilities (line 5.1 of this table)	X		Goodwill less deferred tax liabilities (line 5.1 of this table)		8	
3.1.2	Other intangible assets (other than goodwill), less deferred tax liabilities (line 5.2 of this table)	X	12,762	Intangible assets (other than goodwill and mortgage loan service rights), less deferred tax liabilities (line 5.2 of the table)		9	12,762
4	Deferred tax asset, total, including:	10	5,540	X		X	X
4.1	Deferred tax assets dependent on future profit	X	5,540	Deferred tax assets dependent on future profit		10	0
4.2	Deferred tax assets independent of future profit	X		Deferred tax assets independent of future profit		21	0
5	Deferred tax liabilities, total, of which:	20	348,069	X		X	X
5.1	Deducted from goodwill (line 3.1.1 of this table)	X		X		X	X
5.2	Deducted from other intangible assets (line 3.1.2 of this table)	X		X		X	X
6	Treasury shares (interests) purchased from shareholders (participants), total, including:	25		X		X	X
6.1	Deducted from common equity Tier 1 capital	X		Contributions to treasury shares (interests)		16	
6.2	Deducted from additional Tier 1 capital	X		Investments in own additional Tier 1 capital instruments, Other items decreasing additional Tier 1 capital		37, 41	
6.3	Deducted from Tier 2 capital	X		Investments in own Tier 2 capital instruments		52	
7	Amounts due from credit institutions, Net loans receivable at amortized cost, Net investments in financial assets at fair value through other comprehensive income, Net investments in securities and other financial assets at amortized cost (except for loans), total, including:	3, 5, 6, 7	57,433,448	X		X	X
7.1	Immaterial investments in common equity Tier 1 capital of financial institutions	X		Immaterial investments in common equity Tier 1 capital instruments of financial institutions		18	
7.2	Material investments in common equity Tier 1 capital of financial institutions	X		Material investments in common equity Tier 1 capital instruments of financial institutions		19	
7.3	Immaterial investments in additional Tier 1 capital of financial institutions	X		Immaterial investments in additional Tier 1 capital instruments of financial institutions		39	
7.4	Material investments in additional Tier 1 capital of financial institutions	X		Material investments in additional Tier 1 capital instruments of financial institutions		40	
7.5	Immaterial investments in Tier 2 capital of financial institutions	X		Immaterial investments in Tier 2 capital instruments and other instruments contributing to total loss-absorbing capacity of financial institutions		54	

7.6	Material investments in Tier 2 capital of financial institutions	X	Material investments in Tier 2 capital instruments and other instruments contributing to total loss-absorbing capacity of financial institutions	55
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Information on the compliance with the capital requirements in the form of prudential ratios is presented in Note 15.11.

As at 1 January 2020, the Bank's Tier 1 capital made up 95.5% of equity (capital) (1 January 2019: 87.5%).

Information on capital requirements with respect to credit risk by type of counterparty (organizations, banks, state authorities, individual entrepreneurs, individuals) broken down by countries, in which counterparties (participants of the banking group) are residents, and in which the non-zero countercyclical buffer is established: no respective requirements are set.

## 15.2. Information on the risk management system

Information on key performance indicators is disclosed in Note 3.2 of the Explanatory Notes to the Bank's annual financial statements for 2019.

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 (the CC-CI segment business strategy). The 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 at the level of Commerzbank Group and are obligatory for all Commerzbank Group entities, including the Bank. The Chief Risk Officer is responsible for compliance with the risk management principles determined by the Board of Managing Directors of Commerzbank Group. The Chief Risk Officer regularly reports to the Risk Management Committee of the Supervisory Board and to the Board of Managing Directors of Commerzbank Group.

The principles described in the Bank's risk management strategy form a basis for designing risk and capital management procedures and developing the Bank's internal risk management rules. The document covers all significant risks. The Bank's risk management strategy is based on the 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 risk strategy is allocation of the Bank's risk management resources while ensuring the established levels of risk acceptance and liquidity. The analysis of the risk acceptance level 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 the segregation of functions for the units responsible for analysis, measurements and control of risks and the subdivisions 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 management function is deemed as a strategic partner closely cooperating with the Bank's subdivisions engaged in primary banking activities. The risk management function contributes to this process ensuring an efficient, proactive and comprehensive risk management.

The Bank's risk management is based on compliance with the "three lines of defense" principle:

- The first line of defense is provided by the Bank's subdivisions (segments/functional units) and employees responsible for identification of risks and risk management at work in line with the consistent risk management standards and policy of the Bank.
- The second line of defense is provided by the Risk Management Department of Commerzbank Group and the risk management function at the local level, which is responsible for control over credit, market, operational and liquidity risks together with units of the Bank that monitor other risks outside the competence of the risk management function. Such units provide regular reports on risk monitoring in the area of their responsibility to the head of the risk management department. At this stage of risk management, it is necessary to

determine monitoring standards for each type of risk, implement such standards, create the respective controls and organize risk analysis and assessment.

- The third line of defense includes the internal supervision functions (internal audit). Their objective is to provide an independent guarantee with regard to risk management processes and actions taken by the Bank and, therefore, to measure the effectiveness of the first and the second lines of defense.

The risk management cycle includes the following:

- Identification, measurement and determination of the acceptable level of risks inherent in the banking operations and identification of typical circumstances that may result in 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 criteria, risk management in accordance with the Bank's approved strategy.
- Allocation of economic capital. Measurement of returns considering significant risks, change of the Bank's activities and approved risk appetite, including the historical retrospective of risk and returns.
- Providing reports on all the above issues to the executive bodies and the Supervisory Board of the Bank.

The Bank defines risk 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 prudential 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 the 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 transactions or do business if it is aware of the counterparties' suspected or actual support of illegal activities, either direct or indirect. This principle extends to 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, identifying and curbing illegal activities.

The annual risk inventory, which is an integral component of the ICAAP 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 and top-down 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 servicing bank cards) and the 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 and forms a basis for determining the Bank's risk management strategy and risk appetite (i.e. the acceptable level of exposure).

The risk appetite is defined 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 internal regulation "Risk Resilience Policy")
- Compliance with the minimum regulatory capital adequacy requirements
- Ensuring the Bank's solvency and structural liquidity at any time

According to the 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 scope and structure of the banking operations as well as the market positions of the Bank, significant risks include 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.

As a result of the risk inventory procedure, the following risks of the Bank have been acknowledged as significant in 2019:

- Credit risk (including borrower risk, issuer risk, country risk and counterparty risk);
- Market risk (including interest rate risk of the bank portfolio);
- Operational risk;
- Business risk;
- Reputational 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 guidelines 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 on the minimum amount of capital required to cover risks as at 1 January 2020 is presented in the following table.

Table 15.2.1a  
(Table 2.1 of Directive No. 4482-U)

No.	Item	Risk-weighted assets (liabilities)		Minimum capital required to cover risks
		At the reporting date 1 January 2020	At the previous reporting date 1 October 2019	At the reporting date 1 January 2020
1	Total credit risk (except for counterparty credit risk), including:			
		33,789,223	36,056,129	2,703,138
2	Under standardized approach	33,789,223	36,056,129	2,703,138
3	Under approach based on internal ratings	N/A	N/A	
4	Under approach based on the risk-weighted assets on specialized loans and investments in ownership interests (approach based on internal ratings)	N/A	N/A	
5	Under advanced approach based on internal ratings	N/A	N/A	
6	Total counterparty credit risk, including:			
		1,056,464	1,751,790	84,517
7	Under standardized approach	1,056,464	1,751,790	84,517
8	Under approach based on internal models	N/A	N/A	
9	Under other approaches	0	0	0
10	Risk of change in value of loans receivable due to deterioration in counterparty's credit quality under over-the-counter derivative transactions	461,133	849,512	36,891
11	Investments in equity securities (shares and units in mutual funds) and interests in share capital of legal entities not included in trading portfolio, under market approach	0	0	0
12	Investments in shares and units of investment and other funds – look-through approach	0	0	0
13	Investments in shares and units of investment and other funds – mandatory approach	0	0	0
14	Investments in shares and units of investment and other funds – backup approach	0	0	0
15	Risk of settlements	N/A	N/A	
16	Total securitization risk (except for risk of trading portfolio securitization), including:			
		0	0	0
17	Under approach based on internal ratings	N/A	N/A	
18	Under approach based on ratings of credit rating agencies, including	N/A	N/A	

No.	Item	Risk-weighted assets (liabilities)		Minimum capital required to cover risks
		At the reporting date 1 January 2020	At the previous reporting date 1 October 2019	At the reporting date 1 January 2020
	approach based on internal assessments			
19	Under standardized approach	0	0	0
20	Total market risk, including:	3,839,421	4,417,855	307,154
21	Under standardized approach	3,839,421	4,417,855	307,154
22	Under approach based on internal models	N/A	N/A	
23	Adjustment to capital due to transfer of securities from trading portfolio to non-trading portfolio	0	0	0
24	Operational risk	5,713,950	5,713,950	457,116
25	Assets below materiality threshold to be deducted from equity (capital) and weighted with ratio of 250%	100,677	0	251,693
26	Minimum adjustment for lower cap of credit and operational risk under approach based on internal ratings and advanced (improved) approach	N/A	N/A	
27	<b>Total</b> (sum of lines 1 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 16 + 19 + 23 + 24)	<b>44,399,058</b>	<b>47,939,724</b>	<b>3,551,925</b>

Comparable information as at 1 January 2019 is presented in the following table:

Table 15.2.1b  
(Table 2.1 of Directive No. 4482-U)

No.	Item	Risk-weighted assets (liabilities)		Minimum capital required to cover risks
		At the reporting date 1 January 2019	At the previous reporting date 1 October 2018	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 standardized approach	34,673,723	35,859,920	2,773,898
3	Under approach based on internal ratings	N/A	N/A	
4	Under approach based on risk-weighted assets on specialized loans and investments in ownership interests (approach based on internal ratings)	N/A	N/A	
5	Under advanced approach based on internal ratings	N/A	N/A	
6	Total counterparty credit risk, including:	1,554,409	1,609,353	124,353
7	Under standardized approach	1,554,409	1,609,353	124,353
8	Under approach based on internal models	N/A	N/A	
9	Under other approaches	0	0	0
10	Risk of change in value of loans receivable due to deterioration in counterparty's credit quality under over-the-counter derivative transactions	783,546	672,345	62,684
11	Investments in equity securities (shares and units in mutual funds) and interests in share capital of legal entities not included in trading portfolio, under market approach	0	0	0
12	Investments in shares and units of investment and other funds – look-through approach	0	0	0
13	Investments in shares and units of investment and other funds – mandatory approach	0	0	0
14	Investments in shares and units of investment and other funds – backup approach	0	0	0
15	Risk of settlements	N/A	N/A	
16	Total securitization risk (except for risk of trading portfolio securitization), including:	0	0	0
17	Under approach based on internal ratings	N/A	N/A	
18	Under approach based on ratings of credit rating agencies, including approach based on internal assessments	N/A	N/A	
19	Under standardized approach	0	0	0
20	Total market risk, including:	2,242,057	1,977,407	179,365
21	Under standardized approach	2,242,057	1,977,407	179,365
22	Under approach based on internal models	N/A	N/A	
23	Adjustment to capital due to transfer of securities from trading portfolio to non-trading portfolio	N/A	N/A	



No.	Item	Risk-weighted assets (liabilities)		Minimum capital required to cover risks
		At the reporting date 1 January 2019	At the previous reporting date 1 October 2018	At the reporting date 1 January 2019
24	Operational risk	8,886,013	8,886,013	710,881
25	Assets below materiality threshold to be deducted from equity (capital) and weighted with ratio of 250%	0	0	0
26	Minimum adjustment for lower cap of credit and operational risk under approach based on internal ratings and advanced (improved) approach	N/A	N/A	
27	<b>Total</b> (sum of lines 1 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 16 + 19 + 23 + 24)	<b>47,356,202</b>	<b>48,332,693</b>	<b>3,788,497</b>

The table comprises risks taken by the Bank and classified as significant in accordance with the Bank of Russia's Instruction 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.

Values presented in Table 15.2.1 decreased in 2019 mostly as a result of a decrease in operational risk indicators calculated based on average values of the statement of financial position for the previous 3 years due to the change in values included in the calculation.

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 these 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 breached limits and relevant actions taken
  - Information on concentration (if any)
- Results of stress testing (sensitivity of credit, interest rate 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 prudential 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 significant risks, on compliance with prudential ratios, capital amount and results of capital adequacy assessment are provided to the Supervisory Board on a quarterly basis and to the Bank's Management Board – on a monthly basis

Information on reaching alert levels and non-compliance with the established limits is communicated to the Management Board of the Bank 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 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 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. However, the Group has zero tolerance to primary reputational risks; the Group understands that secondary reputational risks may arise as a result of the occurrence of other types of banking risks.

Reputational risk should be managed to reduce possible 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 a systemic and integrated approach, which implies solving the following tasks:

- Obtaining the most recent and unbiased information on the 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 management 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 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.

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 or 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

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 development strategy, 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 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's 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 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 compliance risk is significant due to an increased attention of the Russian and international supervisory authorities. Individual coverage of compliance risk is made from the coverage intended for operational risk rather than from capital.

### 15.3. Comparison of data in the financial statements of the credit institution and data in the financial statements submitted by the credit institution to the Bank of Russia for supervision purposes

Information on the correlation of the annual financial statements of the credit institution with the regulatory approaches to the determination of capital requirements for certain types of risk as at 1 January 2020 is presented in the table below.

Table 15.3.1a  
(RUB'000)  
(Table 3.1 of Directive No. 4482-U)

No.	Item	Carrying amount of assets (liabilities) recorded in the balance sheet (published form) of the annual financial statements of the credit institution	Of which:					
			Exposed to credit risk	Exposed to counterparty credit risk	Included in securitization transactions	Exposed to market risk	Not subject to capital requirements or deductions from equity	
1	2	3	5	6	7	8	9	
<b>Assets</b>								
1	Cash and amounts due from central banks	2,656,926	60,555					2,596,371
2	Amounts due from credit institutions	15,642,109	15,642,109					0
3	Financial assets at fair value through profit or loss, including	2,250,449	443,861	387,987		387,987		1,806,588
3.1	- Securities	1,862,462	55,874					1,806,588
3.2	- Derivative financial instruments	387,987	387,987	387,987		387,987		
4	Net investments in securities available for sale	8,339,871	250,196					8,089,675
5	Deposits with the Bank of Russia	5,800,000	174,000					5,626,000
6	Loans to credit institutions	371,431	371,431					
7	Loans to legal entities (other than credit institutions) and individuals	21,281,672	21,281,672					
8	Current and deferred tax assets	287,115	287,115					
9	Other assets, premises and equipment, intangible assets and inventories	2,236,249	2,236,249					0
<b>10</b>	<b>Total assets</b>	<b>58,865,822</b>	<b>40,747,188</b>	<b>387,987</b>	<b>0</b>	<b>387,987</b>	<b>18,118,634</b>	
<b>Liabilities</b>								
11	Amounts due to credit institutions	9,586,984						9,586,984

No.	Item	Carrying amount of assets (liabilities) recorded in the balance sheet (published form) of the annual financial statements of the credit institution	Of which:				
			Exposed to credit risk	Exposed to counterparty credit risk	Included in securitization transactions	Exposed to market risk	Not subject to capital requirements or deductions from equity
1	2	3	5	6	7	8	9
12	Amounts due to legal entities (other than credit institutions) and individuals	36,348,451					36,348,451
13	Financial liabilities at fair value through profit or loss - derivative financial instruments	1,188,496		1,188,496		1,188,496	
14	Other liabilities, including deferred tax liabilities	337,874					337,874
<b>15</b>	<b>Total liabilities</b>	<b>47,461,805</b>	<b>0</b>	<b>1,188,496</b>	<b>0</b>	<b>1,188,496</b>	<b>46,273,309</b>

In the table above, financial assets/liabilities - derivative financial instruments (currency forwards and swaps, interest rate and currency interest rate swaps) recorded in lines 3 and 13 are recognized in the credit risk, market risk and counterparty risk items.

Comparable information as at 1 January 2019 is presented in the table below.

Table 15.3.1b  
(RUB'000)  
(Table 3.1 of Directive No. 4482-U)

No.	Item	Carrying amount of assets (liabilities) recorded in the balance sheet (published form) of the annual financial statements of the credit institution	Of which:				
			Exposed to credit risk	Exposed to counterparty credit risk	Included in securitization transactions	Exposed to market risk	Not subject to capital requirements or deductions from equity
1	2	3	5	6	7	8	9
<b>Assets</b>							
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 instruments	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
<b>10</b>	<b>Total assets</b>	<b>64,082,397</b>	<b>43,967,424</b>	<b>2,398,471</b>	<b>0</b>	<b>2,398,471</b>	<b>20,114,973</b>
<b>Liabilities</b>							
11	Amounts due to credit institutions	22,186,338					22,186,338

No.	Item	Carrying amount of assets (liabilities) recorded in the balance sheet (published form) of the annual financial statements of the credit institution	Of which:				
			Exposed to credit risk	Exposed to counterparty credit risk	Included in securitization transactions	Exposed to market risk	Not subject to capital requirements or deductions from equity
1	2	3	5	6	7	8	9
12	Amounts due to legal entities (other than credit institutions) and individuals	28,874,476					28,874,476
13	Financial liabilities at fair value through profit or loss - derivative financial instruments	476,651		476,651		476,651	
14	Other liabilities, including deferred tax liabilities	612,749					612,749
<b>15</b>	<b>Total liabilities</b>	<b>52,150,214</b>	<b>0</b>	<b>476,651</b>	<b>0</b>	<b>476,651</b>	<b>51,673,563</b>

The main reasons for differences between the amount of assets (liabilities) recorded in the annual financial statements of the credit institution and the amount of assets (liabilities), for which the credit institution determines the capital adequacy requirements, are presented in the table below.

Table 15.3.2a  
(RUB'000)  
(Table 3.2 of Directive No. 4482-U)

No.	Item	Total, of which:	Exposed to credit risk	Included in securitization transactions	Exposed to market risk	
					Exposed to credit risk	Exposed to counterparty risk
1	Carrying amount of assets of the credit institution recorded in the balance sheet (published form) of the annual financial statements of the credit institution (in accordance with column 3 of line 10 of Table 3.1 of this section)	40,747,188	40,747,188	0	387,987	387,987
2	Carrying amount of assets of the banking group recorded in the statement of financial position of the consolidated financial statements of the banking group included in the scope of regulatory consolidation (in accordance with column 4 of line 13 of Table 3.1 of this section)					
3	Carrying amount of liabilities of the credit institution recorded in the balance sheet (published form) of the annual financial statements of the credit institution (in accordance with column 3 of line 15 of Table 3.1 of this section)	1,188,496	0	0	1,188,496	1,188,496
4	Carrying amount of liabilities of the banking group recorded in the statement of financial position of the consolidated financial statements of the banking group included in the scope of regulatory consolidation (in accordance with column 4 of line 22 of Table 3.1)					
5	Net carrying amount of assets and liabilities of the credit institution (banking group)	39,558,692	40,747,188	0	(800,509)	(800,509)
6	Off-balance sheet assets (liabilities)	33,445,822	24,787,720	0	0	0
7	Differences in estimates		0			

No.	Item	Total, of which:	Exposed to credit risk	Included in securitization transactions	Exposed to credit risk	Exposed to market risk
					Exposed to counterparty risk	
8	Differences as a result of discrepancies in netting rules, apart from those recorded in line 3(4)	0				
9	Differences due to the procedure of determining provisions for possible losses	0				
10	Aggregate amount of assets (liabilities), for which capital requirements are determined	73,004,514	65,534,908	0	(800,509)	(800,509)

Comparable information as at 1 January 2019 is presented in the table below.

Table 15.3.2b  
(RUB'000)  
(Table 3.2 of Directive No. 4482-U)

No.	Item	Total, of which:	Exposed to credit risk	Included in securitization transactions	Exposed to credit risk	Exposed to market risk
					Exposed to counterparty risk	
1	Carrying amount of assets of the credit institution recorded in the balance sheet (published form) of the annual financial statements of the credit institution (in accordance with column 3 of line 10 of Table 3.1 of this section)	43,967,424	43,967,424	-	2,398,471	2,398,471
2	Carrying amount of assets of the banking group recorded in the statement of financial position of the consolidated financial statements of the banking group included in the scope of regulatory consolidation (in accordance with column 4 of line 13 of Table 3.1 of this section)					
3	Carrying amount of liabilities of the credit institution recorded in the balance sheet (published form) of the annual financial statements of the credit institution (in accordance with column 3 of line 15 of Table 3.1 of this section)	476,651	-	-	476,651	476,651
4	Carrying amount of liabilities of the banking group recorded in the statement of financial position of the consolidated financial statements of the banking group included in the scope of regulatory consolidation (in accordance with column 4 of line 22 of 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	Off-balance sheet assets (liabilities)	33,445,822	24,787,720	-	-	-
7	Differences in estimates	-				
8	Differences as a result of discrepancies in netting rules, apart from those recorded in line 3(4)	-				
9	Differences due to the procedure of determining provisions for possible losses	-				
10	Aggregate amount of assets (liabilities), for which capital requirements are determined	76,936,595	68,755,144	-	1,921,820	1,921,820

The table below presents information on encumbered and non-encumbered assets as at the end of Q4 2019. Security deposits to the guarantee fund of currency and stock markets on the Moscow Exchange are recorded as encumbered assets.

The indicators are calculated as the arithmetic mean of the corresponding data as at the end of each month of the quarter. Debt securities (line 3) are represented by Russian federal loan bonds and short-term bonds issued by the Bank of Russia.

Table 15.3.3a  
(RUB'000)  
(Table 3.3 of Directive No. 4482-U)

No.	Item	Carrying amount of encumbered assets		Carrying amount of non-encumbered assets	
		Total	Including those related to liabilities to the Bank of Russia	Total	Including those that can be provided to the Bank of Russia as collateral
1	Total assets, including:	20,000	-	60,432,526	9,112,856
2	Equity securities, total, including:	-	-	-	-
2.1	Of credit institutions	-	-	-	-
2.2	Of legal entities other than credit institutions	-	-	-	-
3	Debt securities, total, including:	-	-	9,112,856	9,112,856
3.1	Of credit institutions, total, of which:	-	-	-	-
3.1.1	With long-term credit ratings	-	-	-	-
3.1.2	Without long-term credit ratings	-	-	-	-
3.2	Of legal entities other than credit institutions, total, including:	-	-	-	-
3.2.1	With long-term credit ratings	-	-	-	-
3.2.2	Without long-term credit ratings	-	-	-	-
4	Balances on correspondent accounts with credit institutions	20,000	0	20,576,854	-
5	Interbank loans (deposits)	-	-	4,191,539	-
6	Loans to legal entities other than credit institutions	-	-	21,300,122	-
7	Loans to individuals	-	-	0	-
8	Premises and equipment	-	-	49,576	-
9	Other assets	-	-	2,230,711	-

The table below presents comparable information on encumbered and non-encumbered assets as at the beginning of the reporting quarter.

Table 15.3.3b  
(RUB'000)

No.	Item	Carrying amount of encumbered assets		Carrying amount of non-encumbered assets	
		Total	Including those related to liabilities to the Bank of Russia	Total	Including those that can be provided to the Bank of Russia as collateral
1	Total assets, including:	20,000	-	59,694,590	6,155,876
2	Equity securities, total, including:	-	-	-	-
2.1	Of credit institutions	-	-	-	-
2.2	Of legal entities other than credit institutions	-	-	-	-
3	Debt securities, total, including:	-	-	6,155,876	6,155,876
3.1	Of credit institutions, total, of which:	-	-	-	-
3.1.1	With long-term credit ratings	-	-	-	-
3.1.2	Without long-term credit ratings	-	-	-	-
3.2	Of legal entities other than credit institutions, total, including:	-	-	-	-

No.	Item	Carrying amount of encumbered assets		Carrying amount of non-encumbered assets	
		Total	Including those related to liabilities to the Bank of Russia	Total	Including those that can be provided to the Bank of Russia as collateral
3.2.1	With long-term credit ratings			-	-
3.2.2	Without long-term credit ratings			-	-
4	Balances 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 records in the balance sheet only encumbered assets, for which the Bank retained the rights and did not transfer risks in full. If the Bank loses the right to encumbered assets and transferred risks related to them in full, the corresponding assets should be written off from the balance sheet.

The Bank's financing model requires that the assets should be encumbered only with respect to the securities portfolio (Russian federal loan bonds and short-term bonds issued by the Bank of Russia), which can be pledged as collateral and/or items of REPO transactions to obtain short-term RUB-denominated financing from the Bank of Russia as part of the liquidity management.

There were no changes in encumbered assets (data presented in Tables 15.3.3a and 15.3.3b) during the reporting period.

Information on the scope and types of transactions with non-resident counterparties is presented in the table below.

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

		01.01.2020	01.01.2019
1	Correspondent accounts with non-resident banks	15,619,244	5,844,854
2	Loans to non-resident counterparties, total, including:	950,118	6,860,623
2.1	To non-resident banks	371,434	6,530,236
2.2	To non-resident legal entities other than credit institutions	578,684	330,387
2.3	To non-resident individuals	0	0
3	Debt securities of non-resident issuers, total, including:	0	0
3.1	With long-term credit ratings	0	0
3.2	Without long-term credit ratings	0	0
4	Amounts due to non-residents, total, including:	10,896,680	23,650,126
4.1	Due to non-resident banks	8,540,918	22,177,626
4.2	Due to non-resident legal entities other than credit institutions	2,355,759	1,472,497
4.3	Due to non-resident individuals	3	3

Based on the data presented in Table 15.3.4 as at 1 January 2020, the most significant changes were identified with respect to transactions with non-resident banks; comments thereon are presented in Note 3.2 of the Explanatory Notes to the annual financial statements for 2019.

Information in accordance with Table 3.7 of Directive No. 4482-U (Information on credit and market risks, by country, used to calculate the countercyclical buffer to capital adequacy ratios of the bank (banking group)) is not presented due to the absence of transactions to which non-zero countercyclical buffers are applied when calculating credit and market risks.



#### 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 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 is presented in Note 7.1 of the Explanatory Notes to the annual financial statements for 2019.

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 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 to the annual financial statements for 2019.

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

Information on assets exposed to credit risk as at 1 January 2020 is presented in the table below.

Table 15.4.1a

(RUB'000)

(Table 4.1 of Directive No. 4482-U of the Bank of Russia)

No.	Item	Carrying amount of loans receivable (payable) in default	Carrying amount of loans receivable (payable) overdue for more than 90 days	Carrying amount of loans receivable (payable) not in default	Carrying amount of loans receivable (payable) not overdue or 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		223,474		21,696,186	631,928	21,287,732
2	Debt securities				10,202,333		10,202,333
3	Off-balance sheet positions				36,684,372	339,423	36,344,949
4	<b>Total</b>		<b>223,474</b>		<b>68,582,891</b>	<b>971,351</b>	<b>67,835,014</b>

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

Table 15.4.1b

(RUB'000)

(Table 4.1 of Directive No. 4482-U of the Bank of Russia)

No.	Item	Carrying amount of loans receivable (payable) in default	Carrying amount of loans receivable (payable) overdue for more than 90 days	Carrying amount of loans receivable (payable) not in default	Carrying amount of loans receivable (payable) not overdue or 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	<b>Total</b>		<b>157,119</b>		<b>75,685,968</b>	<b>674,020</b>	<b>75,169,067</b>

Information on securities, the rights to which are certified by depositories and provisions for possible losses on which are charged in accordance with Directive 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 Directive No. 4482-U is not presented.

Information on assets and credit-related commitments classified as at 1 January 2020 by 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 15.4.1.2a

(RUB'000)

(Table 4.1.2 of Directive No. 4482-U of the Bank of Russia)

No.	Item	Receivables, RUB'000	Provision for possible losses accrued				Changes in accrued provisions	
			In accordance with the minimum requirements of the Bank of Russia's Regulations No. 590-P and 611-P		Upon decision of an authorized body		Percent	RUB'000
			Percent	RUB'000	Percent	RUB'000	Percent	RUB'000
1	Receivables from counterparties that show signs indicating they may not be engaged in actual operations, total, including:	0	0.00	0	0.00	0	0.00	0

No.	Item	Receivables, RUB'000	Provision for possible losses accrued				Changes in accrued provisions	
			In accordance with the minimum requirements of the Bank of Russia's Regulations No. 590-P and 611-P		Upon decision of an authorized body		Percent	RUB'000
			Percent	RUB'000	Percent	RUB'000	Percent	RUB'000
1.1	Loans	0	0.00	0	0.00	0	0.00	0
2	Restructured loans	1,432,720	0.00	0	0.00	0	0.00	0
3	Loans issued to borrowers to repay previously issued loans	11,273,281	5.03	566,771	0.00	0	(5.03)	(566,771)
4	Loans used to provide loans to third parties and settle previous liabilities of other borrowers, total, including:	981,436	3.94	38,644	0.00	0	(3.94)	(38,644)
4.1	Liabilities to the reporting credit institution	0	0.00	0	0.00	0	0.00	0
5	Loans used to purchase and/or redeem issued securities	0	0.00	0	0.00	0	0.00	0
6	Loans used to make contributions to the share capital of other legal entities	0	0.00	0	0.00	0	0.00	0
7	Loans arising from the termination of previous liabilities of a borrower under a novation or an accord and satisfaction agreement	0	0.00	0	0.00	0	0.00	0
8	Credit-related commitments to counterparties that show signs indicating they may not be engaged in actual operations	0	0.00	0	0.00	0	0.00	0

Information on assets and credit-related commitments classified as at 1 January 2019 by 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  
(RUB'000)

No.	Item	Receivables, RUB'000	Provision for possible losses accrued				Changes in accrued provisions	
			In accordance with the minimum requirements of the Bank of Russia's Regulations No. 590-P and 611-P		Upon decision of an authorized body		Percent	RUB'000
			Percent	RUB'000	Percent	RUB'000	Percent	RUB'000
1	Receivables from 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	(0.02)	(1,002)
3	Loans issued to borrowers to repay previously issued loans	10,915,930	3.33	363,583	0.00	0	(3.33)	(363,583)
4	Loans used to provide loans to third parties and settle previous liabilities of other borrowers, total, including:	0	0.00	0	0.00	0	0.00	0
4.1	Liabilities to the reporting credit institution	0	0.00	0	0.00	0	0.00	0
5	Loans used to purchase and/or redeem issued securities	0	0.00	0	0.00	0	0.00	0
6	Loans used to make contributions to the share capital of other legal entities	0	0.00	0	0.00	0	0.00	0

No.	Item	Receivables, RUB'000	Provision for possible losses accrued				Changes in accrued provisions	
			In accordance with the minimum requirements of the Bank of Russia's Regulations No. 590-P and 611-P		Upon decision of an authorized body		Percent	RUB'000
			Percent	RUB'000	Percent	RUB'000	Percent	RUB'000
7	Loans arising from the termination of previous liabilities of a borrower under a novation or an accord and satisfaction agreement	0	0.00	0	0.00	0	0.00	0
8	Credit-related commitments to counterparties that show signs indicating they may not be engaged in actual operations	0	0.00	0	0.00	0	0.00	0

Changes in indicators in Tables 15.4.1.2 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 loans receivable and debt securities in default (overdue for more than 90 days) at the beginning and at the end of 2019.

Table 15.4.2  
(RUB'000)  
(Table 4.2 of Directive No. 4482-U of the Bank of Russia)

No.	Item	Carrying amount of loans receivable and debt securities
1	Loans receivable and debt securities in default at the end of the prior reporting period (loans receivable and debt securities overdue for more than 90 days at the end of the prior reporting period)	188,111
2	Loans receivable and debt securities recognized to be in default during the reporting period (loans receivable and debt securities overdue for more than 90 days during the reporting period)	192,482
3	Loans receivable and debt securities recognized not to be in default during the reporting period and recorded within assets in default as at the beginning of the reporting period (loans receivable and debt securities recognized as not overdue during the reporting period and recorded within assets overdue for more than 90 days during the reporting period)	157,119
4	Loans receivable and debt securities written off	-
5	Other changes in the carrying amount of loans receivable and debt securities in the reporting period	-
6	Loans receivable and debt securities in default at the end of the reporting period (loans receivable 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)	223,474

Opening balances (line 1) are adjusted for the amount of accrued moratorium interest and penalties recognized in the accounting records from 1 January 2019 in loans receivable due to the changes in the accounting and reporting rules introduced in 2019.

Information on credit risk mitigation methods (Table 4.3 of Directive No. 4482-U of the Bank of Russia) as at 1 January 2020 and 1 January 2019 is presented in Note 7.1 hereof (Table 7.1.6).

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 the 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 loans receivable 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](http://www.commerzbank.com) and in Note 2 of these Explanatory Notes to the Bank's annual financial statements for 2019. 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 1 January 2020 is presented in the following table.

Table 15.4.4a  
(RUB'000)  
(Table 7.1 of Directive No. 4482-U of the Bank of Russia)

No.	Portfolio of loans receivable (payable)	Amount of loans receivable (payable), RUB'000				Risk-weighted assets (liabilities), RUB'000	Credit risk concentration ratio (weight) by asset (liability) portfolio, %
		Without taking into account the credit conversion factor and credit risk mitigation tools		Taking into account the credit conversion factor 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	11,481,886	0	325,304	0	325,304	100.00
2	Russian Federation constituents, municipalities and other organizations	7,177,373		215,321		215,321	100.00
3	Development banks					0	0.00
4	Credit institutions (except for development banks)	15,990,680	10,123,841	3,211,665	3,220,368	6,432,033	100.00
5	Professional players on the securities market engaged in securities dealing and brokerage					0	0.00
6	Legal entities	17,175,208	26,221,108	5,735,577	15,356,162	21,091,739	100.00
7	Retail borrowers (counterparties)	0		0		0	0.00
8	Assets (liabilities) secured by residential property					0	0.00
9	Assets (liabilities) secured by commercial property					0	0.00

No.	Portfolio of loans receivable (payable)	Amount of loans receivable (payable), RUB'000				Risk-weighted assets (liabilities), RUB'000	Credit risk concentration ratio (weight) by asset (liability) portfolio, %
		Without taking into account the credit conversion factor and credit risk mitigation tools		Taking into account the credit conversion factor and credit risk mitigation tools			
		Balance sheet	Off-balance sheet	Balance sheet	Off-balance sheet		
10	Equity investments					0	0.00
11	Overdue assets (liabilities)	0	0	0	0	0	0.00
12	Assets (liabilities) with increased risk ratios	3,741,090	0	5,081,074	0	5,081,074	100.00
13	Other	2,603,656	0	643,752	0	643,752	100.00
<b>14</b>	<b>Total</b>	<b>58,169,893</b>	<b>36,344,949</b>	<b>15,212,693</b>	<b>18,576,530</b>	<b>33,789,223</b>	<b>100</b>

The corresponding indicators at the beginning of the reporting year are presented in the following table.

Table 15.4.4b  
(RUB'000)

No.	Portfolio of loans receivable (payable)	Amount of loans receivable (payable), RUB'000				Risk-weighted assets (liabilities), RUB'000	Credit risk concentration ratio (weight) by asset (liability) portfolio, %
		Without taking into account the credit conversion factor and credit risk mitigation tools		Taking into account the credit conversion factor 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	100.00
2	Russian Federation constituents, municipalities and other organizations	6,117,309		183,520		183,520	100.00
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	100.00
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	100.00
7	Retail borrowers (counterparties)	50		50		50	-
8	Assets (liabilities) secured by residential property					-	-
9	Assets (liabilities) secured by commercial property					-	-
10	Equity investments					-	-
11	Overdue assets (liabilities)	-	-	-	-	-	-
12	Assets (liabilities) with increased risk ratios	7,580,973	-	10,486,724	-	10,486,724	100.00
13	Other	2,925,694	-	713,600	-	713,600	100.00
<b>14</b>	<b>Total</b>	<b>61,682,114</b>	<b>33,174,626</b>	<b>20,026,339</b>	<b>14,647,384</b>	<b>34,673,723</b>	<b>100</b>

Loans receivable (payable) of a credit institution (banking group) measured using the standardized approach by portfolio and risk weight as at 1 January 2020 are presented in the following table.

Table 15.4.5a  
(RUB'000)

(Table 4.5 of Directive No. 4482-U of the Bank of Russia)

No.	Portfolio of loans receivable (payable)	Carrying amount of loans receivable (payable) of which with risk weight:											Total								
		0%	20%	35%	50%	70%	75%	100%	110%	130%	140%	150%		170%	200%	250%	300%	600%	1,250%	Other	
		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	11,156,582		325,304																	325,304
2	Russian Federation constituents, municipalities and other organizations	6,962,052		215,321																	215,321
3	Development banks																				
4	Credit institutions (except for development banks)	2,000,000	22,084,110					2,030,411													6,432,033
5	Professional players on the securities market engaged in securities dealing and brokerage																				
6	Legal entities	6,581,339	21,131,456					15,683,521													21,091,739
7	Retail borrowers (counterparties)							0													0
8	Assets (liabilities) secured by residential property																				
9	Assets (liabilities) secured by commercial property																				
10	Equity investments																				
11	Overdue assets (liabilities)																				
12	Assets (liabilities) with increased risk weight																				
13	Other		0					431,112													5,081,074
14	<b>Total</b>	<b>26,699,973</b>	<b>43,215,566</b>	<b>0</b>	<b>540,625</b>	<b>0</b>	<b>0</b>	<b>18,145,044</b>	<b>789,809</b>	<b>1,073,191</b>	<b>0</b>	<b>1,878,090</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,172,544</b>	<b>33,789,223</b>

Indicators at the beginning of the reporting year:

Table 15.4.5b  
(RUB'000)

(Table 4.5 of Directive No. 4482-U of the Bank of Russia)

No.	Portfolio of loans receivable (payable)	Carrying amount of loans receivable (payable) of which with risk weight:														Total					
		0%	20%	35%	50%	70%	75%	100%	110%	130%	140%	150%	170%	200%	250%		300%	600%	1,250%	Other	
1	Central banks or governments of countries, including those secured with guarantees of these countries	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	
								416,823													
2	Russian Federation constituents, municipalities and other organizations							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	Assets (liabilities) secured by residential property																				
9	Assets (liabilities) secured by commercial property																				
10	Equity investments																				
11	Overdue assets (liabilities)																				
12	Assets (liabilities) with increased risk weight																				
13	Other							348,586				4,794,774									10,486,724
14	<b>Total</b>	<b>27,891,560</b>	<b>41,631,168</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,175,931</b>	<b>1,637,475</b>	<b>1,148,724</b>	<b>1,148,724</b>	<b>4,794,774</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,577,108</b>	<b>34,673,723</b>
																					713,600



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, 4.7 and 4.10 of Directive No. 4482-U.

### 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 loan receivable 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 1 January 2020 is presented in the following table.

Table 15.5.1a  
(RUB'000)

(Table 5.1 of Directive 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)	319,301	651,309	X	1.4	970,610	595,331
2	Approach based on internal models (for derivatives and financing transactions secured by securities)		X	X			
3	Simplified standardized approach when using credit risk mitigation tools (for financing transactions secured by securities)		X	X			
4	Comprehensive standardized approach when using credit risk mitigation tools (for financing transactions secured by securities)		X	X	X	X	
5	Value at risk (VaR) (for financing transactions secured by securities)		X	X	X	X	
6	<b>Total</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>595,331</b>

Indicators at the beginning of the reporting year:

Table 15.5.1a  
(RUB'000)

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	X	1.4	3,425,537	770,863
2	Approach based on internal models (for derivatives and financing transactions secured by securities)		X	X			

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
3	Simplified standardized approach when using credit risk mitigation tools (for financing transactions secured by securities)						
		X	X	X	X		
4	Comprehensive standardized approach when using credit risk mitigation tools (for financing transactions secured by securities)						
		X	X	X	X		
5	Value at risk (VaR) (for financing transactions secured by securities)						
		X	X	X	X		
<b>6</b>	<b>Total</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>770,783</b>

The risk of changes in the amount of loans receivable due to deterioration in the counterparty's credit quality for OTC derivative transactions as at 1 January 2020 is presented in the following table:

Table 15.5.2a  
(RUB'000)  
(Table 5.2 of Directive 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)		X
3	Value at risk determined using the data for the crisis period (Stressed VaR) (including 3.0 ratio)		X
4	Capital requirements in accordance with standardized approach to risk measurement	36,891	461,133
<b>5</b>	<b>Total capital requirements with respect to assets exposed to the risk of deterioration in the counterparty's credit quality for OTC derivative transactions</b>	<b>36,891</b>	<b>461,133</b>

Indicators at the beginning of the reporting year:

Table 15.5.2b  
(RUB'000)

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)		X
3	Value at risk determined using the data for the crisis period (Stressed VaR) (including 3.0 ratio)		X
4	Capital requirements in accordance with standardized approach to risk measurement	62,684	783,546
<b>5</b>	<b>Total capital requirements with respect to assets exposed to the risk of deterioration in the counterparty's credit quality for OTC derivative transactions</b>	<b>62,684</b>	<b>783,546</b>

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 as at 1 January 2020:

Table 15.5.3a  
(RUB'000)  
(Table 5.3 of Directive No. 4482-U of the Bank of Russia)

No.	Portfolios (types of counterparties)	Counterparty credit risk exposure						Total
		0%	20%	of which with risk weight:				
				50%	100%	130%	150%	Other
1	Central banks or governments of countries							
2	Russian Federation constituents and municipalities							
3	Development banks							
4	Credit institutions (except for development banks)		650,253					650,253
5	Professional players on the securities market engaged in securities dealing and brokerage							
6	Legal entities				320,357			320,357
7	Retail borrowers (counterparties)							
8	Other							
9	<b>Total</b>	-	<b>650,253</b>	-	<b>320,357</b>	-	-	<b>970,610</b>

Indicators at the beginning of the reporting year:

Table 15.5.3b  
(RUB'000)

No.	Portfolios (types of counterparties)	Counterparty credit risk exposure						Total
		0%	20%	of which with risk weight:				
				50%	100%	130%	150%	Other
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	<b>Total</b>	-	<b>3,359,571</b>	-	<b>65,966</b>	-	-	<b>3,425,537</b>

For the capital adequacy purposes, the Bank does not apply an approach based on internal ratings; therefore, it does not provide disclosures in Tables 5.4 and 5.7 of Directive No. 4482-U of the Bank of Russia.

Information per Table 5.5 of Directive 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 Directive 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 Directive 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 Directive 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 Department 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 Department, 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 *On Organization of Internal Control in Credit Institutions and Banking Groups* of 16 December 2003 and Directive No. 3624-U of the Bank of Russia *On 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 (banking book) 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 (trading book) 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 2018-2019 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 reporting date is presented in the following table.

Table 15.7.1a  
(RUB'000)  
(Table 7.1 of Directive No. 4482-U of the Bank of Russia)

No.	Item	Risk-weighted amount
<b>Financial instruments (except options):</b>		
1	Interest rate risk (general or specific)	253,121
2	Equity risk (general or specific)	
3	Currency risk	54,032
4	Commodity risk	
<b>Options:</b>		
5	Simplified approach	
6	Delta-plus method	0
7	Scenario approach	
8	Securitization	
<b>9</b>	<b>Total:</b>	<b>3,839,421</b>

Indicators at the beginning of the year:

Table 15.7.1b  
(RUB'000)

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

Analysis of the sensitivity of the Bank's net assets to the currency risk as at 1 January 2020 is presented in Note 7.3 of the Explanatory Notes to the Bank's financial statements for 2019.

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 the Bank's asset classes, interest rates, credit spreads, foreign currencies and goods. This market information is provided in the form of price quotes, which are based directly on the market information or are derived from the market information, such as yield curves and credit spreads formed using internal methods. 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 Directive 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:

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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

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At least monthly - to the Management Board of the Bank

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On a quarterly basis - to the Supervisory Board

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Reporting about the failure to comply with the

T+1: To the head of the business unit that failed to comply with the set



limits	limits and to the Chairman of the Management Board of the Bank
	<p>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</p> <p>Upon identification of a breach of ICAAP limits - to the Supervisory Board and the Management Board of the Bank</p>

For the purpose of calculating capital adequacy to cover market risk, the Bank does not apply approaches based on the internal model; therefore, it does not provide disclosures in Table 7.3 of Directive No. 4482-U or the graphic information on the comparison of the value at risk (VaR) with the profit (loss).

### 15.8. Operational risk

The amount of capital requirements as regards operational risk broken down by approach used by the Bank to measure operational risk (basic indicative approach, advanced (improved) approach): the Bank uses only the basic indicative approach; therefore, the amount on page 24 in Table 7.1.1 of the Explanatory Notes to the Bank's annual financial statements for 2019 is included in the basic indicative approach.

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 operational risk; however, reputational risk is closely related to 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 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 *On 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 annual financial statements for 2019.

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 99.9% confidence interval for the economic capital and 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 banking book**

The analysis of the effect of changes in interest rate risk on the economic value of the Bank's equity (EVE) by currency is provided in Note 7.3 of the Explanatory Notes to the Bank's annual financial statements for 2019.

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 assets and liabilities related to instruments with fixed interest rates
- Mismatch of maturities of assets, liabilities, off-balance sheet assets and liabilities 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 (banking book) 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 commercial business. 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 (gone concern). Current value is calculated by discounting 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 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 its 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.

The analysis of the effect of changes in interest rate risk on the economic value of the Bank's equity (EVE) by currency is provided in Note 7.3 of the Explanatory Notes to the Bank's annual financial statements for 2019.

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 Instruction No. 4927-U of the Bank of Russia of 8 October 2018 *On 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 2020, estimated interest rate risk amounted to RUB 308,461 thousand (1 October 2018: RUB 246,257 thousand), which is the maximum net interest income (gap) in all currencies over a one-year horizon provided that interest rate changes by 200 basis 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

With respect to the calculation of the liquidity coverage ratio (LCR):

The Bank is not among the credit institutions that are required to comply with the LCR value set by Regulation No. 510-P of the Bank of Russia of 3 December 2015; therefore, the Bank does not disclose information from Section 3 "Calculation of the liquidity coverage ratio" of Form 0409813 and does not substantiate this ratio.

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.

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, the 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 the 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 funding requirement.

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.

#### *Liquidity coverage risk*

Liquidity coverage 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 liquidity coverage gap should be covered using an adequate liquidity buffer. Thus, in addition to the intraday liquidity portfolio, the Bank builds

an 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, prudential liquidity ratios are constantly calculated and controlled and daily control procedures also include the LCR 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: — The risk management covers the risk related to intraday liquidity, liquidity coverage 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/BR 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 (LCA) report is prepared by the Group's Financial Department.

The Bank segregates 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 the escalation and transferring issues to a higher level. Additionally, the financial department reports on liquidity cost allocation and calculates prudential 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 department (hereinafter, the "Treasury") is responsible for liquidity management and compliance with prudential liquidity ratios to ensure the Bank's effective operation when meeting all 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 of the Bank 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 banking 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 the 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 separate 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 Liquidity Buffer Portfolio, 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 the renewal of some 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 voluntarily 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 Bank 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.

The analysis of assets and liabilities of the Bank broken down by remaining maturity is presented in Note 7.4 hereof.

With respect to the calculation of the liquidity coverage ratio (LCR):

The Bank is not among the credit institutions that are required to comply with the LCR value set by Regulation No. 510-P of the Bank of Russia of 3 December 2015; therefore, the Bank does not disclose information from Section 3 "Calculation of the liquidity coverage ratio" of Form 0409813 and does not substantiate this ratio.

To comply with prudential 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 prudential 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 value of NSFR set by Regulation No. 596-P of the Bank of Russia of 26 July 2017; therefore, the Bank does not disclose information on the NSFR calculation per Table 10.1 of Directive 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 applied 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 the current liquidity status of the Bank, analysis of the financing structure and prudential 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 broken down by separate product, segment and currency.

#### **15.11. Leverage and prudential ratios**

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

As regards prudential ratios:

During the reporting period, the Bank complied with the requirements to prudential ratios in accordance with Instruction No. 180-I of the Bank of Russia *On Prudential Ratios and Markups to Capital Adequacy Ratios for Banks with General Licenses* 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 prudential ratios using official exchange rates of the Bank of Russia effective at the reporting date.



As regards the leverage ratio and the respective methodology:

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

In 2019, the leverage ratio increased by 0.6% (from 11.2% to 11.8%), which was attributable to a decrease in assets used to calculate the ratio (RUB 3,222 million), which, in its turn, was reduced due to a decrease in the Bank's balance sheet assets (RUB 5,216 million).

As at 1 January 2020, the difference between the amount of assets determined in accordance with the balance sheet and the amount of assets used to calculate the leverage ratio was RUB 1,308,787 thousand and comprised the fair value of derivative financial instruments representing an asset in the amount of RUB 387,987 thousand and other differences related to the calculation methodology in the amount of RUB 920,800 thousand.

## **15.12. 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 addresses issues related to the structure, monitoring and control of the Bank's compensation system, assesses its compliance with the Bank's strategy, nature and scope of transactions, the Bank's performance, level and combination of risks assumed by the Bank. 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 the 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 of the Bank, including its representative office in Saint Petersburg.

### **Categories of risk-taking employees**

The Bank's risk-taking employees include the Chairman and the members of the Bank's Management Board as well as heads of the units engaged in making decisions on transactions bearing significant risks.

### **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 Commerzbank Group in view of the focused growth strategy, perform cost control, capital optimization, and improve the compliance culture in the Bank; 2) set up an 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 incentives for accepting unreasonable risks.

Key indicators used in the Bank's compensation system are as follows: fixed and variable compensation ratio; target bonus. Key efficiency indicators used to assess the performance of the Bank 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 and market risks to revenue ratio, provisions for possible losses and movements in these indicators considering the effect of external economic factors.

**Revision of the compensation system by the Supervisory Board**

During the reporting year, the Bank's Supervisory Board did not introduce significant changes to the Bank's compensation system.

**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 assume risks.

**Description of risk consideration methods, Bank's performance assessment, adjustment of variable compensation component**

The Bank uses key performance indicators stated in this section above as an analytical basis to decide on variable compensation payment considering quantitative and qualitative indicators of the Bank's performance, i.e. level and combination of assumed risks. The total integral performance indicator is measured using the scale from 0 to 200%. Performance of risk-taking employees is measured over a period of three years, while the performance of 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 linear dependence between the Bank's integral performance and variable compensation budgets. In accordance with the specified model, the Bank's performance for 2019 was assessed at 75% on a scale from 0 to 200% (2018: 79%). The performance of risk-taking employees is assessed based on the indicators for the three previous years.

Deferred (long-term) compensation to risk-taking employees can also be adjusted before the payment in accordance with the above rules.

**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.

**Indicators of the compensation system for members of the executive bodies and other risk-taking persons**

Information on the indicators of the compensation system for members of the executive bodies and other risk-taking persons is presented below.

The Bank does not apply incentive payments upon hiring, nor any guaranteed bonuses.

The table below contains information on the amount of compensation to members of the executive bodies and other risk-taking persons.

Table 15.12.1  
Amount, RUB'000  
(Table 12.1 of Directive No. 4482-U of the Bank of Russia)

No.	Compensation	2019		2018		Comments	
		Management Board	Other risk-taking employees	Management Board	Other risk-taking employees		
1	2	3	4	5	6	7	8
1	Fixed compensation	Number of employees, persons	4	8	3	7	
2		Total compensation, of which:	57,463	81,163	52,121	65,338	
3		Total cash, of which:	52,559	76,863	44,182	61,042	
4		Deferred	-	-	-	-	
5		Total shares or other equity instruments, of which:	-	-	-	-	
6		Deferred	-	-	-	-	
7		Other forms of compensation, total, of which:	4,904	4,300	7,939	4,296	
8		Deferred	-	-	-	-	
9	Variable compensation	Number of employees, persons	3	8	3	7	
10		Total compensation, of which:	10,334	21,672	8,611	13,344	
11		Total cash, of which:	10,334	21,672	8,611	13,344	
12		Deferred	3,322	8,613	-	-	
13		Total shares or other equity instruments, of which:	-	-	-	-	
14		Deferred	-	-	-	-	
15		Other forms of compensation, total, of which:	-	-	-	-	
16		Deferred	-	-	-	-	
<b>Total compensation</b>			<b>67,797</b>	<b>102,835</b>	<b>60,732</b>	<b>78,682</b>	

In 2019 and 2018, with respect to risk-taking employees, the Bank accrued no consideration and made no payments classified as guaranteed payments (payments under retirement plans), hiring bonuses or compensation upon dismissal. Therefore, the information in accordance with Table 12.2 of Directive No. 4482-U of the Bank of Russia is not disclosed.

The table below presents information on deferred compensation to risk-taking employees as at 1 January 2020.

Table 15.12.3a  
Amount, RUB'000  
(Table 12.3 of Directive No. 4482-U of the Bank of Russia)

No.	Compensation	Unpaid deferred and withheld compensation		Change in the amount of deferred and withheld compensation for 2019		Total deferred compensation paid in 2019
		Total amount	Of which: as a result of direct and indirect adjustments	As a result of direct adjustments	As a result of indirect adjustments	
1	2	3	4	5	6	7
1	To the Management Board:	17,717	3,228	-	148	3,322
1.1	Cash	17,717	3,228	-	148	3,322
1.2	Shares and other equity instruments	-	-	-	-	-
1.3	Money-market instruments	-	-	-	-	-
1.4	Other forms of compensation	-	-	-	-	-
2	To other risk-taking employees:	33,507	6,791	-	311	8,613
2.1	Cash	33,507	6,791	-	311	8,613

No.	Compensation	Unpaid deferred and withheld compensation		Change in the amount of deferred and withheld compensation for 2019		Total deferred compensation paid in 2019
		Total amount	Of which: as a result of direct and indirect adjustments	As a result of direct adjustments	As a result of indirect adjustments	
2.2	Shares and other equity instruments	-	-	-	-	-
2.3	Money-market instruments	-	-	-	-	-
2.4	Other forms of compensation	-	-	-	-	-
	<b>Total compensation</b>	<b>51,224</b>	<b>10,019</b>	-	<b>459</b>	<b>11,935</b>

The table below presents information on deferred compensation to risk-taking employees as at 1 January 2019.

Table 15.12.3b  
Amount, RUB'000

(Table 12.3 of Directive No. 4482-U of the Bank of Russia)

No.	Compensation	Unpaid deferred and withheld compensation		Change in the amount of deferred and withheld compensation for 2018		Total deferred compensation paid in 2018
		Total amount	Of which: as a result of direct and indirect adjustments	As a result of direct adjustments	As a result of indirect adjustments	
1	2	3	4	5	6	7
1	To the Management Board:	19,255	3,322	-	302	-
1.1	Cash	19,255	3,322	-	302	-
1.2	Shares and other equity instruments	-	-	-	-	-
1.3	Money-market instruments	-	-	-	-	-
1.4	Other forms of compensation	-	-	-	-	-
2	To other risk-taking employees:	33,493	8,613	-	783	-
2.1	Cash	33,493	8,613	-	783	-
2.2	Shares and other equity instruments	-	-	-	-	-
2.3	Money-market instruments	-	-	-	-	-
2.4	Other forms of compensation	-	-	-	-	-
	<b>Total compensation</b>	<b>52,748</b>	<b>11,935</b>	-	<b>1,085</b>	-

Chairman of the Management Board

M. Roscher

Chief Accountant

A. Gorokhovskiy

30 April 2020

**"COMMERZBANK (EURASIJA)" AO**

Kadashevskaya nab., 14/2  
119017 Moscow

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

[www.commerzbank.ru](http://www.commerzbank.ru)