Independent auditor's report
on the financial statements of
"COMMERZBANK (EURASIJA)" AO
for the year ended 31 December 2020

April 2021

Translation of the original Russian version

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Contents	Page

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 financial statements

Opinion

We have audited the financial statements of "COMMERZBANK (EURASIJA)" AO (hereinafter, the "Bank"), which comprise the statement of financial position as of 31 December 2020, and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2020 and its financial performance and its cash flows for 2020 in accordance with International Financial Reporting Standards (IFRSs).

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 financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA) International 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 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.

Responsibilities of management and Supervisory Board for the financial statements

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

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Translation of the original Russian version

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 financial statements for the year ended 31 December 2020, we determined:

1) Whether the Bank complied as of 1 January 2021 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.

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 2021 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 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 of 31 December 2020 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 of 31 December 2020 that establish the methodologies for detecting and managing credit, market, operational, reputational risks, interest rate risk of banking book , 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 of 31 December 2020, the Bank had a reporting system pertaining to credit, market, operational, reputational risks, interest rate risk of banking book , 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 the year ended 31 December 2020 with regard to the management of credit, market, operational, reputational risks, interest rate risk of banking book , 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.

- We found that, as of 31 December 2020, 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 the year ended 31 December 2020, 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.

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.

M. IGNATJEVA
Partner
Ernst & Young LLC

29 April 2021

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.

Statement of financial position

as of 31 December 2020

(thousands of Russian rubles)

	Notes	*2020*	*2019*
Assets			
Cash and cash equivalents	5	38,810,347	19,812,952
Amounts due from credit institutions	6	7,691,384	6,807,240
Derivative financial assets	7	2,632,237	387,987
Loans to customers	8	19,192,942	24,639,452
Debt securities at fair value through profit or loss	9	2,741,021	1,862,462
Debt securities at fair value through other comprehensive income	9	7,387,809	8,339,871
Property and equipment and right-of-use assets	10	269,532	511,954
Prepaid income tax		253,200	126,263
Deferred income tax assets		–	110,653
Other financial assets	13	22,474	23,851
Other non-financial assets	13	63,640	39,092
Total assets		**79,064,586**	**62,661,777**
Liabilities			
Amounts due to credit institutions	14	12,901,383	12,948,111
Derivative financial liabilities	7	1,862,890	1,188,496
Amounts due to customers	15	51,456,168	36,348,046
Deferred income tax liabilities		29,120	–
Provisions	17	11,559	11,792
Other financial liabilities	13	347,210	516,566
Other non-financial liabilities	13	204,182	277,241
Total liabilities		**66,812,512**	**51,290,252**
Equity	16		
Share capital		3,827,672	3,827,672
Revaluation reserve for debt securities at fair value through other comprehensive income		137,358	69,471
Retained earnings		7,562,695	6,750,033
Other reserves		724,349	724,349
Total equity		**12,252,074**	**11,371,525**
Total equity and liabilities		**79,064,586**	**62,661,777**

Signed and authorized for release on behalf of the Management Board of the Bank.

Michael Roscher — Chairman of the Management Board

Arthur Gorokhovsky — Chief accountant / Financial Director

29 April 2021

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2020

(thousands of Russian rubles)

	Notes	2020	2019
Interest income calculated using the effective interest rate	18	1,939,499	1,842,881
Other interest income	18	144,462	150,108
Interest expense	18	(643,499)	(772,446)
Net interest income	18	**1,440,462**	**1,220,543**
Credit loss income	12	8,772	36,562
Net interest income after credit loss expense		**1,449,234**	**1,257,105**
Fee and commission income	19	594,952	596,721
Fee and commission expense	19	(184,024)	(155,421)
Net gains/(losses) from derivative financial instruments		1,826,673	(1,644,043)
Net (losses)/gains from trading in foreign currencies		(3,345,808)	2,216,057
Net gains/(losses) from foreign currency translation		2,267,062	(152,742)
Net (losses)/gains from debt securities at fair value through profit or loss		(40,649)	31,852
Other income	20	206,458	188,722
Non-interest income		**1,324,664**	**1,081,146**
Administrative and other operating expenses	21	(1,734,831)	(1,518,579)
Non-interest expense		**(1,734,831)**	**(1,518,579)**
Profit before income tax expense		**1,039,067**	**819,672**
Income tax expense	11	(226,405)	(172,188)
Profit for the year		**812,662**	**647,484**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in fair value of debt securities at fair value through other comprehensive income		83,088	106,689
Net change in expected credit losses from debt securities at fair value through other comprehensive income		1,417	(2,670)
Income tax relating to components of other comprehensive income	11	(16,618)	(23,944)
Other comprehensive income for the year, net of tax		**67,887**	**80,075**
Total comprehensive income for the year		**880,549**	**727,559**

The accompanying notes on pages 12 to 62 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2020

(thousands of Russian rubles)

	Share capital	*Revaluation reserve for debt securities at fair value through other comprehensive income*	*Retained earnings*	*Other reserves*	*Total equity*
1 January 2019	**3,827,672**	**(10,604)**	**7,602,549**	**724,349**	**12,143,966**
Profit for the year	–	–	647,484	–	**647,484**
Other comprehensive income for the year	–	80,075	–	–	**80,075**
Total comprehensive income for the year	**–**	**80,075**	**647,484**	**–**	**727,559**
Dividends to shareholders of the Bank (Note 16)	–	–	(1,500,000)	–	**(1,500,000)**
31 December 2019	**3,827,672**	**69,471**	**6,750,033**	**724,349**	**11,371,525**
Profit for the year	–	–	812,662	–	**812,662**
Other comprehensive income for the year	–	67,887	–	–	**67,887**
Total comprehensive income for the year	**–**	**67,887**	**812,662**	**–**	**880,549**
31 December 2020	**3,827,672**	**137,358**	**7,562,695**	**724,349**	**12,252,074**

The accompanying notes on pages 12 to 62 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2020

(thousands of Russian rubles)

	Note	*2020*	*2019*
Cash flows from operating activities			
Interest received		2,029,218	1,827,700
Interest paid		(648,756)	(724,679)
Fees and commissions received		596,329	589,466
Fees and commissions paid		(201,860)	(137,579)
Realized gains less losses from derivative financial instruments		256,817	1,078,286
Realized gains less losses from dealing in foreign currencies		(3,382,115)	2,216,057
Other income received		155,807	186,131
Personnel expenses paid		(712,850)	(692,182)
Administrative and other operating expenses paid, other than personnel expenses		(678,967)	(664,401)
Cash flows (used in) / from operating activities before changes in operating assets and liabilities		**(2,586,377)**	**3,678,799**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		1,805,402	11,210,985
Loans to customers		7,563,461	1,066,394
Other assets		(119,397)	64,396
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(2,728,788)	(10,431,018)
Amounts due to customers		10,144,153	9,565,971
Other liabilities		(170,079)	18,141
Net cash flows from operating activities before income tax		**13,908,375**	**15,173,668**
Income tax paid		(231,866)	(683,834)
Net cash from operating activities		**13,676,509**	**14,489,834**
Cash flows from investing activities			
Acquisition of debt securities		(6,814,161)	(10,956,128)
Disposal of debt securities		7,085,645	10,973,877
Purchase of property and equipment		(3,340)	7,393
Proceeds from sale of property and equipment		380	828
Net cash from investing activities		**268,524**	**25,970**
Dividends paid to shareholders of the Bank		–	(1,500,000)
Lease payments		(146,603)	(125,585)
Net cash used in financing activities		**(146,603)**	**(1,625,585)**
Effect of exchange rates changes on cash and cash equivalents		5,198,965	(2,149,530)
Net increase in cash and cash equivalents		**18,997,395**	**10,740,689**
Cash and cash equivalents, beginning		19,812,952	9,072,263
Cash and cash equivalents, ending	5	**38,810,347**	**19,812,952**

The accompanying notes on pages 12 to 62 are an integral part of these financial statements.

(thousands of Russian rubles)

1. Principal activities

"COMMERZBANK (EURASIJA)" AO (the "Bank") was incorporated and is domiciled in the Russian Federation. The Bank is a joint-stock company formed in accordance with the laws of the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of Russia (the "CBR") on 4 May 2016 and a dealing license issued by the Federal Financial Markets Service on 8 April 2003.

The Bank issues loans and makes remittances on the territory of the Russian Federation and abroad, exchanges currencies and provides other banking services to its commercial customers. Its head office is located in Moscow. The Bank had one branch in Saint Petersburg, which was reorganized to representation office in November 2019. The Bank's legal address is Russia 119017, Moscow, Kadashevskaya naberezhnaya, 14/2.

The Bank is a member of the deposit insurance system. The system operates under federal laws and regulations and is governed by State Corporation Deposit Insurance Agency. Insurance covers the Bank's liabilities to individual depositors and small businesses for the amount up to 1,400 thousand Russian rubles for each individual/legal entity in case of business failure or revocation of the CBR banking license.

As at 31 December 2020 and 31 December 2019, the Bank was wholly owned by Commerzbank AG (Germany). Commerzbank AG and its subsidiaries are referred to as the "Commerzbank Group" in these financial statements. For the consolidated financial statements of Commerzbank AG (Germany), including financial information about the Bank, please refer to www.commerzbank.com.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain accounting records and prepare financial statements in Russian rubles in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, debt securities and derivative financial instruments have been measured at fair value.

These financial statements are presented in thousands of Russian rubles ("RUB"), except per share amounts and unless otherwise indicated.

Effect of COVID-19 pandemic

Due to rapid spread of COVID-19 pandemic in 2020 many governments, including the Russian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain, demand for goods and services, as well as the scale of business activity. It is expected that pandemic itself as well as measures for its consequences' minimization may influence the business of the entities in wide range of industries. Since March 2020 significant volatility in stock, currency and commodity markets exists, including decrease in crude prices and decrease in RUB to USD and EUR foreign exchange rates.

In 2020, support measures were introduced by the Government and the Central Bank of Russia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

COVID-19 pandemic and its significant economic and social consequences, as well as stimulating support provided by the Government, give rise to significant difficulties for the used models of risk calculation. Commerzbank Group introduced certain measures for recognizing increased risk in the models and ensuring appropriate management, including during the current stage. These measures included, in particular, extended regular monitoring of the characteristics of the models and partial improvement and adaptation of the processes to use the models.

When calculating the expected credit losses, additional effects may arise due to scenarios or events not reflected in a combination of parameters under IFRS 9 used in modeling (which may relate to such single events as significant political decisions and military conflicts). For such additional effects, a separately determined adjustment is applied to the result of the expected credit losses model under IFRS 9.

(thousands of Russian rubles)

2. Basis of preparation (continued)

Effect of COVID-19 pandemic (continued)

The Bank assessed the impact of the above-mentioned circumstances on its borrowers and counterparties and concluded that these financial statements do not require any separate adjustments. The Bank continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results.

Estimation uncertainty

To the extent that information is available as at the end of day 31 December 2020, the Bank has reflected revised estimates of expected future cash flows in its ECL assessment (Note 12), estimation of fair values of financial instruments (Note 23).

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods

3. Summary of accounting policies

Changes in accounting policies

Several amendments effective since 1 January 2020 were applied but do not have an impact on the financial statements of the Bank:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Financial Instruments: Recognition and Measurement

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

Amendment to IFRS 16: COVID-19-Related Rent Concessions

The amendments provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. This amendment had no impact on the financial statements of the Bank.

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI.

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

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

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

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

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model used for managing the instruments. Financial instruments are initially measured at their fair value, including transaction costs and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Measurement categories of financial assets and liabilities

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

- Amortized cost;
- FVOCI;
- FVPL.

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

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

Amounts due from credit institutions and loans to customers

The Bank measures amounts due from credit institutions and loans to customers at amortized cost, only if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

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

Debt instruments at FVOCI

In accordance with IFRS 9 the Bank measures debt instruments at FVOCI when both of the following conditions are met:

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

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

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

Financial guarantees, letters of credit and loan commitments

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

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortization recognised in the statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Performance guarantees

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

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to insignificant changes in value. Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions payable upon demand. Cash and cash equivalents are carried at amortized cost.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers, as appropriate. The difference between the purchase price and the resale price is treated as interest revenue and accrued over the life of repo agreements using the effective interest rate method.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending (continued)

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

Derivative financial instruments

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the CBR, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowings and subordinated loans. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

Leases

i. Bank as a lessee

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

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Leases (continued)

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and should be enforceable in all the following circumstances:

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

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

- A change in the currency of a loan;
- A change in the counterparty;
- Whether the modification is such that the instrument no longer meets the SPPI criterion.

If the modification does not result in cash flows that are substantially different, it does not result in derecognition of the asset. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

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

Derecognition of financial assets and liabilities

Financial assets

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

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

Write-offs

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

Financial liabilities

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

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

Taxation

Some provisions in the current Russian tax, currency and customs legislation are not clear enough and quite ambiguous, which often results in their varying interpretations (which may apply to past the Bank's relations), selective and inconsistent application, as well as frequent and often highly unpredictable changes. Management's interpretation of such legislation as applied to the transactions and activities of the Bank, including economic feasibility 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 2020, 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 uncertainty and lack of interpretive guidance, which often results in different interpretations of tax norms by the tax authorities and taxpayer. In this regard, management's interpretation of such legislation as applied to the procedure for determining the tax base for income tax on such transactions, including economic feasibility, 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 liabilities for income tax and value-added tax in respect of "controlled" transactions, where the transaction price differs from the range of market prices. The list of "controlled" transactions includes transactions concluded between related parties (Russian and foreign) as well as certain types of transactions between unrelated parties that are considered to be the same as controlled transactions. Special transfer pricing rules apply to transactions with securities and derivative financial instruments.

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Taxation (continued)

Currently in Russian tax legislation present the concept of having an actual right to income from a foreign person, who is paid income from sources in the Russian Federation. The introduction of this rule in general is associated with an increase in the administrative and, in some cases, tax burden on Russian taxpayers. In a number of cases, when paying income in favor of foreigners, the Bank applied tax exemption at the source in the Russian Federation on the basis of the provisions of the international tax treaties of the Russian Federation. Due to the fact that at present the unambiguous practice of applying the above rules has not been formed in terms of confirming that foreigners have an actual right to income, there is uncertainty regarding the application of these rules and their possible interpretation by the Russian tax authorities and the impact on the amount of the Bank's tax liabilities. The management of the Bank considers the tax position taken by the Bank, which is based on the current tax legislation and the explanations of the tax authorities, justified and documented, in connection with which the management of the Bank believes that as of 31 December 2020, the provisions of tax legislation in this part were interpreted by the Bank correctly.

Recent trends observed in the Russian Federation in law enforcement practice indicate that tax authorities and courts may take a tougher stance when interpreting legislation and conducting tax audits. As a result, in the future tax authorities may make claims on those transactions, operations and accounting methods of the Bank that they did not dispute in the past. At the same time, determining the size, as well as assessing the probability of an adverse outcome in terms of tax obligation additional charges, penalties and fines by tax authorities, does not seem possible.

Tax audits may cover three calendar years of activity immediately preceding the year the tax authorities decided to conduct the audit. Earlier periods may also be subject to verification under certain conditions,

As at 31 December 2020, management of the Bank believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs issue positions should be supported by relevant authorities and courts.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment recognized when that cost is incurred if the recognition criteria are met.

The carrying amount of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Rights of use assets (buildings)	4
Rights of use assets (equipment)	3
Telecommunication equipment	3-10
Office equipment	5-20
Furniture and fixtures	5
Computers	2-10
Motor vehicles	5

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Provisions

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

Retirement and other employee benefit obligations

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

Share capital

Share capital

Non-redeemable ordinary shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction from the proceeds less tax. Any excess of the fair value of consideration received over the par value of shares issued is recognized as share premium in equity. Other reserves within equity represent contributions from the shareholders of the Bank, other than investments in the Bank's shares.

Dividends

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar revenue and expense

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

In case of a credit-impaired financial asset, the Bank calculates interest revenue, applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset is no longer a credit-impaired asset, the Bank reverts to calculating interest revenue on a gross basis.

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period as the respective performance obligations are satisfied. These fees include commission income. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in Net gains/(losses) from trading in foreign currencies. The official CBR exchange rates as at 31 December 2020 and 2019 were 73.8757 rubles and 61.9057 rubles to 1 US dollar and 90.6824 rubles and 69.3406 rubles to 1 euro, respectively.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder’s obligation created by the contract: Issuers of such loans − e.g. a loan with waiver on death − have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments − Fees in the ’10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

Interest Rate Benchmark Reform − Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued *Interest Rate Benchmark Reform − Phase 2* Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Bank will apply IBOR reform Phase 2 from 1 January 2021.

4. Significant accounting judgments and estimates

Judgments

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

The Bank uses estimates and assumptions that affect the reported amounts and the carrying amounts of assets and liabilities in the following financial year. Estimates and judgments are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments 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:

Estimation uncertainty

Fair value of financial instruments

The fair value of financial instruments that are not quoted in active market are 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 of the department where the techniques were developed. Each model is subject to mandatory certification before it is available for use; also, the models are adjusted to ensure that the results reflect actual data and comparative market prices. To the extent practical, models use only publicly accessible data; however, areas such as credit risk (own and counterparty), volatilities and correlations require management estimates. Changes in assumptions about these factors could affect the reported fair value. Additional details are provided in Note 23.

(thousands of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Impairment losses on financial assets

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

- The internal credit rating system used by the Bank to determine the probability of default (PD);
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL are assessed on a collective basis;
- Development of ECL models, including various formulae and the choice of inputs;
- Determination of interrelations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive economic inputs for ECL calculation models.

Additional details as for ECL charges on financial instruments are provided in Note 12.

Deferred tax

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

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2020	***2019***
Cash on hand	38,658	25,576
Cash balances with the CBR (other than obligatory reserves)	2,853,671	2,018,492
Correspondent accounts and overnight deposits with other banks:		
Internal financial rating 1.0-2.0	31,174,415	15,602,326
Internal financial rating 2.1-4.0	209,427	16,954
Settlement accounts with trading systems	4,534,176	2,149,604
Cash and cash equivalents	**38,810,347**	**19,812,952**

(thousands of Russian rubles)

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2020	*2019*
Obligatory reserves with the CBR	946,037	612,858
Term deposits up to 90 days	6,684,130	6,171,680
Term deposits for more than 90 days	−	−
Security deposits with trading systems	61,352	22,985
Less − allowance for ECL	(135)	(283)
Amounts due from credit institutions	**7,691,384**	**6,807,240**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the Russian legislation.

Significant portion of balances in this balance sheet item (other than CBR) are attributable to the participants of the Commerzbank Group (see Note 25).

An analysis of changes in the gross carrying amount and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2020 is as follows:

	Stage 1	*Stage 2*	*Total*
Gross carrying amount as at 1 January 2020	**6,807,276**	**247**	**6,807,523**
New assets originated or purchased	7,055,676	−	**7,055,676**
Assets derecognized or repaid (except for write-offs)	(6,171,433)	(247)	**(6,171,680)**
At 31 December 2020	**7,691,519**	**−**	**7,691,519**

	Stage 1	*Stage 2*	*Total*
Allowance for ECL as at 1 January 2020	**283**	**−**	**283**
New assets originated or purchased	62	−	**62**
Assets derecognized or repaid	(210)	−	**(210)**
At 31 December 2020	**135**	**−**	**135**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2019 is as follows:

	Stage 1	*Stage 2*	*Total*
Gross carrying amount as at 1 January 2019	**18,630,483**	**40,728**	**18,671,211**
New assets originated or purchased	6,656,075	1,547	**6,657,622**
Transfers to Stage 1	22,984	(22,984)	**−**
Assets derecognized or repaid (except for write-offs)	(18,502,266)	(19,044)	**(18,521,310)**
At 31 December 2019	**6,807,276**	**247**	**6,807,523**

	Stage 1	*Stage 2*	*Total*
Allowance for ECL as at 1 January 2019	**2,862**	**48**	**2,910**
New assets originated or purchased	190	45	**235**
Transfers to Stage 1	93	(93)	**−**
Assets derecognized or repaid	(2,862)	−	**(2,862)**
At 31 December 2019	**283**	**−**	**283**

(thousands of Russian rubles)

7. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2020			*2019*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contract						
Forwards and swaps − foreign	19,950,128	−	(10,145)	15,527,853	8,026	(10,510)
Forwards and swaps − domestic	19,950,128	14,297	−	15,527,853	10,519	(2,947)
Foreign exchange contracts						
Forwards and swaps − foreign	37,425,540	1,447,437	(273,410)	31,354,856	67,890	(1,071,038)
Forwards and swaps − domestic	50,235,074	48,130	(427,241)	32,752,735	301,376	(103,824)
Options − foreign	18,674,626	372,022	(776,609)	61,606	176	−
Options − domestic	18,674,626	750,351	(375,485)	61,606	−	(176)
Total derivative assets/liabilities	**164,910,122**	**2,632,237**	**(1,862,890)**	**95,286,509**	**387,987**	**(1,188,496)**

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As at 31 December 2020 and 31 December 2019, the Bank has positions in the following types of derivatives:

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. The Bank enters into foreign exchange forwards.

Swaps

Swaps are contractual agreements between two parties to exchange amounts corresponding to changes in interest and principal based on specified notional amounts. The Bank enters into interest rate swaps and cross currency swaps.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser to buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a specified period.

8. Loans to customers

Loans to customers comprise:

	2020	*2019*
Corporate lending	19,206,103	24,662,422
Gross loans to customers at amortised cost	**19,206,103**	**24,662,422**
Less: allowance for ECL	(13,161)	(22,970)
Loans to customers at amortised cost	**19,192,942**	**24,639,452**

(thousands of Russian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost

An analysis of changes in the gross carrying amount and corresponding ECL related to corporate lending for the year ended 31 December 2020 is as follows:

Corporate lending	*Stage 1*	*Stage 2*	*Total*
Gross carrying amount as at 1 January 2020	**23,739,940**	**922,482**	**24,662,422**
New assets originated or purchased	8,886,660	–	**8,886,660**
Assets repaid	(14,347,813)	(461,994)	**(14,809,807)**
Transfers to Stage 1	460,488	(460,488)	**–**
Foreign exchange adjustments	466,828	–	**466,828**
At 31 December 2020	**19,206,103**	**–**	**19,206,103**

Corporate lending	*Stage 1*	*Stage 2*	*Total*
ECL as at 1 January 2020	**22,927**	**43**	**22,970**
New assets originated or purchased	2,060	–	**2,060**
Assets repaid	(11,884)	(43)	**(11,927)**
Transfers to Stage 1	–	–	**–**
Changes to models and inputs used for ECL calculations	1	–	**1**
Foreign exchange adjustments	57	–	**57**
At 31 December 2020	**13,161**	**–**	**13,161**

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2019 is as follows:

Corporate lending	*Stage 1*	*Stage 2*	*POCI*	*Total*
Gross carrying amount as at 1 January 2019	**26,613,638**	**308,178**	**157,118**	**27,078,934**
New assets originated or purchased	15,666,452	922,456	–	**16,588,908**
Assets repaid	(18,287,419)	(308,152)	(157,118)	**(18,752,689)**
Foreign exchange adjustments	(252,731)	–	–	**(252,731)**
At 31 December 2019	**23,739,940**	**922,482**	**–**	**24,662,422**

Corporate lending	*Stage 1*	*Stage 2*	*POCI*	*Total*
ECL as at 1 January 2019	**25,805**	**–**	**10,127**	**35,932**
New assets originated or purchased	16,181	18	–	**16,199**
Assets repaid	(15,472)	–	(10,127)	**(25,599)**
Foreign exchange adjustments	(3,587)	25	–	**(3,562)**
At 31 December 2019	**22,927**	**43**	**–**	**22,970**

Changes in accounting and measurement policies

Coronavirus pandemic

The coronavirus pandemic had a major impact on the Russian economy and the global economy as a whole in the 2020 financial year and has therefore also affected these financial statements. The effects of the pandemic on the Bank were reviewed and appropriate measures were decided upon. Beside these changes caused by the coronavirus pandemic and except for information described below, the Bank have applied the same accounting and measurement policies in these financial statements as in our financial statements as at 31 December 2019.

Uncertainties in estimates

The financial statements include values which are determined, as permitted, on the basis of estimates and judgements. The estimates and judgements used are based on past experience and other factors, such as planning and expectations or forecasts of future events that are considered likely as far as we know today. The estimates and judgements themselves and the underlying estimation methods and judgement factors are reviewed regularly and compared with actual results. In our view, the parameters we have used in recognition of loan loss provisions are reasonable and appropriate.

(thousands of Russian rubles)

8. Loans to customers (continued)

Changes in accounting and measurement policies (continued)

Calculation of expected credit loss

As a rule, the Commerzbank Group estimates the risk parameters specific to IFRS 9 based not only on historical default information but also, in particular, on the current economic environment (point-in-time perspective) and forward looking information. This assessment primarily involves reviewing the effects which the Commerzbank Group’s macroeconomic forecasts will have regarding the amount of the ECL, and including these effects in the determination of the ECL

A baseline scenario is used for this purpose which relies on the respective applicable consensus (forecasts of different banks on significant macroeconomic factors, such as GDP growth and the unemployment rate). This baseline scenario is then supplemented with additional macroeconomic parameters that are relevant for the model. In the current reporting period, the baseline scenario was adjusted taking into account the ECB forecast of 10 December 2020.

When calculating the expected credit loss, additional effects may also have to be taken into account resulting from scenarios or events that are not reflected in the IFRS 9 ECL parameter set presented as part of the modelling (these may relate to singular events such as natural disasters, substantial political decisions or military conflicts); for these additional effects, a separately determined adjustment to the result from the IFRS 9 ECL model is made. The examination as to whether such top-level adjustments (TLA) with the involvement of senior management are necessary, as well as their possible implementation, are regulated in a policy.

Such an adjustment to the results of the IFRS 9 ECL model was not deemed necessary in the 2020 financial year due to the coronavirus pandemic for the Bank. The adequacy of the TLA was assessed during the year at the reporting dates and in the course of preparing these financial statements as at 31 December 2020.

Significant need for adjustment therefore could arose primarily in the assumptions for sectors/subportfolios in the corporate customer segment, on which these measures have a direct impact. In the Bank's portfolio tourism/hotels are not significant industry sectors and therefore not relevant.

For the Small-Business Customers subportfolio, the effects of the crisis in the course of 2020 were only partially reflected in the change in ratings and were not yet feeding through to a greater extent in defaults/insolvencies.

Modified and restructured loans

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

During the reporting period, the Bank did not modify or restructure the terms of loans to customers.

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash deposits;
- Guarantees;
- Other assets.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment.

(thousands of Russian rubles)

8. Loans to customers (continued)

Concentration of loans to customers

Loans are principally issued to clients in the Russian Federation operating in the following industry sectors:

	2020	*2019*
Manufacturing	10,258,309	13,293,393
Lease and financial services	3,251,189	5,645,214
Trade	3,068,188	3,705,701
Mining	2,628,374	1,990,145
Transportation	−	27,941
Other	43	28
Total loans to customers at amortized cost	**19,206,103**	**24,662,422**

As of 31 December 2020, the Bank had a concentration of loans represented by RUB 17,701,151 thousand due from the ten largest third party entities (92% of gross loan portfolio) (2019 − RUB 21,447,798 thousand or 93%). An allowance of RUB 12,246 thousand (2019 − RUB 21,324 thousand) was recognized against these loans.

9. Debt securities

Debt securities comprise:

	2020	*2019*
Debt securities at FVPL	**2,741,021**	**1,862,462**
Federal bonds of the Ministry of Finance	2,741,021	1,862,462
Debt securities at FVOCI	**7,387,809**	**8,339,871**
Federal bonds of the Ministry of Finance	7,387,809	5,314,911
Bonds issued by the CBR	−	3,024,960

An analysis of changes in the gross carrying amount and associated ECLs in relation to debt securities at FVOCI during the year ended 31 December 2020 is as follows:

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying amount as at 1 January 2020	**8,339,871**	**8,339,871**
New assets originated or purchased	5,143,885	**5,143,885**
Revaluation	83,091	**83,091**
Interest accrued	469,720	**469,720**
Interest received	(503,713)	**(503,713)**
Assets repaid	(6,145,045)	**(6,145,045)**
At 31 December 2020	**7,387,809**	**7,387,809**

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as at 1 January 2020	**6,933**	**6,933**
New assets originated or purchased	1,527	**1,527**
Assets repaid	(1,900)	**(1,900)**
Changes to models and inputs used for ECL calculations	1,790	**1,790**
At 31 December 2020	**8,350**	**8,350**

An analysis of changes in the gross carrying amount and associated ECLs in relation to debt securities at FVOCI during the year ended 31 December 2019 is as follows:

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying amount as at 1 January 2019	**8,208,833**	**8,208,833**
New assets originated or purchased	11,029,587	**11,029,587**
Revaluation	119,721	**119,721**
Interest accrued	460,041	**460,041**
Interest received	(504,434)	**(504,434)**
Assets repaid	(10,973,877)	**(10,973,877)**
At 31 December 2019	**8,339,871**	**8,339,871**

(thousands of Russian rubles)

9. Debt securities (continued)

Debt securities at FVOCI	***Stage 1***	***Total***
ECLs as at 1 January 2019	**9,603**	**9,603**
New assets originated or purchased	4,336	**4,336**
Assets repaid	(757)	**(757)**
Changes to models and inputs used for ECL calculations	(6,249)	**(6,249)**
At 31 December 2019	**6,933**	**6,933**

10. Property and equipment and right-of-use assets

The movements in property and equipment and right-of-use assets were as follows:

	Right-of-use assets	***Leasehold improvements***	***Computers and office equipment***	***Total***
Cost				
1 January 2020	**602,781**	**17,452**	**211,626**	**831,859**
Additions	6,506	–	3,981	10,478
Disposals and write-offs	–	–	(5,714)	(5,174)
Modification	(136,052)	–	–	(136,052)
31 December 2020	**473,235**	**17,452**	**209,893**	**700,580**
Accumulated depreciation				
1 January 2020	**(125,585)**	**(6,364)**	**(187,956)**	**(319,905)**
Depreciation charge	(101,963)	(528)	(13,029)	**(115,520)**
Disposals and write-offs	–	–	4,377	**4,377**
31 December 2020	**(227,548)**	**(6,892)**	**(196,608)**	**(431,048)**
Net book value				
1 January 2020	**477,196**	**11,088**	**23,670**	**511,954**
31 December 2020	**245,687**	**10,560**	**13,285**	**269,532**

	Right-of-use assets	***Leasehold improvements***	***Computers and office equipment***	***Total***
Cost				
1 January 2019	**579,296**	**17,452**	**222,635**	**819,383**
Additions	90,183	–	3,546	**93,729**
Disposals and write-offs	(6,345)	–	(14,555)	**(20,900)**
Modification	(60,353)	–	–	**(60,353)**
31 December 2019	**602,781**	**17,452**	**211,626**	**831,859**
Accumulated depreciation				
1 January 2019	**–**	**(5,784)**	**(186,913)**	**(192,697)**
Depreciation charge	(125,585)	(580)	(15,482)	**(141,647)**
Disposals and write-offs	–	–	14,439	**14,439**
31 December 2019	**(125,585)**	**(6,364)**	**(187,956)**	**(319,905)**
Net book value				
1 January 2019	**579,296**	**11,668**	**35,722**	**626,686**
31 December 2019	**477,196**	**11,088**	**23,670**	**511,954**

(thousands of Russian rubles)

11. Taxation

The amount of tax expense for 2020 includes the current income tax in the amount of 103,250 thousand rubles and deferred tax in the amount of 123,059 thousand rubles (2019: 749,531 thousand rubles and 577,343 thousand rubles respectively).

Income tax expense comprises:

	2020	*2019*
Current income tax expense	103,250	749,531
Deferred tax charge/(credit) − origination and reversal of temporary differences	123,155	(577,343)
Income tax expense	**226,405**	**172,188**

Russian legal entities have to file individual corporate income tax declarations to the tax authorities. The standard income tax rate for companies (including banks) was 20% in 2020 and 2019. Corporate income tax rate applicable to interest (coupon) income on state and mortgage-backed bonds in 2020 and 2019 was 15% while corporate income tax rate applicable to interest (coupon) income on municipal bonds in 2020 and 2019 was 9%. Dividends are taxed at the standard corporate income tax rate of 9%, which could be reduced to 0% subject to certain criteria.

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

	2020	*2019*
Profit before tax	**1,039,067**	**819,672**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**207,813**	**163,934**
Income on certain types of securities taxed at different rates	(34,417)	(30,247)
Net non-deductible expenditures	53,009	38,501
Income tax expense	**226,405**	**172,188**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	1 January 2019	*In the statement of profit or loss*	*In other compre-hensive income*	*31 December 2019*	*In the statement of profit or loss*	*In other compre-hensive income*	*31 December 2020*
Tax effect of deductible/taxable temporary differences							
Loans and advances to customers	137,542	(132,708)	−	4,834	(2,957)	−	1,877
Allowance for loan impairment	(72,546)	(4,014)	−	(76,560)	69,284	−	(7,276)
Accrued administrative and other operating expenses	10,912	113,305	−	124,217	(35,784)	−	88,433
Revaluation of derivative financial instruments at fair value	(384,364)	544,466	−	160,102	(313,971)	−	(153,869)
Debt securities	(7,534)	10,486	(23,944)	(20,992)	23,518	(16,618)	(14,092)
Accrued fee and commission income	3,844	10,665	−	14,509	(4,112)	−	10,397
Provisions	6,019	(3,661)	−	2,358	(46)	−	2,312
Property and equipment and right-of-use assets	(2,137)	(95,678)	−	(97,815)	46,389	−	(51,426)
Tax losses carried forward	−	−	−	−	94,523	−	94,523
Net deferred tax assets/(liability)	**(308,264)**	**442,861**	**(23,944)**	**110,653**	**(123,155)**	**(16,618)**	**(29,120)**
Unrecognized deferred tax asset	(134,482)	134,482	−	−	−	−	−
Recognized deferred income tax assets/(liability)	**(442,746)**	**577,343**	**(23,944)**	**110,653**	**(123,155)**	**(16,618)**	**(29,120)**

(thousands of Russian rubles)

12. Credit loss income/(expense) and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2020:

	Note	*Stage 1*	*Stage 2*	*POCI*	*Total*
Amounts due from credit institutions	6	148	–	–	**148**
Loans to customers at amortized cost	8	9,766	43	–	**9,809**
Debt securities at FVOCI	9	(1,417)	–	–	**(1,417)**
Letters of credit and guarantees	17	–	(909)	–	**(909)**
Loan commitments	17	1,041	100	–	**1,141**
Total credit loss expense		**9,538**	**(766)**	**–**	**8,772**

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

	Note	*Stage 1*	*Stage 2*	*POCI*	*Total*
Amounts due from credit institutions	6	2,579	48	–	**2,627**
Loans to customers at amortized cost	8	2,878	(43)	10,127	**12,962**
Debt securities at FVOCI	9	2,670	–	–	**2,670**
Letters of credit and guarantees	17	–	18,805	–	**18,805**
Loan commitments	17	(402)	(100)	–	**(502)**
Total credit loss expense		**7,725**	**18,710**	**10,127**	**36,562**

In 2020 and 2019, the Bank had no allowances for impairment of non-financial assets.

13. Other assets and liabilities

Other assets comprise:

	2020	*2019*
Other financial assets		
Claims under foreign currency transactions	10,264	1,646
Other claims	12,210	22,205
Total other financial assets	**22,474**	**23,851**
Settlements with suppliers	3,098	3,465
Intangible assets	37,554	17,055
Settlements on taxes	22,988	9,752
Other non-financial assets	–	8,820
Total other non-financial assets	**63,640**	**39,092**

Other liabilities comprise:

	2020	*2019*
Other financial liabilities		
Lease liabilities	324,873	476,393
Deferred income on guarantees	4,334	7,034
Other financial liabilities	18,003	33,139
Other financial liabilities	**347,210**	**516,566**
Liabilities to employees	105,959	133,305
Settlements with other creditors	58,053	103,787
Settlements on taxes	36,631	32,185
Other non-financial liabilities	3,539	7,964
Other liabilities	**204,182**	**277,241**

(thousands of Russian rubles)

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2020	*2019*
Current accounts	86,606	183,648
Term deposits and loans	12,814,777	12,764,463
Amounts due to credit institutions	**12,901,383**	**12,948,111**

Significant portion of balances in this balance sheet item is attributable to the participants of the Commerzbank Group (see Note 25).

15. Amounts due to customers

Amounts due to customers include the following:

	2020	*2019*
Current accounts	21,817,212	17,577,076
Term deposits	29,638,956	18,770,970
Amounts due to customers	**51,456,168**	**36,348,046**

At 31 December 2020, amounts due to customers of RUB 28,068 thousand (55%) were due to the ten largest customers (2019 − RUB 16,573 thousand (46%)).

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

	2020	*2019*
Manufacturing	24,173,603	16,400,788
Trade	15,386,163	11,798,927
Construction	4,684,546	1,312,632
Education	2,334,819	675,718
Information and communication	1,550,107	1,290,816
Finance	915,249	886,688
Transportation	566,784	642,650
Advertising	86,222	1,145,624
Agriculture machines productions	50,331	1,293,437
Other	1,708,344	900,766
Amounts due to customers	**51,456,168**	**36,348,046**

16. Equity

(In thousands of Russian rubles, except for number of shares)	***Number of shares***	***Nominal amount***	***Inflation adjustment***	***Share premium***	***Total share capital***
At 1 January 2019, 31 December 2019 and 31 December 2020	43,112	2,155,600	380,233	1,291,839	**3,827,672**

The amounts above are adjusted for the hyperinflation effect during the period prior to 1 January 2003.

The share capital of the Bank consists of ordinary shares. As at 31 December 2020 and 31 December 2019, all issued ordinary shares were fully paid. All ordinary shares have the nominal value of RUB 50 thousand per share (2019: RUB 50 thousand per share). Each share carries one vote.

The share capital of the Bank was contributed by shareholders in Russian rubles and they are entitled to dividends and capital distributions in Russian rubles.

All ordinary shares issued are owned by Commerzbank AG.

Share premium represents the excess of capital contributions over the nominal value of shares issued.

(thousands of Russian rubles)

16. Equity (continued)

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of statutory financial statements prepared in accordance with Russian Accounting Rules.

Other reserves within equity include RUB 341,210 thousand of the financial support provided by the shareholder for no consideration (2019: RUB 341,210 thousand) and RUB 383,139 thousand of the merger provision (2019: RUB 383,139 thousand). The merger provision represents the excess of net assets over the par value of the shares issued in the process of merger with ZAO Dresdner Bank in 2010.

In 2020 the Bank did not pay any dividends for 2019. In 2019 the Bank declared and paid dividends for 2018 totaling RUB 1,500,000 thousand (RUB 34,793 per share).

Revaluation reserve for debt securities at fair value through other comprehensive income

This reserve records fair value changes on financial assets at FVOCI.

17. Commitments and contingencies

Operating environment

Russia continues economic reforms and the development of its legal, tax and regulatory frameworks as required by a 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 volatile oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remain 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.

As the COVID-19 outbreak continues there remains uncertainty about further developments of pandemic duration and the extent of the possible economic recovery in the nearest future. Government responses, their corresponding effects are still evolving and the Bank’s management continues its estimation of increased risks and effects of the pandemic and the measures taken by the government.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations (which may apply to the Bank’s past relations), selective and inconsistent application, as well as reclassification of transactions performed by a taxpayer for tax purposes, and changes, which can occur at short notice. Management’s interpretation of such legislation as applied to the Bank’s transactions and 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 often have to resort to court proceedings to defend their position. It should be noted that Russian tax legislation includes regulations to prohibit taxpayers from reducing the tax base as a result of distortion of business facts and taxable items or due to operations with the primary objective of non-payment or underpayment of taxes as well as in cases when an obligation assumed in a transaction was performed by a person that is not a party to the contract with the taxpayer and/or by a person to whom the obligation in the transaction was assigned under a contract or by law, whereby the tax authorities, in interpreting the Bank’s activities, may disallow the deduction of expenses for income tax purposes..

The Bank enters into transactions with various financial instruments. Russian tax legislation in respect of transactions with financial instruments is vaguely drafted, is subject to significant uncertainty and lacks interpretive guidance, 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 and classification of transactions for tax purposes, may be challenged by the tax authorities at any time in the future, which may result in a heavier tax burden on the Bank.

(thousands of Russian rubles)

17. Commitments and contingencies (continued)

Taxation (continued)

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 have 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 above rules are not applied consistently with regard to the confirmation of the foreign entities' actual right to income, 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 2020.

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 2020, 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.

Commitments and contingencies

As at 31 December, the Bank's commitments and contingencies comprised the following:

	2020	*2019*
Credit related commitments		
Undrawn loan commitments	11,046,890	9,537,935
Letters of credit and financial guarantees	22,702,761	13,945,450
Non-financial guarantees	10,377,982	9,839,859
	44,127,633	**33,323,244**
Allowances for ECL for credit related commitments	(11,559)	(11,792)
Deposits held as collateral against letters of credit	12,324	68,591
Deposits held as collateral against guarantees	–	374

An analysis of changes in the ECLs during the year ended 31 December 2020 is as follows:

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Total*
ECLs as at 1 January 2020	**6,021**	**100**	**6,121**
New exposures	1,410	–	**1,410**
Expired exposures	(148)	(100)	**(248)**
Transfers to Stage 1	117	(117)	**–**
Transfers to Stage 2	(173)	173	**–**
Changes to models and inputs used for ECL calculations	(2,262)	(57)	**(2,319)**
Foreign exchange adjustments	15	1	**16**
At 31 December 2020	**4,980**	**–**	**4,980**

(thousands of Russian rubles)

17. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Letters of credit and financial guarantees	*Stage 2*	*Total*
ECLs as at 1 January 2020	**5,670**	**5,670**
New exposures	370	**370**
Expired exposures	(11,114)	**(11,114)**
Changes to models and inputs used for ECL calculations	9,918	**9,918**
Foreign exchange adjustments	1,735	**1,735**
At 31 December 2020	**6,579**	**6,579**

An analysis of changes in the ECLs during the year ended 31 December 2019 is as follows:

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Total*
ECLs as at 1 January 2019	**5,619**	**–**	**5,619**
New exposures	5,478	100	**5,578**
Expired exposures	(3,647)	–	**(3,647)**
Foreign exchange adjustments	(1,429)	–	**(1,429)**
At 31 December 2019	**6,021**	**100**	**6,121**

Letters of credit and financial guarantees	*Stage 2*	*Total*
ECLs as at 1 January 2019	**24,475**	**24,475**
New exposures	7,987	**7,987**
Expired exposures	(10,880)	**(10,880)**
Foreign exchange adjustments	(15,912)	**(15,912)**
At 31 December 2019	**5,670**	**5,670**

18. Net interest income

Net interest income comprises:

	2020	*2019*
Financial assets at amortized cost		
Amounts due from credit institutions	61,934	243,831
Loans to customers	1,407,806	1,138,962
Financial assets at fair value through other comprehensive income		
Debt securities	469,759	460,088
Interest income calculated using the effective interest rate	**1,939,499**	**1,842,881**
Debt securities at fair value through profit and loss	144,462	150,108
Other interest income	**144,462**	**150,108**
Total interest income	**2,083,961**	**1,992,989**
Amounts due to customers	(436,895)	(576,053)
Amounts due to credit institutions	(206,604)	(196,393)
Interest expense	**(643,499)**	**(772,446)**
Net interest income	**1,440,462**	**1,220,543**

(thousands of Russian rubles)

19. Net fee and commission income

Net fee and commission income comprises:

	2020	2019
Trade finance transaction	238,092	249,292
Settlement operations	188,955	180,728
Acting as currency control agent	135,813	132,807
Cash operations	166	781
Other	31,926	33,113
Fee and commission income	**594,952**	**596,721**
Guarantees received	(92,386)	(82,483)
Transactions with securities and foreign currency	(59,896)	(39,583)
Settlement operations	(25,946)	(25,742)
Other	(5,796)	(7,883)
Fee and commission expense	**(184,024)**	**(155,421)**
Net fee and commission income	**410,928**	**441,300**

20. Other income

Substantial portion of other income is related to transactions with related parties (Note 25) involving the provision of structural and trade financing services and services related to transactions with derivatives and foreign currencies.

21. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2020	2019
Salaries, bonuses and other employee benefits	586,658	588,717
Social security costs	98,196	96,175
Personnel expenses	**684,854**	**684,892**
Expenses on services provided by Commerzbank AG	535,295	420,863
Lease liabilities revaluation expenses	145,656	–
Depreciation of right-of-use assets	101,963	125,585
Other expenses related to maintenance of premises and equipment	74,893	63,722
Telecommunications	69,133	54,405
Operating lease expenses for premises and equipment	56,079	47,064
Insurance expenses	6,365	19,345
Professional services	18,853	26,262
Depreciation of property, equipment	13,557	15,992
Taxes other than income tax	1,769	2,224
Business trip expenses	488	5,390
Entertainment expenses	398	1,354
Other	25,528	51,481
Other operating expenses	**1,049,977**	**833,687**

22. Risk management

Introduction

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. The risk management strategy is reflective of the fact that the Bank is a member of the Commerzbank Group and, therefore, its risk management strategy accounts for and complies with the business strategy of the Bank, which, in its turn, is part of the Group's business strategy, in particular, 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 the 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 the 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 the Commerzbank Group.

The principles described in the Bank's risk 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, which is carried out at least annually or when the Bank's risk profile changes.

The governing principle of the Bank's 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, measurement and control of risks and the units engaged in transactions and deals exposed to risks. The Bank seeks to create a "risk culture", when 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 units engaged in principal banking activities. The risk management function contributes to this process ensuring an efficient, proactive and comprehensive risk management.

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

- The first line of defense is provided by the Bank's departments (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 function, 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 function. 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 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 second lines of defense.

The risk management cycle includes the following:

- Identification, measurement and determination of the acceptable level of risks inherent in 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. Assessment of returns considering significant risks, change of the Bank's activities and established risk appetite, taking into account the historical retrospective of risks 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 risk management, the Bank distinguishes quantifiable and non-quantifiable risks. Quantifiable risks are risks, the amounts of which are included in the financial statements or statutory capital requirements, while non-quantifiable risks include reputational risk and compliance risk.

(thousands of Russian rubles)

22. Risk management (continued)

Introduction (continued)

Risk controls are intended to ensure compliance with the internal minimal standard 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 terrorism 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 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, is performed to identify the Bank's risk-accepting capacity and relevant types of risk. While performing the risk inventory procedure in 2020, 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 units 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 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 (economic) risk (the risk-acceptance capacity is described in the internal regulation "Risk Bearing Capacity Policy");
- Ensuring the Bank's solvency and structural liquidity at any time.

According to the requirements of the Basel Accord, which are mandatory for all European credit institutions, the Commerzbank Group (and the Bank, which is a subsidiary of the Group) has developed and implemented a business strategy aimed at managing risks that are significant for the Bank. Based on the scale 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 asset management.

As a result of the risk inventory procedure, the following risks of the Bank have been acknowledged as significant in 2020:

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

22. Risk management (continued)

Credit risk

Principles and measurement

The risk management of the Group is aimed at maintaining a secure level of the Bank's share capital and ensuring continuous control over the liquidity risks. The functional divisional structure, comprising Credit Risk, Market and Liquidity Risk, Risk Controlling & Capital Management as well as Intensive Care, ensures the comprehensive scaling, evaluation and managing of all risk types across segments and across all entities, including the Bank.

The closely-related methods, models and stress testing as well as comprehensive knowledge and experience ensure compliance with the risk management requirements, focusing on, among other things, on concentration of risks, sensitivity of the portfolio and an overall risk-optimized capital allocation. In the course of risk management, the Bank anticipates regulatory changes, initiates, if necessary, strategic changes and promptly implements new standards.

The Bank regularly performs internal audits. It scrutinizes the portfolio approval procedure and its quality. The risk management function regularly holds the risk committee meetings to assess all potential risk implications.

The credit risk department of the Bank monitors credit risk. Its responsibilities include credit risk analysis and management, including environmental and social risk for all types of counterparties. The credit risk department comprises managers who are responsible for certain business lines and manage certain portfolios and experts who support both managers and the business in general, providing different risk management tools, e.g., credit risk management systems, policies and models, and preparing reports. When assessing credit risk, the Bank closely cooperates with Commerzbank AG in Frankfurt am Main.

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 ECLs. 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 an allowance for the 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 an allowance for impairment in the amount equal to the lifetime ECLs. 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:
    - Imminent insolvency (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 lifetime ECLs since initial recognition, based on a probability weighting of the four scenarios, discounted by the credit adjusted EIR.

(thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

Loan commitments and letters of credit: When estimating LTECLs 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 a probability weighting of the four 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, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECLs are recognized within allowances.

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 the statement of profit or loss and the ECL allowance. For this purpose, the Bank estimates ECLs 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 by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognized within allowances.

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.

A system of ratings comprises 25 levels for loans not 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:

Commerzbank AG rating	*PD and EL* mid-point (in %)*	*PD and EL range (in %)*	*S & P*	*IFD Scale*
1.0	0	0	AAA	Investment grade
1.2	0.01	0-0.02		
1.4	0.02	0.02-0.03	AA+	
1.6	0.04	0.03-0.05	AA, AA-	
1.8	0.07	0.05-0.08	A+, A	
2.0	0.11	0.08-0.13	A-	
2.2	0.17	0.13-0.21	BBB+	
2.4	0.26	0.21-0.31	BBB	
2.6	0.39	0.31-0.47		
2.8	0.57	0.47-0.68	BBB-	Sub-investment grade
3.0	0.81	0.68-0.96	BB+	
3.2	1.14	0.96-1.34	BB	
3.4	1.56	1.34-1.81		
3.6	2.10	1.81-2.40	BB-	
3.8	2.74	2.40-3.10	B+	
4.0	3.50	3.10-3.90		
4.2	4.35	3.90-4.86	B	Non-investment grade
4.4	5.42	4.86-6.04		
4.6	6.74	6.04-7.52		
4.8	8.39	7.52-9.35	B-	
5.0	10.43	9.35-11.64		
5.2	12.98	11.64-14.48	CCC+	
5.4	16.15	14.48-18.01		
5.6	20.09	18.01-22.41	CCC to CC-	
5.8	47.34	22.41-99.99		
6.1	100.00	Imminent insolvency	C, D-I, D-II	Default
6.2	100.00	Restructuring		
6.3	100.00	Restructuring with recapitalization		
6.4	100.00	Cancellation without insolvency		
6.5	100.00	Insolvency		

* *EL = Expected loss.*

(thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

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 the Bank would not have agreed to them if the borrower's financial position were good. The evidence of financial difficulties includes failure to comply with covenants or significant concerns expressed by the credit risk department. Loan restructuring may involve extending the payment arrangements and the agreement 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.

The LTECL is 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-mentioned 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 the subsequent periods corresponds to the cumulative change in the LTECL since the initial recognition. The LTECL remains 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 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. The 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 the 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. The 12-month ECLs used for the recognition of impairment in Stage 1 comprise a portion of the LTECL that results from default events, which are possible within 12 months after the reporting period. The ECLs for Stage 1 and Stage 2 as well as for insignificant financial instruments in Stage 3 are calculated on an individual basis, taking into account statistical risk parameters. These parameters are determined on the basis of the Basel IRB approach and are adjusted to meet the requirements of IFRS 9.

The LGD is the forecasted loss given default that is expressed as a percentage of the EAD, taking into account collateral and the capital recovery potential 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 data regarding the development of the purchasing power. The EAD is calculated on the basis of 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 have been adjusted to meet the specific requirements of IFRS 9, and the forecast horizon has been extended accordingly to cover the entire life of the financial instruments. 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.

(thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

For loan products that consist of a utilized amount of loan and an open credit facility and for which an exposure to the 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), the LTECL is calculated using a period that reflects the Bank's expectations in respect of the customer's behavior and typically exceeds the maximum contractual period. The LTECL for these products is 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 the 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 estimate usually involves the analysis of the effect the Bank's macroeconomic forecasts will have on the amount of the ECL and the inclusion of this effect in the calculation of the 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 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 from non-linear correlations between different macroeconomic scenarios and the ECL are mitigated by using a separately determined adjustment factor. All parameters used when determining the ECL are regularly validated by an independent department (usually once a year). If needed, they are adjusted accordingly.

Significant increase in 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. 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 overdrafts and the re-rating process) and allows the Bank to identify the risk of default on 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 comparison of the observable probability of default over the remaining life of the financial instrument (LTPD) and the life-time 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 end of the reporting period (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 life-time 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.

Credit risk is the risk that the Bank would incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. As a rule, the credit risk arises from commercial loans and advances, and credit related commitments arising from such lending activities, but it 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, settlements with counterparties and reverse repurchase of loans.

Credit risk is the most significant for the Bank's operations; management therefore carefully manages its exposure to credit risk. The credit risk management team which reports to the Board of Directors of Commerzbank AG has a key role in credit risk management and monitoring.

Measurement of credit risk

Financial assets (including loan commitments and guarantees)

The estimation of the credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and changes over time. The assessment of credit risk of a portfolio of assets also includes estimation of such factors as the probability of default.

(thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

The Bank uses different models to measure credit risk. These rating and scoring models are used for the entire loan portfolio and form a basis for measuring the risk of default. In measuring credit risk for loans and advances at a counterparty level, the Bank considers the following components:

- The internal credit rating model, which assigns a rating to determine the probability of default;
- The internal criteria for determining whether the credit risk increased significantly in order to calculate an allowance for a financial asset based on LTECL derived from the qualitative assessment;
- The segmentation of financial assets when their ECLs are assessed on a collective basis;
- Development of ECL models, including various formulae and the choice of inputs;
- Determination of relationship between macroeconomic scenarios and economic inputs, such as unemployment rates and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forecast macroeconomic scenarios and determining their probability to derive the economic inputs into the ECL models.

The Bank sets credit risk limits and, if concentration of the credit risk is identified, controls them (in particular, for individual counterparties and groups of counterparties, industries and countries).

The Bank structures the levels of credit risk by placing limits on the amounts of risk accepted in relation to one borrower, groups of borrowers, and industry and geographical segments.

Such risks are monitored on a regular basis and are subject to an annual or, if necessary, more frequent review. The Board of Directors approves credit risk limits by product, industry and country. Fore certain borrowers, including banks, the risk level is subsequently restricted by sub-limits determined for on- and off-balance sheet items, and by daily settlement limits in relation to trading instruments, such as foreign exchange forwards. Actual exposures against limits are monitored daily. Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

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:

- Charges over business assets such as premises, inventory and accounts receivable;
- Guarantees;
- Mortgages over residential properties.

Collaterals accepted by the Bank 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.

(thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

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

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

Pledged property is revalued at least once a year.

The Bank's assets 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. Therefore, the Bank believes that the collateral concentration risk with respect to Commerzbank AG is acceptable.

Credit limits

The Bank maintains strict overall credit limits for customers.

Financial commitments (for credit related commitments and credit products)

The main purpose of these instruments is to ensure that financial resources are available to the Bank's customer as required. Guarantees and guarantee letters of credit are exposed to the same credit risk as loans. Documentary and commercial letters of credit are secured by the underlying instruments to which they relate and therefore they are exposed to lower risk than a direct loan.

Loan commitments represent unused portions of customers' rights to obtain a loan in the form of borrowings, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of losses is less than the total amount of unused commitments since most commitments to extend credit are contingent upon customers meeting certain creditworthiness requirements (often referred to as financial covenants).

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system and IFRS 9.

31 December 2020	***Rating***	***1.0-1.9***	***2.0-2.9***	***3.0-3.9***	***4.0-6.5***	***Total***
Cash and cash equivalents,	Stage 1	31,174,415	2,853,844	209,310	–	**34,237,569**
net of cash on hand	Stage 2	–	–	4,534,120	–	**4,534,120**
Amounts due from credit institutions	Stage 1	5,983,933	1,646,037	61,549	–	**7,691,519**
Loans to customers	Stage 1	–	16,072,715	3,067,921	65,467	**19,206,103**
	Stage 2	–	0	–	–	**–**
Debt securities at FVOCI	Stage 1	–	7,387,809	–	–	**7,387,809**
Loan commitments	Stage 1	350,000	7,655,128	3,011,762	–	**11,016,890**
	Stage 2	–	0	30,000	–	**30,000**
Letters of credit	Stage 2	–	13,143,557	12,324	–	**13,155,881**
Guarantees	Stage 1	–	310,930	–	–	**310,930**
	Stage 2	8,506,621	4,580,728	6,351,038	175,545	**19,613,932**
Total		**46,014,969**	**53,650,748**	**17,278,024**	**241,012**	**117,184,753**

(thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

31 December 2019	*Rating*	*1.0-1.9*	*2.0-2.9*	*3.0-3.9*	*4.0-6.5*	*Total*
Cash and cash equivalents,	Stage 1	15,602,325	2,018,573	16,919	–	**17,637,817**
net of cash on hand	Stage 2	–	–	2,149,559	–	**2,149,559**
Amounts due from credit institutions	Stage 1	371,435	6,412,856	22,985	–	**6,807,276**
	Stage 2	–	–	247	–	**247**
Loans to customers	Stage 1	194	19,448,063	3,909,552	382,131	**23,739,940**
	Stage 2	–	23,618	868,631	30,233	**922,482**
Debt securities at FVOCI	Stage 1	–	8,339,871	–	–	**8,339, 871**
Loan commitments	Stage 1	1,200,000	4,885,792	3,277,143	–	**9,362,935**
	Stage 2	–	–	175,000	–	**175,000**
Letters of credit	Stage 2	–	4,925,136	11,260	68,591	**5,004,987**
Guarantees	Stage 1	–	578,500	–	–	**578,500**
	Stage 2	4,789,341	4,748,104	8,646,377	18,000	**18,201,822**
Total		**21,963,295**	**51,380,513**	**19,077,673**	**498,955**	**92,920,436**

The Bank assesses financial guarantees, letters of credit and credit commitments as well as an allowance for expected credit losses in the same way as for loans.

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	2020				*2019*			
	Russia	*OECD*	*Other countries*	*Total*	*Russia*	*OECD*	*Other countries*	*Total*
Assets								
Cash and cash equivalents	7,426,622	31,174,415	209,310	**38,810,347**	4,193,708	15,602,325	16,919	**19,812,952**
Amounts due from credit institutions	1,707,512	5,983,872	–	**7,691,384**	6,435,809	371,431	–	**6,807,240**
Derivative financial assets	812,778	1,819,459	–	**2,632,237**	311,895	76,092	–	**387,987**
Loans to customers	18,562,302	111	630,529	**19,192,942**	23,761,774	194	877,484	**24,639,452**
Debt securities at fair value through profit or loss	2,741,021	–	–	**2,741,021**	1,862,462	–	–	**1,862,462**
Debt securities at fair value through other comprehensive income	7,387,809	–	–	**7,387,809**	8,339,871	–	–	**8,339,871**
Other financial assets	22,032	437	5	**22,474**	23,603	170	78	**23,851**
	38,660,076	**38,978,294**	**839,844**	**78,478,214**	**44,929,122**	**16,050,212**	**894,481**	**61,873,815**
Financial liabilities								
Amounts due to credit institutions	–	12,901,383	–	**12,901,383**	1,000,174	11,947,937	–	**12,948,111**
Derivative financial liabilities	802,726	1,060,164	–	**1,862,890**	106,949	1,081,547	–	**1,188,496**
Amounts due to customers	46,218,473	5,237,622	73	**51,456,168**	33,997,801	2,350,183	62	**36,348,046**
Other financial liabilities	71,491	275,600	119	**347,210**	97,451	417,991	1,124	**516,566**
	47,092,690	**19,474,769**	**192**	**66,567,651**	**35,202,375**	**15,797,658**	**1,186**	**51,001,219**
Net assets/(liabilities)	**(8,432,614)**	**19,503,525**	**839,652**	**11,910,563**	**9,726,747**	**252,554**	**893,295**	**10,872,596**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to meet its payment obligations as they fall due under normal or stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral, which could be used to secure additional funding if required.

The Bank owns a portfolio of diverse, highly-demanded assets that can be quickly realized in the event of an unexpected interruption in cash inflows. The Bank has also entered into credit line agreements that it can use to meet cash requirements. In addition, the Bank placed a mandatory deposit with the Central Bank of the Russian Federation, the amount of which depends on the level of customer deposits.

(thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

The Bank segregate risk management duties as follows:

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

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

Liquidity risk management function of the Group (GRM-RC 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-RC LR, members of the Management Board. Information disclosed in liquidity risk reports focuses on the level of the Bank's exposure to liquidity risk, compliance with liquidity limits based on LAB model. Additionally, the Bank prepares monthly liquidity profiles submitted to the Bank's Management Board and containing information on current liquidity status of the Bank, analysis of the financing structure and mandatory liquidity ratios. The reports are prepared using an application developed by the Group for liquidity risk analysis (ComARA and Active Pivot) that presents cash flows by separate product, segment and currency.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBR. As at 31 December, these ratios were as follows:

	2020, %	*2019, %*	*Liquidity Ratio limits*
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand)	162.0%	142.1%	>=15.0%
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	132.7%	100.3%	>=50.0%
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	33.7%	47.9%	<=120.0%

(thousands of Russian rubles)

22. Risk management (continued)

Credit risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities as at 31 December based on contractual undiscounted repayment obligations except for trading derivatives which are shown at fair value in a separate column and gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

At 31 December 2020	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Total***
Financial liabilities				
Amounts due to credit institutions	346,637	3,455,620	9,208,779	**13,011,036**
Gross settled derivatives:				
- Contractual amounts payable	62,713,931	12,112,991	50,135,407	**124,962,329**
- Contractual amounts receivable	(62,401,047)	(12,333,535)	(51,026,817)	**(125,761,399)**
Amounts due to customers	51,486,873	2,025	–	**51,488,898**
Other financial liabilities	43,186	84,480	219,544	**347,210**
Total undiscounted financial liabilities	**52,189,580**	**3,321,581**	**8,536,913**	**64,048,074**

At 31 December 2019	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Total***
Financial liabilities				
Amounts due to credit institutions	2,307,692	700,003	10,327,557	**13,335,252**
Gross settled derivatives:				
- Contractual amounts payable	47,698,365	5,203,876	41,832,853	**94,735,094**
- Contractual amounts receivable	(47,746,873)	(5,142,807)	(41,044,916)	**(93,934,596)**
Amounts due to customers	36,065,853	313,377	–	**36,379,230**
Other financial liabilities	69,668	113,156	333,742	**516,566**
Total undiscounted financial liabilities	**38,394,705**	**1,187,605**	**11,449,236**	**51,031,546**

The table below shows the contractual maturities of the Bank's credit related commitments and contingencies. Each credit related commitment is included in the time band containing the earliest date it can be drawn down. For financial guarantees, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months
2020	44,127,633
2019	33,323,244

The Bank expects that not all of the credit related commitments will be drawn before their expiry.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than 3 months in the tables above.

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.

(thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

The Bank has developed a market risk management strategy that defines a framework basis aiming at maintaining resources sufficient to cover risks at the adequate level and effective use of the Bank's equity for reaching the 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, 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 corporate lending segment 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 the portfolio by analyzing and assessing 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 involving Group Risk Management, Group Finance, Group Compliance and Group Markets Operational in close collaboration with the relevant IT.
- 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 shape, to serve and to secure.

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.

(thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

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 *Concerning Organization of Internal Control in Credit Institutions and Banking Groups* of 16 December 2003 and Instructive Regulation No. 3624-U of the Bank of Russia *Concerning Requirements for Risk and Capital Management in Credit Institutions and Banking Groups* of 15 April 2015, exercises control over compliance with set internal risk control procedures.
- The Treasury and the department for trading operations on financial markets, as the first line of defense, are responsible for managing the market risk by active position management in order to ensure that the portfolios comply with market risk limits.
- The Risk Management Committee that reports to the Board of Directors of the Group monitors implementation of the risk management strategy, reviews internal risk management reports and controls capital adequacy for the entire Group.

Market risk management is aimed at not only compliance with the regulatory requirements, but also at 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, banking operations are grouped into two proposed portfolios as described below:

- A bank portfolio is an aggregate of financial operations, including corporate and interbank loans/deposits that were entered into with the aim of holding them on the Bank's balance sheet until mutual claims/obligations are completely settled.
- A trading portfolio is an aggregate of operations with instruments of currency, money (except for interbank loans) and securities markets as well as derivatives aimed at receiving profit from changes in market prices. The trading portfolio may also include derivative transactions entered into to hedge/insure risks. Instruments included in the trading portfolio are taken into account when calculating equity within the market risk component.

Positions of the Bank's trading portfolio are mainly the responsibility of the Treasury and the department for trading operations on financial markets. The market risk profile is diversified for all classes of assets. According to the current structure of the Bank's portfolio, the principal classes of assets are exposed to the following risks: interest rate risk and credit spread risk followed by currency risk.

In accordance with the current business strategy, the risk management strategy and the list of approved products (instruments) for the Bank, in 2019-2020 key instruments in the Bank's trading portfolios are 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).

(thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

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.

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.

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).

(thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

Independent units (the risk management function and the market risk department) prepare the reports and present them as follows:

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

Disclosure of the interest rate risk of the bank portfolio

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

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

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

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

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

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

22. Risk management (continued)

Market risk (continued)

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

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

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

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

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

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

Hedging: hedging against the trading books is one of traditional approaches the Commerzbank Group uses. The main focus is on changes in EVE and sensitivity to the interest rate fluctuations, whereas NII that includes net interest flows and potential risks of adverse scenarios is managed separately.

Balance sheet structure management: the Bank extensively monitors and manages the structure of the balance sheet and, therefore, its position sensitive to the interest rate of the bank portfolio. It ensures adequate combination of assets and liabilities to determine the interest margin.

Adjustment of models and methods: when fine-tuning models and methods, the Group constantly adjusts the models and methods it uses.

(thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

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

Analysis of the effect the change in the interest rate risk has on the EVE of the credit institution (banking group) by currencies is provided below.

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

As at 31 December 2020, sensitivity analysis is as follows:

	Euro	*Russian rubles*	*US dollars*	*Tenge*	*Total*
Trading portfolio	(7,579)	1,404,002	(16,037)	57,991	**1,438,377**
Bank portfolio, except for debt securities	(9,973)	(848,061)	39,022	(27,429)	**(846,441)**
Bank portfolio of debt securities (liquidity portfolio)	–	(788,270)	–	–	**(788,270)**
Total	**(17,552)**	**(232,329)**	**22,985**	**30,562**	**(196,334)**

As at 31 December 2019, sensitivity analysis is as follows:

	Euro	*Russian rubles*	*US dollars*	*Tenge*	*Total*
Trading portfolio	(22,428)	1,562,459	(18,037)	70,447	**1,592,441**
Bank portfolio, except for debt securities	(16,393)	(1,196,721)	25,028	(51,085)	**(1,239,171)**
Bank portfolio of debt securities (liquidity portfolio)	–	(636,734)	–	–	**(636,734)**
Total	**(38,821)**	**(270,996)**	**6,991**	**19,362**	**(283,464)**

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board of the Bank has set limits on positions in foreign currency based on CBR regulations. Positions are monitored on a daily basis.

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

	31 December 2020	*31 December 2019*
Euro	117,495	88,870
US dollars	(49,986)	73,428
Other currencies, total	81,604	32,808

(thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

Operational risk disclosure

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

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

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

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

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

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

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

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

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

(thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

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 the 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 only representative of the third line of defense is internal audit.

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

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 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.

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. Unexpected losses from the occurrence of reputational risks are not covered directly by economic capital and are taken into account when estimating economic capital and assessing the capital adequacy with respect to operational risk.

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 assesses its reputational risk (at least annually) as part of risk inventory carried out by the risk management function. Risk appetite for 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 potential losses, keep and maintain the business reputation of the Bank with its customers and counterparties, the Group, participants of the financial market, governmental authorities and self-regulated organizations where the Bank holds membership.

(thousands of Russian rubles)

22. Risk management (continued)

Market risk (continued)

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;
- Qualitative and quantitative assessment (measurement) of the reputational risk;
- Establishing correlation between 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 the time period exceeding one year. Therefore, the business risk is a component of strategic risk estimated for a short-term time interval. 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 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. However, compliance risk is not covered by capital on an individual basis, but is covered by capital intended for operational risk.

(thousands of Russian rubles)

23. Fair value measurements

Fair value measurement procedures

IFRS provides for a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect the market data obtained from independent sources, whereas unobservable inputs reflect the Bank's assumptions about the market.

Derivative financial instruments whose fair value is established through valuation techniques with inputs observable in the market are interest rate and currency swaps, as well as foreign exchange forwards. Fair values of these instruments are calculated on the basis of models using a present value calculation. These models combine different inputs, including credit quality, forward and spot exchange rates, as well as interest rate curves.

Fair value hierarchy

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation technique:

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) on continuing basis.

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

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

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

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

	Fair value measurement using		
Valuation date: 31 December 2020	***Level 1***	***Level 2***	***Total***
Assets measured at fair value			
Derivative financial assets	–	2,632,237	**2,632,237**
Debt securities at FVPL:			
- Russian Government bonds	2,741,021	–	**2,741,021**
Debt securities at FVOCI:			
- Russian Government bonds	7,387,809	–	**7,387,809**
- Bank of Russia	–	–	**–**

	Fair value measurement using	
Valuation date: 31 December 2020	***Level 2***	***Total***
Liabilities measured at fair value		
Derivative financial liabilities	(1,862,890)	**(1,862,890)**

(thousands of Russian rubles)

23. Fair value measurements (continued)

Fair value hierarchy (continued)

Valuation date: 31 December 2019	*Fair value measurement using* Level 1	Level 2	Total
Assets measured at fair value			
Derivative financial assets	–	387,987	**387,987**
Debt securities at FVPL:			
- Russian Government bonds	1,862,462	–	**1,862,462**
Debt securities at FVOCI:			
- Russian Government bonds	5,314,911	–	**5,314,911**
- Bank of Russia	3,024,960	–	**3,024,960**

Valuation date: 31 December 2019	*Fair value measurement using* Level 2	Total
Liabilities measured at fair value		
Derivative financial liabilities	(1,188,496)	**(1,188,496)**

During the year ended 31 December 2020, the Bank did not transfer any financial assets or liabilities between levels of the fair value hierarchy.

Fair values of financial assets and liabilities not recorded at fair value

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

	Carrying amount 2020	*Fair value 2020*	*Unrecognized gain/(loss) 2020*	*Carrying amount 2019*	*Fair value 2019*	*Unrecognized gain/(loss) 2019*
Financial assets						
Cash and cash equivalents	38,810,347	38,810,347	–	19,812,952	19,812,952	–
Amounts due from credit institutions	7,691,384	7,690,893	(491)	6,807,241	6,798,627	(8,613)
Loans to customers at amortized cost	19,192,942	19,370,346	177,404	24,639,452	24,738,110	98,658
Other financial assets	22,474	22,474	–	23,851	23,851	–
Financial liabilities						
Amounts due to credit institutions	12,901,383	12,905,688	(4,305)	12,948,111	12,919,341	28,770
Amounts due to customers	51,456,168	51,440,112	16,056	36,348,046	36,310,106	37,940
Other financial liabilities	347,210	347,210	–	516,566	516,566	–
Total unrecognized change in fair value			**188,664**			**156,755**

Valuation techniques and assumptions

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), it is assumed that their carrying amount approximates their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Loans and receivables carried at amortized cost. The estimated fair value of a financial instrument is based on estimated future cash flows discounted using current interest rates for new instruments with similar credit risk and remaining maturity.

The discount rates depend on the currency, the maturity of the instrument and credit risk of the counterparty. The Bank applied discount rates calculated based on risk-free curves for each currency with the respective changes to include the following:

- The cost of financing for Commerzbank (based on the curve of credit default swaps for Commerzbank AG);
- The country risk differential (based on the curve of credit default swaps for the Russian Federation, curves of cross-currency interest rate swaps for each currency);
- Individual credit risk (based on the credit margin).

(thousands of Russian rubles)

24. Maturity analysis of assets and liabilities

	2020			*2019*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	38,810,347	–	**38,810,347**	19,812,952	–	**19,812,952**
Amounts due from credit institutions	7,691,384	–	**7,691,384**	6,807,240	–	**6,807,240**
Derivative financial assets	854,489	1,777,747	**2,632,237**	314,143	73,844	**387,987**
Loans to customers	6,631,759	12,561,183	**19,192,942**	10,041,655	14,597,797	**24,639,452**
Debt securities at fair value through profit or loss	–	2,741,021	**2,741,021**	977,074	885,388	**1,862,462**
Debt securities at fair value through other comprehensive income	2,534,506	4,853,303	**7,387,809**	4,041,382	4,298,489	**8,339,871**
Property and equipment and right-of-use assets	–	269,532	**269,532**	–	511,954	**511,954**
Prepaid income tax	253,200	–	**253,200**	126,263	–	**126,263**
Deferred income tax assets	–	–	**–**	–	110,653	**110,653**
Other financial assets	22,474	–	**22,474**	23,851	–	**23,851**
Other non-financial assets	63,640	–	**63,640**	39,092	–	**39,092**
Total	**56,861,799**	**22,202,786**	**79,064,586**	**42,183,652**	**20,478,125**	**62,661,777**
Amounts due to credit institutions	3,736,648	9,164,735	**12,901,383**	2,846,519	10,101,592	**12,948,111**
Derivative financial liabilities	949,104	913,786	**1,862,890**	326,716	861,780	**1,188,496**
Amounts due to customers	51,456,168	–	**51,456,168**	36,348,046	–	**36,348,046**
Deferred income tax liabilities	29,120	–	**29,120**	–	–	**–**
Provisions	–	11,559	**11,559**	–	11,792	**11,792**
Other financial liabilities	127,666	219,544	**347,210**	182,824	333,742	**516,566**
Other non-financial liabilities	204,182	–	**204,182**	277,241	–	**277,241**
Total	**56,502,888**	**10,309,624**	**66,812,512**	**39,981,346**	**11,308,906**	**51,290,252**
Net position	**358,912**	**11,893,162**	**12,252,074**	**2,202,306**	**9,169,219**	**11,371,525**

Bank's commitments and contingencies were as following:

	2020			*2019*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Loan commitments	2,424,762	8,622,128	**11,046,890**	7,447,792	2,090,143	**9,537,935**
Letters of credit and financial guarantees	14,351,320	8,351,441	**22,702,761**	11,078,586	2,866,864	**13,945,450**
Non-financial guarantees	4,654,319	5,723,663	**10,377,982**	4,628,727	5,211,132	**9,839,859**
Total	**21,430,401**	**22,697,232**	**44,127,633**	**23,155,105**	**10,168,139**	**33,323,244**

25. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(thousands of Russian rubles)

25. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	Commerzbank Group	
	2020	***2019***
Cash and cash equivalents	31,174,415	15,602,326
Amounts due from credit institutions	5,983,875	371,431
Derivative financial assets	1,819,459	76,092
Other financial assets	142	88
Amounts due to credit institutions	12,868,844	10,907,803
Derivative financial liabilities	1,060,164	1,081,548
Amounts due to customers	76,693	97,074
Other financial liabilities	275,600	417,992
Other non-financial liabilities	38,423	96,829
Contingencies on guarantees issued by related parties to the Bank (other than counter guarantees)	36,376,459	24,277,192
Guarantees issued by the Bank to related parties	8,506,621	4,789,341
Irrevocable credit lines	350,000	700,000

Income and expense arising from related party transactions are as follows:

	Commerzbank Group	
	For the year ended 31 December	
	2020	***2019***
Interest income calculated using the effective interest rate	40,622	157,319
Interest expense	(150,754)	(183,997)
Fee and commission income	43,954	45,957
Fee and commission expense	(98,601)	(87,851)
Other operating income	135,998	122,176
Operating expenses	(844,046)	(595,704)

There was no income or expense arising from transactions with key management personnel, except as described below.

	2020		***2019***	
	Expense	***Accrued liabilities***	***Expense***	***Accrued liabilities***
Salaries, short-term employee benefits and non-cash benefits	62,954	6,905	57,463	6,111
Long-term compensation (bonus) scheme	699	12,624	2,786	15,152
Total compensation to key management personnel	**63,653**	**19,529**	**60,249**	**21,263**

26. Capital adequacy

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 banking operations management and the Bank's internal capital adequacy assessment process (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) represent the process 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 growth targets and the results of a comprehensive current assessment of those risks.

(thousands of Russian rubles)

26. Capital adequacy (continued)

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 bodies) that defines measures to be taken in case limits are breached. ICAAP limits are revised on an annual basis during the risk inventory process or when necessary in order to ensure their compliance with the Bank’s business model, willingness to accept the risk, the 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, subject to subsequent consent from the Supervisory Board of the Bank.

Risk tolerance is controlled by the Bank on a monthly basis. Capital available to the Bank at the reporting date and economically required capital are reconciled in the course of control procedures. The Commerzbank Group determines the amount of economic risk tolerance, which is based on the principle of ensuring settlement of liabilities to the Group’s creditors in extraordinary circumstances; thus, risk tolerance means covering very significant losses and damages. Risk tolerance is determined on a centralized basis for the Group as a whole. Certain ICAAP indicators are established for the most significant units, segments and subsidiaries of the Group. Due to the fact that “COMMERZBANK (EURASIJA)” AO is not a significant subsidiary of the Group and based on the principle of proportionality (i.e. the nature and scope of transactions carried out by the Bank as well as the level and profile of its risks), the Bank uses a standardized approach when developing and implementing ICAAP. This approach is based on the minimum capital adequacy ratio required to cover significant risks set by the regulator as well as an additional reserve to cover risks that are not fully recognized when determining regulatory capital requirements, for example, concentration risk and business risk. At the same time, the Bank follows the above principle of ensuring tolerance to the risk set by the Group. For ICAAP purposes, the Bank calculates the amount of economic capital on an individual basis as a separate legal entity within the Group. The Supervisory Board decided to set the ICAAP limit, being the general risk tolerance indicator, at 13.0%. A red flag was additionally set at 14.1% in order to prevent breaches of the ICAAP limit.

In 2020 and 2019, the Bank complied with the capital requirements set by the regulator and internally. Information on capital values is presented in the table below.

Instrument (indicator)	*Value of instrument (indicator) at the reporting date*	*Value of instrument (indicator) at the beginning of the reporting year*
Equity (capital)	11,308,232	10,649,615
Core capital adequacy ratio	26.041%	22.903%
Main capital adequacy ratio	26.041%	22.903%
Equity (capital) adequacy ratio	27.312%	23.986%

27. Events after the reporting period

As at the date of issuance of these financial statements there were no significant events affecting financial performance of the Bank.