

Report on Review of the Interim Financial Information of
COMMERZBANK (EURASIA) AO
for the six months ended 30 June 2019

August 2019

Translation of the original Russian version

Report on Review of the Interim Financial Information of COMMERZBANK (EURASIJA) AO

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Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed financial statements of COMMERZBANK (EURASIJA) AO (hereinafter - "The Bank"), which comprise the interim statement of financial position as at 30 June 2019, the interim statement of profit or loss and other comprehensive income, interim statement of changes in equity and interim statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information).

Management of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

A.F. LAPINA
Partner
Ernst & Young LLC

28 August 2019

Details of the 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 1027739070203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

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COMMERZBANK (EURASIJA) AO

Interim condensed financial statements

Interim statement of financial position

As at 30 June 2019

(in thousands of Russian rubles)

	<i>Notes</i>	30 June 2019 (unaudited)	31 December 2018
Assets			
Cash and cash equivalents	3	18,438,110	9,072,263
Amounts due from credit institutions	4	14,341,843	18,668,301
Derivative financial assets	5	950,098	2,398,471
Loans to customers	6	21,218,953	27,043,002
Debt securities at fair value through profit or loss	7	2,476,548	1,739,256
Debt securities at fair value through other comprehensive income	7	6,799,007	8,208,833
Property and equipment		506,595	47,390
Prepaid income tax		178,109	191,960
Other financial assets		20,951	58,625
Other non-financial assets		104,328	37,065
Total assets		65,034,542	67,465,166
Liabilities			
Amounts due to credit institutions	10	16,826,411	25,174,226
Derivative financial liabilities	5	731,732	476,651
Amounts due to customers	11	34,723,001	28,949,112
Deferred income tax liabilities	8	44,564	442,746
Provisions	13	37,728	30,094
Other financial liabilities		512,481	22,329
Other non-financial liabilities		319,303	226,042
Total liabilities		53,195,220	55,321,200
Equity			
Share capital	12	3,827,672	3,827,672
Revaluation reserve for debt securities		25,927	(10,604)
Retained earnings		7,261,374	7,602,549
Other reserves		724,349	724,349
Total equity		11,839,322	12,143,966
Total equity and liabilities		65,034,542	67,465,166

A.V. Mosyagin

Acting Chairman of the Management Board

A.A. Gorokhovskiy

Financial Director

28 August 2019

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COMMERZBANK (EURASIJA) AO

Interim condensed financial statements

Interim statement of profit or loss and other comprehensive income

for the six months ended 30 June 2019

(in thousands of Russian rubles)

	<i>Notes</i>	<i>For the six months ended 30 June (unaudited)</i>	
		<i>2019</i>	<i>2018</i>
Interest income calculated using the effective interest rate		1,046,378	646,987
Other interest income		71,327	59,914
Interest expense		(386,784)	(169,564)
Net interest income		730,921	537,337
Credit loss income/(expense)	9	8,182	(9,212)
Net interest income after credit loss expenses		739,103	528,125
Fee and commission income		280,500	276,781
Fee and commission expense		(80,494)	(46,044)
Net (losses)/gains from derivative financial instruments		(966,026)	79,429
Net gains/(losses) from dealing in foreign currencies		1,020,800	(1,249,395)
Net gains from foreign currency translation		101,106	1,652,965
Net losses from debt securities		(1,620)	(74)
Net gains/(losses) from securities at fair value through profit or loss		14,876	(24,484)
Other income		52,390	46,566
Non-interest income		421,532	735,744
Administrative and other operating expenses		(713,175)	(634,559)
Other impairment and provisions		–	(19,243)
Non-interest expense		(713,175)	(653,802)
Profit before income tax expense		447,460	610,067
Income tax expense	8	(88,635)	(111,883)
Profit for the period		358,825	498,184
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of debt securities at fair value through other comprehensive income		38,200	(38,033)
Net change in expected credit losses from debt securities at fair value through other comprehensive income		(1,761)	(571)
Income tax relating to components of other comprehensive income		92	10,881
Other comprehensive income/(loss) for the period to be reclassified to profit or loss in subsequent periods, net of tax		36,531	(27,723)
Total comprehensive income for the period		395,356	470,461

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Interim condensed financial statements

Interim statement of changes in equity for the six months ended 30 June 2019

(in thousands of Russian rubles)

	<i>Share capital</i>	<i>Revaluation reserve for securities available for sale</i>	<i>Retained earnings</i>	<i>Other reserves</i>	<i>Total equity</i>
1 January 2018	3,827,672	63,729	8,017,210	724,349	12,632,960
Profit for the comparable period	-	-	498,184	-	498,184
Other comprehensive income for the comparable period	-	(27,723)	-	-	(27,723)
Total comprehensive income for the comparable period	-	(27,723)	498,184	-	470,461
Dividends (Note 12)	-	-	(1,000,000)	-	(1,000,000)
30 June 2018 (unaudited)	3,827,672	36,006	7,515,394	724,349	12,103,421
1 January 2019	3,827,672	(10,604)	7,602,549	724,349	12,143,966
Profit for the period	-	-	358,825	-	358,825
Other comprehensive income for the period	-	36,531	-	-	36,531
Total comprehensive income for the period	-	36,531	358,825	-	395,356
Dividends (Note 12)	-	-	(700,000)	-	(700,000)
30 June 2019 (unaudited)	3,827,672	25,927	7,261,374	724,349	11,839,322

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Interim condensed financial statements

Interim statement of cash flows for the six months ended 30 June 2019

(in thousands of Russian rubles)

	<i>Notes</i>	<i>For the six months ended 30 June (unaudited)</i>	
		2019	2018
Cash flows from operating activities			
Interest received		1,170,236	727,086
Interest paid		(372,225)	(166,065)
Fees and commissions received		276,283	281,372
Fees and commissions paid		(55,801)	(19,333)
Realized gains less losses from derivative financial instruments		737,428	154,549
Realized gains less losses from dealing in foreign currencies		1,020,833	(1,269,479)
Other operating expenses		(9,812)	(5,219)
Personnel expenses paid		(394,979)	(378,331)
Administrative and other operating expenses paid, other than personnel expenses		(211,253)	(280,905)
Cash flows from operating activities before changes in operating assets and liabilities		2,160,710	(956,325)
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		3,335,617	(5,514,636)
Loans to customers		4,560,173	(7,186,050)
Other assets		39,014	(89,461)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		(6,835,882)	11,360,098
Amounts due to customers		7,653,544	5,302,817
Other liabilities		(18,319)	8,887
Net cash flows from operating activities before income tax		10,894,857	2,925,330
Income tax paid		(472,872)	(312,560)
Net cash from operating activities		10,421,985	2,612,770
Cash flows from investing activities			
Acquisition of debt securities		(6,193,226)	(591,572)
Disposal of debt securities		6,900,734	934,010
Purchase of property and equipment		(2,349)	(25,345)
Proceeds from sale of property and equipment		-	-
Other income from investing activity		14,876	-
Net cash from / (used in) investing activities		720,035	317,093
Cash flows from financing activities			
Dividends paid to shareholders of the Bank	12	(700,000)	(1,000,000)
Net cash used in financing activities		(700,000)	(1,000,000)
Effect of exchange rates changes on cash and cash equivalents		(1,076,173)	208,875
Net increase/(decrease) in cash and cash equivalents		9,365,847	2,138,738
Cash and cash equivalents, beginning		9,072,263	6,726,411
Cash and cash equivalents, ending	3	18,438,110	8,865,149

The accompanying notes on pages 9-22 are an integral part of these interim condensed financial statements.

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COMMERZBANK (EURASIJA) AO

Notes to the interim condensed
financial statements

(in thousands of Russian rubles)

1. Principal activities

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

As at 30 June 2019 and 31 December 2018, 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.

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 has one branch in Saint Petersburg. 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 if it stops operation or the CBR revokes its banking license.

2. Basis of preparation

General

These interim condensed financial statements of the Bank for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements of the Bank for the year ended 31 December 2018.

Changes in accounting policies

The accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended 31 December 2018, except for the adoption of new standards as at 1 January 2019, noted below. The nature and effect of these changes are disclosed below. The Bank has not adopted early any new standards, amendments and interpretations to the existing standards that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application on 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

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Notes to the interim condensed
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2. Basis of preparation (continued)

Changes in accounting policies (continued)

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

Assets	
Right-of-use assets	579,296
Total assets	579,296
Liabilities	
Lease liabilities	579,296
Total liabilities	579,296

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

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise it was classified as an operating lease.

Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalized and lease payments were recognized as rent lease expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Other assets and Other liabilities, respectively.

As a result of adoption IFRS 16, the Bank used a unified approach to recognizing and measuring all leases except for the short-term lease and lease of low-value assets. The Bank applied special transition requirements and practical expedients set forth by the standard.

Leases previously classified as finance leases

As at 31 December 2018 and 1 January 2019, the Bank had no finance leases.

Leases previously classified as operating leases

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

Under some lease agreements, right-of-use assets were recognized in the amount equal to the lease liability adjusted to the amounts of advances or previously recognized charged expenses.

Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied available practical expedients and as a result it:

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

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2. Basis of preparation (continued)

Changes in accounting policies (continued)

Based on the above, as at 1 January 2019:

- ▶ Right-of-use assets were recognized in the amount of RUB 579,296 thousand and included in property and equipment;
- ▶ Additional lease liabilities of RUB 579,296 thousand (included in other financial liabilities) were recognized;
- ▶ The Bank did not take into account an effect of discounting of lease portfolio as it was insignificant;
- ▶ Net effect of these adjustments on the retained earnings amounted to RUB 0 thousand;
- ▶ Net effect of these adjustments on the deferred tax amounted to RUB 0 thousand.

The reconciliation of lease liabilities as at 1 January 2019 with operating lease commitments as at 31 December 2018 is as follows:

Operating lease liabilities as at 31 December 2018	148,060
<i>Including</i>	
Payments in optional extension periods not recognized as at 31 December 2018	431,236
Lease liabilities as at 1 January 2019	579,296

(b) Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. 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. 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. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in 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 in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset.

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(in thousands of Russian rubles)

2. Basis of preparation (continued)

Changes in accounting policies (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 is considered of low value (i.e. below USD 5 thousand). Lease payments on short-term leases and leases of low value assets are recognized as expenses on a straight-line basis over lease term.

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

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

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

Amounts recognized in the statement of financial position and statement of profit or loss

The carrying amounts of right-of-use assets and lease liabilities held by the Bank and their movements within the period are as follows:

	<i>Right-of-use assets</i>	<i>Lease liabilities</i>
	<i>Buildings</i>	<i>Buildings</i>
1 January 2019	579,296	579,296
Additions	-	-
Disposals	-	-
Depreciation expense	(59,323)	-
Payments	-	(59,323)
Translation differences	(54,549)	(54,549)
30 June 2019	465,424	465,424

The Bank has applied several other amendments and interpretations for the first time in 2019, but they have not had an impact on its interim condensed financial statements.

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
Cash on hand	35,483	31,083
Current accounts with the CBR (other than obligatory reserves)	1,395,965	659,848
Correspondent accounts and overnight deposits with other banks		
<i>Internal financial rating 1.0-2.0</i>	15,183,854	5,781,359
<i>Internal financial rating 2.1-4.0</i>	27,333	63,543
Settlement accounts with trading systems	1,795,475	2,536,430
Cash and cash equivalents	18,438,110	9,072,263

All balances of cash equivalents are included in Stage 1. As at 30 June 2019 and 31 December 2018, allowance for expected credit losses was less than RUB 1 million.

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4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2019 (unaudited)	31 December 2018
Obligatory reserves with the CBR	719,150	672,818
Term deposits for up to 90 days	13,566,534	15,945,132
Term deposits for more than 90 days	–	2,012,532
Security deposits with trading systems	56,223	40,729
Less: allowance for ECL	(64)	(2,910)
Amounts due from credit institutions	14,341,843	18,668,301

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 the CBR) are attributable to the participants of the Commerzbank Group (Note 15).

Movements in the ECL allowance relating to the amounts due from credit institutions for the six months ended 30 June 2019 are presented in the table below:

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 1 January 2019	2,862	48	–	2,910
New assets originated or purchased	13	–	–	13
Assets repaid or derecognized (excluding write-offs)	(3,462)	–	–	(3,462)
Changes to models and inputs used for ECL calculations	603	–	–	603
Allowance for ECL at 30 June 2019 (unaudited)	16	48	–	64

Movements in the ECL allowance relating to the amounts due from credit institutions for the six months ended 30 June 2018 are presented in the table below:

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 1 January 2018	58	18	–	76
Assets derecognized or redeemed (excluding write-offs)	(388)	–	–	(388)
Changes in models and inputs used for ECL assessment	401	48	–	449
Translation differences	–	1	–	1
Allowance for ECL at 30 June 2018 (unaudited)	71	67	–	138

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5. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities in the financial statements, together with their notional amounts.

A notional amount is deemed nominal amount of a transaction defined as a ruble equivalent of claims for transactions with positive fair value and a ruble equivalent of liabilities for transactions with negative fair value.

	30 June 2019 <i>(unaudited)</i>			31 December 2018		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Forwards and swaps – foreign	1,267,040	–	(14,980)	1,421,158	–	(15,755)
Forwards and swaps – domestic	1,267,040	15,763	–	1,421,158	18,209	–
Foreign exchange contracts						
Forwards and swaps – foreign	19,713,316	720,912	(644,744)	59,595,085	2,356,530	(321,556)
Forwards and swaps – domestic	24,748,058	211,911	(70,496)	5,491,924	21,669	(137,276)
Options – foreign	135,595	1,512	–	224,575	2,063	–
Options – domestic	135,595	–	(1,512)	224,575	–	(2,064)
Total derivative assets/liabilities	47,266,644	950,098	(731,732)	68,378,475	2,398,471	(476,651)

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

6. Loans to customers

Loans to customers comprise:

	30 June 2019 <i>(unaudited)</i>	31 December 2018
Corporate lending	21,243,676	27,078,881
Other	–	53
Gross loans to customers at amortized cost	21,243,676	27,078,934
Less: allowance for ECL	(24,723)	(35,932)
Loans to customers at amortized cost	21,218,953	27,043,002

Allowance for ECL from loans to customers at amortized cost

Movements in allowances for ECL for the six months ended 30 June 2019 are presented in the table below:

Corporate lending	Stage 1	POCI assets	Total
Allowance for ECL at 1 January 2019	25,805	10,127	35,932
New assets originated or purchased	4,620	–	4,620
Assets repaid or derecognized (excluding write-offs)	(8,095)	–	(8,095)
Changes in models and inputs used for ECL assessment	(7,734)	–	(7,734)
Allowance for ECL at 30 June 2019 (unaudited)	14,596	10,127	24,723

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Notes to the interim condensed
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6. Loans to customers (continued)

Allowance for ECL from loans to customers at amortized cost (continued)

A reconciliation of the allowance for ECL from loans by class for the six months ended 30 June 2018 is as follows:

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI assets</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	17,309	4,049	–	293,193	314,551
New assets originated or purchased	10,534	–	–	–	10,534
Assets derecognized or redeemed (excluding write-offs)	(7,287)	–	–	–	(7,287)
Transfers to Stage 1	1,043	(1,616)	–	–	(573)
Changes in models and inputs used for ECL assessment	1,396	(2,304)	–	–	(908)
Translation differences	355	47	–	–	402
Allowance for ECL at 30 June 2018 (unaudited)	23,350	176	–	293,193	316,719

<i>Other loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI assets</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	11	–	–	–	11
New assets originated or purchased	–	–	–	–	–
Assets derecognized or redeemed (excluding write-offs)	(8)	–	–	–	(8)
Changes in models and inputs used for ECL assessment	(3)	–	–	–	(3)
Allowance for ECL at 30 June 2018 (unaudited)	–	–	–	–	–

Restructured and modified loans

The Bank derecognizes a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference in gains or losses arising from derecognition before an impairment loss is recognized. The newly recognized 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 changes in cash flows discounted at the original EIR, the Bank recognizes gains or losses from the modification before an impairment loss is recognized.

During the reporting period, the Bank did not modify or restructure the terms of the Stage 2 and Stage 3 assets; therefore, there were no respective income/expenses. In addition, the Bank did not transfer any Stage 1 assets, which were modified earlier.

7. Debt securities

Debt securities comprise:

	<i>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
Debt securities at FVPL	2,476,548	1,739,256
Federal bonds of the Ministry of Finance	2,476,548	1,739,256
Debt securities at FVOCI	6,799,007	8,208,833
Federal bonds of the Ministry of Finance	3,501,662	4,378,052
Bonds issued by the CBR	3,297,345	3,830,781
Total debt securities	9,275,555	9,948,089

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7. Debt securities (continued)

Movements in the allowance for ECL in respect of debt securities at FVOCI are as follows:

<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2019	9,603	9,603
New assets originated or purchased	1,576	1,576
Assets derecognized or redeemed (excluding write-offs)	(415)	(415)
Changes to models and inputs used for ECL calculations	(2,922)	(2,922)
Allowance for ECL at 30 June 2019 (unaudited)	7,842	7,842
<hr/>		
<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2018	9,377	9,377
New assets originated or purchased	411	411
Assets derecognized or redeemed (excluding write-offs)	(1,421)	(1,421)
Changes in models and inputs used for ECL assessment	439	439
Allowance for ECL at 30 June 2018 (unaudited)	8,806	8,806

8. Taxation

The corporate income tax expense comprises:

	<i>For the six months ended</i>	
	<i>30 June 2019</i> <i>(unaudited)</i>	<i>30 June 2018</i> <i>(unaudited)</i>
Current tax charge	486,723	121,432
Deferred tax credit – origination and reversal of temporary differences	(398,180)	(20,430)
Less: deferred tax recorded in other comprehensive income	92	10,881
Income tax expense	88,635	111,883

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

The table below shows ECL charges on financial instruments recorded in profit or loss for the six months ended 30 June 2019:

	<i>Notes</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI assets</i>	<i>Total</i>
Amounts due from credit institutions	4	(2,846)	–	–	–	(2,846)
Loans to customers measured at amortized cost	6	(11,209)	–	–	–	(11,209)
Debt securities at FVOCI	7	(1,761)	–	–	–	(1,761)
Loan commitments	13	(802)	–	–	–	(802)
Letters of credit and guarantees	13	–	8,436	–	–	8,436
Total ECL expense		(16,618)	8,436	–	–	(8,182)

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

The table below shows ECL charges on financial instruments recorded in profit or loss for the six months ended 30 June 2018:

	<i>Notes</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI assets</i>	<i>Total</i>
Amounts due from credit institutions	4	13	49	-	-	62
Loans to customers measured at amortized cost	6	6,030	(3,873)	-	-	2,157
Debt securities at FVOCI	7	(571)	-	-	-	(571)
Loan commitments	13	(2,950)	(5,481)	-	-	(8,431)
Letters of credit	13	-	15,995	-	-	15,995
Total ECL expense		2,522	6,690	-	-	9,212

In 2019 and 2018, the Bank had no allowances for ECL from non-financial assets.

10. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
Current accounts	1,850,179	2,624,340
Term deposits and loans	14,976,232	22,549,886
Amounts due to credit institutions	16,826,411	25,174,226

11. Amounts due to customers

Amounts due to customers comprise:

	<i>30 June 2019 (unaudited)</i>	<i>31 December 2018</i>
Current accounts	15,195,961	16,998,692
Term deposits	19,527,040	11,950,420
Amounts due to customers	34,723,001	28,949,112
Held as collateral against letters of credit	198,812	62,898
Held as collateral against guarantees	-	63,067

12. Equity

The movements in shares issued and fully paid are as follows:

	<i>Number of shares</i>	<i>Nominal amount</i>	<i>Inflation adjustment</i>	<i>Share premium</i>	<i>Total share capital</i>
1 January 2018, 30 June 2018, 1 January 2019, 30 June 2019	43,112	2,155,600	380,233	1,291,839	3,827,672

The share capital of the Bank consists of ordinary shares. Share premium represents the excess of capital contributions over the nominal value of shares. The data presented above was adjusted for hyperinflation at 1 January 2003.

During the six months ended 30 June 2019, according to decision of the Sole Shareholder, the Bank distributed and paid dividends from previous year profit in the amount of RUB 700,000 thousand (six months ended 30 June 2018: RUB 1,000,000 thousand).

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13. 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 on these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

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

A significant part of the Bank's business activity is carried out in the Russian Federation. Some provisions in the current Russian tax, currency and customs legislation are not clear enough and quite ambiguous, which often results in their varying interpretations (which may apply to past 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. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of various provisions of this legislation, performing tax audits. Consequently, the tax authorities may challenge transactions and operations of the Bank which have not been challenged before at any time in the future. As a result, significant additional taxes, penalties and fines may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years preceding the year in which the decision to conduct a tax review was taken. Under certain circumstances, tax reviews may cover longer periods.

As at 30 June 2019, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Credit related contingencies and other commitments

The Bank's commitments and contingencies comprise the following:

	30 June 2019 (unaudited)	31 December 2018
Credit related commitments		
Loan commitments	9,188,495	8,687,020
Letters of credit and financial guarantees	15,885,061	18,076,672
Non-financial guarantees	8,833,423	3,633,240
Less: ECL allowance and losses on non-financial guarantees	(37,728)	(30,094)
	33,869,251	30,366,838
Operating lease commitments		
Not later than 1 year	4,609	131,980
Later than 1 year but not later than 5 years	–	16,080
Later than 5 years	–	–
	4,609	148,060
Deposits held as collateral against letters of credit	198,812	62,898
Deposits held as collateral against guarantees	–	63,067

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13. Commitments and contingencies (continued)

Credit related contingencies and other commitments (continued)

Movements in allowances for ECL for the six months ended 30 June 2019 are as follows:

Loan commitments	Stage 1	Total
Allowance for ECL at 1 January 2019	5,619	5,619
New exposures	3,893	3,893
Commitments derecognized or redeemed (excluding write-offs)	(1,218)	(1,218)
Changes in models and inputs used for ECL assessment	(3,477)	(3,477)
Translation differences	-	-
	<u>4,817</u>	<u>4,817</u>
Allowance for ECL at 30 June 2019 (unaudited)	4,817	4,817

Letters of credit and guarantees	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 1 January 2019	-	24,476	-	24,476
New letters of credit	-	27,199	-	27,199
Letters of credit derecognized or repaid (excluding write-offs)	-	(6,059)	-	(6,059)
Changes in models and inputs used for ECL assessment	-	(12,704)	-	(12,704)
Translation differences	-	-	-	-
	<u>-</u>	<u>32,912</u>	<u>-</u>	<u>32,912</u>
Allowance for ECL at 30 June 2019 (unaudited)	-	32,912	-	32,912

Movements in allowances for ECL for the six months ended 30 June 2018 are as follows:

Loan commitments	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 1 January 2018	3,495	5,999	-	9,494
New exposures	83	-	-	83
Commitments derecognized or redeemed (excluding write-offs)	(139)	(271)	-	(410)
Changes in models and inputs used for ECL assessment	(2,899)	(5,209)	-	(8,108)
Translation differences	5	-	-	5
	<u>545</u>	<u>519</u>	<u>-</u>	<u>1,064</u>
Allowance at 30 June 2018 (unaudited)	545	519	-	1,064

Letters of credit	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 1 January 2018	-	13,662	-	13,662
New letters of credit	-	4,900	-	4,900
Letters of credit derecognized or repaid (excluding write-offs)	-	(7,828)	-	(7,828)
Changes in models and inputs used for ECL assessment	-	17,796	-	17,796
Translation differences	-	1,127	-	1,127
	<u>-</u>	<u>29,657</u>	<u>-</u>	<u>29,657</u>
Allowance for ECL at 30 June 2018 (unaudited)	-	29,657	-	29,657

Non-financial guarantees

Provision for losses as at 1 January 2018	7,640
New non-financial guarantees	311
Non-financial guarantees derecognized or repaid (except for write-offs)	(366)
Changes to models and inputs used for provision calculations	19,067
Translation differences	231
	<u>26,883</u>
Provision for losses as at 30 June 2018 (unaudited)	26,883

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14. Fair value measurements

Fair value measurement procedures

In measuring balance sheet items at fair value, the Bank uses the following:

- ▶ Quoted prices from an active market (for debt securities);
- ▶ Valuation models to calculate present value (for derivative instruments), for which all inputs are observable, approved by Commerzbank group. The models incorporate various inputs including the credit quality of counterparties, foreign exchange forward and spot rates, as well as interest rate curves.

Bank uses professional judgment to allocate financial instruments to a particular level of the fair value hierarchy.

External appraisers can be engaged to reclassify assets held for sale included in the category of measured at amortized cost. The decision to engage external appraisers is made by the Bank's management following all the necessary interbank approval procedures. Appraiser's selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Recurring fair value measurement	30 June 2019 (unaudited)				31 December 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value								
Derivative financial assets	-	950,098	-	950,098	-	2,398,471	-	2,398,471
Investment securities – debt securities at FVPL								
Federal bonds of the Ministry of Finance	2,476,548	-	-	2,476,548	1,739,256	-	-	1,739,256
Debt securities through OCI								
- Federal bonds of the Ministry of Finance	3,501,662	-	-	3,501,662	4,378,052	-	-	4,378,052
- Bonds of the CBR	3,297,345	-	-	3,297,345	3,830,781	-	-	3,830,781
Total	9,275,555	950,098	-	10,225,653	9,948,089	2,398,471	-	12,346,560
Liabilities measured at fair value								
Derivative financial liabilities	-	(731,732)	-	(731,732)	-	(476,651)	-	(476,651)
Total	-	(731,732)	-	(731,732)	-	(476,651)	-	(476,651)

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15. Related party transactions

The outstanding balances of related party transactions are as follows:

	30 June 2019 (unaudited) Commerzbank Group	31 December 2018 Commerzbank Group
Cash and cash equivalents	15,183,854	5,781,360
Amounts due from credit institutions	13,566,308	6,547,666
Derivative financial assets	722,424	2,358,593
Other financial assets	109	28,017
Other non-financial assets	61,809	299
Amounts due to credit institutions	14,225,344	25,174,226
Derivative financial liabilities	659,724	337,311
Amounts due to customers	46,402	72,811
Other financial liabilities	454,888	1,617
Other non-financial liabilities	199,651	41,189

Income and expenses arising from transactions with related parties are as follows:

	For the six months of 2019 (unaudited) Commerzbank Group	For the six months of 2018 (unaudited) Commerzbank Group
Interest income calculated using the effective interest rate	99,805	58,053
Interest expense	(103,066)	(40,457)
Fee and commission income	20,885	17,187
Fee and commission expense	(51,905)	(26,560)
Other income	52,231	45,759
Administrative and other operating expenses	(168,217)	(176,655)

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

The following table provides information on the terms and conditions of related party transactions:

Contractual interest rate on cash and cash equivalents with banks	0% (0% in 2018)
Contractual interest rate on amounts due from credit institutions	2.35% (2.4-2.5% in 2018)
Contractual interest rate on amounts due to credit institutions	-0.1-7.0% (-0.2-7.0% in 2018)
Contractual interest rate on amounts due to customers	0-5.2% (0-5.0% in 2018)

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15. Related party transactions (continued)

Other claims and liabilities arising from transactions with related parties are as follows:

	30 June 2019 (unaudited) Commerzbank Group	31 December 2018 Commerzbank Group
Contingent assets from guarantees issued by related parties in favour of the Bank other than counter guarantees	23,770,998	32,359,883
Guarantees issued by the Bank to third parties on behalf of (under the counter guarantee of) related parties, including those related to counter guarantees	4,992,292	6,412,018
Claims under deliverable term transactions and derivative instruments	27,945,713	76,944,112
Liabilities under deliverable term transactions and derivative instruments	27,972,425	75,259,839
Irrevocable credit lines	700,000	700,000

As at 30 June 2019, contractual operating lease liabilities related to premises rented by the Bank from a related party of Commerzbank Group amounted to RUB 451,289 thousand (31 December 2018: RUB 110,959 thousand).

Transactions with key management personnel are as follows:

	Six months ended 30 June 2019 (unaudited)		Six months ended 30 June 2018 31 December 2018	
	Expenses for the period	Accrued liability at the end of the period	Expenses for the period (unaudited)	Accrued liability at the end of the period
Salary, short-term bonuses and benefits in kind	25,159	4,081	23,518	8,136
Long-term bonuses	425	12,791	2,597	15,688
Total	25,584	16,872	26,115	23,824

The Bank's key management personnel includes the members of the Management Board.

There were no outstanding balances or other claims/liabilities due from key management personnel and other income/expenses from transaction with key management personnel as at the reporting date and during the reporting period (31 December 2018 and for the six months ended 30 June 2019: none).