

Report on Review of Interim Financial Information
"COMMERZBANK (EURASIJA)" AO
for the six months ended 30 June 2020

August 2020

Translation of the original Russian version

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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 2020, 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*.

M. IGNATJEVA
Partner
Ernst & Young LLC

31 August 2020

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 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.

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“COMMERZBANK (EURASIJA)” AO

Interim condensed financial statements

Interim statement of financial position

As at 30 June 2020

(in thousands of Russian rubles)

	<i>Notes</i>	<i>End of day 30 June 2020 (unaudited)</i>	<i>End of day 31 December 2019</i>
Assets			
Cash and cash equivalents	3	24,346,673	19,812,952
Amounts due from credit institutions	4	8,535,508	6,807,240
Derivative financial assets	5	609,560	387,987
Debt securities at fair value through profit or loss	7	2,653,475	1,862,462
Debt securities at fair value through other comprehensive income	7	7,460,553	8,339,871
Loans to customers	6	29,270,028	24,639,452
Property and equipment and right-of-use assets		314,737	511,954
Prepaid income tax		253,613	126,263
Deferred tax asset		109,144	110,653
Other financial assets		25,144	23,851
Other non-financial assets		120,126	39,092
Total assets		73,698,561	62,661,777
Liabilities			
Amounts due to credit institutions	10	17,883,809	12,948,111
Derivative financial liabilities	5	453,833	1,188,496
Amounts due to customers	11	42,847,073	36,348,046
Provisions	13	10,017	11,792
Other financial liabilities		372,725	516,566
Other non-financial liabilities		380,148	277,241
Total liabilities		61,947,605	51,290,252
Equity			
Share capital	12	3,827,672	3,827,672
Revaluation reserve for securities at fair value through other comprehensive income		168,733	69,471
Retained earnings		7,030,202	6,750,033
Other reserves		724,349	724,349
Total equity		11,750,956	11,371,525
Total equity and liabilities		73,698,561	62,661,777

Michael Roscher

Chairman of the Management Board

A.A. Gorokhovskiy

Chief Accountant / Financial Director

31 August 2020

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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 2020

(in thousands of Russian rubles)

	Notes	<i>For the six months ended</i>	
		30 June 2020 <i>(unaudited)</i>	30 June 2019 <i>(unaudited)</i>
Interest income calculated using the effective interest rate	14	1,043,778	1,046,378
Other interest income	14	69,497	71,327
Interest expense	14	(382,169)	(386,784)
Net interest income		731,106	730,921
Credit loss (expense)/income	9	(3,986)	8,182
Net interest income after credit loss expenses		727,120	739,103
Fee and commission income	15	283,979	280,500
Fee and commission expense	15	(81,275)	(80,494)
Net gains/(losses) from derivative financial instruments		1,278,036	(966,026)
Net (losses)/gains from dealing in foreign currencies		(1,590,897)	1,020,800
Net gains from foreign currency translation		490,240	101,106
Net (losses)/gains from securities at fair value through profit or loss		(11,228)	14,876
Other income		108,567	50,770
Non-interest income		477,422	421,532
Administrative and other operating expenses		(894,793)	(713,175)
Non-interest expense		(894,793)	(713,175)
Profit before income tax expense		309,749	447,460
Income tax expense	8	(29,580)	(88,635)
Profit for the period		280,169	358,825
<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		121,392	38,200
Net change in expected credit losses from debt securities at fair value through other comprehensive income		2,149	(1,761)
Income tax related to components of other comprehensive income		(24,279)	92
Other comprehensive income for the period to be reclassified to profit or loss in subsequent periods, net of tax		99,262	36,531
Total comprehensive income for the period		379,431	395,356

The accompanying notes 1 to 19 are an integral part of these interim condensed financial statements.

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Interim condensed financial statements

Interim statement of changes in equity for the six months ended 30 June 2020

(in thousands of Russian rubles)

	<i>Share capital</i>	<i>Revaluation reserve for securities at fair value through other comprehen- sive income</i>	<i>Retained earnings</i>	<i>Other reserves</i>	<i>Total equity</i>
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)
End of day 30 June 2019 (unaudited)	3,827,672	25,927	7,261,374	724,349	11,839,322
1 January 2020	3,827,672	69,471	6,750,033	724,349	11,371,525
Profit for the period	-	-	280,169	-	280,169
Other comprehensive income for the period	-	99,262	-	-	99,262
Total comprehensive income for the period	-	99,262	280,169	-	379,431
End of day 30 June 2020 (unaudited)	3,827,672	168,733	7,030,202	724,349	11,750,956

The accompanying notes 1 to 19 are an integral part of these interim condensed financial statements.

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Interim condensed financial statements

Interim statement of cash flows for the six months ended 30 June 2020

(in thousands of Russian rubles)

	Notes	<i>For the six months ended</i>	
		30 June 2020 <i>(unaudited)</i>	30 June 2019 <i>(unaudited)</i>
Cash flows from operating activities			
Interest received		999,472	1,170,236
Interest paid		(406,387)	(372,225)
Fees and commissions received		282,686	276,283
Fees and commissions paid		(91,281)	(55,801)
Realized gains less losses from derivative financial instruments		321,800	737,428
Realized gains less losses from dealing in foreign currencies		(1,590,897)	1,020,833
Other operating expenses		(12,502)	(9,812)
Personnel expenses paid		(391,535)	(394,979)
Administrative and other operating expenses paid, other than personnel expenses		(121,578)	(211,253)
Cash flows from operating activities before changes in operating assets and liabilities		(1,010,222)	2,160,710
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		475,153	3,335,617
Loans to customers		(4,395,331)	4,560,173
Other assets		(1,566)	39,014
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		3,660,891	(6,835,882)
Amounts due to customers		3,934,645	7,653,544
Other liabilities		(92,388)	(18,319)
Net cash flows from operating activities before income tax		2,571,182	10,894,857
Income tax paid		(178,734)	(472,872)
Net cash from operating activities		2,392,448	10,421,985
Cash flows from investing activities			
Acquisition of debt securities		(6,413,767)	(6,178,350)
Disposal of debt securities		6,847,835	6,900,734
Purchase of property and equipment		(745)	(2,349)
Net cash from investing activities		433,323	720,035
Cash flows from financing activities			
Dividends paid to shareholders of the Bank	12	-	(700,000)
Lease payments		(80,404)	-
Net cash used in financing activities		(80,404)	(700,000)
Effect of exchange rates changes on cash and cash equivalents		1,788,354	(1,076,173)
Net increase in cash and cash equivalents		4,533,721	9,365,847
Cash and cash equivalents, beginning		19,812,952	9,072,263
Cash and cash equivalents, ending	3	24,346,673	18,438,110

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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 (the “Bank”) was incorporated and is domiciled in the Russian Federation. The Bank is a joint-stock company established 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 banking services to its commercial customers. Its head office is located in Moscow. The Bank had one branch in Saint Petersburg which was reorganized into a representative office in November 2019. The Bank’s legal address is Russia 119017, Moscow, Kadashevskaya naberezhnaya, 14/2. The Bank does not provide services to individuals.

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 under current accounts and deposits of small businesses for the amount up to RUB 1,400 thousand for each legal entity if it stops operation or the CBR revokes its banking license.

As at the end of day 30 June 2020 and 31 December 2019, the Bank’s sole shareholder was 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 interim condensed financial statements of the Bank for the six months ended 30 June 2020 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 2019.

Effect of COVID-19 pandemic

Due to rapid spread of COVID-19 pandemic in the early of 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.

(in 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 interim condensed 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 30 June 2020, the Bank has reflected revised estimates of expected future cash flows in its ECL assessment (Note 9), estimation of recoverability of deferred tax assets and estimation of fair values of financial instruments (Note 16).

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 2019.

Amendments to standards and interpretations described below are effective since 1 January 2020 but do not have impact on the interim condensed 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 interim condensed 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: Interest Rate Benchmark Reform

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 interim 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 interim condensed 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.

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 interim condensed financial statements of the Bank.

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Notes to the interim condensed financial statements

(in thousands of Russian rubles)

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>End of day 30 June 2020 (unaudited)</i>	<i>End of day 31 December 2019</i>
Cash on hand	32,500	25,576
Current accounts with the CBR (other than obligatory reserves)	2,113,099	2,018,492
Correspondent accounts and overnight deposits with other banks:		
Internal financial rating 1.0-2.0	17,891,051	15,602,326
Internal financial rating 2.1-4.0	6,324	16,954
Settlement accounts with trading systems	4,303,699	2,149,604
Cash and cash equivalents	24,346,673	19,812,952

All balances of cash equivalents are included in Stages 1 and 2. As at the end of the day 30 June 2020 and 31 December 2019, allowance for expected credit losses was less than RUB 1 million.

4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<i>End of day 30 June 2020 (unaudited)</i>	<i>End of day 31 December 2019</i>
Obligatory reserves with the CBR	847,194	612,858
Term deposits for up to 90 days	7,624,876	6,171,680
Security deposits with trading systems	63,546	22,985
Less: allowance for ECL	(108)	(283)
Amounts due from credit institutions	8,535,508	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 the CBR) are attributable to the participants of the Commerzbank Group (Note 17).

Movements in the ECL allowance relating to the amounts due from credit institutions for the six months ended 30 June 2020 are presented in the table below:

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 1 January 2020	283	–	–	283
New assets originated or purchased	12	–	–	12
Assets repaid or derecognized (excluding write-offs)	(187)	–	–	(187)
Changes to models and inputs used for ECL calculations	–	–	–	–
Allowance for ECL at the end of day 30 June 2020 (unaudited)	108	–	–	108

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4. Amounts due from credit institutions (continued)

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
Assets derecognized or repaid (excluding write-offs)	13	–	–	13
Changes to models and inputs used for ECL assessment	(3,462)	–	–	(3,462)
Foreign exchange adjustments	603	–	–	603
Allowance for ECL at the end of day 30 June 2019 (unaudited)	16	48	–	64

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.

	End of day 30 June 2020 (unaudited)			End of day 31 December 2019		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Forwards and swaps – foreign	17,548,667	–	(10,241)	15,527,853	8,026	(10,510)
Forwards and swaps – domestic	17,548,667	17,477	–	15,527,853	10,519	(2,947)
Foreign exchange contracts						
Forwards and swaps – foreign	25,743,115	199,973	(412,047)	31,354,856	67,890	(1,071,038)
Forwards and swaps – domestic	29,426,014	388,780	(28,215)	32,752,735	301,376	(103,825)
Options – foreign	136,431	3,330	–	61,606	176	–
Options – domestic	136,431	–	(3,330)	61,606	–	(176)
Total derivative assets/liabilities	90,539,325	609,560	(453,833)	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.

6. Loans to customers

Loans to customers comprise:

	End of day 30 June 2020 (unaudited)	End of day 31 December 2019
Corporate lending	29,296,786	24,662,422
Gross loans to customers at amortized cost	29,296,786	24,662,422
Less: allowance for ECL	(26,758)	(22,970)
Loans to customers at amortized cost	29,270,028	24,639,452

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Notes to the interim condensed financial statements

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6. Loans to customers (continued)

Allowance for ECL from loans to customers at amortized cost

Movements in allowances for ECL for the six months ended 30 June 2020 are presented in the table below (as at 30 June 2020, there were no loans included in Stage 3):

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Total</i>
Allowance for ECL at 1 January 2020	22,927	43	22,970
New assets originated or purchased	6,785	–	6,785
Assets repaid or derecognized (excluding write-offs)	(3,190)	(43)	(3,233)
Foreign exchange adjustments	236	–	236
Allowance for ECL at the end of day 30 June 2020 (unaudited)	26,758	–	26,758

A reconciliation of the allowance for ECL from loans by class for the six months ended 30 June 2019 is as follows (as at 30 June 2019, there were no loans included in Stages 2 and 3):

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

7. Debt securities

Debt securities comprise:

	<i>End of day 30 June 2020 (unaudited)</i>	<i>End of day 31 December 2019</i>
Debt securities at FVPL	2,653,475	1,862,462
Federal bonds of the Ministry of Finance	2,653,475	1,862,462
Debt securities at FVOCI	7,460,553	8,339,871
Federal bonds of the Ministry of Finance	7,460,553	5,314,911
Bonds issued by the CBR	–	3,024,960

Movements in the allowance for ECL in respect of debt securities at FVOCI are as follows (as at the reporting dates, all debt securities at FVOCI are included in Stage 1):

<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2020	6,933	6,933
New assets originated or purchased	1,504	1,504
Assets derecognized or repaid (excluding write-offs)	(650)	(650)
Changes to models and inputs used for ECL assessment	1,295	1,295
Allowance for ECL at the end of day 30 June 2020 (unaudited)	9,082	9,082

<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 repaid (excluding write-offs)	(415)	(415)
Changes to models and inputs used for ECL assessment	(2,922)	(2,922)
Allowance for ECL at 30 June 2019 (unaudited)	7,842	7,842

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Notes to the interim condensed financial statements

(in thousands of Russian rubles)

8. Taxation

The income tax expense comprises:

	<i>For the six months ended</i>	
	30 June 2020 <i>(unaudited)</i>	30 June 2019 <i>(unaudited)</i>
Current tax charge	52,349	486,723
Deferred tax credit/(charge) – origination and reversal of temporary differences	1,510	(398,180)
Less: deferred tax recorded in other comprehensive income	(24,279)	92
Income tax expense	29,580	88,635

Russian legal entities are required to file individual corporate income tax declarations to the tax authorities. The standard income tax rate for companies (including banks) was 20% in 2019 and in the first half of 2020. In 2019, the income tax rate applicable to interest (coupon) income on state bonds was 15%.

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

Reconciliation of the income tax expense with the result of multiplying the accounting profit by tax rate is provided in the table below:

	<i>For the six months ended</i>	
	30 June 2020 <i>(unaudited)</i>	30 June 2019 <i>(unaudited)</i>
Profit before tax	309,749	447,460
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	61,950	89,492
Income on certain types of securities taxed at different rates	(17,450)	(15,601)
Other	(14,919)	14,744
Income tax expense	29,580	88,635

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 2020:

	Notes	Stage 1	Stage 2	Stage 3	POCI assets	Total
Amounts due from credit institutions	4	175	–	–	–	175
Loans to customers at amortized cost	6	(3,831)	43	–	–	(3,788)
Debt securities at FVOCI	7	(2,149)	–	–	–	(2,149)
Loan commitments	13	2,040	57	–	–	2,097
Letters of credit and guarantees	13	–	(321)	–	–	(321)
Total ECL expense		(3,765)	(221)	–	–	(3,986)

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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 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 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	13	-	(8,436)	-	-	(8,436)
Total ECL expense		16,618	(8,436)	-	-	8,182

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

10. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>End of day 30 June 2020 (unaudited)</i>	<i>End of day 31 December 2019</i>
Current accounts	90,124	183,648
Term deposits and loans	17,793,685	12,764,463
Amounts due to credit institutions	17,883,809	12,948,111

Significant portion of balances in this balance sheet item is attributable to the participants of the Commerzbank Group (see Note 17).

11. Amounts due to customers

Amounts due to customers comprise:

	<i>End of day 30 June 2020 (unaudited)</i>	<i>End of day 31 December 2019</i>
Current accounts	24,093,609	17,577,076
Term deposits	18,753,464	18,770,970
Amounts due to customers	42,847,073	36,348,046

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>
End of day:					
31 December 2018					
30 June 2019					
31 December 2019					
30 June 2020	43,112	2,155,600	380,233	1,291,839	3,827,672

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12. Equity (continued)

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.

In the first half of 2020, in accordance with the decision of the Sole Shareholder, the Bank neither accrued nor paid any dividends (first half of 2019: accrued and paid dividends of RUB 700,000 thousand).

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 a decline 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.

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

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 the first half of 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 changes that can occur frequently, which often results in different interpretations of tax norms by the tax authorities and taxpayers. In this regard, management's interpretation of such legislation as applied to procedures to determine taxable income from those transactions, including economic justification, may be challenged by the tax authorities at any time in the future, which may result in a heavier tax burden on the Bank.

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

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

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13. Commitments and contingencies (continued)

Taxation (continued)

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 considers the Bank's tax position that is based on the applicable tax legislation and clarifications of the tax authorities to be reasonable and document supported, therefore, management believes that its interpretation of the relevant tax legislation is appropriate as at 1 July 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 taxes, penalties and fines are 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 1 July 2020, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

The Bank's commitments and contingencies comprised the following:

	<i>End of day 30 June 2020 (unaudited)</i>	<i>End of day 31 December 2019</i>
Credit related commitments		
Loan commitments	9,984,362	9,537,935
Letters of credit and financial guarantees	15,285,573	13,945,450
Non-financial guarantees	10,856,491	9,839,859
Total	36,126,426	33,323,244
Allowance for ECL on credit related commitments	(10,017)	(11,792)
Deposits held as collateral against letters of credit	52,979	68,591
Deposits held as collateral against guarantees	-	374

Movements in allowances for ECL for the six months ended 30 June 2020 are as follows:

<i>Loan commitments</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Total</i>
Allowance for ECL at 1 January 2020	6,021	100	6,121
New exposures	324	-	324
Exposures derecognized or matured (excluding write-offs)	(119)	-	(119)
Transfers to Stage 1	43	(43)	-
Foreign exchange adjustments	(2,245)	(57)	(2,302)
Allowance for ECL at the end of day 30 June 2020 (unaudited)	4,024	-	4,024

<i>Letters of credit and guarantees</i>	<i>Stage 2</i>	<i>Total</i>
Allowance for ECL at 1 January 2020	5,670	5,670
New exposures	219	219
Exposures derecognized or matured (excluding write-offs)	(5,387)	(5,387)
Foreign exchange adjustments	5,489	5,489
Allowance for ECL at the end of day 30 June 2020 (unaudited)	5,991	5,991

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13. Commitments and contingencies (continued)

Commitments and contingencies (continued)

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

<i>Loan commitments</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2019	5,619	5,619
New commitments	3,893	3,893
Commitments derecognized or redeemed (excluding write-offs)	(1,218)	(1,218)
Changes to models and inputs used for ECL assessment	(3,477)	(3,477)
Foreign exchange adjustments	–	–
Allowance at the end of day 30 June 2019 (unaudited)	4,817	4,817

<i>Letters of credit</i>	<i>Stage 2</i>	<i>Total</i>
Allowance for ECL at 1 January 2019	24,476	24,476
New letter of credit	27,199	27,199
Letters of credit derecognized or repaid (excluding write-offs)	(6,059)	(6,059)
Changes to models and inputs used for ECL assessment	(12,704)	(12,704)
Foreign exchange adjustments	–	–
Allowance for ECL at the end of day 30 June 2019 (unaudited)	32,912	32,912

14. Net interest income

Net interest income comprises:

	<i>For the six months ended</i>	
	<i>30 June 2020</i> <i>(unaudited)</i>	<i>30 June 2019</i> <i>(unaudited)</i>
Financial assets at amortized cost		
Amounts due from credit institutions	50,712	172,876
Loans to customers	740,895	625,578
Financial assets at FVOCI		
Debt securities	252,171	247,924
Interest income calculated using the effective interest rate	1,043,778	1,046,378
Debt securities at fair value through profit or loss	69,497	71,327
Other interest income	69,497	71,327
Total interest income	1,113,275	1,117,705
Amounts due to customers	(264,700)	(274,845)
Amounts due to credit institutions	(117,469)	(111,939)
Interest expense	(382,169)	(386,784)
Net interest income	731,106	730,921

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15. Fee and commission income

Net fee and commission income comprises:

	<i>For the six months ended</i>	
	30 June 2020 <i>(unaudited)</i>	30 June 2019 <i>(unaudited)</i>
Commercial financing	119,625	120,173
Settlement operations	85,848	84,205
Acting as a currency control agent	63,140	59,432
Other	15,366	16,690
Fee and commission income	283,979	280,500
Guarantees received	(49,966)	(54,700)
Operations with securities and foreign currency	(23,220)	(17,025)
Settlement operations	(5,498)	(6,603)
Other	(2,591)	(2,166)
Fee and commission expense	(81,275)	(80,494)
Net fee and commission income	202,704	200,006

16. 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.

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.

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16. Fair value measurements (continued)

Fair value hierarchy (continued)

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

	<i>End of day 30 June 2020</i> <i>(unaudited)</i>				<i>End of day 31 December 2019</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Recurring fair value measurement								
Assets measured at fair value	-	-	-	-	-	-	-	-
Derivative financial assets	-	609,560	-	609,560	-	387,987	-	387,987
Investment securities – debt securities at FVPL								
- Russian State bonds	2,653,475	-	-	2,653,475	1,862,462	-	-	1,862,462
Debt securities at FVOCI								
- Russian State bonds	7,460,553	-	-	7,460,553	5,314,911	-	-	5,314,911
- Bonds of the CBR	-	-	-	-	3,024,960	-	-	3,024,960
Total	10,114,028	609,560	-	10,723,588	10,202,333	387,987	-	10,590,320
Liabilities at fair value								
Derivative financial liabilities	-	(453,833)	-	(453,833)	-	(1,188,496)	-	(1,188,496)
Total	-	(453,833)	-	(453,833)	-	(1,188,496)	-	(1,188,496)

Fair value 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.

	<i>End of day 30 June 2020</i> <i>(unaudited)</i>			<i>End of day 31 December 2019</i>		
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Unrecognized profit/(loss)</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Unrecognized profit/(loss)</i>
Financial assets						
Cash and cash equivalents	24,346,673	24,346,673	-	19,812,952	19,812,952	-
Obligatory reserves with the CBR	847,194	847,194	-	612,858	612,858	-
Amounts due from credit institutions	7,688,314	7,688,251	(63)	6,194,383	6,185,769	(8,613)
Loans to customers at amortized cost	29,270,028	29,631,054	361,026	24,639,452	24,738,110	98,658
Other financial assets	25,144	25,144	-	23,851	23,851	-
Financial liabilities						
Amounts due to credit institutions	17,883,809	17,865,571	18,238	12,948,111	12,919,341	28,770
Amounts due to customers	42,847,073	42,832,012	15,061	36,348,046	36,310,106	37,940
Lease liabilities	342,558	342,558	-	476,393	476,393	-
Other financial liabilities	30,167	30,167	-	40,173	40,173	-
Total unrecognized change in fair value			394,262			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 accounts without a specific maturity.

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16. Fair value measurements (continued)

Valuation techniques and assumptions (continued)

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 the Bank (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).

17. Related party transactions

The outstanding balances of related party transactions are as follows:

	End of day 30 June 2020 (unaudited) Commerzbank Group	End of day 31 December 2019 Commerzbank Group
Cash and cash equivalents	17,891,051	15,602,326
Amounts due from credit institutions	7,624,680	371,431
Derivative financial assets	203,303	76,092
Other financial assets	1,591	88
Other non-financial assets	82,201	–
Amounts due to credit institutions	17,877,973	10,907,803
Derivative financial liabilities	422,288	1,081,548
Amounts due to customers	162,177	97,074
Other financial liabilities	1,900	5,533
Lease liabilities	278,791	412,459
Other non-financial liabilities	231,154	96,829

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

	End of day 30 June 2020 (unaudited) Commerzbank Group	End of day 31 December 2019 Commerzbank Group
Interest income calculated using the effective interest rate	37,745	99,805
Interest expense	(107,191)	(103,066)
Fee and commission income	21,296	20,885
Fee and commission expense	(48,793)	(51,905)
Other income	106,655	52,231
Administrative and other operating expenses	(373,758)	(168,217)

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17. Related party transactions (continued)

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

	<i>End of day 30 June 2020 (unaudited) Commerzbank Group</i>	<i>End of day 31 December 2019 Commerzbank Group</i>
Contingencies on guarantees issued by related parties to the Bank (other than counter guarantees)	39,797,226	24,277,192
Guarantees issued by the Bank to third parties on behalf of related parties (under the counter guarantee), including those related to counter guarantees	7,921,607	4,789,341
Claims under deliverable term transactions and derivative instruments	43,363,963	46,347,995
Liabilities under deliverable term transactions and derivative instruments	43,108,944	47,199,623
Loan commitments	700,000	700,000

18. Capital adequacy

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

<i>Description</i>	<i>End of day 30 June 2020 (unaudited)</i>	<i>End of day 31 December 2019</i>
Equity (capital)	11,025,603	10,649,615
Common equity Tier 1 capital adequacy ratio	26.652%	22.903%
Core capital adequacy ratio	26.652%	22.903%
Equity (capital) adequacy ratio	27.676%	23.986%

19. Events after the reporting period

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