Report on Review of the Interim Financial Information of *AO COMMERZBANK (EURASIJA)* for the six months ended 30 June 2018

August 2018

Translation of the original Russian version

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Report on Review of the Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed financial statements of Joint-stock Company COMMERZBANK (EURASIJA) (hereinafter – "the Bank"), which comprise the interim condensed statement of financial position as at 30 June 2018, and the respective interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended and selected explanatory notes (the "interim financial information").

Management of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (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.

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.*

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Other matters

The financial statements of the Bank for 2017 were audited by another auditor who expressed an unmodified opinion in respect of those financial statements on 27 April 2018.

The interim condensed financial statements of the Bank for the six months ended 30 June 2017 were not reviewed.

A.F. LAPINA
Partner
Ernst & Young LLC

31 August 2018

Details of the entity

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

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors “Russian Union of auditors” (Association) (“SRO RUA”). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Interim condensed statement of financial position

as at 30 June 2018

(in thousands of Russian rubles)

	Note	30 June 2018 (unaudited)	31 December 2017
Assets			
Cash and cash equivalents	3	8,865,149	6,726,411
Amounts due from credit institutions	4	16,874,201	9,467,692
Derivative financial assets	5	1,642,385	2,023,072
Loans to customers	6	21,220,964	13,558,874
Debt securities	7	6,167,675	6,629,855
Prepaid income tax		336,232	144,757
Property and equipment		58,031	42,235
Other financial assets		19,083	23,674
Other assets		84,009	30,218
Total assets		**55,267,729**	**38,646,788**
Liabilities			
Amounts due to credit institutions	10	15,357,055	3,607,656
Derivative financial liabilities	5	316,368	621,935
Amounts due to customers	11	26,846,726	21,134,377
Deferred income tax liabilities		339,791	359,646
Provisions	13	57,606	25,198
Other financial liabilities		47,178	40,551
Other liabilities		199,584	226,770
Total liabilities		**43,164,308**	**26,016,133**
Equity	12		
Share capital		3,827,672	3,827,672
Revaluation reserve for debt securities		29,550	72,380
Retained earnings		7,521,850	8,006,254
Other reserves		724,349	724,349
Total equity		**12,103,421**	**12,630,655**
Total equity and liabilities		**55,267,729**	**38,646,788**

C. Runde — Chairman of the Management Board

A.A. Gorokhovsky — Financial Director

31 August 2018

The accompanying notes on pages 9-21 are an integral part of these interim condensed financial statements.

Interim condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2018

(in thousands of Russian rubles)

	Note	*For the six months ended 30 June (unaudited)* 2018	2017
Interest income		706,901	873,962
Interest expense		(169,564)	(273,826)
Net interest income		**537,337**	**600,136**
Credit loss expense	9	(9,212)	(181,653)
Net interest income after allowance for credit losses		**528,125**	**418,483**
Fee and commission income		276,781	247,349
Fee and commission expense		(46,044)	(47,491)
Net losses from debt securities		(74)	(124)
Net gains/(losses) from derivative financial instruments		79,429	(290,096)
Net (losses)/gains from trading in foreign currencies		(1,249,395)	965,283
Net gains from foreign currency translation		1,652,965	100,520
Other income		46,566	41,754
Non-interest income		**760,228**	**1,017,195**
Personnel expenses		(298,718)	(330,460)
Administrative and other operating expenses other than personnel expenses		(335,841)	(319,048)
Other impairment and provisions	9	(19,243)	(2,419)
Non-interest expense		**(653,802)**	**(651,927)**
Profit before income tax expense		**634,551**	**783,751**
Income tax expense	8	(111,883)	(156,215)
Profit for the period		**522,668**	**627,536**
Other comprehensive income			
Other comprehensive income to be subsequently reclassified to profit or loss			
Net change in the fair value of debt securities at fair value through other comprehensive income		(62,517)	9,192
Change in the allowance for expected credit losses on debt securities at fair value through other comprehensive income		(571)	–
Income tax related to components of other comprehensive income		10,881	(1,838)
Other comprehensive income for the period, net of tax		**(52,207)**	**7,354**
Total comprehensive income for the period		**470,461**	**634,890**

The accompanying notes on pages 9-21 are an integral part of these interim condensed financial statements.

Interim condensed statement of changes in equity

for the six months ended 30 June 2018

(in thousands of Russian rubles)

	Share capital	*Revaluation reserve for securities available for sale*	*Retained earnings*	*Other reserves*	*Total equity*
Balance at 1 January 2017	**3,827,672**	**14,361**	**8,391,636**	**724,349**	**12,958,018**
Profit for the period	–	–	627,536	–	**627,536**
Other comprehensive income for the period	–	7,354	–	–	**7,354**
Total comprehensive income for the period	–	**7,354**	**627,536**	–	**634,890**
Dividends (Note 12)	–	–	(700,000)	–	**(700,000)**
Balance at 30 June 2017 (unaudited)	**3,827,672**	**21,715**	**8,319,172**	**724,349**	**12,892,908**
Balance at 1 January 2018	**3,827,672**	**72,380**	**8,006,254**	**724,349**	**12,630,655**
Effect of adoption of IFRS 9 (Note 2)	–	9,377	(7,072)	–	**2,305**
Balance at 1 January 2018 restated under IFRS 9	**3,827,672**	**81,757**	**7,999,182**	**724,349**	**12,632,960**
Profit for the period	–	–	522,668	–	**522,668**
Other comprehensive income for the period	–	(52,207)	–	–	**(52,207)**
Total comprehensive income for the period	–	**(52,207)**	**522,668**	–	**470,461**
Dividends (Note 12)	–	–	(1,000,000)	–	**(1,000,000)**
Balance at 30 June 2018 (unaudited)	**3,827,672**	**29,550**	**7,521,850**	**724,349**	**12,103,421**

The accompanying notes on pages 9-21 are an integral part of these interim condensed financial statements.

Interim condensed statement of cash flows
for the six months ended 30 June 2018

(in thousands of Russian rubles)

		For the six months ended 30 June (unaudited)	
	Note	***2018***	***2017***
Cash flows from operating activities			
Interest received		727,086	825,632
Interest paid		(166,065)	(269,915)
Fees and commissions received		281,372	244,994
Fees and commissions paid		(19,333)	(35,936)
Net gain from derivative financial instruments		154,549	1,271,807
Net (losses)/gains from dealing in foreign currencies		(1,269,479)	907,044
Other operating (expenses)/income		(5,219)	1,957
Personnel expenses paid		(378,331)	(352,581)
Administrative and other operating expenses paid, other than personnel expenses		(280,905)	(214,007)
Cash flows from operating activities before changes in operating assets and liabilities		**(956,325)**	**2,378,995**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions, including obligatory reserve with the CBR		(5,514,636)	(4,185,998)
Loans to customers		(7,186,050)	(5,515,005)
Other assets		(89,461)	1,113
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		11,360,098	1,207,857
Amounts due to customers		5,302,817	6,758,995
Other liabilities		8,887	18,282
Net cash flows from operating activities before income tax		**2,925,330**	**664,239**
Income tax paid		(312,560)	(347,602)
Net cash from operating activities		**2,612,770**	**316,637**
Cash flows from investing activities			
Acquisition of debt securities		(591,572)	(3,459,893)
Proceeds from sale and redemption of debt securities		934,010	1,471,828
Purchase of property and equipment		(25,345)	(4,845)
Proceeds from sale of property and equipment		–	1,695
Net cash from/(used in) investing activities		**317,093**	**(1,991,215)**
Cash flows from financing activities			
Dividends paid	12	(1,000,000)	(700,000)
Net cash used in financing activities		**(1,000,000)**	**(700,000)**
Effect of exchange rate changes on cash and cash equivalents		208,875	156,427
Net increase/(decrease) in cash and cash equivalents		**2,138,738**	**(2,218,151)**
Cash and cash equivalents, beginning		6,726,411	8,139,097
Cash and cash equivalents, ending	3	**8,865,149**	**5,920,946**

(in thousands of Russian rubles)

1. Principal activities

AO COMMERZBANK (EURASIJA) (hereinafter, the "Bank") was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company in accordance with 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 2018 and 31 December 2017, 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 extends credits and makes remittances on the territory of 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.

2. Basis of preparation

General

These interim condensed financial statements of the Bank for the six months ended 30 June 2018 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 Bank's annual financial statements for the year ended 31 December 2017.

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 Bank's annual financial statements for the year ended 31 December 2017, except for the adoption of new standards as at 1 January 2018, noted below. The nature and effect of these changes are disclosed below. The Bank has not early adopted any other standards, amendments or interpretations that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in equity as at 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as financial assets at fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- ► Instruments that are managed on a "hold to collect" basis are measured at amortized cost;
- ► Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- ► Instruments that are managed on another basis will be measured at FVPL.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements.

Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

(b) Impairment

Adoption of IFRS 9 fundamentally changes the accounting for loan impairment losses that are calculated based on the expected credit loss (ECL) model rather than on the basis of incurred losses model stipulated by IAS 39. Starting from 1 January 2018, the Bank recognizes the allowance for ECL for all loans and other debt financial instruments not measured at FVPL, as well as for loan commitments and financial guarantee contracts, which are collectively referred to as financial instruments in this section.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL) unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above, the Bank groups its loans as follows:

Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 loans also include loans and other credit facilities where the credit risk has improved and loans have been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include loans and other credit facilities where the credit risk has improved and loans have been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECL.

POCI: Purchased or originated credit-impaired (POCI) financial assets are assets that are credit-impaired on initial recognition. POCI financial assets are recorded at fair value at initial recognition, and interest income is subsequently recognized based on the credit-adjusted EIR. The ECL allowance is recognized or derecognized only to the extent that there is a change in the amount of expected credit losses.

For financial assets, for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The Bank calculates ECL based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR or an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that an entity expects to receive. The mechanics of ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD): The *Probability of Default* (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

Exposure at default (EAD): The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Loss given default (LGD): The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. LGD is calculated as a difference between contractual cash flows and cash flows a creditor expects to receive, including from the sale of collateral. It is usually expressed as a percentage of the EAD.

The Bank uses a wide range of forecast information as economic inputs for its ECL assessment models. Impairment losses and their reversal are accounted for and recorded separately from gain or loss from modification recognized as an adjustment to the gross carrying amount of financial assets.

(in thousands of Russian rubles)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The Bank considers that the credit risk on a financial instrument to have significantly increased since initial recognition if the PD-rating calculated by the Bank exceeded 2.8 equaling PD rate (for 1 year) of 0.68%. Regardless of changes in ratings, an increase in credit risk since the date of initial recognition is considered significant, if contractual payments are over 30 days past due.

The Bank considers a financial instrument defaulted; therefore, the Banks includes it in Stage 3 (credit-impaired assets) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

The Bank calculates ECLs on an individual basis for the following assets: all Stage 3 assets, the corporate lending portfolio, due from banks, debt securities at FVOCI, financial assets classified as POCI assets as a result of debt restructuring on the derecognition of the original loan and the recognition of a new loan. The Bank calculates ECL on a collective basis for all other classes of assets, which it groups into smaller homogeneous portfolios, based on a combination of their internal and external characteristics.

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings, including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement		*Remeasure-ment*	*IFRS 9 measurement*	
Financial assets	***Category***	***Amount***	***ECL***	***Amount***	***Category***
Cash and cash equivalents	L&R[1]	6,726,411	–	6,726,411	Amortized cost
Amounts due from credit institutions	L&R	9,467,692	18,857	9,486,549	Amortized cost
Derivative financial assets	FVPL	2,023,072	–	2,023,072	FVPL (mandatory)
Loans to customers	L&R	13,558,874	(10,376)	13,548,498	Amortized cost
Debt securities	AFS[2]	6,629,855	–	6,629,855	FVOCI
Total financial assets		**38,405,904**	**8,481**	**38,414,385**	
Non-financial liabilities					
Deferred tax liabilities		359,646	576	360,222	
Provisions		25,198	5,600	30,798	
Total liabilities		**384,844**	**6,176**	**391,020**	
Total remeasurement (ECL)		**x**	**2,305**	**x**	

1 L&R – loans and receivables.

2 AfS – available for sale.

The effect of transition to IFRS 9 on reserves and retained earnings is as follows:

	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	72,380
Recognition of ECL on debt financial assets at FVOCI under IFRS 9	9,377
Related deferred tax	–
Opening balance under IFRS 9 (1 January 2018)	**81,757**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	8,006,254
Recognition of ECL, including ECL on instruments measured at FVOCI, under IFRS 9	(6,496)
Related deferred tax	(576)
Opening balance under IFRS 9 (1 January 2018)	**7,999,182**
Total change in equity due to the adoption of IFRS 9	**2,305**

(in thousands of Russian rubles)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The following table reconciles the aggregate opening loan impairment allowance under IAS 39 and provisions for loan commitments and financial guarantees under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

	Allowance for loan impairment under IAS 39 / IAS 37 at 31 December 2017	*Remeasurement*	*ECL under IFRS 9 at 1 January 2018*
Impairment allowance for			
Loans and receivables at amortized cost	323,119	(8,481)	314,638
Debt securities available for sale under IAS 39 / debt financial assets at FVOCI under IFRS 9	–	9,377	9,377
	323,119	**896**	**324,015**
Undrawn loan commitments	8,176	1,319	9,495
Letters of credit	9,382	4,281	13,663
Non-financial guarantees (*)	7,640	–	7,640
	25,198	**5,600**	**30,798**
	348,317	**6,496**	**354,813**

(*) Information on non-financial guarantees is provided for reference in order to ensure that the total amount in this table corresponds to the total amount of impairment allowances at the end of 2017. Non-financial guarantees are not considered instruments subject to IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014 and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to income related to financial instruments and leases, and therefore does not impact the majority of the Bank's income, including interest income, net gains/(losses) from debt securities, lease income covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the Bank's income is not affected by the adoption of this standard.

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Cash on hand	34,025	33,917
Current accounts with the CBR (other than obligatory reserves)	2,291,106	4,136,058
Correspondent accounts with other credit institutions	5,445,112	1,523,387
Settlement accounts with trading systems	1,094,906	1,033,049
Less: allowance for impairment	–	–
Cash and cash equivalents	**8,865,149**	**6,726,411**

All balances of cash equivalents are included in Stage 1.

(in thousands of Russian rubles)

4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Obligatory reserves with the CBR	431,506	330,058
Term deposits up to 90 days	14,704,674	9,094,607
Term deposits for more than 90 days	1,687,638	263
Security deposits in trading systems	50,521	61,697
Less: allowance for impairment	(138)	(18,933)
Amounts due from credit institutions	**16,874,201**	**9,467,692**

The analysis of changes in the ECL allowances for the six months ended 30 June 2018 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	**58**	**18**	**–**	**76**
Assets derecognized or repaid (excluding write-offs)	(388)	–	–	**(388)**
Changes to models and inputs used for ECL calculations	401	48	–	**449**
Currency translation differences	–	1	–	**1**
ECL allowance as at 30 June 2018	**71**	**67**	**–**	**138**

The movements in the allowance for impairment of amounts due from credit institutions for the six months ended 30 June 2017 are as follows:

	30 June 2017 (unaudited)
Beginning of the period	**14,715**
Reversal	(2,079)
Write-offs	–
Reversal of amounts previously written off	–
End of the period	**12,636**

5. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, 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 2018 (unaudited)			*31 December 2017*		
	Notional	*Fair value*		*Notional*	*Fair value*	
	principal	*Asset*	*Liability*	*principal*	*Asset*	*Liability*
Interest rate contracts						
Forwards and swaps – foreign	1,575,277	–	(50,180)	1,609,395	–	(63,837)
Forwards and swaps – domestic	1,575,277	54,724	–	1,609,395	70,102	–
Foreign exchange contracts						
Forwards and swaps – foreign	17,739,164	1,478,603	(257,538)	19,067,396	1,899,964	(521,453)
Forwards and swaps – domestic	8,926,341	108,218	(7,809)	4,198,815	51,341	(34,980)
Options – foreign	65,693	840	–	68,867	1,665	–
Options – domestic	65,693	–	(841)	68,867	–	(1,665)
Total derivative assets/liabilities	**29,947,445**	**1,642,385**	**(316,368)**	**26,622,735**	**2,023,072**	**(621,935)**

(in thousands of Russian rubles)

6. Loans to customers

Loans to customers comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Corporate lending	21,537,517	13,859,796
Other	166	3,264
Total loans to customers at amortized cost	**21,537,683**	**13,863,060**
Less: allowance for ECL (2017: allowance for impairment)	(316,719)	(304,186)
Loans to customers at amortized cost	**21,220,964**	**13,558,874**
Loans to customers at FVPL	**–**	**–**
Total loans to customers	**21,220,964**	**13,558,874**

Allowance for impairment of loans to customers at amortized cost

An analysis of changes in the ECL allowances for the six months ended 30 June 2018 is as follows:

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

Other loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL allowance as at 1 January 2018	**11**	**–**	**–**	**–**	**11**
New assets originated or purchased	–	–	–	–	**–**
Assets derecognized or repaid (excluding write-offs)	(8)	–	–	–	**(8)**
Changes to models and inputs used for ECL calculations	(3)	–	–	–	**(3)**
ECL allowance as at 30 June 2018	**–**	**–**	**–**	**–**	**–**

A reconciliation of the allowance for impairment of loans by class for the six months ended 30 June 2017 is as follows:

	Corporate lending	*Other loans*	*Total*
1 January 2017	**45,635**	**33**	**45,668**
Charge/reversal	183,748	(16)	**183,732**
30 June 2017 (unaudited)	**229,383**	**17**	**229,400**

Modified and restructured loans

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

(in thousands of Russian rubles)

6. Loans to customers (continued)

Modified and restructured loans (continued)

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

During the reporting period, the Bank did not modify and/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 assets to Stage 1, which were modified earlier.

7. Debt securities

The portfolio of debt securities include Russian state bonds denominated in Russian rubles. The whole portfolio is classified as debt securities at fair value through other comprehensive income (2017: securities available for sale).

The movements in the ECL allowance for the reporting period were as follows:

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	**9,377**	**–**	**–**	**9,377**
New assets purchased or originated	411	–	–	**411**
Assets derecognized or repaid (excluding write-offs)	(1,421)	–	–	**(1,421)**
Changes to models and inputs used for ECL calculations	439	–	–	**439**
ECL allowance as at 30 June 2018	**8,806**	**–**	**–**	**8,806**

The Bank recognized an impairment loss of RUB 0 thousand in respect of securities available for sale in the interim condensed statement of profit or loss for the six months ended 30 June 2017.

8. Taxation

Income tax expense comprises:

	For the six months ended	
	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Current tax charge	121,432	488,688
Deferred tax charge/(benefit) – origination and reversal of temporary differences	(20,430)	(330,635)
Less: deferred tax recognized in other comprehensive income	10,881	(1,838)
Income tax expense	**111,883**	**156,215**

(in thousands of Russian rubles)

9. Credit loss expense, other impairment and provisions

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Amounts due from credit institutions	4	13	49	–	–	**62**
Loans to customers at amortized cost	6	6,030	(3,873)	–	–	**2,157**
Debt securities at FVOCI	7	(571)	–	–	–	**(571)**
Undrawn 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**

The details of the allowance for losses on non-financial guarantees for the six months ended 30 June 2018 are disclosed in Note 13.

For the six months ended 30 June 2017, an allowance in the amount of RUB 2,419 thousand was recognized with respect to credit-related commitments.

Other ECL allowances or other provisions (including legal) were not recognized during the six months ended 30 June 2018 (six months ended 30 June 2017: other allowances for impairment or other provisions were not recognized).

10. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Correspondent accounts	963,754	212,471
Term deposits and loans	14,393,301	3,395,185
Amounts due to credit institutions	**15,357,055**	**3,607,656**

11. Amounts due to customers

Amounts due to customers comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Current accounts	20,060,994	14,882,273
Term deposits	6,785,732	6,252,104
Amounts due to customers	**26,846,726**	**21,134,377**
Held as security against letters of credit	**–**	**331,377**
Held as security against guarantees	**14,113**	**8,514**

(in thousands of Russian rubles)

12. Equity

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

	Number of shares	*Nominal amount*	*Inflation adjustment*	*Share premium*	*Total share capital*
1 January 2017					
30 June 2017					
1 January 2018					
30 June 2018	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 contributions received over the nominal amount of shares. The data presented above was adjusted for hyperinflation at 1 January 2003.

In the first half of 2018, the Sole Shareholder of the Bank decided to accrue and pay dividends from previous year profit of RUB 1,000,000 thousand (first half of 2017: RUB 700,000 thousand).

13. Commitments and contingencies

Operating environment

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

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

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 position or the results of future operations of the Bank.

Taxation

A major part of the Bank's business activity is carried out in the Russian Federation. Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Management's interpretation of such legislation as applied to the transactions and activity of the Bank 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 and performing tax reviews. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods are subject to field review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances, reviews may cover longer periods.

As at 31 June 2018, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

(in thousands of Russian rubles)

13. Commitments and contingencies (continued)

Taxation (continued)

The Bank's commitments and contingencies comprised:

	30 June 2018 (unaudited)	*31 December 2017*
Credit-related commitments		
Undrawn loan commitments	8,104,272	10,015,347
Letters of credit	6,148,267	8,663,316
Non-financial guarantees	14,928,837	13,915,200
Less: ECL allowance and losses on non-financial guarantees	(57,606)	(25,198)
	29,123,770	**32,568,665**
Operating lease commitments		
Not later than 1 year	56,197	39,747
Later than 1 year but not later than 5 years	25,970	30,918
Later than 5 years	–	–
	82,167	**70,665**
Capital expenditure commitments	163	14
Less: provisions	–	–
Commitments and contingencies (before deducting collateral)	**29,206,100**	**32,639,344**
Less: cash held as security against letters of credit and guarantees	(14,113)	(339,891)
Commitments and contingencies	**29,191,987**	**32,299,453**

An analysis of changes in the ECL allowances for the six months ended 30 June 2018 is as follows:

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	**3,495**	**5,999**	**–**	**9,494**
New liabilities	83	–	–	**83**
Liabilities derecognized or repaid (excluding write-offs)	(139)	(271)	–	**(410)**
Changes to models and inputs used for ECL calculations	(2,899)	(5,209)	–	**(8,108)**
Translation differences	5	–	–	**5**
As at 30 June 2018	**545**	**519**	**–**	**1,064**

Letters of credit	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as 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 to models and inputs used for ECL calculations	–	17,796	–	**17,796**
Translation differences	–	1,127	–	**1,127**
ECL allowance as at 30 June 2018	**–**	**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
Provision for losses as at 30 June 2018	**26,883**

For the six months ended 30 June 2017, an allowance in the amount of RUB 2,419 thousand was recognized with respect to credit-related commitments.

(in thousands of Russian rubles)

14. Fair value of financial instruments

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 and interest rate curves.

The 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 for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) 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; and
- 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	***30 June 2018***				***31 December 2017***			
fair ***value measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets								
Debt securities								
- Russian state bonds	6,167,675	–	–	**6,167,675**	6,629,855	–	–	**6,629,855**
Derivative financial instruments	–	1,642,385	–	**1,642,385**	–	2,023,072	–	**2,023,072**
Total financial assets	**6,167,675**	**1,642,385**	**–**	**7,810,060**	**6,629,855**	**2,023,072**	**–**	**8,652,927**
Financial liabilities								
Derivative financial instruments	–	316,368	–	**316,368**	–	621,935	–	**621,935**
Total financial liabilities	**–**	**316,368**	**–**	**316,368**	**–**	**621,935**	**–**	**621,935**

(in thousands of Russian rubles)

15. Related party disclosures

The outstanding balances of related party transactions are as follows:

	30 June 2018 (unaudited) Commerzbank Group	***31 December 2017 Commerzbank Group***
Correspondent accounts with banks – contractual interest rate of 0% (2017: 0%)	5,439,864	1,522,833
Amounts due from other banks – contractual interest rate of 0% (2017: 1.35%)	4,659	2,592,203
Derivative financial instruments (asset)	1,479,445	1,901,629
Other financial assets	235	260
Other assets	52,810	3,678
Amounts due to other banks – contractual interest rate of -0.21-2.58% (2017: 0-6.5%)	15,357,055	3,607,656
Amounts due to customers – contractual interest rate of 0% (2017: 0-3%)	23,870	124,110
Derivative financial instruments (liability)	307,717	585,291
Other financial liabilities	16,459	39,540
Other liabilities	118,197	48,571

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

	For the six months of 2018 (unaudited) Commerzbank Group	***For the six months of 2017 (unaudited) Commerzbank Group***
Interest income	58,053	38,624
Interest expense	(40,457)	(30,953)
Fee and commission income	17,187	15,328
Fee and commission expense	(26,560)	(24,683)
Other operating income	45,759	41,551
Administrative and other operating expenses	(176,655)	(172,210)

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

	30 June 2018 (unaudited) Commerzbank Group	***31 December 2017 Commerzbank Group***
Contingencies on guarantees issued by related parties to the Bank other than counter guarantees	22,899,713	16,977,427
Guarantees issued by the Bank to related parties	6,043,747	5,491,293
Claims under deliverable term transactions and derivative instruments	44,547,774	29,352,636
Liabilities under deliverable term transactions and derivative instruments	43,362,846	27,932,670
Irrevocable credit lines	700,000	700,000

As at 30 June 2018, contractual operating lease liabilities related to premises rented by the Bank from a related party of Commerzbank Group amounted to RUB 37,531 thousand (31 December 2017: RUB 23,376 thousand).

(in thousands of Russian rubles)

15. Related party disclosures (continued)

Transactions with key management personnel are as follows:

	For the six months ended 30 June 2018 (unaudited)		*For the six months ended 30 June 2017*	*31 December 2017*
	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 non-monetary benefits	23,518	3,896	30,029	8,611
Long-term bonuses	2,597	17,528	6,132	14,931
Total	**26,115**	**21,424**	**36,161**	**23,542**

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 2017 and for the six months ended 30 June 2017: none).