COMMERZBANK (EURASIJA) AO

ANNUAL ACCOUNTING (FINANCIAL) STATEMENTS OF COMMERZBANK (EURASIJA) AO AND INDEPENDENT AUDITOR’S REPORT

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At 1 January 2018

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Independent Auditor's Report

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

Report on the audit of the annual accounting (financial) reports

Our opinion

In our opinion, the annual accounting (financial) reports present fairly, in all material respects, the financial position of COMMERZBANK (EURASIJA) (hereinafter, the "Bank") as at 1 January 2018, and its financial performance and its cash flows for the year 2017 in accordance with the reporting rules for credit institutions established in the Russian Federation.

What we have audited

The annual accounting (financial) reports of the Bank comprise:

- the balance sheet (published form) as at 1 January 2018;
- the statement of financial results (published form) for the year 2017;
- the appendices to the balance sheet and the statement of financial results:
  - the statement on capital adequacy level to cover risks, the amount of provision for doubtful loans and other assets (published form) as at 1 January 2018;
  - the information on statutory ratios, financial leverage ratio and liquidity coverage ratio (published form) as at 1 January 2018;
  - the statement of cash flows (published form) as at 1 January 2018;
- the explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounting (financial) reports* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the annual accounting (financial) reports in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Responsibilities of management and those charged with governance for the annual accounting (financial) reports

Management is responsible for the preparation and fair presentation of the annual accounting (financial) reports in accordance with the reporting rules for credit institutions established in the Russian Federation, and for such internal control as management determines is necessary to enable the preparation of annual accounting (financial) reports that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounting (financial) reports, management is responsible for assessing the ability of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Bank.

Auditor's responsibilities for the audit of the annual accounting (financial) reports

Our objectives are to obtain reasonable assurance about whether the annual accounting (financial) reports as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounting (financial) reports.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounting (financial) reports, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounting (financial) reports or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounting (financial) reports, including the disclosures, and whether the annual accounting (financial) reports represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Report on examination in accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity"

The management of the Bank is responsible for compliance of the Bank with the statutory ratios set by the Bank of Russia and for compliance of internal control and organisation of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity", we have examined the following during the audit of the annual accounting (financial) reports of the Bank for the year 2017:

- compliance of the Bank as at 1 January 2018 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organisation of risk management systems of the Bank with the requirements set by the Bank of Russia for such systems.

Our examination was limited to procedures selected based on our judgement, such as inquiries, analysis and examination of documents, comparison of requirements, procedures and methodologies adopted by the Bank with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of figures and other information.

We have identified the following based on our examination:

1) as related to compliance of the Bank with the statutory ratios set by the Bank of Russia:
   as at 1 January 2018 the Bank's statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

   We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Bank other than the procedures we considered necessary to express our opinion on whether or not the annual accounting (financial) reports of the Bank present fairly, in all material respects, its financial position as at 1 January 2018, and its financial performance and its cash flows for the year 2017 in accordance with the reporting rules for credit institutions established in the Russian Federation.

2) as related to compliance of internal control and organisation of risk management systems of the Bank with the Bank of Russia's requirements for such systems:
   a) in accordance with the Bank of Russia's requirements and recommendations, as at 1 January 2018 subdivisions of the Bank for managing material risks of the Bank were not subordinated or accountable to subdivisions assuming corresponding risks;
   b) internal documents of the Bank effective as at 1 January 2018 which set out the methodologies to identify and manage significant credit, market (including interest rate), liquidity, operational risks and the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;
   c) as at 1 January 2018 the Bank had in place a reporting system for significant credit, market (including interest rate), liquidity, operational risks and for equity (capital) of the Bank;

d) the frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2017 as related to management of credit, market (including interest rate), liquidity, operational risks complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit function as related to the assessment of the effectiveness of the respective procedures of the Bank as well as recommendations on their improvement;

e) as at 1 January 2018 the authority of the Supervisory Board of the Bank and its executive bodies included control over compliance of the Bank with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2017, the Supervisory Board of the Bank and its executive bodies regularly discussed the reports prepared by risk management subdivisions of the Bank and its internal audit function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to internal control and organisation of risk management systems of the Bank solely to examine compliance of internal control and risk management systems of the Bank with the Bank of Russia's requirements for such systems.

26 April 2018

Moscow, Russian Federation

O. Kucherova, certified auditor (licence no. 01-000397), AO PricewaterhouseCoopers Audit

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Bank financial statements

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

BALANCE SHEET
(published form)

At 1 January 2018

Credit institution **COMMERZBANK (EURASIJA), Joint-Stock Company**
COMMERZBANK (EURASIJA) AO

Address: 119017, Moscow, Kadashevskaya emb., 14/2

OKUD Form Code 0409806
Quarterly (annual)
RR'000

Pos. No.	Item	Note number	At the reporting date	At the beginning of the reporting year
I. ASSETS				
1	Cash	4.1.1	33 918	21 516
2	Accounts with the Central Bank of the Russian Federation		4 466 116	1 021 501
2.1	Mandatory reserves		330 058	324 397
3	Amounts due from credit institutions		1 585 131	6 090 505
4	Financial assets at fair value through profit or loss	4.1.2, 4.1.3	2 023 072	3 639 210
5	Net loans to customers and other banks	2.2., 4.1.4	21 920 559	17 340 453
6	Net investment in securities and other financial assets available for sale	4.1.5	6 629 855	3 577 427
6.1	Investment in subsidiaries and associates		0	0
7	Net investment in securities held to maturity		0	0
8	Current income tax receivable		151 968	254 261
9	Deferred tax asset		0	0
10	Premises and equipment, intangible assets and inventory		67 589	78 387
11	Non-current assets held for sale		0	0
12	Other assets	4.1.7	1 067 405	1 532 388
13	**Total assets**	2.2.	**37 945 613**	**33 555 648**

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Pos. No.	Item	Note number	At the reporting date	At the beginning of the reporting year
II. LIABILITIES				
14	Loans, deposits and other funds of the Central Bank of the Russian Federation		0	0
15	Amounts due to credit institutions	4.1.8	3 242 481	3 213 222
16	Amounts due to customers (non-credit institutions)	4.1.9	21 103 455	16 601 372
16.1	Deposits (amounts) due to individuals and individual entrepreneurs		18	295
17	Financial liabilities at fair value through profit or loss		621 935	429 513
18	Debt securities issued	4.1.10	0	0
19	Current income tax liability		6 945	3 543
20	Deferred tax liability		310 031	662 899
21	Other liabilities	4.1.11	227 070	164 793
22	Provisions for credit related contingencies, other possible losses and transactions with offshore residents		275 204	326 867
23	**Total liabilities**	2.2.	**25 787 121**	**21 402 209**
III. EQUITY				
24	Equity attributable to the shareholders (participants)	4.1.12	2 155 600	2 155 600
25	Treasury shares (participatory interests) redeemed from shareholders (participants)		0	0
26	Share premium	4.1.12	1 279 671	1 279 671
27	Reserve fund		323 340	323 340
28	Fair valuation of securities available for sale, less deferred tax liability (plus deferred tax asset)		72 381	14 363
29	Revaluation of premises and equipment and intangible assets, less deferred tax liability		0	0
30	Revaluation of liabilities (receivables) on long-term benefit payments		0	0
31	Revaluation of hedging instruments		0	0
32	Cash from free financing (contributions to property)		0	0
33	Retained earnings (accumulated deficit) of previous years	4.3.	6 980 465	7 554 365
34	Unutilised earnings (losses) for the reporting period		1 347 035	826 100
35	**Total equity**	2.2.	**12 158 492**	**12 153 439**
IV. OFF-BALANCE SHEET LIABILITIES				
36	Irrevocable commitments of the credit institution	4.1.13	53 921 690	56 592 319
37	Guarantees and sureties issued by the credit institution	4.1.14	22 247 139	21 023 222
38	Contingent non-credit liabilities		0	0

Chairman of the Management Board C. Runde

Chief Accountant A. Gorokhovsky

26 April 2018

Bank financial statements

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45286596	18680159	3333

STATEMENT OF FINANCIAL RESULTS (published form)

for 2017

Credit institution **COMMERZBANK (EURASIJA), Joint-Stock Company**
COMMERZBANK (EURASIJA) AO

Address: 119017, Moscow, Kadashevskaya emb., 14/2

OKUD Form Code 0409807

Quarterly (annual)

RR'000

Section 1. Statement of Profit or Loss

Pos. No.	Item	Note number	Reporting period	Previous reporting period
1	Total interest income, including:		1 697 810	1 550 374
1.1	From placements with credit institutions		249 231	199 995
1.2	From loans to customers (non-credit institutions)		981 891	1 088 991
1.3	From financial leases		0	0
1.4	From investments in securities		466 688	261 388
2	Total interest expense, including:		513 429	602 076
2.1	On placements from credit institutions		81 127	71 524
2.2	On customer accounts (non-credit institutions)		432 302	530 552
2.3	On debt securities issued		0	0
3	Net interest income (negative interest margin)	2.2.	1 184 381	948 298
4	Total change in the provision for impairment of loans, borrowings and similar debt, funds placed on correspondent accounts and interest income accrued, including:	4.3.	114 935	(603 218)
4.1	Change in provision for impairment of interest income accrued	4.3.	156	(18)
5	Net interest income (negative interest margin) after provision for loan impairment		1 299 316	345 080
6	Net income from dealing in financial assets at fair value through profit or loss		(262 445)	872 018
7	Net income from dealing in financial liabilities at fair value through profit or loss		0	0
8	Net income from dealing in securities available for sale		(211)	(39)
9	Net income from dealing in securities held to maturity		0	0
10	Net income from dealing in foreign currencies	2.2., 4.2.	1 339 773	1 955 288
11	Net income from revaluation of foreign currency balances	2.2.	175 268	(1 297 633)
12	Net income from trading in precious metals		0	0
13	Income from participation in equity of other legal entities		0	0
14	Fee and commission income		513 215	535 884
15	Fee and commission expense		98 855	109 761
16	Change in provision for losses on securities available for sale		0	0
17	Change in provision for losses on securities held to maturity		0	0
18	Changes in provision for other losses	2.2., 4.3.	46 813	129 044
19	Other operating income	4.2.	109 948	117 250
20	Net income (expense)		3 122 822	2 547 131
21	Operating expenses	4.2.	1 411 612	1 345 391
22	**Profit (loss) before tax**	2.2.	1 711 210	**1 201 740**
23	Tax credit (expense)	2.2., 4.2.	364 175	375 640
24	Profit (loss) from continuing operations		1 347 035	826 100
25	Profit (loss) from discontinued operations		0	0

Pos. No.	Item	Note number	Reporting period	Previous reporting period
26	**Profit (loss) for the reporting period**	2.2., 4.3.	**1 347 035**	**826 100**

Section 2. Statement of Other Comprehensive Income

Pos. No.	Item	Note number	Reporting period	Previous reporting period
1	**Profit (loss) for the reporting period**		**1 347 035**	**826 100**
2	Other comprehensive income (loss)			X
3	Items that are not recycled into profit or loss, total, including:		0	0
3.1	change in revaluation reserve for premises and equipment		0	0
3.2	change in revaluation reserve for employee post-employment benefit obligations (liabilities) under defined benefit plans		0	0
4	Income tax attributable to items that may not be recycled into profit or loss		0	0
5	Other comprehensive income (loss) that may not be recycled subsequently into profit or loss, net of income tax		0	0
6	Items that may be recycled into profit or loss, total, including:		72 523	58 465
6.1	change in revaluation reserve for available-for-sale financial assets		72 523	58 465
6.2	change in the reserve for cash flow hedge		0	
7	Income tax attributable to items that may be recycled into profit or loss		14 505	11 693
8	Other comprehensive income (loss) that may be recycled subsequently into profit or loss, net of income tax		58 018	46 772
9	Other comprehensive income (loss), net of income tax		58 018	46772
10	**Financial result for the reporting period**		**1 405 053**	**872 872**

Chairman of the Management Board C. Runde

Chief Accountant A. Gorokhovsky

26 April 2018

Bank financial statements

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STATEMENT ON CAPITAL ADEQUACY LEVEL TO COVER RISKS, THE AMOUNT OF PROVISION FOR DOUBTFUL LOANS AND OTHER ASSETS

(published form)

At 1 January 2018

Credit institution **COMMERZBANK (EURASIJA), Joint-Stock Company**
COMMERZBANK (EURASIJA) AO

Address: 119017, Moscow, Kadashevskaya emb., 14/2

OKUD Form Code 0409808

Quarterly (annual)

Section 1.Information on capital adequacy level

Pos. No.	Instrument (item)	Note No.	Value of the instrument (amount of the item) at the reporting date		Value of the instrument (amount of the item) at the beginning of the reporting year	
			included in calculation	not included until 01.01.2018	included in calculation	not included until 01.01.2018
Sources of tier 1 capital:						
1	Total charter capital and share premium formed by:		3 435 271	X	3 435 271	X
1.1	Ordinary shares (participatory interests)		3 435 271	X	3 435 271	X
1.2	Preference shares			X		X
2	Retained earnings (deficit):		6 980 465	X	7 554 365	X
2.1	of prior years		6 980 465	X	7 554 365	X
2.2	of the reporting year		0	X	0	X
3	Reserve fund		323 340	X	323 340	X
4	Participatory interests in the charter capital subject to phase out from equity (capital) calculation		N/A	X	N/A	X
5	Tier 1 capital instruments of subsidiaries held by third parties		N/A		N/A	
6	**Sources of Tier 1 capital, total** (line 1 +/– line 2 + line 3 – line 4 + line 5)		**10 739 076**	X	**11 312 976**	X
Items decreasing sources of Tier 1 capital						
7	Adjustment of trading portfolio		N/A		N/A	
8	Goodwill, less deferred tax liabilities					
9	Intangible assets (excluding goodwill and mortgage servicing rights), less deferred tax liabilities		6 234		7 599	
10	Deferred tax assets that depend on future profits		0		0	
11	Cash flow hedge reserves				N/A	

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Pos. No.	Instrument (item)	Note No.	Value of the instrument (amount of the item) at the reporting date		Value of the instrument (amount of the item) at the beginning of the reporting year	
			included in calculation	not included until 01.01.2018	included in calculation	not included until 01.01.2018
12	Understated provisions for possible losses					
13	Gains on securitisation transactions				N/A	
14	Gains or losses due to changes in credit risk on liabilities at fair value				N/A	
15	Assets of defined benefit plans				N/A	
16	Contributions to treasury shares (participatory interests)					
17	Cross shareholding				N/A	
18	Immaterial investments into Tier 1 capital instruments of financial institutions					
19	Material investments into Tier 1 capital instruments of financial institutions					
20	Mortgage servicing rights				N/A	
21	Deferred tax assets that do not rely on future profitability				0	
22	Aggregate amount of material investments and deferred tax assets, where it exceeds 15% of Tier 1 capital, total, including:					
23	Material investments into Tier 1 capital instruments of financial institutions					
24	Mortgage servicing rights				N/A	
25	Deferred tax assets that do not rely on future profitability					
26	Other items decreasing sources of Tier 1 capital, established by the Bank of Russia, total, including:					
26.1	Items subject to phase out from equity (capital) calculation			X		X
27	Negative additional capital			X		X
28	**Items decreasing sources of Tier 1 capital, total** (sum of lines 7 to 22 and lines 26 and 27)		**6 234**	**X**	**7 599**	X
29	**Tier 1 capital, total** (line 6 – line 28)		**10 732 842**	X	**11 305 377**	X
Sources of Additional Tier 1 capital:						
30	Additional Tier 1 capital instruments and share premium, total, including:			X		X
31	equity component			X		X
32	liability component			X		X
33	Additional Tier 1 capital instruments subject to phase out from equity (capital) calculation			X		X
34	Additional Tier 1 capital instruments of subsidiaries held by third parties, total, including:		N/A	X	N/A	X
35	Additional Tier 1 capital instruments of subsidiaries subject to phase out from equity (capital) calculation			X		X
36	**Sources of additional Tier 1 capital, total** (line 30 + line 33 + line 34)		**0**	X	**0**	X
Items decreasing sources of additional Tier 1 capital						
37	Investments in own additional Tier 1 capital instruments					
38	Cross shareholding – additional Tier 1 capital instruments		N/A		N/A	

Pos. No.	Instrument (item)	Note No.	Value of the instrument (amount of the item) at the reporting date		Value of the instrument (amount of the item) at the beginning of the reporting year	
			included in calculation	not included until 01.01.2018	included in calculation	not included until 01.01.2018
39	Immaterial investments into additional Tier 1 capital instruments of financial institutions					
40	Material investments into additional Tier 1 capital instruments of financial institutions					
41	Other items decreasing sources of additional Tier 1 capital, established by the Bank of Russia, total, including:			X	0	X
41.1	items subject to phase out from equity (capital) calculation, total, including:			X	0	X
41.1.1	intangible assets			X		X
41.1.2	treasury shares (participatory interests) purchased (redeemed) from shareholders (participants)			X		X
41.1.3	shares (participatory interests) of subsidiary and associate financial institutions and credit institutions – residents			X		X
41.1.4	sources of equity, where underlying assets are inappropriate			X		X
41.1.5	negative Tier 2 capital due to adjustment in equity (capital) by the amount of sources of additional paid-in capital, where investors used inappropriate underlying assets			X		X
42	Negative Tier 2 capital			X		X
43	**Items decreasing sources of additional Tier 1 capital, total** (sum of lines 37 to 42)		**0**	X	**0**	X
44	**Additional Tier 1 capital, total** (line 36 – line 43)		**0**	X	**0**	X
45	**Core capital, total** (line 29 + line 44)		**10 732 842**	X	**11 305 377**	X
	Sources of Tier 2 capital					
46	Tier 2 capital instruments and share premium	4.3.	1 410 223	X	831 884	X
47	Tier 2 capital instruments subject to exclusion from equity (capital) calculation			X		X
48	Tier 2 capital instruments of subsidiaries held by third parties, total, including:		N/A	X	N/A	X
49	Tier 2 capital instruments of subsidiaries subject to phase out from equity (capital) calculation			X		X
50	Provisions for possible losses		N/A	X	N/A	X
51	**Sources of Tier 2 capital, total (line 46 + line 47 + line 48 + line 50)**		**1 410 223**	X	**831 884**	X
	Items decreasing sources of Tier 2 capital					
52	Investments in own Tier 2 capital instruments					
53	Cross shareholding – Tier 2 capital instruments		N/A		N/A	
54	Immaterial investments into Tier 2 capital instruments of financial institutions					
55	Material investments into Tier 2 capital instruments of financial institutions					
56	Other items decreasing sources of Tier 2 capital, established by the Bank of Russia, total, including:			X	0	X

Pos. No.	Instrument (item)	Note No.	Value of the instrument (amount of the item) at the reporting date		Value of the instrument (amount of the item) at the beginning of the reporting year	
			included in calculation	not included until 01.01.2018	included in calculation	not included until 01.01.2018
56.1	items subject to phase out from equity (capital) calculation, total, including:			X	0	X
56.1.1	sources of equity, where inappropriate underlying assets are used by investors			X	0	X
56.1.2	receivables more than 30 calendar days overdue			X	0	X
56.1.3	subordinated loans issued to lending institutions – residents			X		X
56.1.4	excess of the aggregate amount of loans, bank guarantees granted by the bank to its shareholders (participants) and insiders over its maximum amount			X		X
56.1.5	investments in construction and acquisition of premises and equipment and inventories			X		X
56.1.6	difference between the actual value of the participatory interest attributable to the withdrawn participant and the value for which the interest was sold to another participant			X		X
57	**Items decreasing sources of Tier 2 capital, total** (sum of lines 52 to 56)		**0**	X	**0**	X
58	**Tier 2 capital, total** (line 51 – line 57)		**1 410 223**	X	**831 884**	X
59	**Equity (capital), total** (line 45 + line 58)		**12 143 065**	X	**12 137 261**	X
60	**Risk-weighted assets:**		X	X	X	X
60.1	subject to phase out from equity (capital) calculation			X		X
60.2	required to calculate Tier 1 capital adequacy	4.3.	42 598 846	X	42 136 917	X
60.3	required to calculate core capital adequacy	4.3.	42 598 846	X	42 136 917	X
60.4	required to calculate equity (capital) adequacy	4.3.	42 598 846	X	42 136 917	X
Capital adequacy and supplemental increments to regulatory capital adequacy ratios, %						
61	Tier 1 capital adequacy (line 29 : line 60.2)	4.4.	25.1951	X	26.8301	X
62	Core capital adequacy (line 45 : line 60.3)	4.4.	25.1951	X	26.8301	X
63	Own (regulatory) capital adequacy (line 59 : line 60.4)	4.4.	28.5056	X	28.8043	X
64	Increments to regulatory capital adequacy ratios, total, including:		1.250	X	0.625	X
65	Increment for supporting capital adequacy		1.250	X	0.625	X
66	Countercyclical buffer		0.000	X	0.000	X
67	Systemic importance buffer		N/A	X	N/A	X
68	Tier 1 capital available for supporting increments to regulatory capital adequacy ratio		20.6951	X	22.3301	X
Own (regulatory) capital adequacy ratios, %						
69	Tier 1 capital adequacy ratio		4.5	X	4.5	X
70	Core capital adequacy ratio		6.0	X	6.0	X
71	Equity (capital) adequacy ratio		8.0	X	8.0	X

Items that decrease the sources of equity and that are within the established materiality threshold

Pos. No.	Instrument (item)	Note No.	Value of the instrument (amount of the item) at the reporting date		Value of the instrument (amount of the item) at the beginning of the reporting year	
			included in calculation	not included until 01.01.2018	included in calculation	not included until 01.01.2018
72	Immaterial investments into capital instruments of financial institutions			X		X
73	Material investments into capital instruments of financial institutions			X		X
74	Mortgage servicing rights		N/A	X	N/A	X
75	Deferred tax assets that do not rely on future profitability			X		X
Limitations on inclusion of provisions for possible losses to Tier 2 capital calculation						
76	Provisions for possible losses included in Tier 2 capital calculation for those items where standardised approach is applied to calculate the credit risk		N/A	X	N/A	X
77	Limitations on inclusion of provisions for possible losses to Tier 2 capital calculation when standardised approach is used		N/A	X	N/A	X
78	Provisions for possible losses included in Tier 2 capital calculation for those items where internal model approach is applied to calculate the credit risk		N/A	X	N/A	X
79	Limitations on inclusion of provisions for possible losses to Tier 2 capital calculation when internal model approach is used		N/A	X	N/A	X
Instruments subject to phase out from equity (capital) calculation (applied from1 January 2018 to 1 January 2022)						
80	Current limitation on inclusion of instruments subject to phase out of sources of Tier 1 capital from equity calculation			X		X
81	Portion of instruments that are not included into sources of Tier 1 capital due to limitation			X		X
82	Current limitation on inclusion of instruments subject to phase out of sources of Tier 1 capital from equity (capital) calculation			X		X
83	Portion of instruments that are not included into sources of Tier 1 capital due to limitation			X		X
84	Current limitation on inclusion of instruments subject to phase out of sources of Tier 1 capital from equity (capital) calculation			X		X
85	Portion of instruments that are not included into sources of Tier 1 capital due to limitation			X		X

Note:

Balance sheet data serving as the sources for preparation of Section 1 of the Report are given in the Notes, p. 4.3. – tables 4.3.2 and 4.3.3.

Section 2. Amount of credit, operating and market risks covered by capital

Subsection 2.1. Credit risk when the standardised approach is applied

RR'000

Pos. No.	Item	Note number	At the reporting date			At the beginning of the reporting year		
			Value of assets (instruments) measured using the standardised approach	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)	Value of assets (instruments) measured using the standardised approach	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)
1	**Credit risk for assets on balance sheet accounts**	4.3, 5.2.1	**36 613 867**	**35 917 328**	**13 944 895**	**30 717 641**	**29 911 018**	**16 588 750**
1.1	Total assets with * 0% risk ratio, including:		17 632 293	17 632 293	0	5 620 690	5 620 690	0
1.1.1	cash and mandatory reserves deposited with the Bank of Russia		11 002 438	11 002 438	0	2 043 263	2 043 263	0
1.1.2	loan receivables and other receivables secured by guarantees of the Russian Federation, the Russian Ministry of Finance, and the Bank of Russia and by pledge of government debt securities of the Russian Federation, the Russian Ministry of Finance, and the Bank of Russia		0	0	0	0	0	0
1.1.3	loan receivables and other receivables from the central banks or governments of the countries with "0", "1"** country assessment, including those secured with guarantees of these countries		0	0	0	0	0	0
1.2	Total assets with 20% risk ratio, including:		7 940 068	7 940 068	1 588 014	14 108 400	14 108 400	2 821 680
1.2.1	loan receivables and other receivables from Russian Federation constituents, municipalities and other organisations secured with guarantees and pledge of securities of Russian Federation constituents and municipalities		0	0	0	0	0	0
1.2.2	loan receivables and other receivables from the central banks or governments of the countries with "2" country assessment, including those secured with guarantees (pledge of securities) of these countries		0	0	0	0	0	0
1.2.3	loan receivables and other receivables from credit institutions – residents of countries with "0", "1" country assessment and long-term creditworthiness ratings***, including those secured with their guarantees		7 939 972	7 939 972	1 587 994	14 108 296	14 108 296	2 821 659

Pos. No.	Item	Note number	At the reporting date: Value of assets (instruments) measured using the standardised approach	At the reporting date: Assets (instruments) less provisions for possible losses	At the reporting date: Value of risk-weighted assets (instruments)	At the beginning of the reporting year: Value of assets (instruments) measured using the standardised approach	At the beginning of the reporting year: Assets (instruments) less provisions for possible losses	At the beginning of the reporting year: Value of risk-weighted assets (instruments)
1.3	Total assets with 50% risk ratio, including:		0	0	0	0	0	0
1.3.1	loan receivables and other receivables in foreign currency secured with guarantees of the Russian Federation, the Russian Ministry of Finance, and the Bank of Russia and pledge of government debt securities of the Russian Federation, the Russian Ministry of Finance and the Bank of Russia denominated in foreign currency		0	0	0	0	0	0
1.3.2	loan receivables and other receivables from the central banks or governments of the countries with “3” country assessment, including those secured with guarantees (pledge of securities) of these countries		0	0	0	0	0	0
1.3.3	loan receivables and other receivables from credit institutions – residents of countries with “0”, “1” country assessment and without long-term creditworthiness ratings, and from credit institutions – residents of countries with “2” country assessment, including those secured with their guarantees		0	0	0	0	0	0
1.4	Total assets with 100% risk ratio, including:		480 604	426 742	426 742	2 828 919	2 752 849	2 752 849
1.4.1	Loan receivables from banks		0	0	0	3 487	3 487	3 487
1.4.2	Loan receivables from legal entities and individuals		206 358	205 045	205 045	2 431 341	2 402 971	2 402 971
1.4.3	Balances on correspondent accounts		505	505	505	425	425	425
1.4.4	Premises and equipment, intangible assets and tangible assets		61 354	61 354	61 354	78 387	78 387	78 387
1.4.5	Tax receivable and deferred tax assets		154 594	154 594	154 594	258 915	258 915	258 915
1.4.6	Other assets		57 793	5 244	5 244	56 364	8 664	8 664
1.5	Assets with 150% risk ratio – loan receivables and other receivables from the central banks or governments of the countries with “7” country assessment		0	0	0	0	0	0
2	**Total assets with other risk ratios, including:**		X	x	x	X	x	x
2.1	total assets with lower risk ratios, including:		1 094 699	1 094 699	214 940	1 618 292	1 618 292	180 515

Pos. No.	Item	Note number	At the reporting date			At the beginning of the reporting year		
			Value of assets (instruments) measured using the standardised approach	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)	Value of assets (instruments) measured using the standardised approach	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)
2.1.1	mortgage loans with 50% risk ratio		0	0	0	0	0	0
2.1.2	mortgage loans with 70% risk ratio		0	0	0	0	0	0
2.1.3	clearing participants' receivables		1 094 699	1 094 699	214 940	1 618 292	1 618 292	180 515
2.2	total assets with higher risk ratios, including:		9 459 967	8 817 291	11 153 140	6 532 540	5 801 987	8 595 188
2.2.1	with 110% risk ratio		5 182 683	5 181 992	5 700 192	274 608	269 480	296 428
2.2.2	with 130% risk ratio		0	0	0	0	0	0
2.2.3	with 150% risk ratio		4 277 284	3 635 299	5 452 948	6 257 932	5 532 507	8 298 760
2.2.4	with 250% risk ratio		0	0	0	0	0	0
2.2.5	with 1 250% risk ratio		0	0	0	0	0	0
2.2.5.1	on assignment of cash receivables, including those certified with mortgage, to mortgage agents or specialised entities		0	0	0	0	0	0
3	**Total consumer loans, including:**		**3 245**	**1 967**	**1 967**	**9 896**	**9 388**	**9 388**
3.1	with 110% risk ratio		0	0	0	0	0	0
3.2	with 140% risk ratio		0	0	0	0	0	0
3.3	with 170% risk ratio		0	0	0	0	0	0
3.4	with 200% risk ratio		0	0	0	0	0	0
3.5	with 300% risk ratio		0	0	0	0	0	0
3.6	with 600% risk ratio		0	0	0	0	0	0
4	**Total credit risk for credit related contingencies, including:**		**32 827 546**	**32 552 342**	**13 942 577**	**32 049 343**	**31 722 476**	**11 571 023**
4.1	for high-risk financial instruments		22 241 267	22 210 712	13 848 301	21 023 222	20 973 960	11 519 320
4.2	for medium-risk financial instruments		0	0	0	0	0	0
4.3	for low-risk financial instruments		1 031 378	1 031 378	94 276	818 512	818 512	51 703
4.4	for risk-free financial instruments		9 554 901	9 310 252	0	10 207 609	9 930 004	0
5	**Credit risk for derivative financial instruments**		**0**		**611 797**	**0**		**1 505 000**

Subsection 2.2. Credit risk based on the internal rating-based approach

N/A

Subsection 2.3. Operational risk

RR'000 (number of)

Pos. No.	Item	Note number	At the reporting date	At the beginning of the reporting year
6	**Total operational risk, including:**	5.2.3	**996 877**	**913 581**
6.1	Total income for the purposes of calculating capital allocated for coverage of operational risk, including:		6 645 847	6 090 539
6.1.1	net interest income		906 562	736 631
6.1.2	net non-interest income		5 739 285	5 353 908
6.2	Number of years before the date of operational risk calculation		3	3

Subsection 2.4 Market risk

RR'000

Pos. No.	Item	Note number	At the reporting date	At the beginning of the reporting year
7	**Total aggregated market risk, including:**	5.2.2	**1 638 614**	**1 052 381**
7.1	total interest rate risk, including:		76 324	84 191
7.1.1	general		76 324	84 191
7.1.2	special		0	0
7.1.3	gamma risk and vega risk under options included in the interest rate risk calculation		0	0
7.2	total equity risk, including:		0	0
7.2.1	general		0	0
7.2.2	special		0	0
7.2.3	gamma risk and vega risk under options included in the stock market risk calculation		0	0
7.3	total currency risk, including:		54 765	0
7.3.1	gamma risk and vega risk under options included in the currency risk calculation		75	0
7.4.	total commodity risk, including:		0	0
7.4.1	basic commodity risk		0	0
7.4.2	additional commodity risk		0	0
7.4.3	gamma risk and vega risk under options included in the commodity risk calculation		0	0

Section 3. Disclosure of certain types of assets, credit-related contingent liabilities and provisions for possible loans

Subsection 3.1 Disclosure of provisions for doubtful loans and other assets

RR'000

Pos. No.	Item	Note number	At the reporting date	Increase (+)/decrease (-) for the reporting period	At the beginning of the reporting year
1	**Total actual provision for possible losses, including:**	2.2, 4.3.	**971 742**	**(161 748)**	**1 133 490**
1.1	for impairment of loans, borrowings and similar debt		643 989	(114 935)	758 924
1.2	for impairment of other balance sheet assets subject to the loss risk and other losses		52 549	4 850	47 699
1.3	for impairment of credit-related contingencies and securities the rights to which are ascertained by the depositories that do not meet the requirements of the Bank of Russia and are recorded on off-balance sheet accounts		275 204	(51 663)	326 867
1.4	for transactions with residents of offshore zones		0	0	0

Subsection 3.2 Disclosure of assets and credit-related contingent liabilities classified based on the decision of the authorised management body of the credit institution to a higher quality category than results from formal credit risk assessment criteria

Pos. No.	Item	Receivables amount, RR'000	Provision for possible losses				Changes in volumes of provisions set	
			in accordance with minimum requirements of the Bank of Russia's Regulations No. 590-P and No. 283-P		by the decision of an authorised body			
			%	RR'000	%	RR'000	%	RR'000
1	Receivables from counterparties that have signs of possible lack of real activities, total, including	0	0.00	0	0.00	0	0.00	0
1.1	loans							
2	Restructured loans	2 804 342	6.97	163 308	0.66	15 553	(6.31)	(147 755)
3	Loans issued to borrowers to repay earlier loans	5 715 944	9.87	564 019	0.00	0	(9.87)	(564 019)
4	Loans used to issue loans to third parties and repayment of earlier obligations of other borrowers, total, including:	0	0.00	0	0.00	0	0.00	0
4.1	to the reporting credit institution							
5	Loans issued to purchase and/or redeem equity securities	0	0.00	0	0.00	0	0.00	0
6	Loans used to make investments in share capital of other legal entities	0	0.00	0	0.00	0	0.00	0

Pos. No.	Item	Receivables amount, RR'000	Provision for possible losses				Changes in volumes of provisions set	
			in accordance with minimum requirements of the Bank of Russia's Regulations No. 590-P and No. 283-P		by the decision of an authorised body			
			%	RR'000	%	RR'000	%	RR'000
7	Loans resulting from termination of borrower's earlier obligations by novation or settlement	0	0.00	0	0.00	0	0.00	0
8	Contingent credit related commitments to counterparties with signs indicating possible lack of real activities	0	0.00	0	0.00	0	0.00	0

Subsection 3.3. Disclosure of securities the rights to which are ascertained by depositories, and provisions for possible losses are set up in accordance with Instruction of the Bank of Russia No. 2731-U

Securities the rights to which are ascertained by depositories, and provisions for possible losses are set up in accordance with Instruction of the Bank of Russia No. 2731-U: nil.

Section 4. Disclosure of financial leverage ratio

Pos. No.	Item	Note number	Value at the reporting date	Value at the date one quarter before the reporting date	Value at the date two quarters before the reporting date	Value at the date three quarters before the reporting date
1	Core capital, RR'000		10 732 842	11 432 827	11 432 315	11 305 869
2	Amount of balance sheet assets and off-balance sheet receivables at risk for the purpose of the financial leverage ratio calculation, RR'000	4.4.	60 729 684	61 192 864	66 534 642	57 565 105
3	**Financial leverage ratio under Basel III, %**		**17.7**	**18.7**	**17.2**	**19.6**

Section 5. Key features of equity instruments

Pos. No.	Feature of equity instruments	Description of the instrument's feature	Description of the instrument's feature	Description of the instrument's feature
1	Short firm title of the equity instrument's issuer	COMMERZBANK (EURASIJA) AO	COMMERZBANK (EURASIJA) AO	COMMERZBANK (EURASIJA) AO
2	Instrument's ID	Registration No. 10103333B	Registration No. 10103333B (001D)	Registration No. 10103333B (002D)
3	Applicable law	RUSSIAN FEDERATION	RUSSIAN FEDERATION	RUSSIAN FEDERATION
Regulatory requirements				
4	Equity level where the instrument is included during Basel III transition period	Tier 1 capital	Tier 1 capital	Tier 1 capital

Pos. No.	Feature of equity instruments	Description of the instrument's feature	Description of the instrument's feature	Description of the instrument's feature
5	Equity level where the instrument is included after Basel III transition period	Tier 1 capital	Tier 1 capital	Tier 1 capital
6	Consolidation where the instrument is included in the equity	on an individual basis	on an individual basis	on an individual basis
7	Type of the instrument	ordinary shares	ordinary shares	ordinary shares
8	Value of the instrument that is included in the equity calculation	RR 305 600 thousand RR	RR 600 000 thousand	RR 1 250 000 thousand
9	Nominal amount of the instrument	RR 50 thousand per share	RR 50 thousand per share	RR 50 thousand per share
10	Classification of the instrument for accounting purposes	share capital	share capital	share capital
11	Date of issue (raising, placement) of the instrument	10.12.1998	15.11.2004	24.09.2010
12	Term of the instrument, if any	unlimited	unlimited	unlimited
13	Maturity date of the instrument	unlimited	unlimited	unlimited
14	Right for early repurchase (redemption) of the instrument, as agreed with the Bank of Russia	No	No	No
15	Initial date(s) of potential exercise of rights of early repurchase (redemption) of the instrument, conditions of the exercise of such rights and the amount of repurchase (redemption)	N/A	N/A	N/A
16	Subsequent date(s) of exercise of rights of early repurchase (redemption) of the instrument	N/A	N/A	N/A
Interest/ dividends/ coupon yield				
17	Type of interest rate under the instrument	N/A	N/A	N/A
18	Interest rate	N/A	N/A	N/A
19	Presence of conditions for terminating dividend payments under ordinary shares	No	No	No
20	Obligatory dividend payments	fully at the discretion of a credit institution	fully at the discretion of a credit institution	fully at the discretion of a credit institution
21	Presence of conditions providing for the increase in payments under the instrument and other drivers for early repurchase (redemption) of the instrument	No	No	No
22	Nature of payments	non-cumulative	non-cumulative	non-cumulative
23	Convertibility of the instrument	non-convertible	non-convertible	non-convertible
24	Conditions triggering the instrument conversion	N/A	N/A	N/A
25	Conversion, in full or in part	N/A	N/A	N/A
26	Conversion rate	N/A	N/A	N/A
27	Obligation to convert	N/A	N/A	N/A
28	Equity level of the instrument to which the instrument is converted	N/A	N/A	N/A
29	Short firm title of the issuer to whose equity instrument the instrument is converted	N/A	N/A	N/A
30	Ability to write off the instrument for covering losses	No	No	No

Pos. No.	Feature of equity instruments	Description of the instrument's feature	Description of the instrument's feature	Description of the instrument's feature
31	Conditions triggering the instrument's write-off	N/A	N/A	N/A
32	Write-off, in full or in part	N/A	N/A	N/A
33	Permanent or temporary write-off	N/A	N/A	N/A
34	Reversal mechanism	N/A	N/A	N/A
35	Subordinated nature of the instrument	N/A	N/A	N/A
36	Compliance with the requirements of the Bank of Russia's Regulations No. 395-P and No. 509-P	Yes	Yes	Yes
37	Description of exceptions	N/A	N/A	N/A

For Reference: Information on movements in the provision for possible losses on loans, borrowings and similar debt

(explanatory note 4.3)

1. Provision (additional charge to the provision) in the reporting period (RR'000), total 289 060, including as a result of the following:
1.1. new loans issued 262 243;
1.2. changes in loan quality 9 274;
1.3. changes in the official exchange rate of foreign currencies to the Russian Rouble, set by the Bank of Russia 14 544;
1.4. other reasons 2 999.

2. Release (decrease) of the provision in the reporting period (RR'000), total 403 995, including as a result of the following:
2.1. writing off bad loans 0;
2.2. loan repayment 316 209;
2.3. changes in loan quality 62 782;
2.4. changes in the official exchange rate of foreign currencies to the Russian Rouble, set by the Bank of Russia 20 661;
2.5. other reasons 4 343.

Chairman of the Management Board C. Runde

Chief Accountant A. Gorokhovsky

26 April 2018

Bank financial statements

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

INFORMATION ON STATUTORY RATIOS, FINANCIAL LEVERAGE RATIO AND LIQUIDITY COVERAGE RATIO (published form)

At 1 January 2018

Credit institution **COMMERZBANK (EURASIJA), Joint-Stock Company**
COMMERZBANK (EURASIJA) AO

Address: 119017, Moscow, Kadashevskaya emb., 14/2

OKUD Form Code 0409813
Quarterly (annual)

Section 1. Information on statutory ratios

Pos. No.	Item	Note number	Ratio	Actual value at the reporting date		Actual value at the beginning of the reporting year	
1	Core (CET1) capital adequacy ratio (N1.1)	4.3., 4.4., 5.3.	4.5		25.2		26.8
2	Tier 1 capital adequacy ratio (N1.2)	4.3., 4.4., 5.3.	6.0		25.2		26.8
3	Own (regulatory) capital adequacy ratio (N1.0)	4.3., 4.4., 5.3.	8.0		28.5		28.8
4	Equity (capital) adequacy ratio for a non-banking settlement credit institution with a right to transfer cash without opening bank accounts and other related banking transactions(RNKO) (N1.3)						
5	Quick liquidity ratio (N2)	4.4., 5.2.4	15.0		105.1		83.1
6	Current liquidity ratio (N3)	4.4., 5.2.4	50.0		105.2		100.3
7	Long-term liquidity ratio (N4)	4.4., 5.2.4	120.0		22.9		24.0
8	Maximum risk per borrower or a group of related borrowers ratio (N6)	4.4.	25.0	Maximum	21.0	Maximum	21.0
				Minimum	0.0	Minimum	0.0
9	Maximum risk of large credit exposure ratio (N7)	4.4.	800.0		164.4		133.4
10	Maximum risk of credit exposure, bank guarantees and sureties issued by the bank to its participants (shareholders) (N9.1)		50.0				0.0
11	Aggregate risk on exposure of the bank's insiders ratio (N10.1)		3.0		0.0		0.0
12	Equity used to acquire shares (participatory interests) in other legal entities ratio (N12)		25.0		0.0		0.0
13	Liquid assets maturing within 30 calendar days to the amount of liabilities of non-banking settlement credit institutions ratio (RNKO) (N15)						

Pos. No.	Item	Note number	Ratio	Actual value at the reporting date	Actual value at the beginning of the reporting year
14	Equity/capital adequacy of non-banking settlement credit institutions (RNKO) (N15.1)				
15	Maximum aggregate loans to customers – participants of settlements – for settlement completion (N16)				
16	Loans granted by non-banking settlement credit institutions (RNKO) on their behalf and on their own account to borrowers, except customers which are settlement system participants ratio (N16.1)				
17	Minimum ratio of mortgage coverage to issued bonds with mortgage coverage (N18)				
18	Maximum risk per a bank related entity (group of a bank related entities) (N25)		20.0	0.0	

Section 2. Information about calculation of the financial leverage ratio

Subsection 2.1. Calculation of balance sheet assets and off-balance sheet receivables at risk for the purpose of the financial leverage ratio calculation

Pos. No.	Item	Note number	Amount
1	Total assets according to the balance sheet (published form):		37 945 613
2	Adjustment of investments in the capital of credit, finance, insurance and other entities whose reporting data is included in consolidated financial statements but excluded from calculation of equity (capital), statutory ratios and amounts (limits) of open currency positions of banking group		not applicable for financial statements of a credit institution as a legal entity
3	Adjustment of fiduciary assets recorded in accordance with accounting rules but excluded from calculation of the financial leverage ratio		0
4	Adjustment of derivative financial instruments (derivatives)		-222 438
5	Adjustment of lending transactions with securities		0
6	Adjustment to discount contingent credit related commitments to the credit equivalent		23 348 013
7	Other adjustments		341 504
8	**Total amount of balance sheet assets and off-balance sheet receivables at risk, including adjustments for the purpose of the financial leverage ratio calculation:**	4.4.	60 729 684

Subsection 2.2. Calculation of the financial leverage ratio

Pos. No.	Item	Note number	Amount
Risk related to balance sheet assets			
1	Total balance sheet assets:		35 587 271
2	Diminishing adjustment for the amount of indicators that reduce the amount of the regulatory core capital sources		6 234
3	Total balance sheet assets at risk, including the adjustment (difference of lines 1 and 2):		35 581 037
Risk related to transactions with derivatives			
4	Total current credit risk related to transactions with derivatives (less variable margin received):		1 408 360
5	Total potential credit risk per counterparty related to transactions with derivatives:		392 274
6	Adjustment for the nominal amount of collateral provided against transactions with derivatives to be written off the balance sheet in accordance with accounting rules		0
7	Diminishing adjustment for the amount of the transferred variable margin to the extent applicable		0
8	Adjustment of receivables of a bank – clearing participant to the central counterparty related to execution of clients' transactions		0
9	Adjustment to incorporate credit risk in relation to the underlying asset on issued credit derivatives		0
10	Diminishing adjustment of issued credit derivatives		0
11	Total amount of risk related to derivatives, including adjustments (sum of lines 4, 5, 9 less lines 7, 8, 10):		1 800 634
Risk related to lending transactions with securities			
12	Total receivables on lending transactions with securities (without netting):		0
13	Adjustment for the amount of netting of the monetary part (receivables and liabilities) on lending transactions with securities		0
14	Credit risk exposure per counterparty related to lending transactions with securities		0

Pos. No.	Item	Note number	Amount
15	Risk exposure related to guarantee lending transactions with securities		0
16	Total receivables on lending transactions with securities, including adjustments (sum of lines 12, 14 and 15 less line 13):		0
Risk associated with contingent credit related commitments			
17	Total nominal amount of risk associated with contingent credit related commitments:		32 552 342
18	Adjustment related to the credit equivalent ratio application		9 204 329
19	Total amount of risk associated with contingent credit related commitments, including adjustments (difference of lines 17 and 18):		23 348 013
Capital and risks			
20	Tier 1 capital		10 732 842
21	Total amount of balance sheet assets and off-balance sheet receivables at risk for the purpose of financial leverage ratio calculation (sum of lines 3, 11, 16, 19):	4.4.	60 729 684
Financial leverage ratio			
22	Financial leverage ratio under Basel III (line 20 / line 21), %		**17.7**

Chairman of the Management Board C. Runde

Chief Accountant A. Gorokhovsky

26 April 2018

Bank financial statements

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

STATEMENT OF CASH FLOWS (published form)

At 1 January 2018

Credit institution **COMMERZBANK (EURASIJA), Joint-Stock Company**
COMMERZBANK (EURASIJA) AO

Address: 119017, Moscow, Kadashevskaya emb., 14/2

OKUD Form Code 0409814

Quarterly (annual)

RR'000

Pos. No.	Item	Note number	Cash flows for the reporting period	Cash flows for the previous reporting period
1	**Net cash from/(used in) operating activities**			
1.1	Total cash from (used in) operating activities before changes in operating assets and liabilities, including:		**2 521 770**	**3 880 938**
1.1.1	interest received		1 625 497	1 538 000
1.1.2	interest paid		(519 107)	(638 546)
1.1.3	commissions received		514 549	537 267
1.1.4	commissions paid		(98 855)	(109 761)
1.1.5	gains less losses from available-for-sale financial assets at fair value through profit or loss		1 546 115	2 483 958
1.1.6	gains less losses from securities held to maturity		0	0
1.1.7	gains less losses from trading in foreign currencies		1 339 773	1 955 288
1.1.8	other operating income		113 223	114 160
1.1.9	operating expenses		(1 376 159)	(1 197 880)
1.1.10	tax expense (benefit)		(623 266)	(801 548)
1.2	Total increase (decrease) in net cash from operating assets and liabilities, including:		**850 561**	**(11 881 324)**
1.2.1	Net increase / (decrease) in mandatory reserves with the Bank of Russia		(5 661)	(62 500)
1.2.2	net increase (decrease) in investments in securities at fair value through profit or loss		0	0
1.2.3	net increase (decrease) in loans outstanding		(4 182 341)	1 351 971
1.2.4	net increase (decrease) in other assets		648 647	(116 245)
1.2.5	net increase (decrease) in loans, deposits and other funds of the Bank of Russia		0	0
1.2.6	net increase (decrease) in amounts due to other credit institutions		155 837	(7 782 758)
1.2.7	net increase (decrease) in amounts due to customers (non-credit institutions)		4 178 690	(5 341 351)
1.2.8	net increase (decrease) in financial liabilities at fair value through profit or loss		0	0
1.2.9	net increase (decrease) in debt instruments		0	(16 389)

Pos. No.	Item	Note number	Cash flows for the reporting period	Cash flows for the previous reporting period
	issued			
1.2.10	net increase (decrease) in other liabilities		55 389	85 948
1.3	**Total for Section 1 (Pos. No. 1.1 + Pos. No. 1.2)**		**3 372 331**	**(8 000 386)**
2	**Net cash from (used in) investing activities**			
2.1	Acquisition of securities and other financial assets relating to the category “available for sale”		(5 281 232)	(1 399 863)
2.2	Proceeds from sale and redemption of securities and other financial assets relating to the category “available for sale”		2 361 621	527 148
2.3	Acquisition of securities relating to the category “held to maturity”		0	0
2.4	Proceeds from redemption of securities relating to the category “held to maturity”		0	0
2.5	Acquisition of premises and equipment, intangible assets and inventories		(14 434)	(26 918)
2.6	Proceeds from disposal of premises and equipment, intangible assets and inventories		2 373	2 356
2.7	Dividend income received		0	0
2.8	**Total for Section 2 (sum of Pos. No. 2.1–2.7)**		**(2 931 672)**	**(897 277)**
3	**Net cash from (used in) financing activities**			
3.1	Contributions of shareholders (participants) to the charter capital		0	0
3.2	Acquisition of treasury shares (participatory interests) redeemed from the shareholders (participants)		**0**	0
3.3	Sale of treasury shares (participatory interests), redeemed from the shareholders (participants)		0	0
3.4	Dividends paid		(1 400 000)	(1 000 000)
3,5	**Total for Section 3 (sum of Pos. No. 3.1–3.4)**		**(1 400 000)**	**(1 000 000)**
4	Effect of changes in official foreign currency exchange rates to the Russian Rouble set by the Bank of Russia on cash and cash equivalents		(106 677)	(2 113 574)
5	**Increase in (use of) cash and cash equivalents**		**(1 066 018)**	**(12 011 237)**
5.1	Cash and cash equivalents at the beginning of the reporting period		6 801 125	18 812 362
5.2	Cash and cash equivalents at the end of the reporting period	4.5.	5 735 107	6 801 125

Chairman of the Management Board C. Runde

Chief Accountant A. Gorokhovsky

26 April 2018

EXPLANATORY NOTE

Name of the credit institution:
COMMERZBANK (EURASIJA) AO

Postal address:
119017, Moscow, Kadashevskaya Nab., 14/2

General banking licence:
3333

During the reporting period the above details remained unchanged from the previous period.

INTRODUCTION

COMMERZBANK (EURASIJA) AO (hereinafter, the “Bank”) presents its 2017 annual accounting (financial) statements (hereinafter, the “Annual financial statements”) prepared in accordance with the accounting and reporting rules currently effective in the Russian Federation.

This Explanatory Note constitutes an integral part of the Bank's annual financial statements.

In accordance with the requirements of paragraph 3.2 of the Bank of Russia’s Instruction No. 3081-U, the Bank chose the following form of disclosing the annual accounting (financial) statements: placement on the Bank's official Internet site http://www.commerzbank.ru.

The Bank’s annual financial statements are planned to be approved by the decision of the Sole Shareholder before 30 June 2018. The fact of approval is disclosed on the Bank's Internet site (www.commerzbank.ru).

This Explanatory Note to annual financial statements for 2017 is presented in thousands of the Russian Roubles, unless otherwise stated.

1. Information on the credit institution’s banking group

The Bank is not a head of any banking (consolidated) group or a member of any banking holding (“group” and “holding” as defined according to the Russian law). However, the Bank is a 100% subsidiary of Commerzbank AG, one of the largest German banks, which means that the Bank is a member of a foreign banking group. At the end of 2017, Commerzbank AG had the following shareholding structure:

- 15.60% of shares belong to the Federative Republic of Germany;
- 5.09% of shares belong to BlackRock Inc., USA;
- 5.01% of shares belong to Cerberus Capital Management, L.P., USA;
- approximately 50% belong to institutional investors with lower ownership share;
- approximately 25% are owned by individuals, mostly by German residents.

Commerzbank AG and its subsidiaries are hereinafter referred to as “Commerzbank Group”.

Commerzbank Group is a major international banking group represented in more than 50 countries. The Group’s two business segments (segment of private clients and small businesses and segment of corporate clients) offer a wide range of financial services adapted to their clients’ requirements. Commerzbank Group finances 30% of Germany’s cross-border turnover, and the Group is the leader in Germany’s corporate financing. The Group includes Comdirect in Germany and mBank in Poland, which rank among the most innovative on-line banks worldwide. Also, Commerzbank AG has one of the most significant branch networks (around 1,000 branches) among private German banks. Commerzbank Group serves over 18 million private customers and small business representatives, and more than 60,000 corporate clients, multinational corporations, financial sector companies and institutional clients. Commerzbank Group’s revenue was EUR 9.2 billion for 2017, and Commerzbank Group had 49,300 employees.

As of the end of 2017, Commerzbank AG had the following long-term credit ratings: Baa1 (Moody’s), A- (S&P Global), BBB+ (Fitch), and the ratings were unchanged as of the issue date of these Annual financial statements.

Consolidated financial statements of Commerzbank Group for 2017 are published on the Group's Internet site www.commerzbank.com.

The Bank's liabilities are secured by a letter of comfort from Commerzbank AG (see the 2017 Annual Report of Commerzbank Group, page 259):
https://www.commerzbank.com/media/en/aktionaere/service/archive/konzern/2018_2/geschaeftsbericht_2017_konzern_EN.pdf

2. Summary of operations of the credit institution

2.1 THE BANK'S PROFILE

Commerzbank AG was among the first foreign banks to open a representative office in Russia. In 1993, Dresdner Bank ZAO, a subsidiary bank of Dresdner Bank AG, started operating in Saint Petersburg. In 1999, Commerzbank (Eurasija), Closed Joint-Stock Company, a 100% subsidiary of Commerzbank AG, obtained a banking licence in Moscow. Following the merger of two banks under the Commerzbank trademark in 2010, Commerzbank (Eurasija) AO (SAO until 2016), with the head office in Moscow and a branch in Saint Petersburg, continues its operations in Russia.

Commerzbank's long-standing experience in the Russian market allowed the bank to develop a profound understanding of this market. Based on its expertise, the Bank offers a wide range of financial services to German companies operating in the Russian market and international companies entering the German market. The Bank operates as a strategic partner for international businesses.

Managers with the knowledge of German and English who work in the Moscow and Saint Petersburg offices and in the branches located in Germany and other regions worldwide provide an integrated support for companies entering the market. For this purpose they involve chambers of trade and commerce, and providers of audit, legal and consulting services.

The Bank is a client-oriented entity and closely cooperates with Commerzbank AG's divisions in Germany and worldwide. The Bank's professional staff coordinates service provision to global groups and holding companies tailored to take into account the specifics of the Russian market and local legislation.

The Bank's operations are largely focused on settlement and lending transactions. The Bank also performs conversion transactions; attracts corporate deposits, carries out documentary transactions, transactions with derivatives, stock market operations and settlement transactions, and provides services related to corporate current accounts. The Bank is an active participant of the interbank foreign exchange market and foreign exchange market of the Moscow Exchange.

The Bank is corporate client-oriented. The Bank does not transact with individuals.

In October 2017, Analytical Credit Rating Agency (ACRA) (JSC), assigned the Bank AAA (RU) rating with a “stable” outlook.

2.2 Key performance indicators and factors that had an impact on the financial performance of the credit institution in the reporting year

Changes in the Bank's key performance indicators for the reporting period are provided in the table below:

Table 2.2.1

Item	01.01.2018 RR’000	01.01.2017 RR’000	Change RR’000	(%)
Bank's equity (capital)	**12 143 065**	**12,137,261**	**5 804**	**0.0**
Total assets	**37 945 613**	**33 555 648**	**4 389 965**	**13.1**
including:				
Net loans outstanding	21 920 559	17 340 453	4 580 106	26.4
including:				
deposits with the Bank of Russia	6 500 000	1 000 000	5 500 000	550.0
credit institutions	2 592 009	6 219 778	(3 627 769)	(58.3)
customers	12 828 550	10 120 675	2 707 875	26.8
Investments in securities	6 629 855	3 577 427	3 052 428	85.3
Investments in derivative financial instruments	2 023 072	3 639 210	(1 616 138)	(44.4)
Total liabilities	**25 787 121**	**21 402 209**	**4 384 912**	**20.5**
including:				
customer accounts	21 103 455	16 601 372	4 502 083	27.1
amounts due to credit institutions	3 242 481	3 213 222	29 259	0.9

The Bank's assets increased by RR 4 389 965 thousand (13.1%) during 2017. Assets increased primarily through the increase in net loans outstanding (by RR 4 580 106 thousand) against the backdrop of mixed changes in the other lines of the balance sheet, namely: increased investments in securities (by RR 3 052 428 thousand) along with reduced balances in correspondent accounts with the Bank of Russia (by RR 1 060 759 thousand) and positive fair value of derivative financial instruments (by RR 1 616 138 thousand). The decrease in the last of the above indicators is caused by the revaluation of the fair value of derivative financial instruments, which, on its turn, was primarily impacted by the change in foreign exchange rates against Russian rouble and by the final settlements under transactions maturing in the reporting year. The dynamics in net loans outstanding were mixed for different counterparty categories: there was an increase for corporate clients (by RR 2 707 875 thousand) and the Bank of Russia (by RR 5 500 000 thousand) against the backdrop of a decreased volume for credit institutions (by RR 3 627 769 thousand).

An increase in the liability side of the balance sheet is primarily driven by an increase in customer account balances (by RR 4 502 083 thousand). The Bank's equity (capital) sources for the reporting period increased slightly (by RR 5 053 thousand, or by 0.04%), which relates to the approximate correspondence of net profits earned by the Bank and dividends paid for the reporting period.

Comparison of income and expense items is provided in the table below:

Table 2.2.2

Item	for 2017 RR'000	for 2016 RR'000	Change	
			RR'000	(%)
Interest income	1 697 810	1 550 374	147 436	9.5
including that from investments in securities	466 688	261 388	205 300	78.5
Interest expense	(513 429)	(602 076)	(88 647)	(14.7)
Net interest income	1 184 381	948 298	236 083	24.9
Gains/(losses) from changes in loan and interest provisions	114 935	(603 218)	718 153	119.1
Net interest income less provisions	1 299 316	345 080	954 236	276.5
Net gains on transactions with securities and other financial assets at fair value through profit or loss, including:	(262 445)	872 018	(1 134 463)	(130.1)
on transactions with securities	-	-	-	-
on transactions with derivative financial instruments related to foreign-currency denominated assets	(263 177)	862 054	(1 125 231)	(130.5)
on transactions with derivative financial instruments without foreign-currency denominated assets (single currency interest rate swaps)	732	9 964	(9 232)	(92.7)
Net gain on foreign exchange transactions and revaluation of foreign currency	1 515 041	657 655	857 386	130.4
Fee and commission income	513 215	535 884	(22 669)	(4.2)
Fee and commission expense	(98 855)	(109 761)	(10 906)	(9.9)
Gains/(losses) from changes in the provision for other losses	46 813	129,044	(82 231)	(63.7)
Net income (expense)	3 122 822	2 547 131	575 691	22.6
Operating expenses	(1 411 612)	(1 345 391)	66 221	4.9
Profit before tax	1 711 210	1 201 740	509 470	42.4
Taxes accrued (including income tax)	(364 175)	(375 640)	(11 465)	(3.1)
Profit for the reporting period	**1 347 035**	**826,100**	**520 935**	**63.1**

In the reporting period, the Bank's net income increased by RR 520 935 thousand (by 63.1%) compared to 2016. The Bank's profit grew mostly due to an increase in net interest income and changes in provisions for possible losses along with a decrease in the result from currency transactions, including net gain from dealing in foreign currencies, revaluation of foreign currency balances and gain from transactions with derivatives related to foreign currency-denominated assets.

Net interest income (before the expense on provision for possible losses) in the reporting period were up RR 236 083 thousand (24.9%), mainly as a result of an increased interest income from securities driven by the growth of the Bank's investments.

The total financial result of changes in provisions for possible losses (including loan and other losses) in 2017 was positive and accounted for RR 161 748 thousand, which is RR 635 922 thousand higher compared to the negative result in 2016 (RR -474 174 thousand). The positive result is attributable to reversed provisions for loans repaid under per schedule that were subject to provisions for possible losses in previous years. Growth in the provisions in 2016 was primarily driven by the accrual of 100% provisions for overdue loans per one borrower.

The result of currency transactions decreased in aggregate by RR 267 845 thousand (by 17.6%), from RR 1 519 709 thousand to RR 1 251 864 thousand. The decrease in the indicator is mainly attributable to the continuing stabilisation in the foreign exchange market in 2017 against 2016.

2.3 Decisions on net profit distribution and dividend payments

In 2017, the Bank paid dividends from prior years' profits in the total amount of RR 1 400 000 thousand (2016: RR 1 000 000 thousand). In 2017 and 2016, at the decisions of the Bank's Sole Shareholder the remaining profit was fully retained by the Bank.

Information on dividends paid in 2018 is disclosed in Section 3 of this Explanatory Note ("Information on non-adjusting subsequent events").

2.4 Information on the relationship with the external auditor

From the start of the Bank's operations in 1998 to present, the services of the external auditor have been provided by AO PricewaterhouseCoopers.

Neither this firm nor its employees are affiliated with the Bank or have any property interests in the Bank. During the 2017 reporting year, services provided to the Bank by the external auditor and its affiliated parties in addition to the audit of these annual financial statements and IFRS financial statements were immaterial and did not exceed 3% of the audit fee.

2.5 Operating environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017 after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Bank's operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

3. Summary of the basis of preparation and significant accounting policies

The Bank maintains its accounts and prepares its financial statements in accordance with the Russian legislation and the Bank of Russia's regulations. The detailed principles and methods of measurement and reporting of individual types of material transactions and events are disclosed below.

3.1 Principles and methods of measurement and reporting of material transactions and events

The Bank maintains its accounting and prepares its financial statements based on the following principles:

- property detachment – the assets and liabilities of the Bank are detached from the assets and liabilities of the owners or other legal entities;
- going concern – the Bank will continue its operations in the foreseeable future and the Bank has no intention to significantly reduce the scope of its operations or liquidate its business;

- consistent application of accounting policies – the adopted accounting policies are applied consistently from one accounting period to another, subject to changes in legal requirements;
- accrual basis of accounting – all economic events are recognised in the reporting period in which they occurred, irrespective of the time of actual movement of cash related to such events;
- completeness of recognition of all economic events;
- timeliness of recognition of all economic events;
- prudence – the Bank tends more to recognise expenses and liabilities rather than potential income and assets without booking latent provisions;
- substance over form – the Bank recognises economic events based on their economic substance and business environment, rather than their legal form;
- reasonableness – the Bank maintains reasonable accounting records based on the business environment and the size of the Bank.

The Bank applies the following methods of measurement and recognition for individual types of assets and liabilities, as well as income and expenses:

3.2 Basis of accounting for balances of credit institutions with the Central Bank of the Russian Federation

This line item of the Bank's balance sheet is formed by balances generated on the correspondent accounts opened by the Bank with the Head Office of the Bank of Russia in the Central Federal District of Moscow and in the Head Cash and Settlement Centre of the Head Office of the Central Bank of the Russian Federation in St Petersburg and by balances transferred by the Bank as a part of depositing mandatory reserves with the Bank of Russia by credit institutions.

3.3 Accounting treatment of amounts due from credit institutions

This line item of the Bank's balance sheet is formed by balances generated on the correspondent accounts opened by the Bank with correspondent banks, both residents and non-residents of the Russian Federation. The structure of the Bank's correspondent accounts, as well as the list of foreign currencies in which the correspondent accounts are opened, ensures efficient performance by the Bank of its proprietary settlement transactions and satisfaction of current needs of the Bank's customers.

3.4 Accounting treatment of outstanding loans

The Bank performs active transactions related to placement of cash in the form of loans provided to commercial banks and legal entities.

The Bank's accounting policy regarding these transactions is designed based on the Bank of Russia Regulation No. 579-P of 27 February 2017 “On Credit Institutions’ Chart of Accounts and Its Application Procedure” (before 3 April 2017 – by Regulation No. 385-P of 16.07.2012 “Accounting Rules for Credit Institutions Located in the Russian Federation”).

Interests receivable/payable are accrued by the Bank on a daily basis with mandatory recording on the accounts on the date of payment and on the last day of each calendar month.

The Bank sets up provisions for the transactions representing loans, borrowings and similar debt under the requirements of Regulation of the Bank of Russia No. 254-P of 26 March 2004 (from 14.07.2017 – Regulation No. 590-P of 28.06.2017) “On the Procedure for Booking Provisions against Possible Losses from Loans, Borrowings and Similar Debt by Credit Institutions”. Credit risk is assessed, loans are classified and assessed and provisions are estimated and actual provisions are booked once the reasons provided for by the above-mentioned Regulation of the Bank of Russia arise, but at least once a month at the reporting date.

The Bank aggregates its loans in portfolios of homogeneous loans; however, the amount of these portfolios within the total volume of outstanding loans is immaterial (below 1%).

3.5 Basis of accounting for property and equipment and depreciation of property and equipment

Premises and equipment

Premises and equipment with the value (without VAT) exceeding RR 100 thousand and useful life over 12 months are recorded at cost, including the initial costs of acquisition, delivery, installation, manufacturing and bringing to a serviceable condition, including VAT, less accumulated depreciation of premises and equipment and accumulated impairment losses.

The cost of premises and equipment is increased by the amount of capital expenses representing expenses effectively incurred, including VAT.

The cost of premises and equipment also includes the following items, when material:

- maintenance costs, if they meet the criteria for recognition of PP&E;
- future costs of liquidation of the PP&E item.

Costs of minor and/or repairs as well as maintenance costs are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the financial result for the year.

Depreciation and amortisation

Depreciation on depreciable premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their useful lives as follows: The following useful lives were used for the items recorded within PP&E:

	Useful lives in months (years)
1. Computer hardware	25–120 months (2–10 years)
2. Cash services equipment	37–61 months (3–5 years)
3. Copying machines	37–60 months (3–5 years)
4. Office furniture	61 months (5 years)
5. Non-production interior objects	not accrued
6. Office equipment	61–241 months (5–20 years)
7. Security systems	396 months (33 years)
8. Other office items	37–121 months (3–10 years)
9. Telecommunication equipment	36–85 months (3–7 years)
10. Telephone equipment	61–121 months (5–10 years)
11. Motor vehicles	60 months (5 years)

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

Expenses related to inseparable leasehold improvements under lease agreements that are not reimbursed to the Bank by the lessors and meet the criteria for recognition within PP&E are recorded within PP&E, and those that do not meet such criteria are recorded within the financial result.

3.6 Basis of accounting for investments in securities

Securities available for sale

This classification includes securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is recognised in the financial result for the year. Revaluation at fair value is recognised within equity until the security is derecognised or impaired, at which time the cumulative gain or loss is reclassified from equity to the financial result for the year. Impairment losses are recognised in the financial result for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of securities available for sale. A significant or prolonged decline in the fair value of a security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from equity to the financial result for the year. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the financial result for the year.

3.7 Basis of accounting for derivative financial instruments (derivatives)

Initially recognition of derivatives is performed at the date of execution of the agreement. Starting from that date, derivatives are measured at fair value.

The fair value of derivatives is measured daily during the term of the agreement, starting from the date of transaction and up to the date of the final payment and recorded at least at the settlement dates and the monthly reporting dates.

If there is an active market for this derivative, the Bank uses the market indicators to determine the fair value of such derivative. If the market for this derivative is not active, the Bank determines the fair value of such derivative based on information provided by brokers and other market participants on prices (quotations), the value of derivatives comparable to the derivatives being measured, or applies other valuation techniques.

3.8 Basis of accounting for impairment provisions

The Bank sets up provisions for impairment of assets and provisions for contingent liabilities based on its internal methodologies developed in accordance with requirements of Regulations of the Bank of Russia No. 254-P and 283-P.

3.9 Customer accounts

Under the current Russian legislation and within the limits set by the license issued by the Bank of Russia, the Bank opens and maintains bank accounts, attracts cash from legal entities in the form of a bank transfer to deposits (on demand and term deposits).

3.10 Accounting for income and expense

The Bank's accounting policies state that the Bank's income and expenses are accounted for upon their receipt/performance, if not provided otherwise by regulative documents of the Bank of Russia. The analytical accounting of income and expense is kept on sub-accounts formed based on symbols of Form No. 0409102, with detalisation of individual items for economic analysis, and separate presentation of income and expenses not included in the calculation of the tax basis.

The financial result is determined cumulatively during the reporting year.

Expenses for administrative and other operations (rent, software maintenance fees, subscription fees, etc.) made in the reporting period, but related to the future reporting periods, are deferred to expenses in the respective amounts upon beginning of the reporting period to which they relate based on the primary documents received by the Bank. If the period for which the payment is made exceeds 1 month (quarter, year), deferred expenses are charged on a monthly basis in equal instalments.

3.11 Nature of assumptions and principal sources of uncertainty at the end of the period

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause significant adjustments to the carrying amount of assets and liabilities within the next financial year include:

Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If the fair value is determined by using valuation techniques (e.g. models), they are approved and regularly reviewed by qualified employees independent from the department where the technique was developed.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level two measurements are obtained using valuation techniques with all material inputs observable for the asset or liability either directly or indirectly (that is, as prices), and

(iii) level three measurements are valuations that are not based on observable market data.

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Tax legislation

Russian legislation on taxes and levies which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to individual transactions and activities of the Group. Consequently, tax positions taken by the Bank and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

As Russian legislation on taxes and levies does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that may both reduce and increase the effective tax rate of the Bank. While the Bank believes that the tax positions and interpretations taken by the Bank can be sustained, there is a possible risk that outflow of resources will be required, should such tax positions and interpretations be challenged by the relevant tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

The Russian transfer pricing rules took effect in 1999. Significant amendments were made to the transfer pricing rules which became effective on 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

The Bank believes that its pricing policy applied in 2017 and in prior years is at arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Due to specific features of the Russian transfer pricing rules, the impact of any disputes with the tax authorities on the Bank’s transfer prices cannot be reliably estimated; however, it may be significant to the financial performance and operations of the Bank.

3.12 Information on adjusting subsequent events

The Bank has performed the following operations for recognising subsequent events:

1. assessed (adjusted, changed) taxes and levies for the reporting year (including deferred income tax), being a payer of taxes and levies in accordance with the legislation of the Russian Federation;
2. after the reporting date, received documents supporting transactions performed before the reporting date and/or stipulating (specifying) cost of work, services and assets for such transactions, as well as documents specifying income and expense amounts accounted for under the accrual method.

3.13 Information on non-adjusting subsequent events

There were no non-adjusting events after the reporting date up to the date of this annual report, including that the Bank neither declared nor paid dividends.

3.14 Changes made to the Accounting Policy

No significant amendments were made to the Accounting Policies in 2018 and 2017, which could impact the comparability of the Bank's financial indicators for various reporting periods.

3.15 Nature and amount of material errors of previous periods

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

In 2017 and 2016, there were no cases of non-application of accounting rules in cases when they cannot fairly reflect the financial position and performance of the Bank.

4. Explanatory notes to the accounting reporting forms

4.1 Explanatory note to the balance sheet

4.1.1. Cash

Table 4.1.1.1.
RR thousand

	01.01.2018	01.01.2017
Cash	33 918	21 516
Accounts with the Central Bank of the Russian Federation	4 466 116	1 021 501
Less mandatory reserves	4 136 058	697 104
Correspondent accounts with credit institutions in the Russian Federation	41 793	136 776
Correspondent accounts with credit institutions in other countries	1 523 338	5 945 729
Total cash and cash equivalents	**5 735 107**	**6 801 125**

In the table above, the amount of cash and cash equivalents is shown net of amounts not included in Quality category 1 and restricted cash. At 1 January 2018, the excluded amount is RR 20 000 thousand (at 1 January 2017: RR 8 000 thousand).

4.1.2. Financial assets at fair value through profit and loss

Disclosure of types of financial assets at fair value through profit and loss is as follows:

Table 4.1.2.1
RR thousand

	01.01.2018	01.01.2017
Derivative financial instruments	2 023 072	3 639 210
Total financial assets at fair value through profit and loss	**2 023 072**	**3 639 210**

At 1 January 2018 and 1 January 2017, no financial assets at fair value through profit or loss were pledged to third parties as collateral. The Bank classifies fair value measurements of derivative financial instruments to level 2 of the fair value hierarchy.

4.1.3. Derivative financial instruments

Analysis of open derivative financial instruments at 1 January 2018 based on Section II of Form 0409155 is as follows:

Table 4.1.3.1
RR thousand

Instrument	Fair value of assets	Fair value of liabilities	Receivable amount	Payable amount
Derivative financial instruments	**2 023 072**	**621 935**	**26 651 649**	**24 963 085**
including:				
Forward with underlying asset – foreign currency (deliverable)	51 342	34 980	4 276 156	4 228 586
Option with underlying asset – foreign currency	1 665	1 665	141 117	141 117
Swap with underlying asset – foreign currency (deliverable)	131 750	114 311	10 074 207	10 009 587
Swap with underlying asset – interest rate (non-deliverable)	70 102	63 837	3 218 790	3 218 790
Swap with underlying asset – interest rate and foreign currency (deliverable)	1 768 213	407 142	8 941 379	7 365 005

Analysis of open derivative financial instruments at 1 January 2017 based on the same source is as follows:

Table 4.1.3.2
RR thousand

Instrument	Fair value of assets	Fair value of liabilities	Receivable amount	Payable amount
Derivative financial instruments	**3 639 210**	**429 511**	**27 047 317**	**23 477 691**
including:				
Forward with underlying asset – foreign currency (deliverable)	485 137	149 373	10 506 510	9 991 246
Option with underlying asset – foreign currency	-	-	-	-
Swap with underlying asset – foreign currency (deliverable)	176 701	3 259	3 240 225	3 032 845
Swap with underlying asset – interest rate (non-deliverable)	32 199	22 958	3 355 263	3 355 263
Swap with underlying asset – interest rate and foreign currency (deliverable)	2 945 173	253 921	9 945 319	7 098 337

Tables 4.1.3.1–4.1.3.2 include derivative financial instruments, i.e. the transactions defined under Federal Law No. 39-FZ of 22 April 1996 “On Securities Market” or the international law or market convention. Deals with settlement dates no earlier than the third business day after entering into the transaction are not derivative financial instruments.

4.1.4. Net loans outstanding

The structure of loans outstanding is as follows:

Table 4.1.4.1
RR thousand

	01.01.2018	01.01.2017
Placements with the Bank of Russia	6 500 000	1 000 000
Interbank loans and deposits:	2 592 009	6 219 778
Short-term deposits with banks	2 592 009	5 519 778
Other placements with banks	-	700 000
Legal entities	13 468 758	10 869 011

	01.01.2018	01.01.2017
Corporate loans	13 326 551	10,463,591
Overdraft loans	142 207	405 420
Individuals – consumer loans	3 245	9 896
Provision for loan impairment	(643 453)	(758 232)
Total net loans outstanding	**21 920 559**	**17 340 453**

Economic sector risk concentrations within loans outstanding are as follows:

Table 4.1.4.2
RR thousand

	01.01.2018		01.01.2017	
	Amount	%	Amount	%
Loans to legal entities – Russian residents, including:	13 356 149	99.14	10 869 011	99.91
Processing industries	10 997 119	81.63	5 071 675	46.62
Real estate transactions, lease and services	1 000 000	7.42	1 000 000	9.19
Financial lease	550 954	4.09	554 223	5.09
Wholesale and retail trade, repairs	203 867	1.51	3 697 692	33.99
Other activities	462 002	3.43	140 000	1.29
For completion of settlements (overdraft loans)	142 207	1.06	405 421	3.73
Loans to non-resident legal entities	112 609	0.84	-	-
Consumer loans to individuals	3 245	0.02	9,896	0.09
Total loans outstanding (*)	**13 472 003**	**100.0**	**10 878 907**	**100.0**

(*) before provisions for possible losses

Analysis of the geographical concentration within loans outstanding is disclosed in paragraph 5.2.5 of this Explanatory Note.

Maturity analysis of the volume and structure of loans, borrowings and similar debt is disclosed in paragraph 5.2.4 of this Explanatory Note.

4.1.5. Financial investment in securities and other financial assets available for sale

This item includes only the Bank's investments in Russian government bonds – Federal loan bonds (OFZ). Analysis of investment in OFZ under this item of the Bank's balance sheet by the circulation period and coupon income is disclosed in the table below:

Table 4.1.5.1
RR thousand

	01.01.2018		01.01.2017	
	Circulation period	Coupon amount	Circulation period	Coupon amount
Russian government bonds	from 31.01.2018 to 07.12.2022	from 6.20% up to 10.43%	from 19.04.2017 to 15.05.2019	from 6.20% to 10.95%

At 1 January 2018 and 1 January 2017, securities recorded within available-for-sale securities were not pledged to third parties as collateral.

The securities recorded in line item "available for sale" form a liquidity portfolio managed by the Treasury exclusively to maintain the Bank's liquidity.

4.1.6. Premises and equipment, intangible assets and inventory

There were no significant changes in the information presented in the relevant section of the annual financial statements.

Table 4.1.6.1
RR thousand

	Office and computer equipment	Investments in manufacture and acquisition of premises and equipment	Total premises and equipment	Intangible assets	Inventory	Total
Cost at 1 January 2016	249 657	156	249 813	-	2 567	252 380

TRANSLATOR'S EXPLANATORY NOTE: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation. This English translation does not contain the English translation of the explanatory information, which are part of the official Russian version of the accompanying annual accounting (financial) reports.

	Office and computer equipment	Investments in manufacture and acquisition of premises and equipment	Total premises and equipment	Intangible assets	Inventory	Total
Accumulated depreciation	(178 632)	-	(178 632)	-	-	(178 632)
Carrying value at 1 January 2016	**71 025**	**156**	**71 181**	**-**	**2 567**	**73 748**
Additions	-	21 873	**21 873**	10 254	1 976	**34 103**
Transfers	21 029	(21 029)	**-**			**0**
Disposals (at cost)	(75 773)	-	**(75 773)**	(696)	(3 855)	**(80 324)**
Disposals (accumulated depreciation)	75 681	-	**75 681**	222	-	**75 903**
Depreciation charge	(22 862)	-	**(22 862)**	(2 181)	-	**(25 043)**
Carrying value At 1 January 2017	**69 100**	**1 000**	**70 100**	**7 599**	**688**	**78 387**
Cost at 1 January 2017	194 913	1 000	195 913	9 558	688	206 159
Accumulated depreciation	(125 813)	-	(125 813)	(1 959)	-	(127 772)
Carrying value At 1 January 2017	**69 100**	**1 000**	**70 100**	**7 599**	**688**	**78 387**
Additions	-	13 852	13 852	657	3 510	18 019
Transfers	13 866	(13 866)	-	-	-	-
Disposals (at cost)	(8 571)	-	(8 571)	-	(3 584)	(12 155)
Disposals (accumulated depreciation)	6 331	-	6 331	-	-	6 331
Depreciation charge	(20 971)	-	(20 971)	(2 022)	-	(22 993)
Carrying value At 1 January 2018	**59 755**	**986**	**60 741**	**6 234**	**614**	**67 589**
Cost at 1 January 2018	200 208	986	201 194	10 215	614	212 023
Accumulated depreciation	(140 453)	-	(140 453)	(3 981)	-	(144 434)

In 2017 and 2016, the Bank did not pledge equipment as collateral to third parties.

At 1 January 2018, the amount of total contractual obligations related to acquisition of premises and equipment and intangible assets (future obligations to make payments under the contracts for acquisition of premises and equipment and intangible assets, where partial advance payment of future deliveries was made before the reporting date) was RR 14 thousand (1 January 2017: RR 2 089 thousand).

The Bank did not perform revaluation of premises and equipment. The fixed assets' impairment test performed at December 2017 identified no impairment indicators (December 2016: no impairment indicators).

4.1.7. Other assets

The structure of the Bank's other assets is as follows:

Table 4.1.7.1
RR thousand

	01.01.2018	01.01.2017
Other financial assets		
Amounts due from clearing organisations	1 033 002	1 474 045
Interest receivable	21 855	41 162
Receivables on commissions	36 860	7 202
Other	5 900	7 080
Provision for possible losses (-)	(36 634)	(6 390)
Total other financial assets	**1 060 983**	**1 523 099**
Other non-financial assets		
Deferred expenses	9 193	7 379
Prepayments for services	3 120	2 396
Operating lease prepayments	7 431	32 525
Budget settlements on taxes	2 626	4 654

	01.01.2018	01.01.2017
Settlements with staff	477	891
Accrued cash receivables for services provided	26	3 445
Provision for possible losses (-)	(16 451)	(42 001)
Total other non-financial assets	**6 422**	**9 289**
Total other assets	**1 067 405**	**1 532 388**

The structure of other assets by currency is as follows:

Table 4.1.7.2
RR thousand

	01.01.2018	01.01.2017
Russian Roubles	28 447	46 861
US Dollar	2 115	11 949
Euro	1 035 891	1 473 578
Other currencies	952	-
Total other assets	**1 067 405**	**1 532 388**

Maturity analysis of the volume and structure of other assets is disclosed in paragraph 5.2.4 of this Explanatory Note.

4.1.8. Balances on accounts of credit institutions

Table 4.1.8.1
RR thousand

	01.01.2018	01.01.2017
Correspondent accounts	212 471	180 377
Overnight placements	-	-
Other received interbank placements and deposits	3 030 010	3 032 845
Total due to other banks	**3 242 481**	**3 213 222**

The Bank has no syndicated loans or obligations to return borrowed securities to the creditor bank.

4.1.9. Customer accounts (other than credit institutions)

Table 4.1.9.1
RR thousand

	01.01.2018	01.01.2017
Legal entities	**21 103 437**	**16 601 077**
• Current/settlement accounts	15 122 599	10 459 131
• Term deposits	5 980 838	6 141 946
Individuals	**18**	**295**
• Current/demand accounts	18	295
• Term deposits	-	-
Total due to customers (non-credit institutions)	**21 103 455**	**16 601 372**

Economic sector concentrations within customer accounts are as follows:

Table 4.1.9.2

RR thousand

	01.01.2018		01.01.2017	
	Amount	%	Amount	%
Wholesale and retail trade, repairs	11 581 568	54.88%	9 280 603	55.90%
Processing industries	4 942 829	23.42%	2 451 324	14.77%
Real estate transactions, lease and services	1 515 875	7.18%	868 865	5.23%
Financial services	849 149	4.02%	536 260	3.23%
Research and development	658 963	3.12%	903 278	5.44%
Transport and communications	654 684	3.10%	305 754	1.84%

	01.01.2018		01.01.2017	
	Amount	**%**	**Amount**	**%**
Information technologies and computer equipment	275 658	1.31%	766 314	4.62%
Construction	165 790	0.79%	1 305 518	7.86%
Mining	27 624	0.13%	1 370	0.01%
Other activities	431 297	2.04%	181 791	1.10%
Total customer accounts	**21 103 437**	**100%**	**16 601 077**	**100%**

4.1.10. Debt securities issued

As of 1 January 2018, the Bank had no issued debt securities (at 1 January 2017: none).

4.1.11. Other assets

Table 4.1.11.1
RR thousand

	01.01.2018	01.01.2017
Other financial liabilities		
Trade payables	46 410	119 669
Liabilities on interest payment	7 775	13 453
Outstanding transfers and settlements	1 029	53
Total other financial liabilities	**55 214**	**133 175**
Other non-financial liabilities		
Accrued employee benefit costs	128 168	12 585
Taxes payable other than on income	43 651	19 026
Settlements with accountable persons	37	7
Total other non-financial liabilities	**171 856**	**31 618**
Total other liabilities	**227 070**	**164 793**

The structure of other liabilities by currency is as follows:

Table 4.1.11.2
RR thousand

	01.01.2018	01.01.2017
Russian Roubles	184 149	49 933
US Dollar	3 275	2 568
Euro	39 646	112 292
Other currencies	-	-
Total other liabilities	**227 070**	**164 793**

Maturity analysis of volume and structure of other liabilities is disclosed in paragraph 5.2.4 of this Explanatory Note.

4.1.12. Premises and equipment

Share capital of the Bank is represented by ordinary shares. At 1 January 2018 and 2017, all of the Bank's outstanding ordinary shares were fully paid in. Each ordinary share carries one vote. More detailed information on share issues is presented in Section 5 of the Statement on capital adequacy level in these annual financial statements.

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

4.1.13. Irrevocable liabilities

This line item includes:

- undrawn credit lines (including limits on overdraft loans) of RR 10 249 029 thousand at the reporting date and RR 10 907 608 thousand at 01 January 2017, respectively. The majority of the contracts provide for the possibility to close the limit early in case of worsening of the counterparty's (borrower's) financial position;

- nominal commitments on open derivative financial instruments, term and cash (spot) deals without counter claims to counterparties are RR 43 672 661 thousand at the reporting date (RR 45 684 711 thousand at 01 January 2017). This indicator is primarily of short-term nature and therefore subject to significant fluctuations.

4.1.14. Guarantees issued by the Bank

In addition to guarantees issued by the Bank, this item also includes commitments on confirmed and opened letters of credit.

4.2 Explanatory note to the statement of financial results

Information on the movements in provisions for possible losses is disclosed in p. 4.3.

In 2017, included in profit were foreign exchange differences, except for foreign exchange differences related to financial instruments through profit or loss, of RR 1 319 966 thousand. (2016: RR 1 880 803 thousand).

Income tax expense of (RR 361 782 thousand) for 2017 includes current income tax of RR 729 155 thousand and deferred income tax of RR -367 373 thousand (2016: RR 690 896 thousand and RR -319 803 thousand, respectively).

In 2017 and 2016, the Bank had no significant expense or income as a result of changes in tax rates or enactment of new taxes.

The amount of employee remunerations for 2017 (including taxes) is RR 754 553 thousand (2016: RR 621 283 thousand). Due to changes in the accounting policy and accounting rules for 2016 as related to settlements with staff and payroll costs, these amounts are not fully comparable; however, the extent of incomparability is not significant.

In 2017 and 2016, the Bank:

- had no expenses on research and development;
- did not write off the value of premises and equipment to recoverable amount, nor reversed any such write-offs;
- did not perform any restructuring, setting up or releasing of corresponding provisions.

The cost and the accumulated depreciation of premises and equipment and intangible assets are disclosed in paragraph 4.1.6 of this Explanatory Note. The net financial result from the disposal of premises and equipment and intangible assets in 2017 was negative but immaterial and accounted for RR -245 thousand (2016: positive financial result of RR 1 790 thousand). This financial result is recorded in the amount of RR 145 thousand within other income and in the amount of RR 390 thousand within operating expenses. (2016: recorded in the amount of RR 2 729 thousand within other income and in the amount of RR 939 thousand within operating expenses.

4.3 Explanatory note to the statement on capital adequacy level

Information about the Bank's approaches to the evaluation of capital adequacy to cover the current and future operations is disclosed in p. 5.3, and information about the Bank's compliance with the capital adequacy ratios (statutory ratios) is disclosed in p. 4.4 of this Explanatory Note.

The table below presents information about the expenses to establish provisions for possible losses and income from their release recognised within equity in the reporting period for each type of assets:

Table 4.3.1
RR thousand

	01.01.2018			01.01.2017		
	expenses to establish provisions	**income from release of provisions**	**final result**	**expenses to establish provisions**	**income from release of provisions**	**final result**
Income and expense on provision for possible losses						
- correspondent accounts	9	9	-	-	-	-

	01.01.2018			01.01.2017		
	expenses to establish provisions	**income from release of provisions**	**final result**	**expenses to establish provisions**	**income from release of provisions**	**final result**
- loans outstanding and accrued interest	289 060	403 995	114 935	754 329	151 111	(603 218)
- other assets	126 227	121 377	-4 850	76 255	33 103	(43 152)
- credit related commitments	282 454	334 117	51 663	619 290	791 487	172 197
- other losses	-	-	-	-	-	-
Total for income and expense accounts	**697 750**	**859 498**	**161 748**	**1 449 874**	**975 701**	**(474 173)**
Write-off of debt and expenses against provision for possible losses established earlier			-			32 321
Total change in provisions			**161 748**			**(441 852)**

The table below presents explanations to Sector 1 “Information on Capital Adequacy Level” of the statement of capital adequacy level, including balance sheet data used as source data at 1 January 2018:

Table 4.3.2
RR thousand

No.	Balance sheet			Statement of capital adequacy level (Section 1)		
	Item	**Line No.**	**At the reporting date**	**Description**	**Line No.**	**At the reporting date**
1	Shareholders' (participants') funds, share premium (charged to Tier 1 capital)	24, 26	3 435 271	Total charter capital and share premium formed by:	1	3 435 271
2	Reserve fund (charged to Tier 1 capital)	27	323 340	Reserve fund	3	323 340
3	Total premises and equipment, intangible assets and inventories, including:	10	67 589	X	X	X
3.1	Intangible assets that decrease Tier 1 capital	X	6 234	Intangible assets, less deferred tax liabilities	9	6 234
4	Total deferred tax asset, including:	9	-	X	X	X
4.1	deferred tax assets that decrease Tier 1 capital	X	-	Deferred tax assets that depend on future profits	10	-
5	Retained earnings and revaluation of securities available for sale, including:	33, 34, 28	8 399 881	Retained earnings, including:	2.1, 46	8 390 688
5.1	Prior years retained earnings within Tier 1 capital	33	6 980 465	Retained earnings (deficit)	2.1	6 980 465
5.2	Unutilised earnings (losses) for the reporting period within Tier 2 capital	34	1 347 035	Unused profit (loss) for the reporting period	Part 46	1 337 842
5.4	Revaluation of securities available for sale, less deferred tax liabilities within Tier 2 capital	28	72 381	Unutilised earnings (losses) for the reporting period related to revaluation of securities available for sale, and net deferred tax assets	Part 46	72 381

No.	Balance sheet			Statement of capital adequacy level (Section 1)		
	Item	Line No.	At the reporting date	Description	Line No.	At the reporting date
6	X	X	X	Other items decreasing sources of Tier 2 capital	56	

The table below presents explanations to Sector 1 "Information on Capital Adequacy Level" of the statement of capital adequacy level, including balance sheet data used as source data at 1 January 2017:

Table 4.3.3
RR thousand

No.	Balance sheet			Statement of capital adequacy level (Section 1)		
	Item	Line No.	At 01.01.2017	Description	Line No.	At 01.01.2017
1	Shareholders' (participants') funds, share premium (charged to Tier 1 capital)	24, 26	3 435 271	Total charter capital and share premium formed by:	1	3 435 271
2	Reserve fund (charged to Tier 1 capital)	27	323 340	Reserve fund	3	323 340
3	Total premises and equipment, intangible assets and inventories, including:	10	78 387	X	X	X
3.1	Intangible assets that decrease Tier 1 capital	X	7,599	Intangible assets, less deferred tax liabilities	9	7,599
4	Total deferred tax asset, including:	9	-	X	X	X
4.1	deferred tax assets that decrease Tier 1 capital	X	-	Deferred tax assets that depend on future profits	10	-
5	Retained earnings and revaluation of securities available for sale, including:	33, 34, 28	8 394 828	Retained earnings, including:	2.1, 46	8 386 249
5.1	Prior years retained earnings within Tier 1 capital	33	7 554 365	Retained earnings (deficit)	2.1	7 554 365
5.2	Unutilised earnings (losses) for the reporting period within Tier 2 capital	34	826,100	Unused profit (loss) for the reporting period	Part 46	817 521
5.4	Revaluation of securities available for sale, less deferred tax liabilities within Tier 2 capital	28	14 363	Unutilised earnings (losses) for the reporting period related to revaluation of securities available for sale, and net deferred tax assets	Part 46	14 363
6	X	X	X	Other items decreasing sources of Tier 2 capital	56	-

Explanation of the methods used to calculate amounts in the statement on the capital adequacy level to cover risks, the amount of provision for doubtful loans and other assets (Form 0409808):

In Section 1 "Information on Capital Adequacy Level" the amounts of risk-weighted assets recorded in lines 60.2, 60.3 and 60.4 of Section 1 are calculated as the sum of risk-weighted assets and other items included in calculation of corresponding capital adequacy ratios in accordance with Instruction of the Bank of Russia No. 139-I of 3 December 2012 (since 28.07.2017 – Instruction No. 180-I of 28.06.2017).

The current year profit recorded in column 7 in line 5.2 of Table 4.3.2 (RR 1 337 842 thousand) differs from the net profit in the published forms – statement of financial results and the balance sheet (RR 1 347 035 thousand) as the methodology established by Regulation of the Bank of Russia No. 395-P of 28 December 2012 was applied to calculate profit within the Bank's equity (capital).

Explanation of the methods used to calculate amounts in subsection 2.1 "Credit risk in applying the standardised approach" of Section 2 "Information of the value of credit, operational and market risks covered by equity":

- the line "Credit risk for balance sheet assets" (line 1) includes nominal values (columns 4 and 7), nominal values less provisions (columns 5 and 8) and amounts of risk-weighted assets (columns 6 and 9) for all balance sheet assets, including higher-risk assets and (in columns 6 and 9) the risk of changes in loan receivables caused by the deterioration of a counterparty's credit quality (credit value adjustments, CVA).

Explanation of the data presented in Section "For Reference" (Information on movements in the provision for doubtful loans, borrowings and similar debt):

- lines 1.4 and 2.5 ("due to other reasons") include movements related to provisions and recovery of provisions due to the transfer of certain amounts from provision to overdue loans, write-off from these accounts and movements in provisions related to accrued interest.

4.4 EXPLANATORY NOTE TO THE DATA ON MANDATORY RATIOS AND THE FINANCIAL LEVERAGE RATIO

Explanation of the values of mandatory ratios:

During the reporting period, the Bank complied with the requirements for mandatory ratios in accordance with Instruction of the Bank of Russia No. 139-I of 3 December 2012 (since 28.07.2017 – Instruction No. 180-I of 28.06.2017) "On Mandatory Ratios for Banks". The levels of capital adequacy ratio and liquidity ratios are high and long-term liquidity ratio and maximum risk of large credit exposure ratio are significantly lower than the limits established by the Bank of Russia (maximum values).

The Bank calculates all mandatory ratios using official exchange rates of the Bank of Russia effective at the reporting date.

As regards the calculation of short-term liquidity ratio (STLR):

The Bank is not included in the number of credit institutions that are obliged to comply with the level of STLR set out by Regulation of the Bank of Russia No. 510-P of 3 December 2015. Therefore, the Bank does not make the disclosure in Section 3 "Information on short-term liquidity ratio" of form 0409813 and does not provide explanations for this ratio.

Explanation of the financial leverage ratio:

Over the reporting period (2017), the financial leverage ratio decreased from 20.4% to 17.7%. This change is attributable both to the decrease in core capital after dividend distribution and the increase in assets included in the calculation of this ratio, which, in their turn, increased due to growth in the Bank's balance sheet assets. The reasons that led to the increase of the carrying amount of assets are disclosed in the explanation note to the Bank's key performance indicators (p. 2.2).

At 1 January 2018, the difference between the carrying amount of the assets and the assets used for the calculation of the financial leverage is RR 2 358 342 thousand, including the fair value of derivative financial instruments representing the asset of RR 2 023 072 thousand and other differences in the amount of RR 335 270 thousand arising from the calculation method used.

4.5 Explanatory note to the statement of cash flows

The amount of the cash and cash equivalents held by the Bank but unavailable for its use at 1 January 2018 is RR 0 thousand (1 January 2017: RR 0 thousand).

At 1 January 2018, the Bank did not use limits under credit lines with commercial banks of RR 0 thousand. (1 January 2017: RR 0 thousand), and with the Bank of Russia for a total of RR 10 000 000 thousand. (1 January 2017: RR 6 000 000 thousand).

5. Information about risks assumed by the credit institution and procedures for risk assessment, risk and capital management

5.1 Information about risks assumed by the credit institution and the methods of risk identification, measurement, monitoring and control

The Bank of Russia developed and approved a risk management strategy, which is a framework document defining strategic risk management principles, and forms an integral part of the Bank's corporate governance system. The risk management strategy reflected the fact that the Bank is one of the members of Commerzbank Group, and consequently, the Bank's risk management structure has been developed in line with and as part of the Bank's business strategy, which itself is a part of the Group's business strategy, namely the business strategy of CC-CI segment. The Bank's risk management structure reflects the risk management approaches which are closely integrated with the Group's policies in this regard. The risk control/ management framework and all internal policies, guidelines and methodologies are set up on Commerzbank Group level and they are binding for all entities of the Commerzbank Group, including the Bank. Responsibility for implementing risk policy guidelines laid down by the Board of Managing Directors throughout Commerzbank Group lies with the Chief Risk Officer, who regularly reports to the Risk Management Committee of the Supervisory Board and to the Board of Managing Directors on the Commerzbank Group.

The principles listed in the Bank's risk management structure serve as a basis for establishing the risk management procedure and developing risk management rules in the Bank. The document covers all material risks. The Bank's risk management structure has been developed based on the results of annual or ad-hoc risk inventory when the Bank's risk profile changes. In addition, the Bank developed certain sub-strategies for managing certain types of risks classified as material.

The governing principle of the risk management strategy is to allocate the Bank's risk management resources and at the same time, to ensure the established level of risk-bearing capacity and liquidity. The analysis of risk taking is a key element in the overall management of banking operations and of internal capital adequacy assessment process (ICAAP) of the Bank.

The risk and capital management process is based on the "no conflict of interests" principle and the segregation of functions performed by the departments involved in the analysis, assessment and control of risks, and those departments engaged in transactions and operations associated with risk. The Bank is committed to fostering the "risk culture" when control over risk becomes an objective and responsibility of each and every employee of the Bank.

The Risk Management Division is viewed as a strategic partner who works in close connection with Bank's subdivision involved in core banking activities. The Risk Management Division contributes to the process and ensures an effective, initiative and comprehensive management of risks.

The risk management process used by the Bank is based on the "three lines of defence" principle as follows:

- The first line of defence is maintained by Bank's subdivisions (segments/function units) and employees responsible for risk identification and management at their working stations in line with the Bank's uniform risk management standards and policies;
- The second line of defence is maintained by the Risk Management Division who is responsible for the control of credit, market and operational risks as well as liquidity risk together with Bank's subdivisions who are monitoring other risks that are beyond the competence of the Risk Management Division. Meanwhile head of the Risk Management Division receives regular reports on the results of risk monitoring performed by these subdivisions within the scope of their competence. At this stage of risk management standards of monitoring procedures should be determined and implemented for each type of risk, relevant controls should be developed and risk analysis and assessment should be organised.

• The third line of defence includes functions of internal control (internal audit). The aim is to have independent guarantees with regard to processes and actions maintained by the Bank in the risk management area and therefore with regard to efficiency assessment of the first and second lines of defence as well.

The risk management cycle is as follows:

- Identification, quantification and determination of the acceptable level or risks inherent in the banking activities, detection of generic possibilities of losses being incurred by the Bank and/or deteriorating liquidity as a result of unfavourable events caused by internal and/or external factors influencing the Bank's operations.
- Risk monitoring and control. The banking risks are monitored, compliance with established limits and criteria are checked and risks are managed in accordance with the existing Bank's strategy on an ongoing basis.
- Allocation of economic capital. Assessment of profitability given material risks, change in the field of the Bank's operations and the established risk appetite of the Bank in line with the historical risk-profitability retrospective review.
- Reporting on all the specified issues to the Bank’s executive bodies and the Supervisory Board.

The Bank defines a risk as a threat of potential losses and missed profits due to internal or external factors. For the risk management purposes the Bank distinguishes measurable and non-measurable risks. Measurable risks are risks quantification of which is included in financial statements or regulatory capital requirements, while non-measurable risks include reputation and compliance risks.

Risk controls are intended to ensure maintenance of internal minimal benchmark for economic risk-bearing capacity with account for planned portfolio development and realistic fluctuations of risk parameters. Liquidity risk controls are based on the Liquidity Gap Profile that defines the expected future net liquidity position through receipts to Bank’s balance sheet accounts and off-balance sheet accounts. Compliance risk controls are based on the bank’s expectations that effective legislation, methodological guidelines and market standards - both international and domestic - will be complied with by the Bank, its clients and partners. The Bank understands and acknowledges business risks, in particular risks associated with economic crimes, primarily risks of money-laundering and terrorist financing. The Bank is also aware of the likelihood that its clients can use banking products and services for illegal purposes that is why the Bank regularly assesses risks and follows the Group’s policy in this area, including corporate-wide approaches and controls to mitigate the risks. The Bank shall not enter into deals or do business with parties, if it is aware of or have suspicions that they directly or indirectly support illegal activities. This principle covers individuals and legal entities who intentionally participate in illegal activities or behave unlawfully. The Bank shall not tolerate violation of law or failure to follow methodological guidelines and rules. The Bank, being a member of the Commerzbank AG Group, is committed to the spirit and letter of all standing laws, guidelines and market standards. The Bank shall not run business without having an adequate system for preventing and identifying illegal activities or restraining from them.

The annual risk inventory, a component of the ICAAO procedure, is performed to identify the Bank’s risk-bearing capacity and relevant types of risk. While performing the risk inventory procedure in 2017, the Bank used the bottom-up approach, i.e. the risk profile assessment was performed for all existing departments and business subdivisions of the Bank as well as for all lines of operating activities (trade and sale, commercial banking, clearing and settlements, issuing and serving bank cards), and Bank’s activities on the whole (including non-financial activities). This approach ensures completeness of the risk assessment, i.e. the coverage of all relevant risk factors; identification of risks and assessment of their materiality, identification of risk owners. A report on material risks identified is approved by the Bank’s Management Board and serves as the basis for determining the Bank’s risk strategy and risk appetite (i.e. acceptable level of exposure).

Detailed information about material risks to which the Bank is exposed, their sources, structure and organisation of the work of risk management departments, and key provisions of risk and management of capital strategy is disclosed in paragraphs 5.1 and 5.2 of this Explanatory Note to annual statutory financial statements for each material risk.

The risk appetite is determined as the maximum risk that the Bank is ready and able to take (apart from inherent risks) in order to achieve its business targets without running existential risks. The maximum risk that the Bank is ready to accept is restricted by the following requirements:

- Compliance with the internal minimal standard for (economic) Risk-bearing capacity (the "Risk-bearing capacity" is described in the intrabank regulation "Policy of Risk-bearing Capacity"),
- ensuring the Bank's solvency and structural liquidity at any tine.

Risk limits and related guidance on their set-up, as approved by the Bank's Management Board, are key control parameters and components of the Bank's risk strategy. To prevent unwanted deviations from the capital adequacy ratio the Bank sets up relevant limits at an early stage. When determining the limits the Bank is governed by approaches developed by the Group adjusted for local specifics. In particular, the Bank is obliged to comply with capital adequacy ratios established by the Bank of Russia. At the same time, statutory ratios are reflected in the Bank's ICAAP system of limits that covers (from economic perspective) all risks that are relevant for the Bank. The limits represent certain boundaries that should be complied with all the time. There is also an escalation process (i.e. a process of transferring the decision taking to a higher instance) that determines actions to be taken if the limits are violated. The ICAAP limits are revised annually or as required to ensure their compliance with the Bank's business model, risk taking level, directives of the Commerzbank AG Group and requirements of the regulator. Given the above, the Risk Management Division submits proposed limits to the Management Board for approval, later on these limits are to be confirmed by the Bank's Supervisory Board.

The Bank on a monthly basis controls the Risk-bearing capacity. Control procedures compare the amount of capital available to the Bank at the reporting date and the amount of economic capital required. In the Commerzbank AG Group the economic risk taking is determined based on the principle of ensuring settlement of the Group's liabilities to its creditors in emergency circumstances; therefore resilience to risk means coverage of very significant losses. The resilience to risk is determined centrally for the whole Group. Certain ICAAP indicators are established for most significant subdivisions, segments and subsidiaries of the Group. Given the fact that AO Commerzbank (Eurasija) is not a material subsidiary of the Group and taking into account the pro rata principle (i.e. the nature and scope of deals executed by the Bank, the level and combination of risks), the Bank uses the standard approach to ICAAP development and formation. The approach is based on the minimum capital requirement to cover material risks established by the regulator and an additional provision to cover risks that are not accounted for in full in the procedure for determining regulatory capital requirements, for instance interest risk and risk of concentration. Meanwhile the Bank follows the above principle of ensuring resilience to risk as established by the Group. For the ICAAP purposes the Bank calculates the amount of economic capital individually, as a separate legal entity within the Group. The ICAAP limit, being an overall resilience to risk, is established at the level of 15.61% by the Supervisory Board's decision.

The risk and capital management processes require that management of the Bank continuously monitor compliance with the Bank's risk profile and availability of the Bank's resources to cover the risks. Risk management departments prepare internal risk management reports and provide them to the Bank's executive bodies and heads of structural divisions.

The Bank's reporting system includes:

- As to material risks: reports with information on:
  - the amount of each material risk and their aggregate amount;
  - changes in the amount of certain material risks and the impact of these changes on the capital adequacy ratio;
  - compliance of risk levels with the established limits;
  - notification on violated limits and relevant actions taken;
  - information on concentration (if any);
- results of stress testing (sensitivity of credit, interest and currency risks);
- information on the current amount of the Bank's equity and the capital adequacy ratio;
- information on the Bank's compliance with statutory ratios;
- report on certain indicators of ICCAP, in particular:

- - compliance with capital limits (minimum acceptable capital adequacy ratio), actual capital adequacy level;
- - reporting on compliance with the set capital structure; planned levels and structure of risks.

Reports are provided with the following frequency:

• Reports on the ICAAP execution results are provided to the Bank's Management Board on a monthly basis and to the Supervisory Board - on a quarterly basis;

• Reports on stress test results are provided to the Supervisory Board and Management Board at least;

• Reports on material risks, on compliance with statutory ratios, capital amount and results of capital adequacy assessment are provided to the Supervisory Board on a quarterly basis and to the Management Board of the Bank - on a monthly basis;

Information on reaching the thresholds and non-compliance with the established limits is communicated to the Bank's Management Board as identified;

According to Basel requirements, which are binding for all European credit institutions, Commerzbank Group, of which the Bank is a subsidiary, has developed and implemented a relevant business strategy aimed at managing all major economic risks. Based on the scale, market positions and structure of the banking transactions, included in material risks were financial risks (quantifiable risks), which are the risks analysed using mathematical methods, and non-financial risks. Quantifiable risks are controlled by the structural divisions involved in asset-liability management.

Based on the inventory count results, the following risks of the Bank have been considered as material in 2017:

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

Credit risk is the risk of financial losses due to defaults of borrowers/counterparties or downgraded credit rating of a counterparty. Credit risk is a material measurable risk that includes credit sub-risks (the risk of default by a borrower, the counterparty risk, the issuer risk, the country risk etc.).

Credit risk is managed in the context of the Bank's credit risk strategy. In order to ensure compliance with credit risk strategy and to restrict concentration of risk, the parameters of strategically acceptable credit product structure (including country parameters) are established, as well as risk limits for sections of credit portfolio and concentration risks on Group level. For the components of loan portfolio that do not comply with the above parameters decision needs to be taken at a higher level.

The responsibility for credit risk management at Group level lies with GRM-CRC Department. Local credit offices of Commerzbank Group, including the Bank, are responsible for the management of the respective loan portfolios, paying close attention to the Group Credit Guidelines and operating within their lending authority. The General Lending authority is represented by the Group bodies starting from regional board level up to the Board of Directors depending on lending amounts and borrower's internal ratings.

The Bank applies the following methods of credit risk measurement and management: expert credit risk level assessment, internal rating system; the forecast of exposure at default (EAD) and loss given default (LGD); calculation of unexpected loss (UL) (application of economic capital with confidence level of 99.95% during the period of 1 year).

The internal rating system is one of the most important elements of credit risk management policy. The rating procedure includes both quantitative and qualitative assessment of the counterparty. The final rating is assigned as a result of these procedures. The rating procedure is based on the assessment of the following indicators: the analysis of financial statements for current and prior periods (including the accounting policies), the analysis of industry and the competitive position of the counterparty in this industry, the assessment of the quality of management and business reputation, the review of credit history, the assessment of turnovers on the bank accounts, the analysis of risk indicators of a qualitative nature and mitigating risk factors, such as direct debit right, etc. Quasi-rating is attributed at each stage of the analysis. Quasi-rating is attributed at each stage of the analysis, and the final internal rating is drawn from aggregation of quasi-ratings, the calculation of default probability, loss given default and exposure at default.

Internal financial rating measures probability of default while credit rating is a measure of loss given default.

Rating procedure varies depending on the customer type: the rating procedure for corporate banking segment pays specific attention to probability of default indicator and detailed analysis of financial statements; the rating procedure for project and structured finance segment focuses on expected loss and scenario simulation. The responsibility for rating assignment lies with GRM-CR and the Credit Department of the Bank.

The correlation between internal financial ratings and comparable Standard&Poor's ratings, if any, is presented below:

Internal financial rating	1,0-1,2	1,4	1,6	1,8	2,0	2,2	2,4	2,6	2,8
S&P equivalent	AAA	AA+	AA,AA-	A+,A	A-	BBB+	BBB	BBB	BBB-

Internal financial rating	3,0	3,2-3,4	3.6	3,8-4,0	4,2-4,6	4,8-5,0	5,2-5,4	5,6-5,8	>6
S&P equivalent	BB+	BB	BB-	B+	B	B-	CCC+	CCC,CC-	C,D

Direct reconciliation between the ratings is not possible, in particular, due to the fact that external ratings typically try to predict the expected behaviour of companies over the full period of the economic cycle, while Commerzbank Group uses point-in-time rating model, where the rating reflects current creditworthiness in terms of default probability for the next year.

Based on the existing banking group procedures and in view of the Bank of Russia's requirements, Commerzbank (Eurasija) AO has an internal credit policy document which outlines the areas covered by its credit policy, principles and approaches to credit risk assessment and monitoring, specifics of credit authority allocation and credit documentation standards.

Overall at the Bank's level, risk management (credit risk specifically) is leveraged with the continuous monitoring and control of the Bank's operations by the parent Commerzbank AG (Germany). In most cases, to begin working with new products and implementing new applications, it is necessary to obtain authorisation not only from the Bank's management, but also from the parent bank, including approval of the product by all functional divisions.

Internal reporting on risk-related matters is provided to the Management and the Supervisory Board on a semi-annual basis. These reports include the information about the volume of accepted risks by risk type, information about capital requirements and projected capital requirements for the foreseeable period.

Detailed information on the degree of risk concentration from various banking transactions by geographical area, currency, borrower, borrower's activity, market is disclosed in paragraph 5.2 of this Explanatory Note to annual statutory financial statements.

The Bank analyses credit risk concentration in accordance with the requirements of H6 and H7 ratios calculated in accordance with Instruction of the Bank of Russia No. 139-I (180-I).

Liquidity risk and market risk concentrations are analysed on a daily basis in the course of operational risk monitoring.

Market risk is the probability of financial losses as a result of changes in the current (fair) value of financial instruments and in foreign exchange rates and/or official prices for precious metals. Financial losses from changes in the fair value may have a direct effect on the total financial result, for instance when assessing trading positions. Losses for the bank portfolio can be recorded through revaluation provisions or latent liabilities/provisions.

The Bank has developed a market risk management strategy that defines a framework aimed at maintaining resources sufficient to cover risks and at ensuring an effective use of equity by business segments for reaching the current and forward-looking balance between the Bank's profitability and risks. Therefore, the market risk management strategy establishes:

- conditions for raising risk awareness by defining the nature of market risk, risk-culture expansion, risk tolerance relevant to the risk level acceptable for the Bank (risk appetite);
- management structure that establishes clear and independent obligations of market risk management on the basis of the three line of defence concept;
- a market risk management process that combines quantitative and qualitative measures, guidelines, including methods, models and fundamental processes that determine internal procedures for risk management subdivisions who ensure efficient management of risks. Business strategies of segments that are allowed to take market risks include a market risk management strategy for a specific segment. The first line of defence is represented by business segments being owners of their positions responsible for risk identification and management in line with the existing policy and management structure.

Risk appetite for the market risk is reflected quantitatively as tolerance to this type of risk, in the form of a comprehensive system of limits; and qualitatively through an acceptable risk structure formed by the Bank's current positions. As per the Group's risk strategy, market risk management committees (GRMC and SMRC) are key units responsible for control, analysis and set-up of market risk limits, including the risk of counter parties and issuers, for the whole Group as well as individual segments (including the segment of Corporate Clients and Treasury).

For the purposes of efficient market risk management and introduction of common terminology in the Bank, bank operations are grouped into two proposed portfolios as described below:

A bank portfolio is an aggregate of financial operations, including commercial and interbank loans/deposits that were entered into with the aim of holding them on the Bank's balance sheet until mutual claims/obligations are completely settled.

A trading portfolio is an aggregate of operations with instruments of currency, cash (except for interbank loans) and securities markets as well as derivatives aimed at receiving profit from changes in market prices. The trading portfolio may also include derivative transactions entered into to hedge/insure risks. Instruments included into trading book are taken into account when calculating equity within the market risk component.

Positions of the Bank's trading portfolio are mainly in the scope of the Treasury and the Department for Trading Operations on Financial Markets. The market risk profile is diversified for all classes of assets. As per the current structure of the Bank's portfolio, dominant classes of assets are exposed to the following risk factors: interest risk and credit spread risk followed by the currency risk.

In accordance with the current business strategy, the risk management strategy and the list of approved products (instruments) for the Bank, in 2016-2017 key instruments in the Bank's trading portfolios are:

- foreign exchange deals (FX spot, FX swap, FX forward);
- cross currency and interest rate swaps (CCS);
- interest rate swaps (IRS);
- currency options;
- sale/purchase of promissory notes (this type of activity is limited and is performed by Treasury only for the purposes of managing the Bank's liquidity portfolio).

When new products are introduced into operating activity of the Bank, they are subject to the approval procedure called "New Product Process" (NPP). This procedure identifies potential risks specific to this particular type of operations as well as availability of a methodology to assess market risks that are taken in connection with the new operations of the Bank, and to assess whether internal systems and business processes are ready to account for and process the new type of products.

When determining capital requirement to cover the market risk, the Bank uses the standardised approach to its assessment. For these purposes, the following components are identified and calculated:

- Interest rate risk is the risk of adverse effects of changes in market interest rates on the Bank's assets, liabilities and off-balance-sheet instruments, including into the Bank's trading book; the interest rate risk for the trading book includes risks at two levels – general and specific;
- Equity risk is the risk of loss as a result of unfavourable changes in market prices for securities (including those that provide rights for participation in management) on the trading book and derivative financial instruments due to the effect of factors related either to the issuer of securities and derivatives or general fluctuations of market prices for financial instruments;
- Commodity risk is the risk of loss as a result of unfavourable changes in commodity prices;
- Currency risk – is the risk of loss as a result of unfavourable changes in the prevailing foreign exchange rates and/or prices for precious metals under the Bank's open positions in foreign currencies and/or precious metals.

Simultaneously with the use of the standardised approach the Bank, as a Group member, uses the standard value-at-risk model (VaR) for internal market risk management purposes. The VaR model measures potential loss from a financial instrument due to changes in the market conditions within a certain time horizon and the stated probability level. The VaR market risk model of the Group is based on the historic simulation with a one year interval of retrospective market data. The retrospective simulation distributes profit or loss from the current portfolio by revaluation of retrospective changes in the market rates, prices and volatility. This is based on the independent market information the quality of which is confirmed on a daily basis and that is loaded into the central information database in the standard specified moment of time. Market information is provided for all existing positions of Bank's asset classes, interest rates, credit spreads, foreign currencies and goods. This market information is provided in the form of price quotes, which are based directly on this market information or are derived from the market information, such as yield curves and credit spreads formed using internal methods. The concept of proxy amounts is used if market information is unavailable for certain positions. In such cases prices are based on prices of comparable instruments.

For management purposes when the VaR model is used for risk assessment, confidence level is 97.5% and the holding period is one day. The VaR concept allows to compare the scope of taken risks in various business areas as well as to unite positions in different types of assets taking into account the correlation between them. This provides a consolidated view on the level of market risk at any time. The complex system of limits installed in the Bank is an important element in the market risk management system. All positions bearing the market risk are distributed between the trading and bank portfolios, meanwhile all positions are managed together.

Internal models (VaR models) for risk assessment were formally approved by competent units of the parent bank (BaFin - Germany's Federal Financial Supervisory Authority) and in 2011 accepted to be used for market risk analysis, determination of risk limits, risk control and management within the Group. Individual components of the internal model are regularly reviewed in terms of their relevance for risk measurement. The review addresses underlying model assumptions, parameters and proxy amounts used. Validation (the process of model review) is performed using the priority principle and a risk-oriented approach in accordance with the plan adopted by the Group (Market Risk Model Validation Panel). The application efficiency and reliability of internal models is a mandatory subject of a review performed by the group's internal audit function.

At times of changing market conditions and regulatory requirements, responsibility for risk management within the approved risk appetite and adopted strategy is born by the department of market risk management and business subdivisions. The whole risk management process, including risk-mitigating actions may be divided into two tentative stages: pre-trading and post-trading. Pre-trading risk mitigating actions provide a clear and transparent basis for the risk management: starting with the bank's strategy up to the time of entering an individual deal.

To maintain the set risk appetite and improve the risk attitude culture, the Bank uses all available post-trading risk management tools. In this respect, aims of the Risk Management Department are determined in the following two directions. On the one hand, risk management subdivisions set the aim of optimising the portfolio by analysing the adequacy and relevance of applied processes and methods as well as of ensuring deep analysis of a better risk/reward ratio for the whole portfolio of the Bank, classes of assets and products. On the other hand, the aim is implementation of warning indicators to identify risks and avoid their unwanted concentration at an early stage. The portfolio analysis and its further optimisation highlight the regulatory function of risk management subdivisions as well as its function of risk adviser to support and formulate perspective strategies that would improve efficiency of capital use. Risk mitigation actions are developed based on the time-to-market approach to achieve effectiveness and expected outcome, with adequate resources immediately considered and more complex issues escalated. The actions compliment monitoring and reporting processes.

Interest rate risk

Interest rate risk is one of the most significant financial risks, which bank operations can be exposed to. In particular, it includes the risk of changes in the value of instruments resulting from interest rate fluctuations during a period of time. Both the Bank's banking book and trading book are exposed to interest rate risk. The joint position for both books reflects the overall interest rate risk for the Bank. The interest rate represents the risk of the deterioration of the Bank's financial position due to the decrease in equity, revenue level, value of the assets and liabilities as a result of market interest rate changes. The interest rate risk shows the sensitivity of the Bank's financial position to unfavourable market changes, namely those related to interest rates.

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

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

The interest rate risk is assessed for the instruments in the banking book in aggregate, i.e. as a general market risk. Instruments included in the banking book do not have negative effects on equity and they are managed through setting limits and/or provisioning. Instruments to be included into trading book are taken into account when calculating equity within the market risk component.

Interest rate risk is managed through optimisation of the asset and liability structure in terms of maturities and rates and on the basis of the gap analysis of assets and liabilities and analysis of instruments sensitivity to changes in interest rates. In line with the Group's approaches, the Bank jointly manages the interest rate risk for its trading and banking books. It is a strategic approach carried out through implementing single policies and the global limit systems across the Group. All the risks are consolidated and managed on a centralised basis. The centralised risk management is reinforced with the risk management unit for Treasury as part of the market risk management function. Interest rate risks for the banking book are managed in accordance with business strategy through refinancing instruments with matching maturities and currencies and through using derivative interest rate instruments. Interest rate swaps with sufficient market liquidity, for instance, are efficient when prompt responses are required to management changes.

The interest rate risk assessment is fully integrated in the daily control procedures for the Bank risk assessment and monitoring. Similar to assessing the trade portfolio risk, quantitative assessment of the banking portfolio risk is also calculated using the VaR method. Stress testing and the scenario analysis are calculated on a daily basis. This standardised procedure is intended for ensuring transparency of interest rate risk assessment of both trading and banking books.

Another measure of interest rate risk level for the banking book is to determine sensitivity to changes in interest rate risks. This measure specifies how interest income changes in response to changes in the interest rate risk level, for example by one hundredth percent (basis point). Sensitivity to changes in the interest rate is also monitored daily and the calculated indicators are included in monthly reports. Sensitivity is monitored both at the level of individual portfolios and at the level of the Bank overall. For the purposes managing interest rate risk, in particular, for managing sensitivity to changes in interest rates, differentiation is made for time intervals depending on the period of interest rates. Special attention is paid to interest rate instruments with long maturity periods.

In addition to the above methods, the Bank measures its interest rate risk using the gap analysis with stress testing for changes in interest rate levels by 200 basis points according to Procedure for completing Reporting Form 0409127 "Disclosures of Interest Rate Risk Stated in Regulation of the Bank of Russia No. 4212-U of 24.11.2016 "On the List, Forms and Procedure to Complete and Submit Reporting Forms of Credit Institutions to the Central Bank of the Russian Federation."

<u>Operational risk</u> is the risk of losses through inadequate or defective management systems and processes, technical failures or external events. Significant sub-categories of operational risk are represented by the legal risk, tax risk, IT risk, business processes risks, risk of human resource management, risks of outsourcing and supplier risks. The bank uses basic indicative approach to assessing the operational risk within which the Bank reserves equity equal to the fixed interest rate (15%) of average annual gross revenue for the previous three years provided that it is positive. Gross income is defined as net interest income plus net non-interest income calculated under the approach established by Regulation of the Bank of Russia No. 346-P of 3 November 2009 “On the Procedure for Calculating Operational Risk”.

The Bank forms a part of the Segment of the International Corporate Clients of Commerzbank AG (CC-CI), and in this capacity it operates within the risk appetite established for CC-CI segment and is governed by applicable principles for risk assumption and resilience to risk. The Group has in place the Operational Risk Committee, which is the chief operating decision maker (CODM) and the body defining the operational risk management strategy at Group’s level. The Committee reports to the Board of Directors of the Group. The Committee approves approaches to and methods of the operational risk assessment, and standards and principles for the Group’s internal controls functioning. Several committees operate at the level of the CC-CI segment whose functions include but are not limited to operational risk management. The Bank has established the Operational Committee, which is supported by the Regional Operational Committee of the CC-CI segment.

The Group establishes a clear segregation of duties and defines the main approaches to effective management and control of operational risk. The Bank keeps its place in the general organisational structure for the management of the Group’s operational risk, and the place is determined by the Bank’s position as a component of the CC-CI segment. The Group sets certain requirements for segments, which include direct responsibility for:

- identification of operational risk at segment level,
- ensuring effective and timely approach to operational risk management;
- providing reports on identified risks to the management of the segment and/ or authorised committee;
- clear documentation of decisions concerning the risk taking.

Given the above, the Bank participates in the general process of the Group’s operational risk management, which includes:

- providing information on operational risk instances through entering relevant information into the Group’s database;
- timely informing the Operational Committee of the CC-CI segment on any instances of operational risks in accordance with established materiality levels;
- application of monitoring methodologies and tools to the risks taken by the Group;
- participation in the seminars and trainings held by Group.

In order to ensure that banking activities are maintained and to minimise losses arising from serious interruptions of its operations, the Bank has a business continuity plan and a contingency policy, which are approved by the Bank's management and agreed with the Operational Risk Committee of the Commerzbank Group.

<u>Liquidity risk</u>

The Bank has developed a strategy for managing the liquidity risk, which is considered an integral part of the Bank's Risk Management Strategy approved by the Bank's Supervisory Board. The fundamental principle underlying the liquidity risk management strategy is to ensure the Bank's solvency at any time, which should guarantee its performance of current obligations in applicable currencies and the Bank's continuous engagement in its principal activity, subject to compliance with legal acts and regulations. The secondary aim of the strategy is effective use of liquidity resources and prevention of the "conflict of interests" between liquidity and profitability when net interest income can negatively impact the safe existence of the Bank.

Commerzbank Group defines liquidity risk as the risk of being unable to meet payment obligations when they are due or in time ('liquidity mismatch/term risk'). Furthermore, the risk exists that assets are sold in the market at a discount or in parts resulting from unfavorable economic effects ('market liquidity risk'). Commerzbank Group aims to mitigate the risk of unexpected increases in funding costs ('liquidity spread risk')..

In particular, the Bank identifies the following factors that have a direct impact on the risk of structural liquidity:

- Term risk means the risk of differences in cash flows maturity periods, that is in instances of early / overdue repayment and (or) payment of interest.
- Prolongation risk is attributable to unforeseen and inevitable need for renewal of assets driven by contractual, economic or reputational factors.
- Contingent risk represents sudden or unexpected liabilities arising in connection with an increased liquidity "pillow", or the so-called portfolio of reserve liquidity consisting of highly liquid assets that ensure the coverage of unexpected outflow of cash in stressful scenarios.

Based on the generally accepted definition of risk, the Group sets the following definition of liquidity risk for the purpose of the centralised risk management for the Group as a whole:

Intraday liquidity risk

Intraday liquidity risk management is exercised for ensuring the Bank's ability to discharge intraday payment obligations in full and in all currencies. Intraday liquidity risk is primarily managed through the use of special liquidity portfolio ILRP (hereinafter, the "Intraday Liquidity Reserve Portfolio") comprising highly liquid assets, namely, securities which can be used as collateral for receiving the Bank of Russia's Lombard Loan. The liquidity portfolio is managed by the Treasury. The internal LAB Portfolio model does not include Intraday liquidity portfolio.

Short-term liquidity risk

Short-term liquidity risk is analysed for a time interval of up to three months. This period is defined by the Group as the minimum stressful period during which the Bank, using the Portfolio of Stress Reserve Liquidity (SLRP), is capable to cover the gap in liquidity, which arose from an unforeseen outflow of cash (that is, in a stressful scenario). Meanwhile, it is important to determine the extent of the possible liquidity gap caused by the unforeseen reduction of cash inflow or increase in cash outflow. The gap in short-term liquidity should be covered from an adequate liquidity reserve. Thus, in addition to the ILRP, the Bank forms a SLRP, which is designed for covering a liquidity gap during the established period of time defined as stressful period. The fundamental principle of the Group at the formation of SLRP is the ability of the Bank to provide necessary liquidity in a stressful scenario without changing its business model at least within three months.

Structural liquidity risk

The structural liquidity risk means the Bank's potential inability to provide for future payment obligations in full and in a required currency, i.e. the Bank's inability to raise cash for discharging mid- and long-term obligations. The goal of managing this type of risk, including funding risk, is to ensure consistency between cash inflows and cash outflows both by time structure and by separate currencies. The structural liquidity risk is managed through the internal LAB model application, which assumes the modelling of five levels of cash flows consistent with the expected liquidity portfolio of the Bank in a normal business situation. The funding risk is expressed in the likelihood of decreased profitability of the Bank driven by an increase in expenses related to the attraction of additional cash and placement of the Bank's free liquidity in assets with low profitability.

Market liquidity risk

The risk of market liquidity is the risk connected with inability to buy / sell assets in the market in a desirable quantity or through repurchase agreements at the announced market prices or during any desirable terms. In particular, this risk can materialise in the over-the-counter market (OTC), or when it is necessary to dispose (sell) in the market the portfolio securities whose volume significantly exceeds traded volumes in the related market. That is, large deals cannot be carried out at fair value or the market is not capable to take the desirable volume in the short-term perspective. The Group manages the market liquidity risk by controlling its assets and setting certain assumptions on discount and selling time of available assets. In this context, the materialisation of risk means the Bank's deteriorated ability to sell or finance assets from borrowed funds from professional market participants or private investors. The market liquidity risk is managed through establishing the market risk limits calculated on the basis of the VaR-model.

Model risk

The model risk represents risk arising from inappropriate understanding of complexity related to the current state of affairs within the applied model. Risk factors can include both the application of inadequate calculation parameters and the use of incorrect assumptions to assess client/ counterparty behaviour, and incorrect portfolio segmentation. The model risk cannot be measured directly, but its effect can be mitigated by the model validation and establishing clear procedures to measure the model parameters. In addition, the risk mitigation implies considering qualitative conservative adjustments related to concentration risk, regulatory requirements and business planning. For the purpose of model risk mitigation, any forecast assumptions are only considered with a discount.

The assessment of liquidity risk management is determined by the daily liquidity gap analysis (LAB) based on multilevel assessment of cash flows (seven types of cash flows) covering an unlimited time range. Separate cash flows are generated for different future time periods to ensure effective liquidity management. The multilevel assessment implies the formation and the analysis of various cash flows: cash flows driven by existing contractual obligations (balance sheet and off-balance sheet), modelled cash flows from instruments with uncertain timing and cash flows modelled with account for customer behaviour and financial instrument type. The LAB-model generates accumulated cash flows in Euro and separate cash flows in other currencies. The flows are modelled for the base-case scenario (normal market conditions) and for several stressful scenarios. The final outcome of the modelling is a predictable liquidity profile summarising cash flows from all levels, which is the key indicator for managing the liquidity gap risk.

As regards the liquidity risk, risk appetite is determined by the system of the quantitative indicators consisting of a combination of liquidity limits and assumptions used for the scenarios, and the minimum period of time during which the Bank, using the Portfolio of Reserve Liquidity, can cover the liquidity gap, which arose in case of unforeseen outflow of cash. Commerzbank Group applies conservative approach to determining risk appetite, assuming that key assets will be renewed, whereas keeping the sufficient buffer of liquidity to cover the potential outflow of deposits or any other financing resources.

The bank applies the following principles to determining risk appetite for liquidity risk:

- The Bank's risk appetite represents the minimum period of time during which Bank can guarantee an appropriate liquidity position in a stressful scenario;
- Possibility to carry out operations in the markets under partially stressful conditions, subject to restrictions on operations, in particular, with regard to money market, capital market, repo market and the foreign exchange market;
- The maximum threshold of liquidity gap has been set for stressful scenarios to be filled with specially created reserve to support a certain level of the principal (credit) activity;
- Subject to assessment is the negative impact on the liquidity profile and structure of cash flows when long-term credit rating is downgraded by two steps;
- Risk appetite covers the entire outflow of the volatile part of financing resources within one month;

- credit operations are grouped into key and non-key assets. For key activities, risk appetite is established taking into account the renewal of a part of assets that ensures continuous operations in stressful conditions. For non-key types of activity an asset can be exited under the contingency plan approved by the Bank management;
- partial draw down of open credit lines.

To comply with statutory requirements, the Bank calculates liquidity ratios on a daily basis. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- Current liquidity ratio (N3) is calculated as the ratio of liquid assets to liabilities maturing within 30 days.
- Long term liquidity ratio (N4) is the proportion of long-term assets (with maturity of over one year) to long-term liabilities and equity.

Starting from 1 January 2015, the Bank calculates short-term liquidity ratio and provides monthly reports "Calculation of Short-Term Liquidity Ratio (Basel III)" to the Bank of Russia (form 0409122).

Reputational risks – risk of negative perception of the Bank by customers, counterparties, public, supervisory agencies and investors, which may have an adverse effect of the Bank's ability to maintain existing business relationships and build new ones as well as maintain access to financial resources on an ongoing basis. Covering contingent losses from the materialisation of reputation risks directly from economical capital is not implemented and is taken into account in determining the economical capital and assessing capital adequacy related to business and operational risks.

The reputational risk is a non-financial risk. It is assessed on the basis of a motivated judgement from the analysis of the risk factors. The assessment of reputational risk is performed on regular basis (at least annually) as part of risk inventory count procedure carried out by the Risk Management Division. Risk appetite to reputational risk is determined by the Group's tolerance to risk. Meanwhile, the Group has zero tolerance to primary reputational risks; with regard to secondary reputational risks, the Group understands that they can arise as a result of the materialisation of other types of bank risks.

Reputational risk should be managed to reduce potential losses, keep and maintain the business reputation of the Bank with its clients and contractors, the Group, participants of the financial market, public authorities, and self-regulated organisations where the Bank holds membership.

The aim of managing the Bank's reputational risk is achieved through the application of an integrated approach, which implies solving the following tasks:

- receiving prompt and objective data on the status and level of reputational risk;
- the identification and analysis of the reputational risk arising with the Bank in the course of its operation;
- performing qualitative and quantitative assessment (measurement) of reputational risk;
- identifying correlations between various risks to evaluate the impact of measures taken to mitigate one type of risk on the increase or decrease of other risks;
- the establishment of reputational risk control system at a stage when negative trends arise

Strategic and business risk.

The business risk implies potential financial losses as a result of reduction in the expected income and increase in expected expenses, that is, due to the difference in expected and actual indicators. Business risk consists of operational income and expense components and therefore, depends on various factors directly or indirectly affecting their size, such as the general situation in the market, competitiveness of the Bank, volume of current operations, etc.

Coverage from capital is required only when the business risk exceeds the expected targets for the next 12 month (or when the Bank expects loss over the next 12 months) and the risk was treated as significant during the annual risk inventory count procedure.

Strategy risk means mid- or long-term risk of the adverse effect of various factors on the achievement of goals set by the Bank; this type of risk is reviewed for the time period exceeding one year. Thus, the business risk is a component of strategy risk estimated for a short-term time interval. The above risks can arise as a result of:

- inability to implement the Bank's business strategy;

- failure to take effective and timely measures to prevent significant negative trends, departure from original plans as a result of external factors (market conditions, business and political environment, etc.) or internal factors;
- taking wrong decisions in the course of managing the Bank;
- errors in the development and deployment of the Bank's business strategy.

The strategic risk is a non-financial risk. It is based on professional judgement generated from the analysis of risk factors. Such factors include:

- insufficiently clear or feasible goals and objectives set for Bank;
- taking wrong management decisions during the Bank's development strategy implementation, including those affecting the long-term outlook and causing deterioration of the Bank's financial performance;
- Incorrect/ insufficiently substantiated definition provided in determining the promising lines of business where the Bank can get competitive advantage;
- total or partial failure to take appropriate organisational measures/ management decisions, which can ensure the achievement of the strategic goals of the Bank's activity;
- deficiencies in managing the Bank risks, implementation of risky credit, investment and market policies, high level of operational risk, deficiencies in the organisation of internal controls, including those designed for counteracting the legalisation (laundering) of income generated from criminal activities, and terrorism financing;
- deficiencies in the human resource management policy in selecting and allocation of personnel; lack of necessary qualification of the Bank employees, including for taking management decisions and the accurate assessment of threats to the Bank development;
- total or partial absence of material, technical and human resources required for the implementation of strategic plans.

Regulatory risk (compliance risk) – the likelihood of financial loss due to the Bank's non-compliance with the Russian legislation, the Bank's internal regulations, standards of self-regulatory organisations (if such standards and rules are obligatory for the Bank) and as a result of sanctions and/or other enforcement measures taken by the supervisory agencies. The recognition of compliance risk as significant is driven by increased attention to the Russian and international supervisory authorities. Meanwhile, the individual coverage of compliance risk is made from the coverage intended for operational risk rather than from capital.

5.2 SUMMARY OF MATERIAL RISKS

5.2.1. Credit risk

Information about the concentration of credit risk by the Bank's line of business, type of operations and type of customer at 1 January 2018 and 1 January 2017 is disclosed in respective paragraphs of Section 4.1 of this Explanatory note to the balance sheet. Geographic concentration of credit risk is disclosed in paragraph 5.2.5 of this Explanatory Note.

Disclosure of classification of assets by risk group (nominal amounts less provisions for possible losses) in accordance with paragraph 2.3 of Instruction of the Bank of Russia No. 139-I is presented below (since 28.07.2017 – Instruction No. 180-I of 28.06.2017):

Table 5.2.1.1
RR thousand

	01.01.2018	01.01.2017
Amount of assets classified to Risk Group I	17 632 293	5 620 690
Amount of assets classified to Risk Group II	7 940 068	14 108 400
Amount of assets classified to Risk Group III	-	-
Amount of assets classified to Risk Group IV	432 977	2 761 649
Amount of assets classified to Risk Group V	-	-
Amount of assets classified as elevated risk assets	8 817 291	5 801 987
Amount of assets classified as reduced risk assets	1 094 699	1 618 292
Amount of assets for which market risk is calculated	-	-
Total	**35 917 328**	**29 911 018**

Aggregate credit risk (sum of amounts in column 6 in lines 1, 4, 5 of Subsection 2.1 in Section 2 of form 0409808) before accounting for collateral and netting performed as required by Instruction of the Bank of Russia No. 139-I (180-I), by key instruments at the reporting date and their average value for the reporting period, is presented in the following tables:

Table 5.2.1.2
RR thousand

	01.01.2018	01.01.2017
Aggregate credit risk at reporting dates	28 499 269	29 664 773
Including credit risk with reduced risk ratio in relation to collateral, total, including:	1 756 457	951 615
loans outstanding	764 987	528 036
contingent credit related commitments	991 470	423 579
Estimated aggregate credit risk, with collateral taken into account	35 525 098	33 471 237

Average values of the above indicators for the reporting period

Table 5.2.1.3
RR thousand

Aggregate credit risk at reporting dates	31 051 336
Including credit risk with reduced risk ratio in relation to collateral, total, including:	1 640 488
loans outstanding	774 688
contingent credit related commitments	865 800
Estimated aggregate credit risk, with collateral taken into account	37 613 293

Provided below is the information on classification of assets by quality category and provision for possible losses in accordance with Regulation of the Bank of Russia No. 254-P of 26 March 2004 (from 14.07.2017 – Regulation No. 590-P of 28.06.2017) "On the Procedure for Booking Provisions against Possible Losses from Loans, Borrowings and Similar Debt by Credit Institutions" and Regulation of the Bank of Russia No. 283-P of 20 March 2006 "On the Procedure for Booking Provisions against Possible Losses by Credit Institutions", and on restructured and overdue debt at 1 January 2018:

Table 5.2.1.4
RR thousand

Company	Amounts due from credit institutions	Outstanding loans Total	including loans outstanding banks	legal entities	individuals	Other assets
Quality category I	1 585 131	9 971 761	2 592 009	7 379 752	-	1 039 596
Quality category II	-	2 629 673	-	2 629 673	-	7 316
Quality category III	-	2 806 214	-	2 804 143	2 071	5 818
Quality category IV	-	104 236	-	104 236	-	496
Quality category V	-	552 128	-	550 954	1 174	52 564
Total	**1 585 131**	**16 064 012**	**2 592 009**	**13 468 758**	**3 245**	**1 105 790**
Restructured not overdue debt	0	3 779 877	0	3 779 877	-	-
Overdue debt (*)						
- less than 30 days overdue	-	-	-	-	-	-
- 31 to 90 days overdue	-	-	-	-	-	-
- 91 to 180 days overdue	-	1 174	-	-	1 174	-
- over 180 days overdue	-	550 954	-	550 954	-	-
Total estimated provision	-	1 260 866	-	1 259 588	1 278	
Total actual provision	-	643 453	-	642 175	1 278	53 085
Receivables less actual provision for possible losses	**1 585 131**	**15 420 559**	**2 592 009**	**12 826 583**	**1 967**	**1 052 705**

(*) For the purposes of presentation of this information debt is considered fully overdue if at least one instalment of principal and (or) interest repayment is not made on the date set by the contract.

The difference of RR 6 500 000 thousand shown in table 5.2.1.4 on net loans outstanding (RR 15 420 559 thousand) at 1 January 2018 compared to the corresponding line in the published balance sheet – form 0409806 (RR 21 920 559 thousand) represents the amount of deposits in the Bank of Russia.

Provided below is the information on classification of assets by quality category and provision for possible losses in accordance with Regulation of the Bank of Russia No. 254-P (590-P) of 26 March 2004 and Regulation of the Bank of Russia No. 283-P of 20 March 2006, and on restructured and overdue debt at 1 January 2017:

Table 5.2.1.5
RR thousand

Company	Amounts due from credit institutions	Outstanding loans Total	including loans outstanding banks	legal entities	individuals	Other assets
Quality category I	6,090,505	8 064 440	6 219 778	1 844 662	-	1 505 885
Quality category II	-	5 792 117	-	5 792 117	-	12 423
Quality category III	-	2 549 601	-	2 539 705	9,896	1 247
Quality category IV	-	63 811	-	63 811	-	93
Quality category V	-	628 716	-	628 716	-	48 207
Total	**6 090 505**	**17 098 685**	**6 219 778**	**10 869 011**	**9 896**	**1 567 855**
Restructured not overdue debt	-	2 956 138	-	2 956 055	83	-
Overdue debt (*)						
- less than 30 days overdue	-	-	-	-	-	-
- 31 to 90 days overdue	-	-	-	-	-	-
- 91 to 180 days overdue	-	554 223	-	554 223	-	-
- over 180 days overdue	-	-	-	-	-	-
Total estimated provision	-	1 317 412	-	1 316 904	508	
Total actual provision	-	758 232	-	757 724	508	48 391
Receivables less actual provision for possible losses	**6,090,505**	**16 340 453**	**6 219 778**	**10 111 287**	**9 388**	**1 519 464**

(*) For the purposes of presentation of this information debt is considered fully overdue if at least one instalment of principal and (or) interest repayment is not made on the date set by the contract.

The difference of RR 1 000 000 thousand shown in table 5.2.1.5 on net loans outstanding (RR 16 340 453 thousand) at 1 January 2017 compared to the corresponding line in the published statement of financial position – form 0409806 (RR 17 340 453 thousand) represents the amount of deposits in the Bank of Russia.

Restructured outstanding loans and equivalent debt include outstanding loans and equivalent debt with renegotiated maturities of the principal debt and interest payment schedule, and outstanding loans and equivalent debt with a changed interest rate and amended rate calculation formula. Debt is considered fully overdue if at least one instalment of principal and (or) interest repayment is not made on the date set by the contract.

At 1 January 2018, the amount of restructured not overdue debt was 10.0% of the total assets (1 January 2017: 8.8%). At 1 January 2018, the amount of overdue debt was 1.5% of the total assets (01 January 2017: 1.7%).

Debt is considered impaired when the loan value is reduced due to the borrower's default on obligations or improper fulfilment of its obligations to the Bank, or if there is real threat of such default (or improper fulfilment).

Information about booked and released provisions for possible losses is disclosed in "For Reference" Section of Form 0409808 of these financial statements.

The nature and value of collateral accepted to decrease the estimated provision for possible losses from overdue loans and equivalent debt are disclosed in the table below:

Table 5.2.1.6.1
RR thousand

	01.01.2018 Collateral value	Amount taken as category I collateral	Amount taken as category II collateral	01.01.2017 Collateral value	Amount taken as category I collateral	Amount taken as category II collateral
Banking guarantees	3 303 785	3 303 785	-	4 158 658	4 158 658	-
Other guarantees	1 391 129	1 112 609	139 260	2 350 000	2 350 000	-
Cash deposits	-	-	-	-	-	-
Total collateral	**4 694 914**	**4 416 394**	**139 260**	**6 508 658**	**6 508 658**	**-**

The nature and value of collateral received to decrease the estimated provision for possible losses from overdue loans and equivalent debt are disclosed in the table below:

RR thousand

	01.01.2018			01.01.2017		
	Collateral value	**Amount taken as category I collateral**	**Amount taken as category II collateral**	**Collateral value**	**Amount taken as category I collateral**	**Amount taken as category II collateral**
Banking guarantees	4 034 769	4 034 769	-	3 466 132	3 466 132	-
Other guarantees	999 454	824 456	87 499	-	-	-
Cash deposits	-	-	-	-	-	-
Total collateral	**5 034 223**	**4 859 225**	**87 499**	**3 466 132**	**3 466 132**	**-**

The Bank accepts a wide range of assets and instruments as a collateral. The full list of those is provided in the internal regulations of the Bank. Specific requirements to loan collateral are determined on the basis of the lending decision.

Security instruments accepted by the Bank may not be in strict compliance with the formal requirements of the Bank of Russia to the collateral, the amount of which may reduce estimated provisions for possible losses; however, all accepted collateral irrespective of quality category performs one or several functions:

- Collection: collateral is regarded as the source of loan repayment in case of borrower's default. Foreclosure of collateral results in collection of the Bank's funds.
- Motivation: collateral is used as a mechanism motivating customer to repay loan. It restricts customer's ability to use and dispose of the collateral or to enforce the right to obtain the collateral and thus motivates the customer to repay borrowed funds to the Bank.
- Restriction: it restricts customer's ability to increase the amount of secured borrowed funds. Documenting collateral in favour of a creditor is restricted by the necessity to execute similar deal in favour of another one. It ensures the Bank's priority in the line of creditors in case of borrower's default by limiting third parties' ability to perform priority debt collection (if a debt is secured by pledge of property).
- Information: monitoring and analysis of the information about collateral allows the bank to receive information on the customer's overall activities. Identification of negative factors in the customer's activities in the course of collateral control enables the bank to prevent appearance of non-performing loans.

The Bank's procedure for collateral valuation, regularity of valuation for different types of collateral, of fair valuation of collateral sold or repledged as well as existence of the Bank's obligation to return collateral are included in the internal instruction on administration of secured transactions. Under the Instruction, valuation of the property taken as collateral is a set of measures aimed at determining market value or other special value of property pledged as collateral.

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

Valuation of property offered as a collateral is performed before/after execution of the collateral agreement depending upon the terms and conditions of Loan Approval.

Pledged property is revalued at least once a year.

The Bank’s assets in the amount recorded in Table 5.2.1.6 in line “Bank guarantees” are secured through Commerzbank AG’s guarantees that are accepted for the purpose of reducing the estimated provision for possible losses. In addition, there is another security for the above assets, which was accepted from the borrowers with adequate solvency position in line with the procedures effective in the Bank. Commerzbank AG’s credit ratings are investment grade and their values are available on the web-site www.commerzbank.com and in Section 1 of this Explanatory Note. Therefore, the Bank believes that the security risk concentration on Commerzbank AG is acceptable.

At 1 January 2018 and 1 January 2017, the Bank did not pledge any material assets as a collateral. The entire securities portfolio of the Bank is included in the Lombard List of the Bank of Russia and is available for pledging as collateral in case of necessity to obtain intra-day or lombard loans from the Bank of Russia and to conclude REPO agreements with the Bank of Russia.

The table below summarises similar details on encumbered and non-encumbered assets at the end of 2017: Included in the encumbered assets are insurance deposits with the guarantee fund of foreign exchange and stock markets at the Moscow Exchange. The indicators are calculated as the arithmetic average of related data at the beginning of every month of the fourth quarter. Debt securities (line 3) are represented by Russian federal loan bonds.

Table 5.2.1.7
RR thousand

No.	Description	Carrying value encumbered assets		Carrying value non-encumbered assets	
		Total	including those related to liabilities to the Bank of Russia	total	including those appropriate for providing as collateral to the Bank of Russia
1	Total assets, including:	20 000	-	43 746 716	6 686 549
2	equity securities, total, including:	-	-	-	-
2.1	credit institutions			-	-
2.2	legal entities other than credit institutions			-	-
3	debt securities, total, including:	-	-	6 686 549	6 686 549
3.1	credit institutions, total, including:			-	-
3.1.1	those with long-term credit ratings			-	-
3.1.2	those without long-term credit ratings			-	-
3.2	legal entities, other than credit institutions, total, including:			-	-
3.2.1	those with long-term credit ratings			-	-
3.2.2	those without long-term credit ratings			-	-
4	Amounts on correspondent accounts with credit institutions	20 000	-	9 662 813	-
5	Interbank loans (deposits)	-	-	12 571 390	-
6	Loans to legal entities, other than credit institutions	-	-	9 335 061	-
7	Loans to individuals	-	-	3 464	-
8	Premises and equipment	-	-	64 628	-
9	Other assets	-	-	1 102 075	-

The table below summarises similar details on encumbered and non-encumbered assets at the end of 2016:

Table 5.2.1.8
RR thousand

No.	Description	Carrying value encumbered assets		Carrying value non-encumbered assets	
		Total	including those related to liabilities to the Bank of Russia	total	including those appropriate for providing as collateral to the Bank of Russia
1	Total assets, including:	8 000	-	44 324 889	3 456 389
2	equity securities, total, including:	-	-	-	-
2.1	credit institutions				
2.2	legal entities other than				

No.	Description	Carrying value encumbered assets Total	Carrying value encumbered assets including those related to liabilities to the Bank of Russia	Carrying value non-encumbered assets total	Carrying value non-encumbered assets including those appropriate for providing as collateral to the Bank of Russia
	credit institutions				
3	debt securities, total, including:	-	-	3 456 389	3 456 389
3.1	credit institutions, total, including:				
3.1.1	those with long-term credit ratings				
3.1.2	those without long-term credit ratings				
3.2	legal entities other than credit institutions, total, including:				
3.2.1	those with long-term credit ratings				
3.2.2	those without long-term credit ratings				
4	Amounts on correspondent accounts with credit institutions	8 000	-	9 968 593	-
5	Interbank loans (deposits)	-	-	13 435 368	-
6	Loans to legal entities other than non-credit institutions	-	-	11 395 481	-
7	Loans to individuals	-	-	10 445	-
8	Premises and equipment	-	-	83 153	-
9	Other assets	-	-	1 844 881	-

The Bank balance sheet shows only encumbered assets without forfeited rights for the Bank whose related risks were not fully transferred by the Bank. In the event of the Bank forfeiture of the rights for encumbered assets and full transfer of risks on such assets, the related assets are subject to writing off from the balance sheet.

The Bank financing model provides for the need of providing encumbrance for assets only with regard to securities portfolio (federal loan bonds of the Russian Federation), which can act as a pledge and/or subject of the repo transactions for receiving short-term roubles financing from the Bank of Russia, which are carried out within the framework of liquidity management.

5.2.1.1 Internal rating system for credit risk assessment

For the purposes of capital adequacy ratios calculation the Bank does not apply credit risk management approaches and quantitative credit risk assessment models to determine the credit risk on the basis of internal ratings (IRA) as required by Instruction of the Bank of Russia No. 3752-U of 6 August 2015.

5.2.1.2 Counterparty credit risk

Approaches to counterparty risk management are described in p. 5.1 of this Explanatory Note. For derivatives, the credit risk is determined as the sum of current and potential risks. Current credit risk is determined as the replacement cost of a financial instrument that reflects losses at the reporting date, in the counterparty fails to perform its obligations. Potential credit risk is determined as the risk that the counterparty does not fulfil its obligations during the period from the reporting date to the value date due to unfavourable changes in the value of the underlying asset.

The level of the current risk in relation to the derivatives and the extent of the reduction of the current credit risk exposure for derivatives due to their inclusion to the netting agreement are presented in the table below.

Table 5.2.1.9
RR thousand

	01.01.2018	01.01.2017
Current credit risk related to derivatives, with the netting agreement taken into account, RR thousand	401 301	1 210 444
Current credit risk related to derivatives, without taking into account the netting agreement, RR thousand	562 491	1 400 379
The extent of the reduction of the current credit risk exposure for derivatives due to their inclusion to the netting agreement	0.71	0.86

The credit risk is to a significant degree concentrated on transactions with Commerzbank AG. Commerzbank AG's credit ratings are investment grade; therefore, the Bank believes that the risk concentration on Commerzbank AG is acceptable.

The Bank has security from counterparties on transactions with derivatives with corporate counterparties, and there were no security reducing the credit risk assessment for derivatives at 1 January 2018 and 1 January 2017. The Bank provided no security to counterparties for derivatives and has no obligation to provide such security.

5.2.2. Market risk

For the purposes of control over market risk (including interest rate, currency and credit spread risks) the Bank distinguishes trading book and banking book. The Bank's trading book includes trading securities and derivatives; banking book includes all other financial assets and liabilities. In line with liquidity portfolio management principles effective in the Bank starting from 2016, the securities within the liquidity portfolio are not included in the trading portfolio and are not taken into account when calculating the market risk, in accordance with p. 1.1 of Regulation 511-P.

The value of instruments within the trading portfolio is determined based on the approaches used to determine the fair value established by IFRS and regulatory documents of the Bank of Russia.

The approaches used to manage market risk in the Bank are described in p. 5.1 of this Explanatory Note, including the VaR-model based management approach. Market risk valuation (VaR) for combined positions of trading and banking books is lower than the sum of VaR of books taken individually due to general portfolio aggregation effect whereby portfolios with not fully correlated sensitivities to market would partially hedge each other if considered together.

Requirements to equity in terms of the market risk are determined according to the methodology set out in Regulation of the Bank of Russia No. 511-P. The amount of market risk calculated in accordance with Regulation of the Bank of Russia No. 511-P is included in Section 2.3 of the statement on the capital adequacy level, the amount of provisions for doubtful loans and other assets (published form 0409808), included in these annual financial statements.

Information about sensitivity of the Bank's assets and liabilities to individual types of the market risk is disclosed below: Unless otherwise stated, sensitivity affects both the Bank's financial result and its equity.

Interest rate risk

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. The Bank is also exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates.

The Bank monitors on a daily basis the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments the Bank normally seeks to match its interest rate positions.

Interest rate risk is measured on the basis of net present value approach, applying historical simulation method. Sensitivity of the Bank's net assets to interest rate increase is reported to, and reviewed by, the management of the Bank daily.

Sensitivity of net assets to interest rate increase by 600 basis points (6%) in Russian Roubles, by 100 basis points (1%) in Euros and US Dollars over the 1-year horizon is presented in the table below. Sensitivity of the Bank's net assets to a decrease in interest rates will be approximately the same, but with opposite sign:

Sensitivity analysis at 1 January 2018 is as follows:

Table 5.2.2.1

RR thousand

	EURO	RR	US Dollars	KZT	Total
Trading book	(8 399)	416 870	10 412	1 924	**420 807**
Banking book, except for debt securities	(22 543)	(134 871)	(863)	(9 758)	**(168 035)**
Banking book – debt securities (liquidity portfolio)	-	(603 746)	-	-	**(603 746)**
Total	**(30 942)**	**(321 747)**	**9 549**	**(7 834)**	**(350 974)**

Sensitivity analysis at 1 January 2017 is as follows:

RR thousand

	EURO	RR	US Dollars	Total
Trading book	15 553	242 709	(9 410)	**248 852**
Banking book, except for debt securities	(8 302)	(122 624)	(3 853)	**(134 779)**
Banking book – debt securities (liquidity portfolio)	-	(181 029)	-	**(181 029)**
Total	**7 251**	**(60 944)**	**(13 263)**	**(66 956)**

The value of debt securities portfolio is disclosed in paragraph 4.1.5 of this Explanatory Note. The table below presents sensitivity of the value of securities portfolio to an increase in interest rates by 600 basis points (6% p.a.) over the 1-year horizon. Sensitivity to a decrease in interest rates by 600 basis points (6%) over the same period will be approximately the same, but with the opposite sign:

RR thousand

	01.01.2018	01.01.2017
Interest rate risk	(603 746)	(181 029)
Credit spread risk	(728 480)	(197 883)
Total	**(1 332 226)**	**(378 912)**

Sensitivity of the Bank's securities portfolio affects the Bank's capital but does not affect the financial result as the revaluation of the existing portfolio is recorded in equity.

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign exchange rates on its financial position and cash flows. In addition to VaR-model based monitoring as described above, the Management Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions taking into account the requirements of Instruction of the Bank of Russia No. 124-I (since 09.04.2017 - Instruction of the Bank of Russia No. 178-I). Compliance with these limits is monitored on a daily basis.

The table below presents sensitivity of the Bank's net assets to an increase in the foreign currency exchange rates by 30% calculated on the basis of open currency positions determined under the methodology of Instruction of the Bank of Russia No. 124-I (since 09.04.2017 - Instruction of the Bank of Russia No. 178-I) (form 0409634):

RR thousand

	01.01.2018	01.01.2017
EURO	108 031	(25 932)
US Dollars	(17 412)	(18 697)
Other currencies in aggregate	97 056	26 512

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

5.2.3. Operational risk

The value of operational risk used to calculate capital adequacy ratios in accordance with Instruction of the Bank of Russia No. 139-I (180-I) and Regulation of the Bank of Russia No. 346-P is included in Section 2.2 of the statement on the capital adequacy level, the amount of provision for doubtful loans and other assets (published form 0409808) included in these annual financial statements.

Approaches to operational risk management are described in p. 5.1 of this Explanatory Note.

5.2.4. Liquidity risk

For the purpose of liquidity risk management purposes, the Bank maintains a stable funding base primarily consisting of amounts due to other banks, legal entities' deposits and its own capital. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. Paragraph 5.1 of this Explanatory Note includes more detailed information on approaches used to manage liquidity risk, including segregation of duties, liquidity risk drivers, the Bank's liquidity position management policy and measurement approaches, methods used to reduce liquidity risk, stress-testing methodologies, consideration of liquidity risk for assets with quotations in an active market when managing the funding risk, contingency plan for managing the funding risk, liquidity risk control and reporting.

The table below shows the Bank's assets and liabilities by their remaining maturity. Assets include only the assets of Quality categories I and II (the latter are shown net of provision for possible losses).

Other line items of assets and liabilities include expected interest receivable/payable. The deals with settlement dates no earlier than the second business day after entering into the transaction are shown gross in the nominal amounts of receivables and liabilities with account for expected interest. Calculations are made in accordance with the methodology of Form 0409125, including letters of credit, term deals and deals with settlement no later than the day of entering into the transaction.

Off-balance sheet instruments are recognised with account for payment probability, including:

- on unused by customers limits on current account lending (overdrafts) – 20%;
- on issued letters of credit and guarantees of Quality categories IV and V – 100%.

At 1 January 2018:

Table 5.2.4.1

RR thousand

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	No maturity	Total
ASSETS							
Cash	33 918	-	-	-	-	-	33 918
Accounts with the Central Bank of the Russian Federation	4 148 238	-	-	-	-	317 878	4 466 116
including mandatory reserves	12 180	-	-	-	-	317 878	330 058
Amounts due from credit institutions	1 565 131	-	-	-	-	20 000	1 585 131
Financial assets at fair value through profit or loss (*)	-	-	-	-	-	-	-
Net loans outstanding	9 270 672	2 120 486	5 672 900	1 984 782	-	-	19 048 840
Net investment in securities and other financial assets available for sale	6 521 961	-	-	-	-	-	6 521 961
Current income tax receivable	-	-	-	-	-	151 968	151 968
Deferred income tax asset	-	-	-	-	-	-	-
Premises and equipment, intangible assets and inventory	-	-	-	-	-	67 589	67 589
Other assets, including	1 078 104	359 433	305 821	716 223	-	11 328	2 470 909
Interest receivables (including coupon income)	43 867	359 433	305 821	716 223	-	-	1 425 344
Other liquid assets	1 034 237	-	-	-	-	11 328	1 045 565
Total assets	**22 618 024**	**2 479 919**	**5 978 721**	**2 701 005**	-	**568 763**	**34 346 432**
Receivables on derivative financial instruments and deals with settlement later than the	24 246 526	10 234 027	238 779	7 517 358	-	-	42 236 690

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	No maturity	Total
day of entering into the transaction							
LIABILITIES							
Loans, deposits and other amounts due to the Central Bank of the Russian Federation	-	-	-	-	-	-	-
Amounts due to credit institutions	362 471	-	-	2 880 010	-	-	3 242 481
Customer accounts (other than credit institutions)	20 507 941	595 514	-	-	-	-	21 103 455
Including deposits of individuals	18	-	-	-	-	-	18
Financial liabilities at fair value through profit or loss (*)	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-
Current income tax liability	6 945	-	-	-	-	-	6 945
Deferred income tax liability	-	-	-	-	-	310 031	310 031
Other liabilities, including	207 733	27 114	30 000	69 439	-	-	334 286
Liabilities on interest payment	16 151	27 114	30 000	34 781	-	-	108 046
Other liabilities	191 582	-	-	34 658	-	-	226 240
Total liabilities	**21 085 090**	**622 628**	**30 000**	**2 949 449**	-	**310 031**	**24 997 198**
Liabilities on derivative financial instruments and deals with settlement later than the day of entering into the transaction	24 383 321	9 575 344	286 926	6 924 939	-	-	41 170 530

(*) Receivables and liabilities related to derivative financial instruments and deals with settlement later than the day of entering into the transaction that are carried on the balance sheet at fair value are shown within corresponding items and recognised without discounting at expected payment dates.

At 1 January 2017:

RR thousand

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Due after 5 years	No maturity	Total
ASSETS							
Cash	21 516	-	-	-	-	-	21 516
Accounts with the Central Bank of the Russian Federation	753 283	-	-	-	-	268 218	1 021 501
including mandatory reserves	56 179	-	-	-	-	268 218	324 397
Amounts due from credit institutions	6 082 505	-	-	-	-	8 000	6,090,505
Financial assets at fair value through profit or loss (*)	-	-	-	-	-	-	-
Net loans outstanding	5 533 368	6 268 665	713 981	2 224 698	-	-	14 740 712
Net investment in securities and other financial assets available for sale	3 577 427	-	-	-	-	-	3 577 427
Current income tax receivable	-	-	-	-	-	254 261	254 261
Deferred income tax asset	-	-	-	-	-	-	-
Premises and equipment, intangible assets and inventory	-	-	-	-	-	78 387	78 387
Other assets, including	1 513 514	295 656	170 451	230 301	-	15 561	2 225 483
Interest receivables (including coupon income)	37 849	295 656	170 451	230 301	-	-	734 257
Other liquid assets	1 475 665	-	-	-	-	15 561	1 491 226
Total assets	**17 481 613**	**6 564 321**	**884 432**	**2 454 999**	-	**624 427**	**28 009 792**
Receivables on derivative financial instruments and deals with settlement later than the day of entering into the transaction	26 778 328	10 926 486	544 056	7 974 338	-	-	46 223 208
LIABILITIES							
Loans, deposits and other amounts due to the Central Bank	-	-	-	-	-	-	-

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Due after 5 years	No maturity	Total
of the Russian Federation							
Amounts due to credit institutions	180 377	-	-	3 032 845	-	-	3 213 222
Customer accounts (other than credit institutions)	15 824 113	587 791	189 468	-	-	-	16 601 372
Including deposits of individuals	295	-	-	-	-	-	295
Financial liabilities at fair value through profit or loss (*)	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-
Current income tax liability	3 543	-	-	-	-	-	3 543
Deferred income tax liability	-	-	-	-	-	662 899	662 899
Other liabilities, including	169 361	25 262	21 718	72 357	-	-	288 698
Liabilities on interest payment	25 142	25 262	21 718	61 693	-	-	133 815
Other liabilities	144 219	-	-	10 664	-	-	154 883
Total liabilities	**16 177 394**	**613 053**	**211 186**	**3 105 202**	-	**662 899**	**20 769 734**
Liabilities on derivative financial instruments and deals with settlement later than the day of entering into the transaction	26 430 974	9 806 382	486 021	6 423 974	-	-	43 147 351

(*) Receivables and liabilities related to derivative financial instruments and deals with settlement later than the day of entering into the transaction that are carried on the balance sheet at fair value are shown within corresponding items and recognised without discounting at expected payment dates.

5.2.5. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES AND CREDIT RELATED COMMITMENTS

The geographical concentration of the Bank's assets, liabilities and credit related commitments is analysed below in the tables. The classification is based on the country, in which the counterparty is located. The information on non-resident customers (branches and representative offices of foreign companies) are presented by the location of the head office. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held. Credit related commitments (undrawn loan commitments, letters of credit and guarantees issued by the Bank) are assessed in the amount of established provisions for possible losses arising from these operations.

At 1 January 2018:

Table 5.2.5.1

Item	Total	Russian Federation	CIS countries	Developed countries	including: Germany
ASSETS					
Cash	33 918	33 918			
Accounts with the Bank of Russia	4 466 116	4 466 116			
including mandatory reserves	330 058	330 058			
Amounts due from credit institutions	1 585 131	61 793	505	1 522 833	1 522 833
Financial assets at fair value through profit or loss	2 023 072	121 443		1 901 629	1 901 629
Net loans outstanding	21 920 559	19 215 941	112 609	2 592 009	2 592 009
Net investment in securities and other financial assets available for sale	6 629 855	6 629 855			
Premises and equipment, intangible assets and inventory	67 589	67 589			
Other assets	1 219 373	1 214 135	1 086	4 152	256
Total assets	**37 945 613**	**31 810 790**	**114 200**	**6 020 623**	**6 016 727**
LIABILITIES					
Amounts due to credit institutions	3 242 481	-		3 242 481	3 089 624
Customer accounts (other than credit institutions)	21 103 455	19 771 854		1 331 544	1 272 321
Including deposits of individuals	18	15		3	3
Financial liabilities at fair value through profit or loss	621 935	36 644		585 291	585 291
Debt securities issued	-	-			
Other liabilities	544 046	514 637		29 409	29 323
Provisions for credit related contingencies, other possible losses and transactions with offshore residents	275 204	259 371	-	-	
Total liabilities	**25 787 121**	**20 582 506**	**-**	**5 188 725**	**4 976 559**

At 1 January 2017:

Table 5.2.5.1

Item	Total	Russian Federation	CIS countries	Developed countries	including: Germany
ASSETS					
Cash	21 516	21 516			
Accounts with the Bank of Russia	1 021 501	1 021 501			
including mandatory reserves	324 397	324 397			
Amounts due from credit institutions	6,090,505	144 776		5,945,729	5 944 535
Financial assets at fair value through profit or loss	3 639 210	517 336		3 121 874	3 121 874
Net loans outstanding	17 340 453	17 340 453		-	-
Net investment in securities and other financial assets available for sale	3 577 427	3 577 427			
Premises and equipment, intangible assets and inventory	78 387	78 387			
Other assets	1 786 649	1 767 286		19 363	6 401
Total assets	**33 555 648**	**24 468 682**	**-**	**9 086 966**	**9 072 810**
LIABILITIES					
Amounts due to credit institutions	3 213 222	-		3 213 222	3 210 365
Customer accounts (other than credit institutions)	16 601 372	15 196 340		1 404 972	231 210
Including deposits of individuals	295	292		3	3
Financial liabilities at fair value through profit or loss	429 513	149 374		280 139	280 139
Debt securities issued	-				

Item	Total	Russian Federation	CIS countries	Developed countries	including: Germany
Other liabilities	831 235	714 682	0	116 553	52 068
Provisions for credit related contingencies, other possible losses and transactions with offshore residents	326 867	315 714	6 180	-	-
Total liabilities	**21 402 209**	**16 376 110**	**6 180**	**5 014 886**	**3 773 782**

5.3 CAPITAL MANAGEMENT DISCLOSURE

The Bank’s objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) to safeguard the Bank’s ability to continue as a going concern. Internal procedures for assessing capital adequacy (ICAAP) constitute the process implemented by the Bank to assess adequacy of available capital, i.e. internal capital to cover assumed and potential risks. ICAAP also includes the procedures for capital planning on the basis of the Bank's established development strategy, business development goals and the results of comprehensive current assessment of the above risks.

Information on the policy and procedures of capital management within ICAAP is provided in p. 5.1 of this Explanatory Note.

In 2016-2017, the Bank was engaged in improving its risk and capital management system (internal capital adequacy assessment process (ICAAP)) due to the need to comply with the requirements set out in the Bank of Russia’s Instruction No. 3524-U of 15 April 2015 that come into force since 1 January 2017. As part of the project, the Bank developed and defined material risk management methods and procedures; capital management methods and procedures, including setting the target (planned) level of capital, current capital requirement estimation, capital adequacy assessment; risk control system and the Bank's ICAAP reports. Therefore, in 2017, the Bank’s risk and capital management system was changed, however the key elements and principles of the capital and risk management system described in these financial statements remained the same.

Information about the Bank's compliance with the capital adequacy ratios is disclosed in p. 4.3 of this Explanatory Note.

The below table summarises the maximum, minimum and average values of capital adequacy ratios during 2017:

Table 5.3.1
in %

	Core capital adequacy ratio of a credit institution (H1.1)	Tire 1 capital adequacy ratio of a credit institution (H1.2)	Own (regulatory) capital adequacy ratio (H1.0)
Minimum value during the period	22.8	22.8	23.9
Maximum value during the period	27.9	27.9	30.9
Average value during the period	26.0	26.0	28.4

The below table summarises the maximum, minimum and average values of capital adequacy ratios during 2016:

in %

	Core capital adequacy ratio of a credit institution (H1.1)	Tire 1 capital adequacy ratio of a credit institution (H1.2)	Own (regulatory) capital adequacy ratio (H1.0)
Minimum value during the period	20.2	20.2	24.8
Maximum value during the period	28.7	28.7	31.1
Average value during the period	24.5	24.5	27.4

The Bank's equity (capital) does not include any specific instruments (subordinated loans, etc.) in addition to charter capital, funds and reserves. Detailed information about the structure of the Bank's equity (capital) is disclosed in the statement on capital adequacy level within these annual financial statements. Information on the Bank's charter capital is disclosed in p. 4.1.12 of this Explanatory Note.

Information on dividend distribution to the Sole Shareholder is disclosed in p. 2.3 of this Explanatory Note.

6. Disclosure of transactions on assignment of receivables

In 2017 and 2016, the Bank was not involved in transactions on assignment of receivables to third parties.

7. Information about transactions with related parties of the credit institution

The Bank has no subsidiaries or associates. Commerzbank AG is the Bank's parent credit institution.

The Bank's related counterparties include: the sole shareholder Commerzbank AG, its subsidiary banks and Commerzbank Group entities as well as the Bank’s key management personnel that includes the Chairman and members of the Management Board.

Balances on transactions with related parties as of 1 January 2018 are presented in RR'000 in the table below:

7.1.

Item	Total	Parent (shareholder)	Other related parties (organisations)	Key management personnel (Management Board)
ASSETS				
Amounts due from credit institutions	1 522 833	1 522 833		
Financial assets at fair value through profit or loss	1 901 629	1 901 629		
Net loans outstanding	2 592 009	2 592 009		
Other assets	391	269	122	
OFF-BALANCE SHEET ASSETS				
Receivables on deliverable term deals, cash (spot) deals and derivatives	29 352 636	29 352 636		
Contingent receivables on the guarantees issued by related parties to the Bank (other than counter-guarantees)	16 977 427	16 977 427	0	
LIABILITIES				
Amounts due to credit institutions	3 242 481	3 092 481	150 000	
Customer accounts (other than credit institutions)	124 092	0	124 092	
Financial liabilities at fair value through profit or loss	585 291	585 291		
Other liabilities	29 152	29 081	71	
OFF-BALANCE SHEET LIABILITIES				
Liabilities under deliverable term deals, cash (spot) deals and derivatives	27 932 670	27 932 670		
Irrevocable credit lines	700 000	700 000		
Guarantees issued by the Bank to third parties on behalf of or counter-guaranteed by related parties	5 491 293	5 087 988	403 305	

Balances on transactions with related parties at 1 January 2017 are presented in RR'000 in the table below:

7.2.

Item	Total	Parent (shareholder)	Other related parties (organisations)	Key management personnel (Management Board)
ASSETS				

Item	Total	Parent (shareholder)	Other related parties (organisations)	Key management personnel (Management Board)
Amounts due from credit institutions	5,945,729	5,945,729		
Financial assets at fair value through profit or loss	3 121 874	3 121 874		
Net loans outstanding	5 519 778	5 519 778		
Other assets	19 948	6 395	13 538	15
OFF-BALANCE SHEET ASSETS				
Receivables on deliverable term deals, cash (spot) deals and derivatives	20 133 340	20 133 340		
Contingent receivables on the guarantees issued by related parties to the Bank (other than counter-guarantees)	11 882 879	11 882 879		
LIABILITIES				
Amounts due to credit institutions	3 213 222	3 213 222		
Customer accounts (other than credit institutions)	220 456	2 088	218 368	
Financial liabilities at fair value through profit or loss	280 139	280 139		
Other liabilities	116 337	115 865	472	
OFF-BALANCE SHEET LIABILITIES				
Liabilities under deliverable term deals, cash (spot) deals and derivatives	17 308 978	17 308 978		
Irrevocable credit lines	700 000	700 000		
Guarantees issued by the Bank to third parties on behalf of or counter-guaranteed by related parties	9,630,789	9 330 613	300 176	

At 1 January 2018 and 1 January 2017, the Bank had no:

- overdue debt of the Bank's related parties;
- established provisions for possible losses arising from the Bank's transactions with related parties;
- write-offs of the bad debt of the Bank's related parties.

Income and expenses on transactions with related parties for 2017 are presented in RR'000 in the table below:

7.3

Item	Total	Parent (shareholder)	Other related parties (organisations)	Key management personnel (Management Board)
Interest income	101 734	101 321	413	-
Interest expense	60 694	46 733	13 961	-
Fee and commission income	31 318	30 819	499	-
Fee and commission expense	55 740	55 740	-	-
Other operating income	85 710	85 710	-	-
Operating expenses (*)	394 792	264 682	130 110	-

(*) Information about operating expenses (compensation) related to the Management Board is disclosed in Section 8 of this Explanatory Note.

Transactions with related parties for 2016 are presented in RR'000 in the table below:

7.4

Item	Total	Parent (shareholder)	Other related parties (organisations)	Key management personnel (Management Board)
Interest income	49 294	985	48 256	53
Interest expense	65 422	39 530	25 892	
Fee and commission income	48 841	48 431	410	
Fee and commission expense	77 317	77 317	-	

Other operating income	82 398	82 398	-
Operating expenses (*)	425 167	199 057	226 110

(*) Information about operating expenses (compensation) related to the Management Board is disclosed in Section 8 of this Explanatory Note.

8. Information about compensation plan of the credit institution

8.1 8.1 INFORMATION ON THE SPECIAL BODY OF THE CREDIT INSTITUTION RESPONSIBLE FOR COMPENSATION PLAN

The Bank's Supervisory Board annually considers issues related to the Bank's compensation plan design, monitoring and control system, assesses its compliance with the Bank's strategy, nature and scale of transactions, the Bank's performance, level and mix of risks accepted by the Bank. For preparation of decisions on the compensation plan issues, a Remuneration Committee was set up under the Supervisory Board. The Chairman of the Supervisory Board is a member of the Remuneration Committee. Other members of the Committee are elected by the majority of votes cast by the members of the Supervisory Board, and their number may not be less than 2 (two). The Chairman of the Remuneration Committee is elected from its members by the majority of votes cast by the members of the Supervisory Board. Members of the Remuneration Committee have adequate expertise in managing bank risks and developing compensation plans. The Remuneration Committee's activity (including frequency of its meetings) is governed by the Regulations on the Remuneration Committee approved by the Bank's Supervisory Board. No consideration was paid to the members of the Remuneration Committee or the Supervisory Board.

8.2 INDEPENDENT APPRAISALS OF THE COMPENSATION PLAN

The Bank did not undertake any independent appraisals of the compensation plan.

8.3 SCOPE PF THE COMPENSATION PLAN

The Bank's compensation plan covers all employees of all departments, including the Bank's branch in Saint Petersburg.

8.4 KEY PERFORMANCE INDICATORS AND OBJECTIVES OF THE COMPENSATION PLAN

According to the Bank's strategy in the area of employee benefits approved by the Supervisory Board, the Bank's compensation plan is designed to achieve the following objectives: 1) motivate the Bank's employees to achieve short-term and long-term goals of the Bank and Commerzbank Group in view of focused growth strategy, expense control, optimised use of capital, enhancement of compliance culture in the Bank; 2) set up attractive environment for recruiting best employees in the labour market; 3) provide the required level of employee motivation in the environment where there are no drivers for accepting unreasonable risks.

Key indicators used on the Bank's compensation plan are as follows: fixed and variable reward ratio in the compensation; the size of the special purpose bonus. For assessing the Bank's and/or its structural units' performance, the following key efficiency indicators may be used: EVA (economic value added), RoE (return on equity used to cover accepted risks), net profit, RWA (risk weighted assets), CIR (cost and income ratio), operational, market risk to revenue ratio, provisions for possible losses and the dynamics of these indicators considering the effect of external economic factors.

8.5 COMPENSATION PLAN FOR EMPLOYEES WITH INTERNAL CONTROL AND RISK MANAGEMENT FUNCTIONS

Compensation plan for employees of the departments performing internal control and risk management functions (controlling units) is based on general principles of the Bank's compensation plan and takes into account restrictions set out in the Regulation of the Bank of Russia No. 154-I, including limitation for the variable reward component in the total remuneration of each employee included in this category. The size of controlling units' compensation does not depend on the financial result of the units that accept risks. This is achieved through organisational and management measures to segregate reporting lines and budgets for controlling units' compensation and reporting lines and budgets for compensation of employees of the units that accept risks.

8.6 RISK CONSIDERATION METHODS, DETERMINATION OF THE BANK'S PERFORMANCE, PROCESS OF VARIABLE REWARD COMPONENT ADJUSTMENT.

Key performance indicators described in p. 1.4 are used as the analytical basis for the Bank's decision on the payment of variable reward component of the compensation, with due account of quantitative and qualitative indicators of the Bank's performance, including the level and mix of accepted risks. The Bank's overall final performance is calculated using the scale from 0 to 200%. Efficiency of the employees who accept risks is assessed for a three-year period, while that of other employees of the Bank is assessed based on their performance for a calendar year.

When the performance indicators deviate from the target level, the variable reward component needs to be adjusted. If the indicators of the Bank's risk level are:

- within the acceptable level, no special additional adjustment is required for the variable reward component;
- beyond the acceptable level, the Bank's Supervisory Board may additionally adjust the variable reward component depending on the size and nature of such deviations.

Over the reporting period, the Bank's risk level indicators were within the acceptable level, and no additional adjustment was made in relation to risk levels.

Adjustment parameters for the bonus target sizes are determined based on a straight-line dependence between the integral assessment of the Bank's performance and budgets for the variable reward component. Based on the above model, the Bank's performance for 2017 was assessed as 115% using the scale from 0 to 200% (2016: 95%).

8.7 FORM OF PAYMENT OF THE VARIABLE REWARD COMPONENT

All payments related to the variable reward component are made in cash; payments in the form of shares and other financial instruments are not applied.

8.8 COMPENSATION PLAN INDICATORS FOR MEMBERS OF EXECUTIVE BODIES AND OTHER RISK-TAKING EMPLOYEES

The table below includes compensation plan indicators for members of executive bodies and other persons who accept risks. The Bank does not use incentive payments when hiring employees not it applies guaranteed bonuses.

Amounts in RR thousand, number

	2017 (*)		2016 (*)		Comments
	The Management Board	Other risk-taking employees	The Management Board	Other risk-taking employees	
Number of employees at the last date of the reporting period, people	3	7	3	5	
Number of employees who received payments of variable reward component over the reporting period, people	3	7	3	5	
Termination benefits – quantity	-	1	-	1	
Termination benefits – total amount, RR thousand	-	-	-	-	The amount is not subject to disclosure as individual data on employee benefits
Total amount of deferred employee benefit payments, including the form of such payments (cash, shares and financial instruments, other means), RR thousand	7 900	15 404	3 020	7 884	Data at the end of the reporting period; payments are made only in cash.
Total amount of benefits paid in the reporting period, for which deferred payment (by instalments) and subsequent adjustment, RR thousand	10 851	17 640	10 775	19 709	Includes variable reward component payments approved in the reporting period before applying deferral, but including the adjustment made.
Total amount of payments in the reporting period, including by types of payment, RR thousand	50 539	72 405	41 361	52 705	
fixed component	44 569	59 187	34 896	40 880	
variable component	5 970	13 218	6 465	11 825	cash only
Deferral of benefit payment in the reporting period, RR thousand	4 880	6 480	4 310	7 884	

	2017 (*)		2016 (*)		Comments
	The Management Board	Other risk-taking employees	The Management Board	Other risk-taking employees	
Total amount of benefit adjustment (decrease in target indicators) in the reporting period, RR thousand	11 189	7 896	4 065	5 355	Adjustment from the level corresponding to performance 0f 200%;
Total amount of benefits that were not paid, were deferred or retained, RR thousand, including:	-	-	-	-	
due to pre-determined adjustment factors	-	-	-	-	
due to adjustment factors that were not determined in advance	-	-	-	-	

(*) amounts paid for this period (January-December) of the calendar year, including annual bonus for performance in the previous year

9. Information on transactions with non-resident counterparties

The volumes and types of transactions with non-resident counterparties are summarised in the table:

Table 9.1
RR thousand

		01.01.2018	01.01. 2017
1	Correspondent accounts with non-resident banks	1 523 338	5,945,729
2	Loans to non-resident counterparties, including:	2 704 618	5 519 778
2.1	non-resident banks	2 592 009	5 519 778
2.2	non-resident legal entities (other than credit institutions)	112 609	-
2.3	non-resident individuals	-	-
3	Total debt securities of non-resident issuers, including:	-	-
3.1	those with long-term credit ratings	-	-
3.2	those without long-term credit ratings	-	-
4	Total amounts due to non-resident customers, including:	4 574 082	4 618 245
4.1	non-resident banks	3 242 481	3 213 222
4.2	Non-resident legal entities (other than credit institutions)	1 331 598	1 405 020
4.3	non-resident individuals	3	3

Chairman of the Management Board C. Runde

Chief Accountant A. Gorokhovsky

26 April 2018

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