

Report on Review of Interim Financial Information
"COMMERZBANK (EURASIJA)" AO
for the six-month period ended 30 June 2021

August 2021

Translation of the original Russian version

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

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Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed financial statements of "COMMERZBANK (EURASIJA)" AO (hereinafter, the "Bank"), which comprise the interim statement of financial position as at 30 June 2021, the interim statement of profit or loss and other comprehensive income, interim statement of changes in equity and interim statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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Conclusion

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

M. IGNATJEVA
Partner
Ernst & Young LLC

27 August 2021

Details of the entity

Name: "COMMERZBANK (EURASIJA)" AO
Record made in the State Register of Legal Entities on 14 August 2002, State Registration Number 1027739070259.
Address: Russia 119017, Moscow, Kadashevskaya naberezhnaya, 14/2.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

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“COMMERZBANK (EURASIJA)” AO

Interim condensed financial statements

Interim statement of financial position

as at 30 June 2021

(Thousands of Russian Rubles)

	Notes	30 June 2021 (unaudited)	31 December 2020
Assets			
Cash and cash equivalents	3	31,106,560	38,810,347
Amounts due from credit institutions	4	761,303	7,691,384
Derivative financial assets	5	2,513,514	2,632,237
Loans to customers	6	20,773,613	19,192,942
Debt securities at fair value through profit or loss	7	3,637,859	2,741,021
Debt securities at fair value through other comprehensive income	7	6,990,950	7,387,809
Property and equipment and right-of-use assets		272,393	269,532
Prepaid income tax		244,445	253,200
Other financial assets		58,958	22,474
Other non-financial assets		115,208	63,640
Total assets		66,474,803	79,064,586
Liabilities			
Amounts due to credit institutions	10	14,867,000	12,901,383
Derivative financial liabilities	5	1,258,321	1,862,890
Amounts due to customers	11	37,087,127	51,456,168
Deferred income tax liabilities		68,999	29,120
Provisions		10,819	11,559
Other financial liabilities	12	362,212	347,210
Other non-financial liabilities	12	238,700	204,182
Total liabilities		53,893,178	66,812,512
Equity			
Share capital	13	3,827,672	3,827,672
Revaluation reserve for debt securities at fair value through other comprehensive income		(36,412)	137,358
Retained earnings		8,066,016	7,562,695
Other reserves		724,349	724,349
Total equity		12,581,625	12,252,074
Total equity and liabilities		66,474,803	79,064,586

Michael Roscher

Chairman of the Management Board

Arthur Gorokhovskiy

Chief Accountant / Financial Director

27 August 2021

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

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"COMMERZBANK (EURASIJA)" AO

Interim condensed financial statements

Interim statement of profit or loss and other comprehensive income

for the six months ended 30 June 2021

(Thousands of Russian Rubles)

	<i>Notes</i>	<i>For the six months ended 30 June (unaudited)</i>	
		<u>2021</u>	<u>2020</u>
Interest income calculated using the effective interest rate	15	711,917	1,043,778
Other interest revenue	15	70,730	69,497
Interest expense	15	(257,903)	(382,169)
Net interest income		524,744	731,106
Credit loss expense	9	(7,217)	(3,986)
Net interest income after credit loss expenses		517,527	727,120
Fee and commission income	16	317,036	283,979
Fee and commission expense	16	(100,989)	(81,275)
Net (losses)/gains from derivative financial instruments		(126,589)	1,278,036
Net gains/(losses) from dealing in foreign currencies		1,472,923	(1,590,897)
Net (losses)/gains from foreign currency translation		(565,820)	490,240
Net losses from securities at fair value through profit or loss		(38,636)	(11,228)
Other income		67,405	108,567
Non-interest income		1,025,330	477,422
Administrative and other operating expenses	17	(897,948)	(894,793)
Non-interest expense		(897,948)	(894,793)
Profit before income tax expense		644,909	309,749
Income tax expense	8	(141,588)	(29,580)
Profit for the period		503,321	280,169
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of debt securities at fair value through other comprehensive income		(220,869)	121,392
Net change in expected credit losses from debt securities at fair value through other comprehensive income		2,926	2,149
Income tax related to components of other comprehensive income		44,173	(24,279)
Other comprehensive income for the period to be reclassified to profit or loss in subsequent periods, net of tax		(173,770)	99,262
Total comprehensive income for the period		329,551	379,431

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

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“COMMERZBANK (EURASIJA)” AO

Interim condensed financial statements

Interim statement of changes in equity for the six months ended 30 June 2021

(Thousands of Russian Rubles)

	<i>Share capital</i>	<i>Revaluation reserve for debt securities at fair value through other comprehensive income</i>	<i>Retained earnings</i>	<i>Other reserves</i>	<i>Total equity</i>
As at 1 January 2020	3,827,672	69,471	6,750,033	724,349	11,371,525
Profit for the period	–	–	280,169	–	280,169
Other comprehensive income for the period	–	99,262	–	–	99,262
Total comprehensive income for the period	–	99,262	280,169	–	379,431
At 30 June 2020 (unaudited)	3,827,672	168,733	7,030,202	724,349	11,750,956
As at 1 January 2021	3,827,672	137,358	7,562,695	724,349	12,252,074
Profit for the period	–	–	503,321	–	503,321
Other comprehensive income for the period	–	(173,770)	–	–	(173,770)
Total comprehensive income for the period	–	(173,770)	503,321	–	329,551
At 30 June 2021 (unaudited)	3,827,672	(36,412)	8,066,016	724,349	12,581,625

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

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"COMMERZBANK (EURASIJA)" AO

Interim condensed financial statements

Interim statement of cash flows

for the six months ended 30 June 2021

(Thousands of Russian Rubles)

	<i>For the six months ended 30 June (unaudited)</i>		
	<i>Notes</i>	<i>2021</i>	<i>2020</i>
Cash flows from operating activities			
Interest received		810,410	999,472
Interest paid		(245,906)	(406,387)
Fees and commissions received		307,208	282,686
Fees and commissions paid		(98,771)	(91,281)
Realized gains less losses from derivative financial instruments		(612,435)	321,800
Realized gains less losses from dealing in foreign currencies		1,472,923	(1,590,897)
Other operating expenses		(20,012)	(12,502)
Personnel expenses paid		(382,140)	(391,535)
Administrative and other operating expenses paid, other than personnel expenses		(422,147)	(121,578)
Cash flows from operating activities before changes in operating assets and liabilities		809,130	(1,010,222)
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		7,098,267	475,153
Loans to customers		(2,011,355)	(4,395,331)
Other assets		35,004	(1,566)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		2,347,904	3,660,891
Amounts due to customers		(13,503,725)	3,934,645
Other liabilities		44,952	(92,388)
Net cash flows from operating activities before income tax		(5,179,823)	2,571,182
Income tax paid		(48,779)	(178,734)
Net cash from operating activities		(5,228,602)	2,392,448
Cash flows from investing activities			
Acquisition of debt securities		(1,378,356)	(6,413,767)
Disposal of debt securities		541,599	6,847,835
Purchase of property and equipment		(19,990)	(745)
Net cash from investing activities		(856,747)	433,323
Cash flows from financing activities			
Lease payments		(68,586)	(80,404)
Net cash from financing activities		(68,586)	(80,404)
Effect of exchange rates changes on cash and cash equivalents		(1,549,852)	1,788,354
Net (decrease)/increase in cash and cash equivalents		(7,703,787)	4,533,721
Cash and cash equivalents, beginning		38,810,347	19,812,952
Cash and cash equivalents, ending	3	31,106,560	24,346,673

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

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“COMMERZBANK (EURASIJA)” AO

Selected explanatory notes to the interim condensed financial statements

(Thousands of Russian Rubles)

1. Principal activities

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

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

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

As at 30 June 2021 and 31 December 2020, the Bank was wholly owned by Commerzbank AG (Germany). Commerzbank AG and its subsidiaries are referred to as the “Commerzbank Group” in these financial statements. For the consolidated financial statements of Commerzbank AG (Germany), including financial information about the Bank, please refer to www.commerzbank.com.

2. Basis of preparation

General

The interim condensed financial statements for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Bank’s annual financial statements as at 31 December 2020.

Effect of COVID-19 pandemic

Due to rapid spread of COVID-19 pandemic in 2020 and first half of 2021 many governments, including the Russian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain, demand for goods and services, as well as the scale of business activity. It is expected that pandemic itself as well as measures for its consequences’ minimization may influence the business of the entities in wide range of industries. Since March 2020 significant volatility in stock, currency and commodity markets exists, including changes in crude oil prices and changes in RUB to USD and EUR foreign exchange rates.

In 2020 and first half of 2021, support measures were introduced by the Government and the Central Bank of Russia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

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

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

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

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Selected explanatory notes to the interim condensed financial statements

(Thousands of Russian Rubles)

2. Basis of preparation (continued)

Estimation uncertainty

To the extent that information is available as at 30 June 2021, the Bank has reflected revised estimates of expected future cash flows in its ECL assessment (Note 9), estimation of fair values of financial instruments (Note 18).

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2020. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments effective since 1 January 2021 were applied but do not have an impact on the financial statements of the Bank:

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

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- ▶ A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- ▶ Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- ▶ Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no material impact on the interim condensed financial statements of the Bank. The Bank intends to use the practical expedients in future periods if they become applicable.

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2021 (unaudited)	31 December 2020
Cash on hand	38,016	38,658
Current accounts with the CBR (other than obligatory reserves)	3,445,343	2,853,671
Correspondent accounts and overnight deposits with other banks:		
Internal financial rating 1.0-2.0	24,778,171	31,174,415
Internal financial rating 2.1-4.0	258,898	209,427
Settlement accounts with trading systems	2,586,132	4,534,176
Cash and cash equivalents	31,106,560	38,810,347

All balances of cash equivalents are included in Stages 1 and 2. As at 30 June 2021 and 31 December 2020, allowance for expected credit losses was less than RUB 1 million.

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(Thousands of Russian Rubles)

4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2021 (unaudited)	31 December 2020
Obligatory reserves with the CBR	721,177	946,037
Term deposits up to 90 days	185	6,684,130
Security deposits with trading systems	40,015	61,352
Less – allowance for ECL	(74)	(135)
Amounts due from credit institutions	761,303	7,691,384

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

Significant portion of balances as of 31 December 2020 in this balance sheet item (other than CBR) are attributable to the participants of the Commerzbank Group (see Note 17).

Movements in the ECL allowance relating to the amounts due from credit institutions for the six months ended 30 June 2021 are presented in the table below:

	Stage 1	Total
Allowance for ECL at 1 January 2021	135	135
Assets repaid or derecognized (excluding write-offs)	(61)	(61)
Allowance for ECL at 30 June 2021 (unaudited)	74	74

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

	Stage 1	Total
Allowance for ECL at 1 January 2020	283	283
New assets originated or purchased	12	12
Assets repaid or derecognized (excluding write-offs)	(187)	(187)
Allowance for ECL at 30 June 2020 (unaudited)	108	108

5. Derivative financial instruments

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

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

	30 June 2021 (unaudited)			31 December 2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Forwards and swaps – foreign	18,964,572	–	(5,886)	19,950,128	–	(10,145)
Forwards and swaps – domestic	20,033,538	9,694	(29,159)	19,950,128	14,297	–
Foreign exchange contracts						
Forwards and swaps – foreign	38,799,875	1,089,240	(380,227)	37,425,540	1,447,437	(273,410)
Forwards and swaps – domestic	45,698,268	624,759	(35,969)	50,235,074	48,130	(427,241)
Options – foreign	18,269,196	391,967	(412,629)	18,674,626	372,022	(776,609)
Options – domestic	18,269,196	397,854	(394,451)	18,674,626	750,351	(375,485)
Total derivative assets/liabilities	160,034,645	2,513,514	(1,258,321)	164,910,122	2,632,237	(1,862,890)

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

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“COMMERZBANK (EURASIJA)” AO

Selected explanatory notes to the interim condensed financial statements

(Thousands of Russian Rubles)

6. Loans to customers

Loans to customers comprise:

	30 June 2021 (unaudited)	31 December 2020
Corporate lending	20,791,867	19,206,103
Gross loans to customers at amortized cost	20,791,867	19,206,103
Less – Allowance for ECL	(18,254)	(13,161)
Loans to customers at amortized cost	20,773,613	19,192,942

Allowance for ECL from loans to customers at amortized cost

Movements in allowances for ECL for the six months ended 30 June 2021 are presented in the table below:

Corporate lending	Stage 1	Total
Allowance for ECL at 1 January 2021	13,161	13,161
New assets originated or purchased	3,422	3,422
Assets repaid or derecognized (excluding write-offs)	(2,243)	(2,243)
Changes to models and inputs used for ECL calculations	84	84
Foreign exchange adjustments	3,830	3,830
Allowance for ECL at 30 June 2021 (unaudited)	18,254	18,254

Movements in allowances for ECL for the six months ended 30 June 2020 are presented in the table below:

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

Concentration of loans to customers

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

	30 June 2021 (unaudited)	31 December 2020
Manufacturing	9,482,696	10,258,309
Lease and financial services	6,685,669	5,677,206
Mining	3,380,402	2,628,374
Trade	885,969	642,171
Other	357,131	43
Total loans to customers at amortized cost	20,791,867	19,206,103

7. Debt securities

Debt securities comprise:

	30 June 2021 (unaudited)	31 December 2020
Debt securities at FVPL	3,637,859	2,741,021
Federal bonds of the Ministry of Finance	3,637,859	2,741,021
Debt securities at FVOCI	6,990,950	7,387,809
Federal bonds of the Ministry of Finance	6,990,950	7,387,809

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Selected explanatory notes to the interim condensed financial statements

(Thousands of Russian Rubles)

7. Debt securities (continued)

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

<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Total</i>
Allowance for ECL at 1 January 2021	8,350	8,350
New assets originated or purchased	–	–
Assets derecognized or repaid (excluding write-offs)	(41)	(41)
Changes to models and inputs used for ECL assessment	2,967	2,967
Allowance for ECL at 30 June 2021 (unaudited)	11,276	11,276

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

8. Taxation

The corporate income tax expense comprises:

	<i>For the six months ended</i>	
	<i>30 June 2021</i> <i>(unaudited)</i>	<i>30 June 2020</i> <i>(unaudited)</i>
Current tax charge	57,535	52,349
Deferred tax charge – origination and reversal of temporary differences	39,880	1,510
Less: deferred tax recognised directly in other comprehensive income	44,173	(24,279)
Income tax expense	141,588	29,580

Russian legal entities have to file individual corporate income tax declarations to the tax authorities. The standard income tax rate for companies (including banks) was 20% in the first half of 2021 and 2020. Corporate income tax rate applicable to interest (coupon) income on state and mortgage-backed bonds in the first half of 2021 and 2020 was 15% while corporate income tax rate applicable to interest (coupon) income on municipal bonds in the first half of 2021 and 2020 was 9%. Dividends are taxed at the standard corporate income tax rate of 9%, which could be reduced to 0% subject to certain criteria.

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

	<i>For the six months ended</i>	
	<i>30 June 2021</i> <i>(unaudited)</i>	<i>30 June 2020</i> <i>(unaudited)</i>
Profit before tax	644,909	309,749
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	128,982	61,950
Income on certain types of securities taxed at different rates	(16,117)	(17,450)
Other	28,723	(14,920)
Income tax expense	141,588	29,580

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Selected explanatory notes to the interim condensed financial statements

(Thousands of Russian Rubles)

9. Credit loss expense and other impairment and provisions

The table below shows ECL charges on financial instruments recorded in profit or loss for the six months ended 30 June 2021:

	Notes	Stage 1	Stage 2	Total
Amounts due from credit institutions	4	61	–	61
Loans to customers at amortized cost	6	(5,093)	–	(5,093)
Debt securities at FVOCI	7	(2,926)	–	(2,926)
Loan commitments	14	1,110	–	1,110
Letters of credit and guarantees	14	–	(369)	(369)
Total ECL expense		(6,848)	(369)	(7,217)

The table below shows ECL charges on financial instruments recorded in profit or loss for the six months ended 30 June 2020:

	Notes	Stage 1	Stage 2	Total
Amounts due from credit institutions	4	175	–	175
Loans to customers at amortized cost	6	(3,831)	43	(3,788)
Debt securities at FVOCI	7	(2,149)	–	(2,149)
Loan commitments	14	1,997	100	2,097
Letters of credit and guarantees	14	–	(321)	(321)
Total ECL expense		(3,808)	(178)	(3,986)

10. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 June 2021 (unaudited)	31 December 2020
Current accounts	542,059	86,606
Term deposits and loans	14,324,941	12,814,777
Amounts due to credit institutions	14,867,000	12,901,383

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

11. Amounts due to customers

The amounts due to customers comprise:

	30 June 2021 (unaudited)	31 December 2020
Current accounts	24,848,561	21,817,212
Time deposits	12,238,566	29,638,956
Amounts due to customers	37,087,127	51,456,168

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11. Amounts due to customers (continued)

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

	30 June 2021 (unaudited)	31 December 2020
Trade	20,908,894	22,771,158
Manufacturing	8,413,092	17,677,101
Education	2,283,694	2,360,144
Information and communication	1,990,474	2,149,289
Finance	1,146,608	701,118
Construction	1,027,379	4,693,689
Other	1,316,986	1,103,669
Amounts due to customers	37,087,127	51,456,168

12. Other liabilities

Other liabilities comprise:

	30 June 2021 (unaudited)	31 December 2020
Other financial liabilities		
Lease liabilities	313,144	324,873
Deferred income on guarantees	6,859	4,334
Other financial liabilities	42,209	18,003
	362,212	347,210
Other non-financial liabilities		
Liabilities to employees	106,146	105,959
Settlements with other creditors	108,041	58,053
Settlements on taxes	20,412	36,631
Other non-financial liabilities	4,101	3,539
Other liabilities	238,700	204,182

13. Equity

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

	Number of shares	Nominal amount	Inflation adjustment	Share premium	Total share capital
End of day:					
31 December 2019					
30 June 2020					
31 December 2020					
30 June 2021	43,112	2,155,600	380,233	1,291,839	3,827,672

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

In the first half of 2021 (as well as in the first half of 2020), in accordance with the decision of the Sole Shareholder, the Bank neither accrued nor paid any dividends.

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14. Commitments and contingencies

Operating environment

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

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

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

Legal

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

Taxation

Some provisions in the current Russian tax, currency and customs legislation are not clear enough and quite ambiguous, which often results in their varying interpretations (which may apply to past the Bank's relations), selective and inconsistent application, reclassification of transactions performed by a taxpayer for tax purposes, and changes, which can occur at short notice. Management's interpretation of such legislation as applied to the transactions and activities of the Bank, including economic feasibility of certain transactions, may be challenged by the relevant regional or federal authorities. Taxpayers' positions often differ from the interpretations of tax regulations by tax authorities; therefore, taxpayers have to resort to court proceedings to defend their position. It should be noted that Russian tax legislation includes regulations to prohibit taxpayers from reducing the tax base as a result of distortion of business facts and taxable items or due to operations with the primary objective of non-payment or underpayment of taxes as well as in cases when an obligation assumed in a transaction was performed by a person that is not a party to the contract with the taxpayer and/or by a person to whom the obligation in the transaction was assigned under a contract or by law, whereby the tax authorities, in interpreting the Bank's activities, may disallow the deduction of expenses for income tax purposes.

During the first half of 2021, the Bank entered into transactions with various financial instruments. Russian tax legislation in respect of transactions with financial instruments is vaguely drafted and is subject to changes that can occur frequently, which often results in different interpretations of tax norms by the tax authorities and taxpayers. In this regard, management's interpretation of such legislation as applied to procedures to determine taxable income from those transactions, including economic justification, may be challenged by the tax authorities at any time in the future, which may result in a heavier tax burden on the Bank.

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

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

Currently, the Russian tax legislation stipulates that foreign entities receiving income from Russian sources must have an actual right to such income. Overall, the introduction of this concept increases the administrative and, sometimes, tax burden on Russian taxpayers. In some cases, the Bank paid income to foreign entities using a Russian withholding tax exemption based on the provisions of international tax treaties concluded by the Russian Federation. Due to the fact that the above rules are not applied consistently with regard to the confirmation of the foreign entities' actual right to income, there is uncertainty regarding the procedure for the application of these rules and their possible interpretation by the Russian tax authorities and the effect on the amount of the Bank's tax liabilities. Management considers the Bank's tax position that is based on the applicable tax legislation and clarifications of the tax authorities to be reasonable and document supported.

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14. Commitments and contingencies (continued)

Taxation (continued)

Recent trends in the Russian law enforcement practice suggest that the tax authorities and courts may be taking a more assertive position in their interpretation of legislation and in performing tax reviews. It is therefore possible that the Bank's transactions, activities and accounting methods that have not been challenged in the past may be challenged in the future. However, it is not possible to determine their amounts or evaluate the probability of a negative outcome in the event taxes, penalties and fines are assessed by the tax authorities.

Fiscal periods remain open to review for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is made. Under certain circumstances, reviews may cover longer periods.

As at 1 July 2021, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Credit related and other commitments

The Bank's commitments and contingencies comprised the following:

	30 June 2021 (unaudited)	31 December 2020
Credit related commitments		
Loan commitments	10,492,783	11,046,890
Letters of credit and financial guarantees	21,296,093	22,702,761
Non-financial guarantees	6,145,351	10,377,982
Total	37,934,227	44,127,633
Allowance for ECL on credit related commitments	(10,818)	(11,559)
Deposits held as collateral against letters of credit	32,898	12,324

Movements in allowances for ECL for the six months ended 30 June 2021 are as follows:

Loan commitments	Stage 1	Total
Allowance for ECL at 1 January 2021	4,980	4,980
New exposures	92	92
Exposures derecognized or matured (excluding write-offs)	(76)	(76)
Changes to models and inputs used for ECL calculations	(1,119)	(1,119)
Foreign exchange adjustments	(7)	(7)
Allowance for ECL at 30 June 2021 (unaudited)	3,870	3,870
Letters of credit and guarantees	Stage 2	Total
Allowance for ECL at 1 January 2021	6,579	6,579
New exposures	505	505
Exposures derecognized or matured (excluding write-offs)	(1,538)	(1,538)
Changes to models and inputs used for ECL calculations	1,908	1,908
Foreign exchange adjustments	(506)	(506)
Allowance for ECL at 30 June 2021 (unaudited)	6,948	6,948

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

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

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14. Commitments and contingencies (continued)

Credit related and other commitments (continued)

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

15. Net interest income

Net interest income comprises:

	<i>For the six months ended</i>	
	30 June 2021 <i>(unaudited)</i>	30 June 2020 <i>(unaudited)</i>
Financial assets at amortized cost		
Amounts due from credit institutions	3,945	50,712
Loans to customers	500,412	740,895
Financial assets at FVOCI		
Debt securities	207,560	252,171
Interest income calculated using the effective interest rate	711,917	1,043,778
Debt securities at fair value through profit or loss	70,730	69,497
Other interest income	70,730	69,497
Total interest income	782,647	1,113,275
Amounts due to customers	(207,240)	(264,700)
Amounts due to credit institutions	(50,663)	(117,469)
Interest expense	(257,903)	(382,169)
Net interest income	524,744	731,106

16. Net fee and commission income

Net fee and commission income comprises:

	<i>For the six months ended</i>	
	30 June 2021 <i>(unaudited)</i>	30 June 2020 <i>(unaudited)</i>
Trade finance transactions	134,009	119,625
Settlement operations	103,209	85,848
Acting as a currency control agent	64,603	63,140
Other	15,215	15,366
Fee and commission income	317,036	283,979
Guarantees received	(52,030)	(49,966)
Operations with securities and foreign currency	(31,746)	(23,220)
Settlement operations	(15,735)	(5,498)
Other	(1,478)	(2,591)
Fee and commission expense	(100,989)	(81,275)
Net fee and commission income	216,047	202,704

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17. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<i>For the six months ended</i>	
	30 June 2021	30 June 2020
	(unaudited)	(unaudited)
Salaries, bonuses and other employee benefits	317,655	313,975
Social security costs	65,322	64,395
Personnel expenses	382,977	378,370
Expenses on services provided by Commerzbank AG	329,100	228,977
Other costs of premises and equipment	58,372	35,191
Depreciation of right of use asset	43,860	60,081
Telecommunications	32,296	27,904
Operating lease expense for premises and equipment	14,411	27,796
Professional services	11,938	12,157
Depreciation of premises and equipment	6,773	9,836
Lease liabilities revaluation expenses	5,059	93,240
Insurance expenses	4,067	9,016
Taxes other than on income	889	484
Entertainment expenses	351	192
Business trip expenses	18	408
Other	7,837	11,141
Other operating expenses	514,971	516,423

18. Fair values of financial instruments

Fair value measurement procedures

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

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

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

Fair value hierarchy

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

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

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18. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

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

	30 June 2021 (unaudited)				31 December 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Recurring fair value measurement								
Assets measured at fair value								
Derivative financial assets	-	2,513,514	-	2,513,514	-	2,632,237	-	2,632,237
Investment securities – debt securities at FVPL								
- Russian State bonds	3,637,859	-	-	3,637,859	2,741,021	-	-	2,741,021
Debt securities at FVOCI								
- Russian State bonds	6,990,950	-	-	6,990,950	7,387,809	-	-	7,387,809
Total	10,628,809	2,513,514	-	13,142,323	10,128,830	2,632,237	-	12,761,067
Liabilities at fair value								
Derivative financial liabilities	-	(1,258,321)	-	(1,258,321)	-	(1,862,890)	-	(1,862,890)
Total	-	(1,258,321)	-	(1,258,321)	-	(1,862,890)	-	(1,862,890)

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

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position.

	30 June 2021 (unaudited)			31 December 2020		
	Carrying amount	Fair value	Unrecognized gain/(loss)	Carrying amount	Fair value	Unrecognized gain/(loss)
Financial assets						
Cash and cash equivalents	31,106,560	31,106,560	-	38,810,347	38,810,347	-
Amounts due from credit institutions	761,303	761,302	(1)	7,691,384	7,690,893	(491)
Loans to customers at amortized cost	20,773,613	20,636,334	(137,279)	19,192,942	19,370,346	177,404
Other financial assets	58,958	58,958	-	22,474	22,474	-
Financial liabilities						
Amounts due to credit institutions	14,867,000	14,879,808	(12,808)	12,901,383	12,905,688	(4,305)
Amounts due to customers	37,087,127	37,065,737	21,390	51,456,168	51,440,112	16,056
Other financial liabilities	362,212	362,212	-	347,210	347,210	-
Total unrecognized change in fair value			(128,698)			188,664

Valuation techniques and assumptions

Assets for which fair value approximates carrying amount

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

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

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18. Fair values of financial instruments (continued)

Valuation techniques and assumptions (continued)

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

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

19. Related party disclosures

The outstanding balances of related party transactions are as follows:

	30 June 2021 (unaudited) Commerzbank Group	31 December 2020 Commerzbank Group
Cash and cash equivalents	24,778,171	31,174,415
Amounts due from credit institutions	–	5,983,875
Derivative financial assets	1,481,207	1,819,459
Other financial assets	598	142
Other non-financial assets	80,560	–
Amounts due to credit institutions	14,462,271	12,868,844
Derivative financial liabilities	798,742	1,060,164
Amounts due to customers	123,012	76,693
Other financial liabilities	271,224	275,600
Other non-financial liabilities	132,459	38,423

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

	For the six months ended	
	30 June 2021 (unaudited) Commerzbank Group	30 June 2020 (unaudited) Commerzbank Group
Interest income calculated using the effective interest rate	2,286	37,745
Interest expense	(43,669)	(107,191)
Fee and commission income	27,697	21,296
Fee and commission expense	(56,252)	(48,793)
Other income	68,783	106,655
Administrative and other operating expenses	(373,128)	(373,758)

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

	30 June 2021 (unaudited) Commerzbank Group	31 December 2020 Commerzbank Group
Contingencies on guarantees issued by related parties to the Bank (other than counter guarantees)	30,791,408	36,376,459
Guarantees issued by the Bank to third parties on behalf of related parties (under the counter guarantee), including those related to counter guarantees	8,131,665	8,506,621
Claims under deliverable term transactions and derivative instruments	75,513,181	75,999,311
Liabilities under deliverable term transactions and derivative instruments	74,005,327	74,196,395
Loan commitments	350,000	350,000

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20. Capital adequacy

In 2020 and the first half of 2021, the Bank complied with the capital requirements set by the regulator and internally. Information on capital values is presented in the table below:

<i>Description</i>	<i>30 June 2021 (unaudited)</i>	<i>31 December 2020</i>
Equity (capital)	12,422,008	11,308,232
Core capital adequacy ratio	28.900%	26.041%
Main capital adequacy ratio	28.900%	26.041%
Equity (capital) adequacy ratio	31.738%	27.312%

21. Events after the end of the interim period

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