

ANNUAL ACCOUNTING (FINANCIAL) STATEMENTS AND AUDITOR'S REPORT COMMERZBANK (EURASIJA) SAO

TRANSLATOR'S 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.

At 1 January 2016

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AUDITOR'S REPORT

on the Annual Accounting (Financial) Statements

To the Shareholder of COMMERZBANK (EURASIJA) SAO:

Audited entity

COMMERZBANK (EURASIJA) SAO

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

The Central Bank of Russia registration date: 10 December 1998.

Registration number: 3333.

Registration Certificate number No. 11590.17 dated 31 December 1998. Main state registration number: 1027739070259.

Auditor

Joint-Stock Company PricewaterhouseCoopers Audit (ZAO PwC Audit) located at: 125047, Russian Federation, Moscow, 10 Butyrsky Val, Russia

State registration certificate No. 008.890, issued by Moscow Registration Bureau on 28 February 1992.

Certificate of inclusion in the Unified State Register of Legal Entities regarding the legal entity registered before 1 July 2002 No. 1027700148431 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 39 for the Moscow City on 22 August 2002.

Member of non-profit partnership "Audit Chamber of Russia" (NP ACR) being a self-regulating organisation of auditors – registration number 870 in the register of NP ACR members.

Major registration record number (ORNZ) in the register of auditors and audit organisations – 10201003683.

AO PricewaterhouseCoopers Audit White Square Office Centre 10, Butyrsky Val, Moscow, Russian Federation, 125047 T: +7 (495) 967-6000, F: +7 (495) 967-6001, www.pwc.ru

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AUDITOR'S REPORT

To the shareholder and supervisory board of COMMERZBANK (EURASIJA) SAO:

We have audited the attached annual statutory accounting (financial) statements of COMMERZBANK (EURASIJA) SAO (hereinafter – “the Bank”) which comprise the balance sheet (published form) as at 1 January 2016, a statement of financial results (published form) for the year 2015, attachments to the balance sheet and statement of financial results (“Report on the capital adequacy level to cover risks, the amount of provision for doubtful loans and other assets (published form)” as at 1 January 2016, “Information on regulatory ratios and the financial leverage ratio (published form)” as at 1 January 2016, “Statement of cash flows (published form)” for the year 2015) and the explanatory information prepared in accordance with the Central Bank of Russia's Regulation No. 3054-U of 4 September 2013 “On the Procedures for Preparation of Annual Statutory Accounting (Financial) Statements by Credit Institutions” (hereinafter collectively referred to as “the annual statutory accounting (financial) statements”). The annual statutory accounting (financial) statements have been prepared by the Bank's management on the basis of the statutory accounting statements prepared in accordance with the Russian legislation and the Central Bank of Russia's regulations. The annual statutory accounting (financial) statements differ significantly from the Bank's financial statements prepared in accordance with International Financial Reporting Standards, especially with respect to measurement of assets and capital, recognition of liabilities, and disclosures.

Bank's Responsibility for the Annual Statutory Accounting (Financial) Statements

The Bank's management is responsible for the preparation and fair presentation of these the annual statutory accounting (financial) statements in accordance with Russian Federation regulations in terms of preparation of the annual statutory accounting (financial) statements for credit institutions and for such internal control as management determines is necessary to enable the preparation of the annual statutory accounting (financial) statements that are free from material misstatement, whether due to fraud or error.

The auditor's responsibility

Our responsibility is to express an opinion as to whether the annual statutory accounting (financial) statements are fairly presented based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual statutory accounting (financial) statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual statutory accounting (financial) statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the annual statutory accounting (financial) statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the annual statutory accounting (financial) statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Bank, as well as evaluating the presentation of the annual statutory accounting (financial) statements.

Auditor's Report (continued)

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion on the annual statutory accounting (financial) statements.

Opinion

In our opinion, the annual statutory accounting (financial) statements present fairly, in all material respects, the financial position of the Bank at 1 January 2016, and the results of its operations and its cash flows for 2015 in accordance with the Russian Federation regulations for credit institutions in terms of preparation of the annual statutory accounting (financial) statements.

Examination report prepared in accordance with Article No. 42 of Federal Law No. 395-1 of 2 December 1990 "On Banks and Banking Activity" as amended by Federal Law No. 403-FZ of 1 December 2014 "On Amendment of Certain Regulations of the Russian Federation")

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

Under Article No. 42 of Federal Law No.395-1 of 2 December 1990 "On Banks and Banking Activity" we have examined the following during the audit of the annual statutory accounting (financial) statements of the Bank for 2015:

- the Bank's compliance with the regulatory ratios set by the Central Bank of Russia as at 1 January 2016;
- compliance of the Bank's internal control and risk management systems with the Bank of Russia's requirements for such systems.

Our work was limited to procedures selected based on our judgement such as inquiries, analysis and examination of documents, comparison of requirements, procedures and techniques adopted by the Bank with the Central 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 the Bank's compliance with the regulatory ratios set by the Central Bank of Russia: as at 1 January 2016 the Bank's regulatory ratios set by the Central Bank of Russia were within the limits set by the Central Bank of Russia.

We draw your attention to the fact that we have not performed any procedures related to the Bank's underlying accounting data other than the procedures we believed necessary to express our opinion on whether or not the annual statutory accounting (financial) statements of the Bank present fairly, in all material respects, its financial position at 1 January 2016, the results of its operations and its cash flows for 2015 in accordance with the Russian Federation regulations for credit institutions in terms of preparation of the annual statutory accounting (financial) statements;

- 2) as related to the Bank's internal control and risk management systems compliance with the Central Bank of Russia's requirements for such systems:
 - a) in accordance with the Central Bank of Russia's requirements and recommendations, as at 1 January 2016 the Bank's units for managing significant risks were not subordinated or accountable to the units assuming corresponding risks;
 - b) the Bank's internal documents effective as at 1 January 2016 which set out the techniques to identify and manage significant credit, market (including interest rate), liquidity and operational risks, and the techniques to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Central Bank of Russia's requirements and recommendations;
 - c) as at 1 January 2016 the Bank had in place a reporting system for significant credit, market (including interest rate), liquidity and operational risks, and for the Bank's equity (capital);
 - d) the frequency and consistency of reports prepared by the Bank's risk management units and the Bank's internal audit function during 2015 as related to management of credit, market (including interest rate) risks, liquidity and operational risks complied with the Bank's internal documents; those reports included observations made by the Bank's risk management units and the Bank's internal audit function as related to the assessment of the effectiveness of the Bank's respective procedures as well as recommendations on their improvement;
 - e) as at 1 January 2016 the authority of the Supervisory Board of the Bank and its executive bodies included control over the Bank's compliance with risk and equity (capital) adequacy limits set by the Bank's internal documents. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2015, the Supervisory Board of the Bank and its executive bodies regularly discussed the reports prepared by the Bank's risk management units and the Bank's internal audit function and considered proposed measures to eliminate weaknesses.

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

Director of AO PricewaterhouseCoopers Audit

E.N. Kriventsev

27 April 2016

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

BALANCE SHEET (published form)

At 1 January 2016

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

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

OKUD Form Code 0409806
 Quarterly (Annual)
 RR'000

Pos. No.	Item	Note number	As at the reporting date	As at the previous reporting date
I. ASSETS				
1	Cash		61 382	60 192
2	Accounts with the Central Bank of the Russian Federation	3.2.	12 629 915	5 975 331
2.1	Mandatory reserves		261 897	310 308
3	Amounts due from credit institutions	3.3.	6 390 962	2 154 893
4	Financial assets at fair value through profit or loss	3.6., 3.8., 4.1.2, 4.1.3	5 929 398	3 312 215
5	Net loans to customers and other banks	3.4., 4.1.4, 5.2.1	21 431 143	52 121 848
6	Net investment in securities and other financial assets available for sale	3.6., 3.7., 4.1.5	2 611 801	2 703 079
6.1	Investment in subsidiaries and associates		0	0
7	Net investment in securities held to maturity		0	0
8	Current income tax receivable	4.2.	211 297	380 438
9	Deferred tax asset		8 102	183 755
10	Premises and equipment, intangible assets and inventory	3.15., 3.5., 4.2.	73 748	70 654
11	Other assets	4.1.7	1 935 068	753 646
12	Total assets	2.2.	51 282 816	67 716 051

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Pos. No.	Item	Note number	As at the reporting date	As at the previous reporting date
I. LIABILITIES				
13	Loans, deposits and other funds of the Central Bank of the Russian Federation		0	0
14	Amounts due to credit institutions	4.1.8	11 461 406	31 194 116
15	Amounts due to customers (non-credit institutions)	3.10., 4.1.9	24 760 162	23 717 233
15.1	Deposits (amounts) due to individuals and individual entrepreneurs	4.1.9	4 243	8 521
16	Financial liabilities at fair value through profit or loss	4.1.3	1 107 687	408 890
17	Debt securities issued	4.1.10	16 400	92
18	Current income tax liability		42 288	2 575
19	Deferred tax liability		979 111	589 910
20	Other liabilities	4.1.11	136 132	61 703
21	Provisions for credit related contingencies, other possible losses and transactions with offshore residents		499 064	201 511
22	Total liabilities	2.2.	39 002 250	56 176 030
III. EQUITY				
23	Shareholders' (participants') funds	4.1.12	2 155 600	2 155 600
24	Treasury shares (participatory interests) redeemed from shareholders (participants)		0	0
25	Share premium		1 279 671	1 279 671
26	Reserve fund		323 340	323 340
27	Fair valuation of securities available for sale, less deferred tax liability (plus deferred tax asset)		(32 409)	(235 339)
28	Revaluation of property and equipment, less deferred tax liability		0	0
29	Retained earnings (accumulated deficit) of previous years	4.3.	6 016 748	6 345 799
30	Unutilised earnings (losses) for the reporting period		2 537 616	1 670 950
31	Total equity	2.2.	12 280 566	11 540 021
IV. OFF-BALANCE SHEET LIABILITIES				
32	Irrevocable commitments of the credit institution	4.1.13	60 570 649	27 058 589
33	Guarantees and sureties issued by the credit institution	4.1.14	34 335 846	23 866 910
34	Contingent non-credit liabilities		0	0

Chairman of the Management Board
Chief Accountant

G. Kleckner
A. Gorokhovskiy

21 April 2016

OKATO territory code	Code of the credit institution (branch)	
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45286596	18680159	3333

STATEMENT OF FINANCIAL RESULTS

(published form)

for 2015

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

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

OKUD Form Code 0409807

Quarterly (Annual)

RR'000

Pos. No.	Item	Note number	Reporting period	Previous reporting year
1	Total interest income, including:	3.15.	2 057 978	1 161 392
1.1	From placements with credit institutions		631 047	229 362
1.2	From loans to customers (non-credit institutions)		1 231 487	708 198
1.3	From financial leases		0	0
1.4	From investments in securities	3.15.	195 444	223 832
2	Total interest expense, including:		997 664	450 317
2.1	On placements from credit institutions		154 524	87 849
2.2	On customer accounts (non-credit institutions)		843 140	362 468
2.3	On debt securities issued		0	0
3	Net interest income (negative interest margin)	2.2.	1 060 314	711 075
4	Total change in the provision for impairment of loans, borrowings and similar debt, funds placed on correspondent accounts and interest income accrued, including:	2.2.	(28 061)	(56 452)
4.1	Change in provision for impairment of interest income accrued	2.2.	1 270	(1 798)
5	Net interest income (negative interest margin) after provision for loan impairment		1 032 253	654 623
6	Net income from dealing in financial assets at fair value through profit or loss	2.2.	1 041 868	(4 268 284)
7	Net income from dealing in securities available for sale		(100)	(57 883)
8	Net income from dealing in securities held to maturity		0	0
9	Net income from dealing in foreign currencies	2.2., 4.2.	(1 761 309)	(1 327 753)
10	Net income from revaluation of foreign currency balances	2.2.	4 082 179	7 851 266
11	Income from participation in equity of other legal entities		0	0
12	Fee and commission income		533 911	366 791
13	Fee and commission expense		146 498	45 624
14	Change in provision for losses on securities available for sale		0	0
15	Change in provision for losses on securities held to		0	0

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Pos. No.	Item	Note number	Reporting period	Previous reporting year
	maturity			
16	Changes in provision for other losses		(332 394)	(110,602)
17	Other Operating Income		109 080	60 228
18	Net income (expense)		4 558 990	3 122 762
19	Operating expenses	2.2.	1 268 546	958 538
20	Profit (loss) before tax	2.2., 4.2.	3 290 444	2 164 224
21	Income tax refund (expense)	3.13., 4.2.	752 828	493 274
22	Profit (loss) after tax		2 537 616	1 670 950
23	Total payments from income after tax, including:		0	0
23.1	Distribution of dividends to shareholders (participants)		0	0
23.2	contributions for the creation and replenishment of the reserve fund		0	0
24	Unutilised earnings (losses) for the reporting period		2 537 616	1 670 950

Chairman of the Management Board

G. Kleckner

Chief Accountant

A. Gorokhovskiy

21 April 2016

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

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

At 1 January 2016

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

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

OKUD Form Code 0409808

Quarterly (Annual)

Section 1. Information on capital adequacy level

Pos. No.	Item	Note No.	As at the reporting date	Increase (+)/ Decrease (-) for the reporting period	As at the beginning of the reporting year
1	Total equity (own capital), (RR'000), including:	4.3.	12 241 273	723 565	11 517 708
1.1	Sources of core capital:		9 775 359	(289 128)	10 064 487
1.1.1	Total charter capital formed by:	4.1.12	2 155 600	0	2 155 600
1.1.1.1	Ordinary shares (participatory interests)		2 155 600	0	2 155 600
1.1.1.2	Preference shares		0	0	0
1.1.2	Share premium		1 279 671	0	1 279 671
1.1.3	Reserve fund		323 340	0	323 340
1.1.4	Retained earnings:		6 016 748	(289 128)	6 305 876
1.1.4.1	of previous years		6 016 748	(289 128)	6 305 876
1.1.4.2	of the reporting year		0	0	0
1.2	Items decreasing sources of core capital:		0	0	0
1.2.1	Intangible assets		0	0	0
1.2.2	Deferred tax assets				0
1.2.3	Treasury shares (participatory interests) redeemed from shareholders (participants)		0	0	0
1.2.4	Losses:		0	0	0
1.2.4.1	of previous years		0	0	0
1.2.4.2	of the reporting year		0	0	0
1.2.5	Investments in capital of financial institutions:		0	0	0
1.2.5.1	immaterial		0	0	0
1.2.5.2	material		0	0	0
1.2.5.3	Total material investments and total deferred tax assets		0	0	0
1.2.6	Negative additional paid-in capital		0	0	0
1.2.7	Commitments to acquire sources of core capital		0	0	0

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Pos. No.	Item	Note No.	As at the reporting date	Increase (+)/ Decrease (-) for the reporting period	As at the beginning of the reporting year
1.2.8	Amounts from payment for shares (participatory interests) included in core capital		0	0	0
1.3	Core capital (Common Equity Tier 1)	4.3.1	9 775 359	(289 128)	10 064 487
1.4	Sources of Additional Tier 1 capital:		0	0	0
1.4.1	Total charter capital, formed by preference shares, including:		0	0	0
1.4.1.1	Issued in accordance with Federal Law No. 191-FZ of 18 July 2009 "On the Use of Government Securities of the Russian Federation for Increasing Capitalisation of Banks"		0	0	0
1.4.2	Share premium		0	0	0
1.4.3	Subordinated loan with additional conditions		0	0	0
1.4.4	Subordinated loan (deposit, borrowing, bond) with indefinite maturity		0	0	0
1.5	Items decreasing sources of Additional Tier 1 capital:		0	0	0
1.5.1	Investments in own preference shares		0	0	0
1.5.2	Investments in capital of financial institutions:		0	0	0
1.5.2.1	immaterial		0	0	0
1.5.2.2	material		0	0	0
1.5.3	Subordinated loan (deposit, borrowing, bond) to financial institutions		0	0	0
1.5.3.1	immaterial		0	0	0
1.5.3.2	material		0	0	0
1.5.4	Negative additional paid-in capital		0	0	0
1.5.5	Commitments to acquire sources of additional paid-in capital		0	0	0
1.5.6	Amounts from payment for shares (participatory interests) included in additional paid-in capital		0	0	0
16.	Additional Tier 1 capital		0	0	0
1.7	Tier 1 capital		9 775 359	(289 128)	10 064 487
1.8	Sources of Tier 2 capital:		2 465 914	1 012 693	1 453 221
1.8.1	Total charter capital, formed by preference shares, including:		0	0	0
1.8.1.1	after 1 March 2013		0	0	0
1.8.2	Charter capital formed by capitalisation of property value increase		0	0	0
1.8.3	Profit:		2 465 914	1 012 693	1 453 221
1.8.3.1	of current year	4.3.	2 465 914	1 012 693	1 453 221
1.8.3.2	of previous years		0	0	0
1.8.4	Total subordinated loan (deposit, borrowing, bond), including:		0	0	0
1.8.4.1	attracted (placed) before 1 March 2013		0	0	0
1.8.4.2	provided in accordance with Federal Law No. 173-FZ of 13 October 2008 "On Additional Measures Aimed at Supporting the Financial System of the Russian Federation"*** and Federal Law No. 175-FZ of 27 October 2008 "On Additional Measures Aimed at Strengthening Stability of Banking System during the Period before 31 December 2014".		0	0	0
1.8.5	Property value increase		0	0	0
1.9	Items decreasing sources of Tier 2 capital:		0	0	0
1.9.1	Investments in own preference shares		0	0	0

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Pos. No.	Item	Note No.	As at the reporting date	Increase (+)/ Decrease (-) for the reporting period	As at the beginning of the reporting year
1.9.2	Investments in capital of financial institutions:		0	0	0
1.9.2.1	immaterial		0	0	0
1.9.2.2	material		0	0	0
1.9.3	Subordinated loan (deposit, borrowing, bond) to financial institutions		0	0	0
1.9.3.1	immaterial		0	0	0
1.9.3.2	material		0	0	0
1.9.4	Commitments to acquire sources of additional paid-in capital		0	0	0
1.9.5	Amounts from payment for shares (participatory interests) included in additional paid-in capital		0	0	0
1.10	Items decreasing Tier 1 and Tier 2 capital:		0	0	0
1.10.1	Receivables more than 30 calendar days overdue		0	0	0
1.10.2	Subordinated loans with value not exceeding 1 percent of the borrowing entity's charter capital		0	0	0
1.10.3	Excess of the aggregate amount of loans, bank guarantees granted by the bank to its participants (shareholders) and insiders over the maximum amount set by federal laws and regulations of the Bank of Russia		0	0	0
1.10.4	Excess of investments in construction, manufacture and acquisition of property and equipment over the amount of sources of fixed and additional paid-in capital		0	0	0
1.10.5	Excess of actual value of the interest of a withdrawn participant of a limited liability company over the value for which the interest was sold to another participant of a limited liability company		0	0	0
1.11	Tier 2 capital		2 465 914	1 012 693	1 453 221
2	Risk-weighted assets (RR thousand)		x	x	x
2.1	required to calculate Common Equity Tier 1 capital adequacy	4.3.	47 893 520	3 672 386	44 221 134
2.2	required to calculate Tier 1 capital adequacy	4.3.	47 893 520	3 672 386	44 221 134
2.3	required to calculate equity (capital) adequacy	4.3.	47 893 520	3 672 386	44 221 134
3	Capital adequacy (%):		x	x	x
3.1	Core (Common Equity Tier 1) capital adequacy	4.3.	20.4	x	22.8
3.2	Tier 1 capital adequacy	4.3.	20.4	x	22.8
3.3	Own (regulatory) capital adequacy	4.3., 5.1.	25.6	x	26.1

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Section 2.

Subsection 2.1. Credit risk

Pos. No.	Item	Note number	As at the reporting date			As at the beginning of the reporting year		
			Value of assets (instruments)	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)	Value of assets (instruments)	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)
1	Credit risk for balance sheet assets	4.3., 5.2.1	45 474 341.	45 314 088	21 271 479	64 498 520	64 368 842	25 518 007
1.1	Total assets with * 0% risk ratio, including:		15 041 918	15 041 918	0	22 333 140	22 333 140	0
1.1.1	cash and mandatory reserves deposited with the Bank of Russia		12 691 297	12 691 297	0	20 035 523	20 035 523	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, etc.		0	0	0	0	0	0
1.2	Total assets with 20% risk ratio, including:		13 767 008	13 767 008	2 753 402	27 816 518	27 816 493	5 563 299
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

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Pos. No.	Item	Note number	As at the reporting date			As at the beginning of the reporting year		
			Value of assets (instruments)	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)	Value of assets (instruments)	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)
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		13 747 462	13 747 462	2 749 492	27 790 122	27 790 122	5 558 024
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:		6 404 894	6 379 070	6 379 070	3 620 155	3 613 464	3 613 464
1.4.1	Loan receivables from banks		1 188 245	1 188 245	1 188 245	1 332 187	1 327 802	1 327 802
1.4.2	Loan receivables from legal entities and individuals		4 874 795	4 853 519	4 853 519	1 604 452	1 602 258	1 602 258
1.4.3	Balances on correspondent accounts		4 458	4 458	4 458	6 662	6 657	6 657
1.4.4	Premises and equipment and intangible assets		73 748	73 748	73 748	70 654	70 654	70 654
1.4.5	Tax receivable and deferred tax asset		223 778	223 778	223 778	566 820	566 820	566 820
1.4.6	Other assets		39 870	35 322	35 322	39 380	39 273	39 273

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Pos. No.	Item	Note number	As at the reporting date			As at the beginning of the reporting year		
			Value of assets (instruments)	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)	Value of assets (instruments)	Assets (instruments) less provisions for possible losses	Value of risk-weighted assets (instruments)
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:		3 429 264	3 429 264	251 063	547 258	547 258	27 363
2.1.1	mortgage loans with 70% risk ratio		0	0	0	0	0	0
2.1.2	claims of clearing participants		3 429 264	3 429 264	251 063	547 258	547 258	27 363
2.2	total assets with higher risk ratios, including:		6 570 076	6 435 647	8 632 100	9 775 988	9 653 024	12 912 686
2.2.1	with 110% risk ratio		2 561 157	2 552 477	2 807 724	3 920 948	3 916 001	4 307 601
2.2.2	with 130% risk ratio		1 999	1 899	2 469	2 370	2 249	2 926
2.2.3	with 150% risk ratio		4 006 920	3 881 271	5 821 907	5 852 670	5 734 774	8 602 159
2.2.4	with 250% risk ratio		0	0	0	0	0	0
2.2.5	with 1 000% risk ratio		0	0	0	0	0	0
3	Total consumer loans, including:		17 908	16 968	16 968	33 295	31 545	31 545
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:		44 356 586	43 857 522	15 107 240	36 654 561	36 453 050	11 374 295
4.1	for high-risk financial instruments		34 335 845	34 078 904	15 020 828	23 866 910	23 821 223	10 844 852
4.2	for medium-risk financial instruments		0	0	0	0	0	0
4.3	for low-risk financial instruments		992 061	992 061	86 412	3 207 216	3 207 217	529 443
4.4	for risk-free financial instruments		9 028 680	8 786 557	0	9 580 435	9 424 610	0
5	Credit risk for derivative financial instruments		0	0	2 022 443	0	0	961 388

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Subsection 2.2. Operational risk

RR'000 (number of)				
Pos. No.	Item	Note number	As at the reporting date	As at the beginning of the reporting year
6	Total operational risk, including:	4.3., 5.2.3	713 426	345 688
6.1	Total income for the purposes of calculating capital allocated for coverage of operational risk, including:		4 756 171	2 304 587
6.1.1	net interest income		565 252	555 309
6.1.2	net non-interest income		4 190 919	1 749 278
6.2	Number of years before the date of operational risk calculation		3	3

Subsection 2.3. Market risk

RUB'000				
Pos. No.	Item	Note number	As at the reporting date	As at the previous reporting date
7	Total aggregated market risk, including:	4.3., 5.2.2	574 534	2 046 343
7.1	total interest rate risk, including:		45 963	102 571
7.1.1	general		43 003	98 313
7.1.2	special		2 960	4 259
7.2	total equity risk, including:		0	0
7.2.1	general		0	0
7.2.2	special		0	0
7.3	currency risk		0	764 199

Section 3. Information on the provision for doubtful loans and other assets

RUB'000

Pos. No.	Item	Note number	As at the reporting date	Increase (+)/decrease (-) for the reporting period	As at the beginning of the reporting year
1	Total actual provision for possible losses, including:				
		2.2.	691 638	360 449	331 189
1.1	for impairment of loans, borrowings and similar debt		155 706	28 084	127 622
1.2	for impairment of other balance sheet assets subject to the loss risk and other losses		36 868	34 812	2 056
1.3	for impairment of credit-related contingencies and securities, 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		499 064	297 553	201 511
1.4	for transactions with residents of offshore zones		0	0	0

Section 4. Information on the 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	Tier 1 capital, RR'000		9 775 359	10 775 360	10 775 360	10 064 487
2	Amount of balance sheet assets and off-balance sheet receivables at risk for the purpose of the financial leverage ratio calculation, RR'000	4.3.1	86 125 870	82 626 066	64 172 487	70 591 270
3	Financial leverage ratio under Basel III, %		11.4	13.0	16.8	14.3

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

(explanatory note 4.3)

1. Creation (additional charge) of provision in the reporting period (RR'000), total 464 813, including for the following reasons:

- 1.1. new loans issued 315 028;
- 1.2. change in the quality of the existing loans 93 535;
- 1.3. changes in an official foreign currency to Rouble exchange rate, as established by the Bank of Russia, 53 711;
- 1.4. other reasons 2 539.

2. Reversal of provision in the reporting period (RR'000), total 436 729, including for the following reasons:

- 2.1. writing off bad loans 6;
- 2.2. loan repayment 341 923;

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- 2.3. change in the quality of the existing loans 64 561;
- 2.4. changes in an official foreign currency to Rouble exchange rate, as established by the Bank of Russia, 30 239;
- 2.5. other reasons 0.

Chairman of the Management Board

G. Kleckner

Chief Accountant

A. Gorokhovskiy

21 April 2016

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

DATA ON MANDATORY RATIOS AND THE FINANCIAL LEVERAGE RATIO (published form)

at 1 January 2016

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

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

OKUD Form Code 0409813
Quarterly (annual)

Section 1. Information on mandatory 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 (H1.1)	4.3., 5.1.	5.0	20.4	22.8
2	Tier 1 capital adequacy ratio (H1.2)	4.3., 5.1.	6.0	20.4	22.8
3	Own (regulatory) capital adequacy ratio H1.0)	4.3., 5.1.	10.0	25.6	26.1
4	Own (regulatory) capital adequacy ratio of non-banking settlement credit institutions (RNKO) (H1.3)				
5	Quick liquidity ratio (H2)	5.1., 5.2.4	15.0	87.3	118.7
6	Current liquidity ratio (H3)	5.1., 5.2.4	50.0	72.1	99.7
7	Long-term liquidity ratio (H4)	5.1., 5.2.4	120.0	32.4	64.7
8	Maximum risk per one borrower or a group of related borrowers ratio (H6)	5.1.	25.0	Maximum 21.6 Minimum 0.0	Maximum 20.0 Minimum 0.1
9	Maximum risk of large credit exposure ratio (H7)	5.1.	800.0	196.5	190.7
10	Maximum amount of loans, bank guarantees granted by the bank to its participants (shareholders) ratio (H9.1)		50.0	0.0	0.0
11	Aggregate risk on exposure of the bank's insiders ratio (H10.1)		3.0	0.0	0.1
12	Equity used to acquire shares (participatory interests) in other legal entities ratio (H12)		25.0	0.0	0.0

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Pos. No.	Item	Note number	Ratio	Actual value at the reporting date	Actual value at the beginning of the reporting year
13	Liquid assets maturing within 30 calendar days to the amount of liabilities of non-banking settlement credit institutions ratio (RNKO) (H15)				
14	Equity/capital adequacy of non-banking settlement credit institutions (RNKO) (H15.1)				
15	Maximum aggregate loans to customers – participants of settlements – for settlement completion (H16)				
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 (H16.1)				
17	Minimum ratio of mortgage coverage to issued bonds with mortgage coverage (H18)				

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):		51 282 816
2	Adjustment of investments in the capital of credit, finance, insurance and other entities whose reporting data are included in consolidated financial statements but excluded from calculation of equity (capital), statutory ratios and amounts (limits) of open currency positions of the 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)		(3 589)
5	Adjustment of lending transactions with securities		0
6	Adjustment to discount contingent credit related commitments to the credit equivalent		35 155 972
7	Other adjustments		6 238 727
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:	4.3.1	80 196 472

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:		45 044 089
2	Diminishing adjustment for the amount of indicators that reduce the amount of the regulatory core capital sources		0
3	Total balance sheet assets at risk, including the adjustment (difference of lines 1 and 2):		45 044 089
Risk related to transactions with derivatives			
4	Total current credit risk related to transactions with derivatives (less variable margin received):		5 494 450
5	Total potential credit risk per counterparty related to transactions with derivatives:		431 359
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		in accordance with Russian accounting rules – not applicable
7	Diminishing adjustment for the amount of the transferred variable margin to the extent applicable		0
8	Adjustment of claims 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):		5 925 809
Risk related to lending transactions with securities			
12	Total claims on lending transactions with securities (without netting):		0
13	Adjustment for the amount of netting of the monetary part (claims and liabilities) on lending transactions with securities		0
14	Amount of credit risk per counterparty related to lending transactions with securities		0
15	Amount of credit risk related to guarantee lending transactions with securities		0

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Pos. No.	Item	Note number	Amount
16	Total claims on lending transactions with securities, including adjustments (sum of lines 12, 14, 15 less line 13):		0
Risk associated with contingent credit related commitments			
17	Total nominal amount of risk associated with contingent credit related commitments:		43 857 522
18	Adjustment related to the credit equivalent ratio application		8 701 550
19	Total amount of risk associated with contingent credit related commitments, including adjustments (difference of lines 17 and 18):		35 155 972
Capital and risks			
20	Tier 1 capital		9 775 359
21	Total amount of balance sheet assets and off-balance sheet receivables at risk for the purpose of financial leverage calculation (sum of lines 3, 11, 16, 19):	4.3.1	86 125 870
Financial leverage ratio			
22	Financial leverage ratio under Basel III (line 20 / line 21), %		11.4

Chairman of the Management Board

G. Kleckner

Chief Accountant

A. Gorokhovskiy

21 April 2016

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

STATEMENT OF CASH FLOWS

(published form)

At 1 January 2016

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

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:		(2 240 849)	(8 766 239)
1.1.1	interest received		2 113 560	1 114 698
1.1.2	interest paid		(987 203)	(426 284)
1.1.3	commissions received		530 385	366 024
1.1.4	commissions paid		(146 498)	(45 624)
1.1.5	income less expenses on transactions with financial assets at fair value through profit or loss available for sale		(876 814)	(7 156 714)
1.1.6	income less expenses on transactions with securities held to maturity		0	0
1.1.7	income less expenses on foreign exchange transactions		(1 761 309)	(1 327 753)
1.1.8	other operating income		147 117	62 798
1.1.9	operating expenses		(1 232 335)	(949 733)
1.1.10	income tax expenses / refund		(27 752)	(403 651)
1.2	Total increase (decrease) in net cash from operating assets and liabilities, including:		13 312 466	13 234 297
1.2.1	net increase / decrease in mandatory reserves with the Bank of Russia		48 411	10 730
1.2.2	net increase (decrease) in investments in securities at fair value through profit or loss		0	1 424 618
1.2.3	net increase (decrease) in debt		35 602 586	(7 275 360)
1.2.4	net increase (decrease) in other assets		(968 093)	(411 816)
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		(21 056 795)	16 785 940
1.2.7	net increase (decrease) in amounts due to customers (non-credit institutions)		(52 170)	2 300 488

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Pos. No.	Item	Note number	Cash flows for the reporting period	Cash flows for the previous reporting period
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 securities issued		16 245	(392)
1.2.10	net increase (decrease) in other liabilities		(277 718)	400 089
1.3	Total for Section 1 (Pos. No. 1.1 + Pos. No. 1.2)		11 071 617	4 468 058
2	Net cash from / used in investing activities			
2.1	Acquisition of securities and other financial assets relating to the category "available for sale"		(763 291)	(2 136 669)
2.2	Proceeds from sale and redemption of securities and other financial assets relating to the category "available for sale"		1 090 932	1 663 795
2.3	Acquisition of securities relating to the category "held to maturity"		0	0

Pos. No.	Item	Note number	Cash flows for the reporting period	Cash flows for the previous reporting period
2.4	Proceeds from redemption of securities relating to the category "held to maturity"		0	0
2.5	Acquisition of property and equipment, intangible assets and inventories		(22 428)	(13 838)
2.6	Proceeds from the sale of property and equipment, intangible assets and inventories		1 181	0
2.7	Dividend income received		0	0
2.8	Total for Section 2 (sum of Pos. No. 2.1–2.7)		306 394	(486 712)
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	2.3.	(2 000 000)	(2 772 000)
3.5	Total for Section 3 (sum of Pos. No. 3.1–3.4)		(2 000 000)	(2 772 000)
4	Effect of changes in official foreign currency exchange rates to the Rouble set by the Bank of Russia on cash and cash equivalents			
			1 555 689	320 372
5	Increase / decrease of cash and cash equivalents		10 933 700	1 529 718
5.1	Cash and cash equivalents at the beginning of the reporting period		7 878 662	6 348 944
5.2	Cash and cash equivalents at the end of the reporting period	4.1.1, 4.4.	18 812 362	7 878 662

Chairman of the Management Board

G. Kleckner

Chief Accountant

A. Gorokhovskiy

18 April 2016

EXPLANATORY NOTE

Name of the credit institution:

COMMERZBANK (EURASIJA) SAO

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) SAO (hereinafter, the "Bank") presents its 2015 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 for 2015.

In accordance with the requirements of paragraph 3.2 of 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 2016. The fact of approval is disclosed on the Bank's Internet site (www.commerzbank.ru).

This Explanatory Note to annual financial statements for 2015 is presented in thousands of the Russian Roubles, unless otherwise stated.

1. SIGNIFICANT INFORMATION ON THE CREDIT INSTITUTION

Commerzbank (Eurasija) SAO is a joint stock bank and has been operating in Russia since late 1998. The Bank's operations are regulated by the Central Bank of Russia (the "Bank of Russia") in accordance with Russian law.

The Bank performs its banking operations under General Banking Licence No. 3333 issued by the Bank of Russia on 24 September 2010 for an unlimited period of time. These operations are performed in accordance with the Federal Law "On Banks and Banking Activities" and other laws of the Russian Federation. From its registration in the end of 1998 to obtaining its general licence, the Bank operated on the basis of Banking Licence No. 3333.

The Bank operates as a professional stock market participant based on the following licences:

Licence of professional stock market participant to perform depository activities No. 177-06526-000100 of 8 April 2003.

Licence of professional stock market participant to perform securities management activities No. 177-06523-001000 of 8 April 2003 (cancelled by the decision of the Bank of Russia dated 2 March 2016 based on the Bank's application).

Licence of professional stock market participant to perform dealer activities No. 177-06519-010000 of 8 April 2003.

Licence of professional stock market participant to perform broker activities No. 177-06515-100000 of 8 April 2003 (cancelled by the decision of the Bank of Russia dated 2 March 2016 based on the Bank's application).

The Bank has participated in the state deposit insurance system for individuals in the Russian banks since February 2005. The Bank's liabilities related to deposits of up to RR 1 400 thousand placed by individuals are insured against the termination of operations or withdrawal of the banking licence by the Bank of Russia.

The Bank is a successor of Dresdner Bank ZAO which was merged into Commerzbank (Eurasija) SAO on 24 September 2010 and before the merger performed banking operations on the basis of General Licence No. 2455. Dresdner Bank ZAO's licence was cancelled as a result of its merger into the Bank.

The Bank has one branch located in St. Petersburg. The branch serves the Bank's clients in this region and provides necessary services within the scope of the transactions conducted by the head office. The Bank has no other business units (branches, additional offices, representative offices, etc.).

Most of the operations are performed by the Bank's head office in Moscow.

The Bank has no credit ratings given by any Russian or international rating agency.

The Bank's liabilities are secured by a letter of comfort from Commerzbank AG (see the 2015 Annual Report of Commerzbank Group, page 289):

https://www.commerzbank.de/media/en/aktionaere/haupt/2016_5/geschaeftsbericht_2015.pdf

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 (Germany), one of the largest German banks, which means that the Bank is a member of a foreign banking group.

As at February 2016, Commerzbank AG had the following shareholding structure:

- approximately 15% of shares of Commerzbank AG are owned by the Federal Republic of Germany;
- approximately 5% of shares belong to BlackRock (BlackRock Inc., NY USA);
- 50% belong to institutional investors with lower ownership share;
- 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, with Germany and Poland being the key ones. Commerzbank Group serves almost 16 million private customers and one million corporate clients, finances more than 30 percent of German foreign trade and is the leader in lending to small and medium businesses. Also, Commerzbank AG has one of the most significant branch network (around 1 050 branches and 90 consulting centres) among private German banks. As of 1 January 2016, Commerzbank Group had 51 305 employees.

As of the end of 2016, Commerzbank AG had the following long-term credit ratings:: Baa1 (Moody's), BBB+ (S&P), BBB (Fitch). As of the date of these Annual financial statements, Fitch rating was increased to BBB+, all other ratings were unchanged.

Consolidated financial statements of Commerzbank Group for 2015 are published on the Bank's Internet site www.commerzbank.com.

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) SAO, 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) SAO, 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 of Commerzbank AG 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, stock market operations, transactions with derivatives, settlement transactions and provides services related to corporate current accounts.

TRANSLATOR'S 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.

The Bank is an active participant of the interbank foreign exchange market, interbank lending market and foreign exchange market of the Moscow Exchange.

Transactions with individuals account for an insignificant percentage of the Bank's total operations.

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 2015 are provided in the table below:

Table 2.2.1

Item	1 January 2016 (RR'000)	1 January 2015 (RR'000)	(RR'000)	Changes (%)
Bank's equity (capital)	12 241 273	11 517 708	723 565	6.3
Profit after income tax	2 537 616	1 670 950	866 666	51.9
Total assets	51 282 816	67 716 051	(16 433 235)	(24.3)
в том числе:				
Net loans outstanding	21 431 143	52 121 848	(30 690 705)	(58.9)
Including:				
• deposits with the Bank of Russia	0	14 000 000	(14 000 000)	(100.0)
• credit institutions	1 182 338	13 804 574	(12 622 236)	(91.4)
• customers	20 248 805	24 317 274	(4 068 469)	(16.7)
Investments in securities and derivative financial instruments	8 541 199	6 015 294	2 525 905	42.0
Total liabilities	39 002 250	56 176 030	(17 173 780)	(30.6)
including:				
• customer accounts	24 760 162	23 717 233	1 042 929	4.4
• amounts due to credit institutions	11 461 406	31 194 116	(19 732 710)	(63.3)

The Bank's assets decreased by RR 16 433 235 thousand (24.3%) during 2015 and amounted to RR 51 282 816 thousand as of 1 January 2016.

Assets decreased primarily through the decrease in the loans outstanding (by RR 30 690 705 thousand), at the same time there was an increase in the amounts recorded in the Bank's correspondent accounts (balance sheet line "Deposits of credit institutions with the Bank of Russia" (by RR 6 654 584 thousand) and "Amounts due from credit institutions" (by RR 4 236 069)). As shown in the table above, loans outstanding decreased in all principal areas of placement: short-term placements (interbank loans and deposits) with the Bank of Russia and credit institutions (by RR 26 622 236 thousand), as well as lending transactions (primarily long-term ones) with customers (by RR 4 068 469 thousand).

The Bank's liabilities decreased by RR 17 173 780 thousand, which was due to decrease in the amounts due to banks by RR 19 732 710 and at the same time an increase in the balances on current and deposit accounts by RR 1 042 929 thousand. The amounts due to bank were reduced due to repayment of short-term interbank loans raised and the repayment amount was in line with the change in the short-term assets, namely net change (in aggregate) in the balances on the Bank's correspondent accounts and interbank loans and deposits as discussed above.

The Bank's equity (capital) increased by RR 723 565 thousand (+6.3%). This increase was brought about by the Bank's net profit for 2015 which exceeds the amount of dividends paid by the Bank for the same period.

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

Table 2.2.2

Item	for 2015 (RR'000)	for 2014 (RR'000)	Changes (RR'000)	(%)
Interest income	2 057 978	1 161 392	896 586	77.2
including that from investments in securities	195 444	223 832	(28 388)	(12.7)
Interest expense	(997 664)	(450 317)	(547 347)	(121.5)
Net interest income	1 060 314	711 075	349 239	49.1
Change in loan and interest provisions	(28 061)	(56 452)	28 391	50.3

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Net interest income less provisions	1 032 253	654 623	377 630	57.7
Net loss on transactions with securities and other financial assets at fair value through profit or loss, including:				
on transactions with securities	1 041 868	(4 268 284)	5 310 152	124.4
on transactions with derivative financial instruments related to foreign-currency denominated assets	0	(13 005)	13 005	100.0
on transactions with derivative financial instruments without foreign-currency denominated assets (single currency interest rate swaps)	1 066 386	(4 349 409)	5 415 795	124.5
Net gain on foreign exchange transactions and currency translation	(24 518)	94 130	(118 648)	(126.0)
Fee and commission income	2 320 870	6 523 513	(4 202 643)	(64.4)
Fee and commission expense	533 911	366 791	167 120	45.6
Changes in the provision for other losses	(146 498)	(45 624)	(100 874)	(221.1)
Net income (expense)	(332 394)	(110 602)	(221 792)	(200.5)
Operating expenses	4 558 990	3 122 762	1 436 228	46.0
Profit before tax	(1 268 546)	(958 538)	(310 008)	(32.3)
Taxes accrued (including income tax)	3 290 444	2 164 224	1 126 220	52.0
Profit for the reporting period	2 537 616	1 670 950	866 666	51.9

In 2015, the Bank's profit before tax increased by RR 1 126 220 thousand (+52.0%). The profit grew as the Bank's income increased by RR 1 436 228 thousand (46.0%), while operating expenses increased to a lesser degree – by RR 310 008 thousand (32.3%).

2015 saw growth of all net income categories (interest income, commission income, gain on foreign exchange transactions and other income). The principal driver of the Bank's net income and profit growth was aggregate income from currency and derivative financial instruments, including net income from dealing in foreign currencies and from revaluation of foreign currency balances, and also net result on transactions with derivatives related to foreign currency-denominated assets. In 2015, the net result in this income category was positive and amounted to RR 3 387 256 thousand as compared to RR 2 174 104 thousand generated in 2014 – increase by RR 1 213 152 thousand (55.8%).

In 2015, net interest income before the change in provision for possible losses also grew significantly – by RR 349 239 thousand (49.1%). The growth was seen in interest income both from operations with customers and interbank transactions. The growth was primarily due to the increased Rouble interest rates.

In 2015, expense on provision for possible losses (in aggregate for loans and other losses) increased by RR 193 401 thousand and this amount mostly resulted from settlement of provisions for other losses, including provisions for issued guarantees, open/confirmed letters of credit and open credit facilities.

An increase in the Bank's operating expenses in 2015 compared to 2014 was not only a result of inflation but also of the increase in US Dollar and Euro to Russian Rouble rate, which brought about an increase in the Bank's expenses that depend upon exchange rates.

2.3. DECISIONS ON NET PROFIT DISTRIBUTION AND DIVIDEND PAYMENTS

In 2015, the Bank paid dividends from prior years' retained earnings in the total amount of RR 2 000 000 thousand.

In 2014, the Bank paid dividends in the total amount of RR 2 772 000 thousand, including:

- RR 272 000 thousand from 2013 net profit, which accounts for 20% of the Bank's net profit for 2013;
- RR 2 500 000 thousand from prior years' retained earnings.

In 2015, at the decision of the Bank's Sole Shareholder the prior year's net profit (in 2014 less dividends paid) was retained by the Bank.

Information on dividends paid in 2016 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, 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 2015 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 2% of the audit fee.

2.5. OPERATING ENVIRONMENT

The Russian Federation displays certain characteristics of an emerging market. Its economy is sensitive to oil and gas prices. The tax, currency and customs regulatory frameworks within the Russian Federation continue to develop and are subject to frequent changes and varying interpretations. Low oil prices, continuing political tensions in the region, as well as international sanctions against Russian companies and individuals had a negative impact on the Russian economy in 2015. The above resulted in the economic downturn in Russia, which is characterised by declining gross domestic product. Financial markets continue to demonstrate lack of stability, frequent and material changes in prices and increased spreads on trade transactions. Russia's credit rating was downgraded to below investment grade.

This operating environment has a significant impact on the Bank's operations and its financial position. Management is taking necessary steps to ensure sustainability of the Group's operations. However, the future impact of the current economic situation is difficult to predict, and the current expectations and assessments by the management may 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 recognition of individual types of material transactions and events are disclosed below.

3.1. PRINCIPLES AND METHODS OF MEASUREMENT AND RECOGNITION 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. BASIS OF ACCOUNTING FOR 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. BASIS OF ACCOUNTING FOR LOANS OUTSTANDING

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 "Accounting Rules for Credit Institutions Located in the Russian Federation" No. 385-P of 16 July 2012.

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 "On the Procedure for Booking Provisions against Possible Losses from Loans, Borrowings and Similar Debt by Credit Institutions" of 26 March 2004. Credit risk is assessed, loans are classified and assessed and provisions are estimated and actual provisions are booked once the reasons provided for by Regulation of the Bank of Russia No. 254-P of 26 March 2004 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 40 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 property and equipment and accumulated impairment losses, where required.

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

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

Gains and losses on disposals determined by comparing proceeds with the carrying amount are recognised in the financial result for the year within other operating income or expenses.

Depreciation

Depreciation on depreciable property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	Useful lives in months (years)
1. Computer hardware	25–60 months (2–5 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)

Expenses related to inseparable leasehold improvements under lease agreements are not reimbursed to the Bank by the lessors and recorded within the financial result.

3.6. BASIS OF ACCOUNTING FOR INVESTMENTS IN SECURITIES**Trading securities**

Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists.

The Bank may choose to reclassify a non-derivative financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term.

Trading securities are carried at fair value. Interest income on trading securities is recorded as interest income from investments in securities within the financial result for the year. All other elements of the changes in the fair value and gains or losses on derecognition are recorded within the financial result for the year as gains less losses from trading securities in the period in which they arise.

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.

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. RECLASSIFICATION OF SECURITIES AND RECORDING THEIR FAIR VALUE

In accordance with the Bank of Russia's Instruction No. 3498-U of 18 December 2014 banks had the right to reclassify in December 2014 securities from available for sale to held to maturity at the prices as at 1 October 2014 provided such decision was taken before 31 December 2014.

The Bank did not take a decision on reclassification. The Bank recognises securities on the balance sheet at their actual fair value at each reporting date.

3.8. BASIS OF ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS (DERIVATIVES)

Initially recognition of derivatives is performed as 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 the 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.

3.9. 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.

3.10. 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).

3.11. 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.

Deferred 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.

3.12. 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 a significant adjustment 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 non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when the decision about a review was made. Under certain circumstances reviews may cover longer periods.

As Russian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall 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 are more detailed 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 allows tax authorities to assess additional taxes for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis.

The Bank believes that its pricing policy applied in 2015 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.

3.13. 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.

3.14. INFORMATION ON NON-ADJUSTING SUBSEQUENT EVENTS

On 9 March 2016, COMMERZBANK (EURASIJA) SAO filed the new version of the Bank's Charter with the Bank of Russia for registration. According to the new version, the title to the Bank will be changed to COMMERZBANK (EURASIJA) AO. Other changes are related to the issues of corporate governance.

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.

3.15. CHANGES MADE TO THE ACCOUNTING POLICY

The Bank did not introduce any significant changes to the accounting policy except for accounting for premium and discount on the securities acquired. Starting from 1 January 2015 the Bank will accrue discount and amortise premium (previously the Bank did not amortise premium and accrued discount only for the securities where discount existed at the time of issue). In January 2015, the Bank adjusted accruals as at 1 January 2015 and subsequently made daily accruals.

As a result of the above changes in the accounting policies in 2015 information for interest income from transactions with securities for 2015 and 2014 became incomparable.

The following amendments are made to the Company's accounting policies for 2016:

Accounting treatment for fixed and intangible assets:

- increased upper threshold for the value of PP&E up to RR 100 thousand (exclusive of VAT) (previously: RR 40 thousand (exclusive of VAT));
- accounting at cost of an acquisition less impairment (previously: at cost of an acquisition);
- including future upgrading costs and retirement of PP&E into the purchase price, discounting future obligations of incur costs (previously: costs were expensed in the period when maintenance and, accordingly, retirement of PP&E took place);
- accruing depreciation/amortisation charges starting from the purchase/ recognition date until disposal (previously: starting from the month following the purchase/ recognition date until the month of disposal inclusively);
- calculating depreciation/amortisation down to the residual cost (previously: depreciated to their full write-off);
- accounting for non-exclusive rights of claim, including those under licences/investments into software, as intangible assets (previously: the Bank accounted for such investments for the term of over 1 year as prepaid expenses).

Accounting treatment for income and expenses:

- change in the approach to accruing commissions under interest bearing credit transactions from immediate recognition to recognition over the term of the credit and non-recognition of such commissions for accounting purposes for debt with 4 to 5 quality categories (previously they were recognised);
- amortisation of premiums on securities is recorded on expense accounts (previously: net interest income was recorded on income accounts).

Accounting treatment for employee benefits:

- accruing annual bonuses in the same reporting period when such bonuses are designated, provided the expense is determinable;
- segregating settlements with personnel into short-term and long-term benefits;
- discounting long-term benefit obligations;
- accruing vacations;
- accruing liabilities on contributions to state non-budgetary funds together with the calculation of short-term and long-term obligations for settlements with personnel;
- including voluntary medical insurance expenses and some other expenses within other employee benefit expenses.

The above accounting changes may require reclassification of some items of income and expenses, may result in new types of income and expenses (for example, those arising due to discounting), may require recording certain types of income or expenses in different periods (as compared to the accounting treatment existing until 1 January 2016) and adjustments made in 2016 to the Bank's balance sheet items that are related to balances as of 1 January 2016 and, therefore, may cause incomparability of information in the annual and interim accounting (financial) statements for 2016 and 2015.

3.16. 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 2015, 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 ON HAND**Table 4.1.1.1
RR thousand

	2015	2014
Cash on hand	61 382	60 192
Accounts with the Central Bank of the Russian Federation	12 629 915	5 975 331
Less mandatory reserves	12 368 018	5 665 023
Correspondent accounts with credit institutions in the Russian Federation	1 651 834	32 100
Correspondent accounts with credit institutions in other countries	4 731 128	2 121 347
Total cash and cash equivalents	18 812 362	7 878 662

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. As at 1 January 2016, the excluded amount is RR 8 000 thousand (2014: RR 1 446 thousand).

4.1.2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Table 4.1.2.1
RR thousand

	2015	2014
Derivative financial Instruments	5 929 398	3 312 215
Total financial assets at fair value through profit and loss	5 929 398	3 312 215

As at 1 January 2016 and 1 January 2015, 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 2016 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	5 929 398	1 107 687	30 212 522	25 516 036
including:				
Forward with underlying asset – foreign currency (deliverable)	485 500	688 393	12 526 070	12 743 758
Option with underlying asset – foreign currency	1 276	1 276	94 518	94 518
Swap with underlying asset – foreign currency (deliverable)	1 014 255	275 174	5 888 157	5 172 117
Swap with underlying asset – interest rate (non-deliverable)	15 727	8 141	1 504 500	1 504 500
Swap with underlying asset – interest rate and foreign currency (deliverable)	4 412 640	134 703	10 199 277	6 001 143

Analysis of open derivative financial instruments at 1 January 2015 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	3 312 215	408 890	17 817 262	14 929 520
B T. Ч.				
Forward with underlying asset – foreign currency (deliverable)	110 857	265 080	2 375 219	2 444 112
Swap with underlying asset – foreign currency (deliverable)	240 141	143 810	7 970 035	7 476 008
Swap with underlying asset – interest rate (non-deliverable)	65 439	0	721 000	721 000
Swap with underlying asset – interest rate and foreign currency (deliverable)	2 895 778	0	6 751 008	4 288 400

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

	2015	2014
Placements with the Bank of Russia	0	14 000 000
Interbank loans and deposits:	1 182 338	13 808 959
Short-term placements with banks	0	12 476 771
Other placements with banks	1 182 338	1 332 188
Legal entities	20 385 928	24 405 272
• Corporate loans	19 999 154	23 917 061
• Overdraft loans	386 774	485 545
• Factoring	0	2 666
Individuals – consumer loans	17 908	33 295
Provision for loan impairment	(155 031)	(125 678)
Total net loans outstanding	21 431 143	52 121 848

Economic sector risk concentrations within net loans outstanding are as follows:

Table 4.1.4.2
RR thousand

	2015		2014	
	Amount	%	Amount	%
Loans to legal entities – Russian residents	20 385 928	99.91	24 402 606	99.85
including (by economic sector)				
Processing industries	8 348 499	40.91	15 372 400	62.90
Mining	4 251 491	20.84	1 406 460	5.76
Wholesale and retail trade, repairs	3 551 637	17.41	3 372 519	13.80
Real estate transactions, lease and services	2 271 304	11.13	2 824 483	11.56
Other activities	1 546 224	7.58	900 000	3.68
For completion of settlements (overdraft loans)	386 773	1.90	485 544	1.99
Transport and communications	25 000	0.12	37 000	0.15
Consumer loans to individuals	17 908	0.09	33 295	0.14
Construction	5 000	0.02	4 200	0.02
Factoring	0	0.00	2 666	0.01
Total loans outstanding (*)	20 403 836	100	24 438 567	100.0

(*) before provisions for possible losses

Analysis of the geographical concentration within net 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

Table 4.1.5.1
RR thousand

	2015	2014
Russian government bonds – Federal loan bonds (OFZ)	2 611 801	2 703 079

Analysis of debt securities included in investment in securities and other financial assets available for sale is disclosed in the table below:

Table 4.1.5.2
RR thousand

	1 January 2016		1 January 2015	
	Circulation period	Coupon income	Circulation period	Coupon income
Russian government bonds	from 3 August 2016 to 15 May 2019	from 6.00% to 11.98%	from 3 June 2015 to 15 May 2019	from 6.00% to 7.50%

As at 1 January 2016 and 1 January 2015, securities recorded within available-for-sale securities were not pledged to third parties as collateral.

4.1.6. PREMISES AND EQUIPMENT, INTANGIBLE ASSETS AND INVENTORYTable 4.1.6.1
RR thousand

	Office and computer equipment	Investments in manufacture and acquisition of property and equipment	Total premi-ses and equip- ment	Inventory	Total
Cost at 1 January 2014	251 957	-	251 957	1 963	253 920
Accumulated depreciation	(179 680)	-	(179 680)	-	(179 680)
Carrying value at 1 January 2014	72 277	-	72 277	1 963	74 240
Additions	-	13 385	13 385	3 254	16 639
Transfers	12 146	(12 146)	-	-	-
Disposals (at cost)	(25 873)	-	(25 873)	(2 800)	(28 673)
Disposals (accumulated depreciation)	25 698	-	25 698	-	25 698
Depreciation charge	(17 250)	-	(17 250)	-	(17 250)
Carrying value at 1 January 2015	66 998	1 239	68 237	2 417	70 654
Cost at 1 January 2015	238 230	1 239	239 469	2 417	241 886
Accumulated depreciation	(171 232)	-	(171 232)	-	(171 232)
Carrying value at 1 January 2015	66 998	1 239	68 237	2 417	70 654
Additions	-	22 278	22 278	2 673	24 951
Transfers	23 361	(23 361)	-	-	-
Disposals (at cost)	(11 934)	-	(11 934)	(2 523)	(14 457)
Disposals (accumulated depreciation)	11 867	-	11 867	-	11 867
Depreciation charge	(19 267)	-	(19 267)	-	(19 267)
Carrying value at 1 January 2016	71 025	156	71 181	2 567	73 748
Cost at 1 January 2015	249 657	156	249 813	2 567	252 380
Accumulated depreciation	(178 632)	-	(178 632)	-	(178 632)

In 2015 and 2014 the Bank did not pledge equipment as collateral to third parties.

At 1 January 2016, the amount of total contractual obligations related to acquisition of property and equipment (obligations to pay for the received property and equipment with deferred settlement date (namely, after fulfilment by the supplier of contractual obligations on equipment delivery and bringing to a serviceable condition) was RR 15 102 thousand (at 1 January 2015: RR 1 455 thousand).

The Bank did not perform revaluation of property and equipment.

4.1.7. OTHER ASSETS

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

Table 4.1.7.1
RR thousand

	2015	2014
Other financial assets		
Amounts due from clearing organisations	1 793 434	546 742
Interest receivable	63 278	103 087
Receivables on commissions	8 585	5 059
Other	1 159	111
Provision for possible losses (-)	(5 221)	(3 971)
Total other financial assets	1 861 235	651 028
Other non-financial assets		
Deferred expenses	25 016	23 628
Prepayments for services	23 753	11 894
Operating lease prepayments	14 314	18 176
Budget settlements on taxes	4 379	2 627
Settlements with staff	3 250	3 475
Accrued cash receivables for services provided	3 121	42 818
Provision for possible losses (-)	0	0
Total other non-financial assets	73 833	102 618
Total other assets	1 935 068	753 646

The structure of other assets by currency is as follows:

Table 4.1.7.2
RR thousand

	2015	2014
Russian Rouble	116 919	101 790
US dollar	51 791	41 345
Euro	1 766 358	610 511
Total other assets	1 935 068	753 646

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 INSTITUTIONSTable 4.1.8.1
RR thousand

	2015	2014
Correspondent accounts	4 116 036	1 902 899
Overnight placements	0	5 629 500
Other received interbank placements and deposits	7 345 370	23 661 717
Total due to other banks	11 461 406	31 194 116

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

4.1.9. AMOUNTS DUE TO CUSTOMERS (NON-CREDIT INSTITUTIONS)Table 4.1.9.1
RR thousand

	2015	2014
Legal entities		
• Current/settlement accounts	16 038 816	13 411 046
• Term deposits	8 717 103	10 297 666
Individuals		
• Current/demand accounts	4 243	8 521
• Term deposits	0	0
Total due to customers (non-credit institutions)	24 760 162	23 717 233

Economic sector concentrations within customer accounts are as follows:

Table 4.1.9.2
RR thousand

	2015		2014	
	Amount	%	Amount	%
Wholesale and retail trade, repairs of transport vehicles and goods	13 424 013	54.23%	12 060 907	50.87%
Processing industries	4 865 789	19.67%	5 774 094	24.35%
Construction	1 656 596	6.69%	321 439	1.36%
Information technologies and computer equipment	1 333 215	5.39%	1 532 841	6.47%
Financial services	859 988	3.47%	820 950	3.46%
Research and development	857 541	3.46%	771 496	3.25%
Real estate transactions, lease and services	733 620	2.96%	1 139 890	4.81%
Insurance	508 628	2.05%	629 564	2.66%
Transport and communications	391 362	1.58%	366 157	1.54%
Mining	10 395	0.04%	176 561	0.74%
Other activities	114 772	0.46%	114 813	0.48%
Total customer accounts	24 755 919	100%	23 708 712	100%

4.1.10. DEBT SECURITIES ISSUED (RUB'000)

	2015	2014
Interest-free promissory notes	16 400	92

The table below discloses the analysis of issued debt securities (in thousands of Russian Roubles):

	1 January 2016		1 January 2015	
	Circulation period (date of placement – date of repayment)	Interest rates	Circulation period (date of placement – date of repayment)	Interest rates
Interest-free promissory notes	12/07/2015	0%	15/05/2013	0%
	–		–	
	26/07/2016		06/04/2015	

At 1 January 2016 and 1 January 2015, the Bank had no overdue debt instruments.

4.1.11. OTHER LIABILITIES

Table 4.1.11.1
RR thousand

	2015	2014
Other financial liabilities		
Interest repayment liabilities	49 923	39 462
Trade payables	31 395	9 533
Outstanding transfers and settlements	0	2 066
Total other financial liabilities	81 318	51 061
Other non-financial liabilities		
Taxes payable other than taxes on income	22 428	9 321
- Provision for non-credit related commitments	32 321	0
Deferred income	0	946
Accrued employee benefit costs	37	204
Settlements with accountable persons	28	171
Total other non-financial liabilities	54 814	10 642
Total other liabilities	136 132	61 703

The structure of other liabilities by currency is as follows:

Table 4.1.11.2
RR thousand

	2015	2014
Russian Rouble	82 793	53 076
US dollar	33 172	2 323
Euro	20 163	6 303
Other currencies	4	1
Total other liabilities	136 132	61 703

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

4.1.12. EQUITY

Share capital of the Bank is represented by ordinary shares. At 1 January 2016 and 2015, all of the Bank's outstanding ordinary shares were fully paid in. All ordinary shares have a nominal value of RR 50 thousand per share (2014: RR 50 thousand per share) and rank equally. Each share carries one vote.

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

All of the ordinary shares issued are owned by Commerzbank AG.

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules.

4.1.13. IRREVOCABLE COMMITMENTS

This line item includes:

- undrawn credit lines (including limits on overdraft loans) of RR 9 728 680 thousand at the reporting date and RR 10 280 435 thousand at 1 January 2015, 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 50 841 969 thousand at the reporting date (RR 16 778 154 thousand at 1 January 2015). 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. 2.2.

In 2015, included in profit were foreign exchange differences, except for foreign exchange differences related to financial instruments through profit or loss, of RR – 1 939 408 thousand (2014: RR 2 823 138 thousand).

Income tax expense for 2015 includes current income tax of RR 236 705 thousand and deferred income tax of RR 515 349 thousand (2014: RR 28 563 thousand and RR 463 762 thousand, respectively).

In 2015 and 2014, 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 2015 is RR 544 262 thousand (2014: RR 395 775 thousand).

During 2015 and 2014 the Bank:

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

The cost and the accumulated depreciation of property and equipment are disclosed in paragraph 4.1.6 of this Explanatory Note. The net financial result from the disposal of property and equipment items in 2015 was positive at RR 1 114 thousand (2014: negative financial result of RR 175 thousand). This financial result is recorded in the amount of RR 1 189 thousand within other income and in the amount of RR 75 thousand within operating expenses (2014: RR 175 thousand within operating expenses).

4.3. EXPLANATORY NOTE TO THE STATEMENT ON CAPITAL ADEQUACY LEVEL

Information about the Bank's compliance with the capital adequacy ratios is disclosed in p. 4.3.1 of this Explanatory Note.

The Bank's equity (capital) does not include any specific instruments (subordinated loans, etc.) in addition to charter capital, funds and reserves. The Report on the capital adequacy level to cover risks, the amount of provision for doubtful loans and other assets, which is included in these annual financial statements, contains detailed information on the structure of the Bank's equity (capital). 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.

Explanation of the changes in equity, Section 1 "Information on Capital Adequacy Level":

During the reporting year, capital (equity) increased by RR 723 565 thousand mainly as a result of the net profit (RR 2 537 616 thousand) generated by the Bank less dividends paid by the Bank (RR 2 000 000 thousand).

Explanation of the methods used to calculate amounts in the Report 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 2.1, 2.2 and 2.3 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.

The current year profit recorded in line 1.8.3.1 of Section 1 (RR 2 465 914 thousand) differs from the net profit in the statement of financial results and the balance sheet (RR 2 537 616 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" of Section 2 "Information of the value of credit, operational and market risks covered by equity":

The line "Credit risk for balance sheet assets" 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). Therefore, adjustments were made to the amounts recorded in columns 7 and 8 as of the beginning of the reporting period as the respective prior year reporting data did not include higher-risk assets.

Explanation of the data presented in Section "For Reference" (Information on movements in the provision for possible losses on 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.

4.3.1. 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 to mandatory ratios in accordance with Instruction of the Bank of Russia No. 139-I of 3 December 2012 "On Mandatory Ratios for Banks".

In 2015 and 2014, there were no violations of the above requirements.

Core capital (Common Equity Tier 1) and Tier 1 capital decreased by RR 289 128 thousand mainly as a result of the inclusion of 2014 profit (audited) in the amount of RR 1 670 950 thousand in the sources of core capital which was set off by dividend payment of RR 2 000 000 thousand (see p. 2.3). Due to the increase in risk-weighted assets (taking into account the exposure to credit-related contingent liabilities and derivatives, and the operational risk), the relevant capital adequacy ratios decreased by 2.4%.

Own (regulatory) capital adequacy ratio (H1.0) went down by 0.5% primarily because of the credit risk growth, largely related to off-balance sheet instruments (guarantees, letters of credit, credit lines) and also to derivative financial instruments, while at the same time the credit risk decreased on balance sheet instruments and due to the reduced open foreign currency positions.

Quick liquidity ratio and current liquidity ratio decreased, but their levels are still very high as compared to the minimum rates set by the regulator.

On the whole, 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 does not have any problems with liquidity, maintains high capital adequacy level and there is a headroom between the Bank's ratios and the mandatory ratios and limits established by the Bank of Russia.

In accordance with the Bank of Russia's Letter No. 211-T, between 1 December 2014 and 1 July 2015 banks have the right to calculate mandatory ratios using transactions in foreign currencies recorded on the balance sheet and off-balance sheet accounts at the official exchange rates as at 1 October 2014. The Bank of Russia extended the period for using this right in 2015 and in Q4 2015 it is effective until 1 January 2016; and it is allowed to apply average exchange rates of the Bank of Russia for valuation of the foreign currency denominated balance sheet items for Q3 2015. The Bank did not use the right and calculated mandatory ratios using current official exchange rates of the Bank of Russia.

Explanation of the financial leverage ratio:

As of 1 January 2016, the difference between the carrying amount of the assets and their value used for calculating the financial leverage ratio is RR 6 238 727 thousand, including the fair value of derivative financial instruments that represent an asset valued at RR 5 929 398 thousand and other differences in the amount of RR 309 329 thousand arising from the calculation method used.

The reasons that led to the reduction of the carrying amount of assets are disclosed in the explanation note to the Bank's key performance indicators (p. 2.2).

There was an insignificant change in the financial leverage ratio for Q4 2015.

4.4. 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 2016 is RR 0 thousand (1 January 2015: RR 0 thousand).

As at 1 January 2016, the Bank had unused limits on credit lines opened with commercial banks in the amount of RR 0 thousand (1 January 2015: RR 0 thousand) and with the Bank of Russia in the amount of RR 6 000 000 thousand (1 January 2015: 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 has developed and approved policies and procedures aimed at risk identification, measurement, monitoring and control, and capital management.

Detailed information about significant 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 significant risk.

The Bank's risk management and control system as a combination of methods and procedures, which enable the Bank to identify, quantify and control its exposure to risks arising on operations of its structural divisions, is based on the aggregate quantitative assessment of all risks and their ratio to the Bank's capital to ensure coverage of risks by capital and financial health in the long-term.

The risk management/control system, all internal policies, recommendations and methods are established at the level of Commerzbank Group and are mandatory for all Commerzbank Group entities, 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.

Four separate departments of Commerzbank Group are in charge of risk management and control: Group Risk Management – Credit Risk Core (GRM-CRC), Group Credit Risk Management Non Core (GRM-CRN), Group Risk Management – Market Risk (GRM-MR), Group Risk Controlling and Capital Management (GRM-CC), Group Risk Management – Intensive Care (GRM-IC). In parallel, there are operating risk management committees: Credit Risk Committee, Market Risk Committee, Operational Risk Committee and Strategic Risk Committee. The Chief Risk Officer acts as a chairman of all four committees and holds the veto power. There is also the Assets and Liabilities Management Committee which deals with the Commerzbank Group's overall asset portfolio. 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 based on the existing risks and a change in the field of the Bank's operations and limits on various transactions based on the historical risk-profitability retrospective review.
- Reporting on all the specified issues to the Bank's executive bodies and the Supervisory Board.

The Bank has developed an authority system under which risk management responsibilities are distributed between the Supervisory Board, executive bodies (the Bank's Management Board, Chairman of the Board,

Executive Committee, Chief Accountant) and the Bank's departments and/or responsible executives (Internal Control Team, Risk Control Team, Credit Department).

The Bank's Supervisory Board is responsible for proper operation of the risk management control system, including key risk management. The Bank's Management Board is responsible for implementing measures to ensure mitigation of risks and monitors compliance of the Bank's operations with the established risk limits.

The Chairman of the Bank's Management Board bears direct responsibility for implementing the risk management system in the Bank.

The level of accepted risks is assessed by the divisions which are independent of those involved in the banking transactions whose activities and risks are analysed:

- The Credit Department represented by the heads of teams is responsible for assessment of credit risks related to counterparty legal entities and individuals.
- The Risk Control Team is responsible for monitoring and assessing market risks (including interest rate and currency risks), liquidity and operational risks.

At the level of Commerzbank Group, the ongoing assessment and control over current risks is also performed by the Central Risk and Capital Management Departments depending on the nature of the accepted risks through direct integration of the Bank's automated banking systems (ABS), including web-applications for risk estimation and established limits control, into the Group's IT infrastructure.

Risk management departments prepare internal risk management reports and provide them to the Bank's executive bodies and heads of structural divisions. Market and liquidity risk reports (on risk levels and use of limits set) are generated on a daily basis and presented to the departments that are responsible for the Bank's currency position and liquidity management and to the Chairman of the Management Board and CFO. For credit risk, daily reports (on risk concentration) as well as monthly reports are prepared for the members of the Bank's Management Board. The Supervisory Board receives rolling reports about the levels of significant risks (credit, market, operational and liquidity risks) twice a year.

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, the Bank applies the following risk grades: 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.

The Bank classifies the following risks as non-financial:

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.

Strategy and business risks – risk of unfavourable change in the Bank's performance due to making erroneous management decisions, including those related to the development, approval and implementation of the Bank's development strategy, inappropriate execution of approved decisions and inability of the Bank's management bodies to adapt to changing external factors.

Legal risk – risk of loss as a result of the Bank's and/or its counterparties' defaults under the existing contracts, legal errors made by the Bank in the course of its operations (e.g. incorrect legal advice or document preparation, including under legal proceedings), imperfection of legal framework (e.g. inconsistency of laws, lack of legal regulation of individual issues arising in the course of the Bank's operations); violation of regulations by counterparties, location of the Bank's branches, legal entities controlled by the Bank or where the Bank exercises significant influence and the Bank's counterparties under different jurisdictions.

Regulatory risk – the possibility 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 Bank classifies the following risks as financial:

Credit risk, market risk, (including currency and interest rate risks), liquidity and operational risk.

Operational risk is the risk of losses through inadequate or defective management systems and processes, technical failures or external events. GRM-CC determines the operational risk strategy and principles. The Bank's Management Board is responsible for implementation of these policies and guidelines, for introduction and application of the methodologies and tools developed by GRM-CC, for performance of detailed risk estimation, proactive operational risk management and initiation of risk mitigating steps.

At the Group level the operational risk is measured using both the bottom-up and top-down approach. The internally recorded loss data are enhanced by industry data, which is also used in the scenario analysis. The qualitative assessment is regularly carried out across all of the Bank's processes using structured questionnaires. The assessment is supplemented by the use of key risk indicators which allow for monitoring sensitive processes as part of the daily operational risk management. Operational risk is assessed through mathematical-statistical risk modelling. Through the analysis of internal and external loss data in considering qualitative ratings, the model calculates both the economic and regulatory capital in terms of VaR.

The Bank uses Base Indicative Approach for the purpose of estimating the requirements to equity (capital) as related to the operational risk.

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.

Subcategories of operational risk include internal and external fraud risk, information technology risk, legal risk, organisational risk, business process risk and catastrophe and emergency risks.

Market risk represents a possibility of financial loss as a result of changes in current (fair) value of the Bank's financial instruments and in foreign exchange rates and/or official prices for precious metals.

For estimating the requirements to equity (capital) as related to the market risk, the Bank identifies and calculates the following components:

- 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.

In addition, for efficient market risk management the Bank applies 1-day holding period and a 97.5% confidence level to VaR calculation. General market risk is calculated by means of historical simulation. The latest 254 days are taken into account to estimate profit/loss probability distribution of any given portfolio. The specific market risk is assessed by means of credit spread variance, where credit spread is the difference in the yield of financial instruments due to a different credit quality. Internal model is used for calculation of the market risk. The Group Risk Management - Market Risk (GRM-MR) of Commerzbank Group is responsible for changing the model parameters. Major changes in the model require approval of the Board of Directors of Commerzbank Group.

VaR model is based on historical data, thus its forecasting capability is limited. Reliability of this model is regularly checked by back-testing. The validation is based on the actual profit/loss for the portfolio under the same assumptions over the same holding period. Comparing each VaR figure to the respective back-testing profit/loss for a certain period gives a meaningful picture of how well the model performed in forecasting risk. If the model captures all risks and estimates VaR correctly, the number of observations with back-testing exceeding VaR must correspond to its confidence level. Some more sophisticated back-testing methods are also used by the Bank, including those for reviewing the reliability of results obtained on the basis of VaR. Although VaR allows for assessing possible losses in the general market environment it does not allow for projecting loss under extreme market conditions. According to Commerzbank Group's

methodology and guidelines of the Basel Committee, on a daily basis, the Bank additionally calculates figures using stress-VaR approach which considers application of possible stressful events for certain positions.

To reduce its market risks, the Bank takes the following steps:

- sets limits on the level of exposure by currency and in total for both overnight and intra-day positions;
- controls compliance with the established market risk limits and open currency positions (OCP) in total across all currencies and monitors OCPs on a currency-by-currency basis;
- has the Procedure for Putting Foreign Exchange Transactions on Currency Position and Payments on Payment Position in place under which the Financial Market Trading Department is informed about all movements in the open currency position;
- monitors market risks (interest rate and currency risks) on a regular basis using the software application developed by Commerzbank AG. In case of a potential unfavourable change in the currency risk the Bank has a plan in place to change the currency structure of its assets and liabilities.

Interest rate risk. The market risk includes, in particular, the interest rate risk inherent in the banking book (hereinafter, the interest rate risk), which represents the risk of the deterioration of the Bank's financial position due to the decrease in equity, revenue level, value of the assets that are sensitive to the changes in the market interest rates as a result of such changes:

- yield curve risk is the risk of the change in the present value of Bank's financial instruments caused by changes in the discount rates due to the effect of market conditions;
- option risk is the risk of the deterioration of the Bank's financial position due to the possibility of exercising embedded options in the Bank's financial instruments by the Bank's customers;
- repricing risk is the risk of the deterioration of the Bank's financial position due to the changes in the interest rates in the case of instruments with floating rates when the base interest rates are changed, including the additional risk arising when different basis rates are used;
- funding risk is the risk of the deterioration of the Bank's financial position in the future if financial instruments are entered into in the environment of unfavourable changes in market interest rates, i.e. financial assets are acquired at below market rates and financial liabilities – at above market rates.

The interest rate risk is assessed for the instruments in the banking book in the 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. To manage market risk, the Bank uses the following methods:

- bringing down interest rate risk by pursuing conservative interest rate policy;
- ensuring a balanced and flexible approach in establishing interest rates for attraction and placement of resources;
- analysing an interest rate gap to identify the Bank's potential exposure to market interest rate fluctuations;
- analysing assets and liabilities by maturity and interest rate;
- including a clause in the agreements to be concluded on possible revision of the fee charged for services provided depending on changes in the refinancing and market rates.

Liquidity risk is the risk of the Bank's inability to finance its operations, i.e. ensure the asset base growth and meet liabilities when due without incurring such losses that may endanger the Bank's financial sustainability.

Liquidity risk includes the risk of failure to meet an obligation in the required currency and at current market rates. Liquidity risk reflects the availability of finance (in the capital and monetary market) and the liquidity of assets. Efficient management of this risk requires measurement and control systems which allow for reviewing the full maturity spectrum of the underlying banking products. Ensuring that the Bank is solvent at all times is the duty of the Treasury, which manages the Bank's liquidity.

Solvency at the Group level is measured on the basis of internal liquidity model based on gap analysis of liquidity profile mismatch (LAB – Liquidtatstablaufbilanz). The Bank assesses liquidity risk based on daily liquidity gap analysis (LAB), which is based on evaluation of expected cash flows from all the Bank's transactions during unlimited time interval. LAB analysis is formed on a daily basis taking into account seven cash flow types (7-LAB

step modelling) allocated by time intervals, including expected cash flows from 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.

Calculated liquidity cash flows (LAB) indicate the extent to which the Bank is able to cover liquidity shortfalls by making use of its liquidity reserves. These liquidity reserves consist of highly liquid assets like bonds or loans eligible for collateral in transactions with the CBRF. Only unencumbered assets (i.e. those not subject to repo or lending transaction) are considered. All above assets are grouped into different asset classes depending on the instrument's market liquidity. Based on these classifications a projection of the amount of cash that can be generated by repo agreements for these assets is prepared. Balance sheet liquidity flows are calculated daily under normal and stress scenarios and contain all relevant repo receipts by currency that can be realised based on the Bank's current assets.

LAB Concept assumes stable funding, which defines the proportion of the loan portfolio and other financial instruments with maturities over one year to long-term finance, including the Bank's long-term customer deposits. This concept serves as the basis for resolving on attraction of long-term finance and the terms of attracting funds.

The Bank identifies assets as a cover for identified possible future liquidity gaps. Such gaps are closed by borrowing against liquid assets or disposal of such assets. Liquidity ratios are calculated under current market conditions and under various stress scenarios influenced by either market or behavioural factors.

Liquidity risk is additionally controlled by means of differentiated system of limits on the basis of LAB analysis. Steering limits are set for each individual currency and for aggregated forward cash position based on the going concern assumption. Independent division – the Risk Controlling Team monitors compliance with the limits on a daily basis for each segment: by the Local Markets Department and the Treasury Department, and for the Bank as a whole. All limit overruns are reported to the Group's Treasury (GM-T) and the Market Risk Committee.

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

- Instant liquidity ratio (H2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand.
- Current liquidity ratio (H3) is calculated as the ratio of liquid assets to liabilities maturing within 30 days.
- Long-term liquidity ratio (H4) is calculated as the ratio of long-term assets (with maturity of over one year) to long-term liabilities and equity.

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

Credit risk is the risk of financial losses due to defaults of borrowers/counterparties or downgraded credit rating of a counterparty. Credit risk also covers country risk, counterparty risk and settlement risk arising from trading activities.

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 target risk limits for the 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 policy. The rating procedure includes both quantitative and qualitative assessment of the counterparties. The final rating is attributed 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, 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.

Based on the existing banking group procedures and in view of the Bank of Russia's requirements, Commerzbank (Eurasija) SAO 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 N6 and N7 ratios calculated in accordance with Instruction of the Bank of Russia No. 139-I.

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

5.2. SUMMARY OF RISKS INHERENT IN VARIOUS BANKING TRANSACTIONS OF THE CREDIT INSTITUTION

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 as at 1 January 2016 and 1 January 2015 is disclosed in respective paragraphs of Explanatory note to the balance sheet. Information about 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:

	2015	2014
Amount of assets classified to Risk Group I	12 691 297	20 035 523
Amount of assets classified to Risk Group II	13 767 008	27 816 493
Amount of assets classified to Risk Group III	0	0
Amount of assets classified to Risk Group IV	6 379 070	3 613 464
Amount of assets classified to Risk Group V	0	0
Amount of assets for which market risk is calculated	2 611 801	2 703 079
Total	35 449 176	54 168 559

Provided below is the information on classification of assets by quality category and provision for possible losses as at 1 January 2016 in accordance with Regulation of the Bank of Russia No. 254-P "On the Procedure for Booking Provisions against Possible Losses from Loans, Borrowings and Similar Debt by Credit Institutions" of 26 March

2004 and Regulation of the Bank of Russia No. 283-P "On the Procedure for Booking Provisions against Possible Losses by Credit Institutions" of 20 March 2006:

Table 5.2.1.2
RR thousand

Name	Amounts due from credit institutions	Total	Loans outstanding including loans outstanding			Other assets
			banks	legal entities	individuals	
Quality category I	6 390 962	13 862 200	1 182 338	12 679 862	-	1 843 055
Quality category II	-	5 998 753	-	5 998 753	-	18 780
Quality category III	-	1 517 908	-	1 500 000	17 908	9 624
Quality category IV	-	99 957	-	99 957	-	-
Quality category V	-	107 356	-	107 356	-	5 160
Total	6 390 962	21 586 174	1 182 338	20 385 928	17 908	1 876 619
Restructured not overdue debt	-	2 713 667	-	2 713 386	281	-
Overdue debt (*)						
- less than 30 days overdue	-	5 000	-	5 000	-	32
- 31 to 90 days overdue	-	-	-	-	-	-
- 91 to 180 days overdue	-	-	-	-	-	-
- over 180 days overdue	-	-	-	-	-	-
Total estimated provision	-	610 284	-	609 344	940	-
Total actual provision	-	155 031	-	154 091	940	5 221
Receivables less actual provision for possible losses	6 390 962	21 431 143	1 182 338	20 231 837	16 968	1 871 398

(*) 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.

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. As at 1 January 2016, the amount of restructured not overdue debt was 5.3% of the total assets (1 January 2015: 5.1%). As at 1 January 2016, the amount of overdue debt was 0.0% of the total assets (1 January 2015: 0.0%).

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

Provided below is the information on classification of assets by quality category and provision for possible losses as at 1 January 2015 in accordance with Regulation of the Bank of Russia No. 254-P "On the Procedure for Booking Provisions against Possible Losses from Loans, Borrowings and Similar Debt by Credit Institutions" of 26 March 2004 and Regulation of the Bank of Russia No. 283-P "On the Procedure for Booking Provisions against Possible Losses by Credit Institutions" of 20 March 2006:

Table 5.2.1.3
RR thousand

Name	Amounts due from credit institutions	Total	Loans outstanding including loans outstanding			Other assets
			banks	legal entities	individuals	
Quality category I	2 153 447	34 030 990	13 590 028	20 440 962	-	675 840
Quality category II	1 476	3 881 944	218 925	3 663 019	-	19 063
Quality category III	-	197 152	-	163 857	33 295	6 983
Quality category IV	-	68 343	-	68 343	-	-
Quality category V	-	69 097	6	69 091	-	2 511
Total	2 154 923	38 247 526	13 808 959	24 405 272	33 295	704 397
Restructured not overdue debt	-	3 464 755	-	3 464 755	-	-
Overdue debt (*)						
- less than 30 days overdue	-	-	-	-	-	-
- 31 to 90 days overdue	-	-	-	-	-	-

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Name	Amounts due from credit institutions	Total	Loans outstanding including loans outstanding			Other assets
			banks	legal entities	individuals	
- 91 to 180 days overdue	-	6	6	-	-	59
- over 180 days overdue	-	69 091	-	69 091	-	485
Total estimated provision	30	220 886	4 385	214 751	1 750	
Total actual provision	30	125 678	4 385	119 543	1 750	3 970
Receivables less actual provision for possible losses	2 154 893	38 121 848	13 804 574	24 285 729	31 545	700 427

The difference of RR 14 000 000 thousand shown in the table on net loans outstanding (RR 38 121 848 thousand) as at 1 January 2015 compared to the corresponding line in the published statement of financial position – OKUD form 0409806 (RR 52 121 848 thousand) represents the amount of deposits in the Bank of Russia.

The following table provides information about collateral used in setting provisions in accordance with the requirements of Regulations of the Bank of Russia No. 254-P and 283-P:

Table 5.2.1.4
RR thousand

	1 January 2016			1 January 2015		
	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	9 587 639	9 587 639	0	6 552 339	6 552 339	0
Other guarantees	0	0	0	48 000	48 000	0
Cash deposits	4 383	4 383	0	54 683	54 683	0
Total collateral	9 592 022	9 592 022	0	6 655 022	6 655 022	0

The Bank accepts a wide range of assets and instruments as 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.

As at 1 January 2016 and 1 January 2015, 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.

5.2.2. MARKET RISK

As at 1 January 2016, market risk used to calculate capital adequacy ratios in accordance with Regulation of the Bank of Russia No. 387-P was RR 574 534 thousand (1 January 2015: RR 2 046 343 thousand).

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. 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.

Market risk exposure of the Bank as at 1 January 2016 as measured by VaR is presented in the table below.

RR thousand

Treasury Department				
Portfolio	Interest rate	Credit spread	Foreign currency	Total
Trading book	19 287	-	45 507	49 492
Banking book	20 402	15 939	38 653	27 177
Department for Financial Market Operations				
Portfolio	Interest rate	Credit spread	Foreign currency	Total
Trading book	558	-	46 782	46 703

Market risk exposure of the Bank as at 1 January 2015 as measured by VaR is presented in the table below.

RR thousand

Treasury Department				
Portfolio	Interest rate	Credit spread	Foreign currency	Total
Trading book	55 973	-	43 671	75 109
Banking book	55 153	9 773	25 902	50 847
Department for Financial Market Operations				
Portfolio	Interest rate	Credit spread	Foreign currency	Total
Trading book	1 299	-	1 230	1 845

Information about sensitivity of the Bank's assets and liabilities is disclosed below:

Interest rate risk

All of the Bank's interest bearing financial assets and liabilities reprice within 5 years (2014: within 5 years).

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 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:

	RR thousand	
	1 January 2016	1 January 2015
Russian Rouble	(437 937)	208 596
US Dollar	(25 981)	5 925
EURO	(9 366)	1 182

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

	RR thousand	
	1 January 2016	1 January 2015
Securities at fair value through profit or loss	-	-
Securities available for sale	(450 114)	(251 316)

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 monitoring Value at Risk 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. Actual exposures against limits are monitored daily.

The table below presents sensitivity of the Bank's net assets to an increase in the foreign currency exchange rates by 30% (2014: 30%) calculated on the basis of open currency positions determined under the methodology of the above Instruction of the Bank of Russia (form 0409634):

	RR thousand	
	1 January 2016	1 January 2015
EURO	(30 066)	154 530
US Dollar	(30 117)	62 790
Other currencies in aggregate	48 262	11 610

Sensitivity of the Bank's net assets to a decrease in exchange rates by 30% (2014: 30%) will be approximately the same, but with opposite sign:

5.2.3. OPERATIONAL RISK

As at 1 January 2016, operational risk used to calculate capital adequacy ratios in accordance with Instruction of the Bank of Russia No. 139-I and Regulation of the Bank of Russia No. 395-P was RR 713 426 thousand (1 January 2015: RR 345 688 thousand).

5.2.4. LIQUIDITY RISK

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 in diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

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%.

As of 1 January 2016:

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 maturit y	Total
ASSETS							
Cash on hand	61 382	0	0	0	0	0	61 382
Accounts with the Central Bank of the Russian Federation	12 368 018	0	0	0	0	261 897	12 629 915
including mandatory reserves	0	0	0	0	0	261 897	261 897
Amounts due from credit institutions	6 382 962	0	0	0	0	8 000	6 390 962
Financial assets at fair value through profit or loss (*)	0	0	0	0	0	0	0
Net loans outstanding	2 070 757	5 373 741	7 176 088	5 110 137	0	0	19 730 723
Net investment in securities and other financial assets available for sale	2 611 801	0	0	0	0	0	2 611 801
Current income tax receivable	0	0	0	0	0	211 297	211 297
Deferred tax asset	0	0	0	0	0	8 102	8 102
Premises and equipment, intangible assets and inventory	0	0	0	0	0	73 748	73 748
Other assets, including	1 864 859	355 274	385 153	632 553	0	125 085	3 362 924
Interest receivables (including coupon income)	62 978	355 274	385 153	632 553	0	0	1 435 958
Other liquid assets	1 801 881	0	0	0	0	125 085	1 926 966
Total assets	25 359 779	5 729 015	7 561 241	5 742 690	0	688 129	45 080 854

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	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 maturit y	Total
Receivables on derivative financial instruments and deals with settlement later than the day of entering into the transaction	41 038 663	1 406 114	152 897	10 752 017	0	0	53 349 691
LIABILITIES							
Loans, deposits and other funds of the Central Bank of the Russian Federation	0	0	0	0	0	0	0
Amounts due to credit institutions	7 817 271	0	0	3 644 135	0	0	11 461 406
Amounts due to customers (non-credit institutions)	22 608 866	2 028 580	122 716	0	0	0	24 760 162
Including deposits of individuals	4 243	0	0	0	0	0	4 243
Financial liabilities at fair value through profit or loss (*)	0	0	0	0	0	0	0
Debt securities issued	0	11 471	4 929	0	0	0	16 400
Current income tax liability	2 916	39 372	0	0	0	0	42 288
Deferred tax liability	0	0	0	0	0	979 111	979 111
Other liabilities, including	163 298	12 072	14 727	75 807	0	37	265 941
Interest repayment liabilities	34 838	12 072	14 727	75 807	0	0	137 444
Other liabilities	128 460	0	0	0	0	37	128 497
Total liabilities	30 592 351	2 091 495	142 372	3 719 942	0	979 148	37 525 308
Liabilities on derivative financial instruments and deals with settlement later than the day of entering into the transaction	40 562 393	1 684 075	134 756	6 773 976	0	0	49 155 200

(*) 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.

As of 1 January 2015:

Table 5.2.4.2

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 on hand	60 192	0	0	0	0	0	60 192
Accounts with the Central Bank of the Russian Federation	5 665 023	0	0	0	0	310 308	5 975 331
including mandatory reserves	0	0	0	0	0	310 308	310 308
Amounts due from credit institutions	2 154 893	0	0	0	0	0	2 154 893
Financial assets at fair value through profit or loss (*)	0	0	0	0	0	0	0
Net loans outstanding	31 503 101	5 165 052	5 898 205	9 259 742	2 857	0	51 828 957
Net investment in securities and other financial assets available for sale	2 703 079	0	0	0	0	0	2 703 079
Current income tax receivable	0	0	0	0	0	380 438	380 438
Deferred tax asset	0	0	0	0	0	183 755	183 755
Premises and equipment, intangible assets and inventory	0	0	0	0	0	70 654	70 654
Other assets, including	765 582	391 209	359 639	859 968	0	97 684	2 474 082
Interest receivables (including coupon income)	212 222	391 209	359 639	859 968	0	0	1 823 038
Other liquid assets	553 360	0	0	0	0	97 684	651 044
Total assets	42 851 870	5 556 261	6 257 844	10 119 710	2 857	1 042 839	65 831 381

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	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
Receivables on derivative financial instruments and deals with settlement later than the day of entering into the transaction	10 825 449	1 207 755	23 287	6 838 091	0	0	18 894 582
LIABILITIES							
Loans, deposits and other funds of the Central Bank of the Russian Federation	0	0	0	0	0	0	0
Amounts due to credit institutions	20 234 079	8 147 117	0	2 812 920	0	0	31 194 116
Amounts due to customers (non-credit institutions)	22 368 296	1 194 588	154 349	0	0	0	23 717 233
Including deposits of individuals	8 521	0	0	0	0	0	8 521
Financial liabilities at fair value through profit or loss (*)	0	0	0	0	0	0	0
Debt securities issued	0	92	0	0	0	0	92
Current income tax liability	2 575	0	0	0	0	0	2 575
Deferred tax liability	0	0	0	0	0	589 910	589 910
Other liabilities, including	154 378	30 656	4 955	35 413	0	946	226 348
Interest repayment liabilities	130 508	30 656	4 955	35 413	0	0	201 532
Other liabilities	23 870	0	0	0	0	946	24 816
Total liabilities	42 759 328	9 372 453	159 304	2 848 333	0	590 856	55 730 274
Liabilities on derivative financial instruments and deals with settlement later than the day of entering into the transaction	10 419 343	1 395 670	112 826	5 427 245	0	0	17 355 084

(*) 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 RISK CONCENTRATION

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. The information on non-resident customers (branches and representative offices of foreign companies) is presented by the location of the head office. Cash on hand and property and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Bank's financial assets and liabilities at 1 January 2016 is set out below:

Table 5.2.5.1

Line item	Total	Russian Federation	CIS countries	Developed countries	including: Germany
ASSETS					
Cash on hand	61 382	61 382			
Accounts with the Central Bank of the Russian Federation	12 629 915	12 629 915			
including mandatory reserves	261 897	261 897			
Amounts due from credit institutions	6 390 962	1 659 834		4 731 128	1 247 101
Financial assets at fair value through profit or loss	5 929 398	476 924		5 452 474	5 435 557
Net loans outstanding	21 431 143	20 952 960	478 183		
Net investment in securities and other financial assets available for sale	2 611 801	2 611 801			
Premises and equipment, intangible assets and inventory	73 748	73 748			
Other assets	2 154 467	2 146 503	2 659	5 305	
Total assets	51 282 816	40 613 067	480 842	10 188 907	6 682 658
LIABILITIES					
Amounts due to credit institutions	11 461 406			11 461 406	11 385 690
Amounts due to customers (non-credit institutions)	24 760 162	22 683 000	3	2 077 087	1 608 902
Including deposits of individuals	4 243	3 882	3	258	204
Financial liabilities at fair value through profit or loss	1 107 687	409 612		698 075	
Debt securities issued	16 400	16 400			
Other liabilities	1 157 531	1 100 287	0	57 244	55 846
Provisions for credit related contingencies, other possible losses and transactions with offshore residents	499 064	499 064			
Total liabilities	39 002 250	24 708 363	3	14 293 812	13 050 438

The geographical concentration of the Bank's financial assets and liabilities at 1 January 2015 is set out below:

Table 5.2.5.2

Line item	Total	Russian Federation	CIS countries	Developed countries	including: Germany
ASSETS					
Cash on hand	60 192	60 192			
Accounts with the Central Bank of the Russian Federation	5 975 331	5 975 331			
including mandatory reserves	310 308	310 308			
Amounts due from credit institutions	2 154 893	33 545		2 121 348	1 611 037
Financial assets at fair value through profit or loss	3 312 215	110 857		3 201 358	3 201 358
Net loans outstanding	52 121 848	39 020 474	624 603	12 476 771	11 026 646
Net investment in securities and other financial assets available for sale	2 703 079	2 703 079			
Premises and equipment, intangible assets and inventory	70 654	70 654			
Other assets	1 317 839	1 248 677	3 311	65 851	
Total assets	67 716 051	49 222 809	627 914	17 865 328	15 839 041
LIABILITIES					
Amounts due to credit institutions	31 194 116	1 450 000		29 744 116	29 198 076
Amounts due to customers (non-credit institutions)	23 717 233	22 615 039	2 448	1 099 689	791 093
Including deposits of individuals	8 521	7 881	143	496	416
Financial liabilities at fair value through profit or loss	408 890	265 080		143 810	143 810
Debt securities issued	92	92			
Other liabilities	654 188	596 545		57 643	7 236
Provisions for credit related contingencies, other possible losses and transactions with offshore residents	201 511	199 174	87		
Total liabilities	56 176 030	25 125 930	2 535	31 045 258	30 140 215

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.

The procedure for risk assessment and management for the purpose of ensuring equity (capital) adequacy is approved by the Supervisory Board. Key provisions of this document are as follows:

In determining the aggregate Bank's equity (capital) required to cover assumed and potential risks the Bank uses regulatory capital. The Bank calculates regulatory capital according to the methodology established by Regulation of the Bank of Russia No. 395-P of 28 December 2012 "On the Methodology to Estimate Equity (Capital) of Credit Institutions ("Basel III")".

Capital adequacy is calculated as the ratio of regulatory capital (determined under the Bank of Russia's methodology) to aggregated quantitative estimate of material risks, namely:

- credit risk on risk-weighted assets;
- credit risk on credit related contingencies;
- credit risk on derivative financial instruments;
- operational risk;
- market risk.

Credit risk

In calculating capital adequacy the Bank assesses assets in accordance with the methodology established by Instruction of the Bank of Russia No. 139-I of 3 December 2012 "On Mandatory Ratios for Banks". This methodology is based upon standardised approach to credit risk assessment recommended by the Basel Committee on Banking Supervision (Basel II). The approach provides for classification of assets into groups from I to V depending upon risk classification and application of risk weighting factor from 0 to 100%. Credit risk on assets is calculated by multiplying the balance (sum of the balances) on the respective balance sheet account(s) or its (their) portion decreased by the amount of provision(s) for possible losses on loans, borrowings and similar debt by the risk ratio (in %). Credit risk on credit related contingencies is calculated using the credit equivalent ratio depending upon the risk inherent in the instrument. Credit risk on derivative financial instruments and term deals is determined by assessment of current credit risk and potential credit risk in accordance with the aforementioned Instruction.

Operational risk

The Bank uses Base Indicative Approach to operational risk assessment for the purpose of estimating the requirements to equity (capital) as related to the operational risk. The application of this method is determined in Regulation of the Bank of Russia No. 346-P of 3 November 2009 "On the Procedure for Calculating Operational Risk". According to the Base Indicative Approach operational risk is determined as the average of the sum of net interest income and net non-interest income received during the three preceding years.

Market risk

For the purpose of estimating the requirements to equity (capital) the Bank uses standardised approach to market risk assessment established by Regulation of the Bank of Russia No. 387-P of 28 September 2012 "On the Procedure for Calculation of Market Risk by Credit Institutions" and developed in accordance with the recommendations of the Basel Committee for Bank Supervision (Basel II).

In determining aggregate market risk exposure standardised approach is used to calculate the following: market risk exposure on securities and derivative financial instruments sensitive to interest rate fluctuation (interest rate risk); market risk exposure on securities and derivative financial instruments sensitive to changes in current (fair) value of equity securities (equity risk); market risk exposure on the positions opened by the Bank in foreign currency and precious metals (currency risk).

In determining market risk exposure calculations are made to individually determine the risk on all net long and short positions depending upon the degree of risk of a financial instrument (security) and overall interest risk, which is calculated separately in each foreign currency and translated into the national currency (Russian Roubles) at the official exchange rate of the Bank of Russia at the date of market risk calculation.

The Bank is integrated into the risk management system of Commerzbank Group, which ensures additional permanent control over risk management from the part of the Bank's Sole Shareholder, and allows the Bank to use the Group's models and risk management systems for efficient risk management.

In addition to the standardised approach, which is based upon the effective regulations of the Bank of Russia on the procedure for risk calculation in assessing capital adequacy, the Bank also uses advanced methods and internal models developed by Commerzbank AG for risk assessment. These models and methodologies have been officially approved by authorised supervisory bodies of the parent bank and approved to be used in determining capital adequacy of Commerzbank Group.

Information about the Bank's risk control and management system and about the most significant risks is disclosed in Section 5 of this Explanatory Note.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets (statutory capital adequacy ratios H1.1, H1.2, H1.0 set by Regulation of the Bank of Russia 395-P) above a prescribed minimum level.

Compliance with capital adequacy ratio set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Board Chairman and Chief Accountant.

Information about the Bank's compliance with the capital adequacy ratios is disclosed in p. 4.3.1 of this Explanatory Note.

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. 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 and affiliates.

Balances with related parties as of 1 January 2016 are presented in RR'000 in the table below:

Table 6.1.

Line item	Total	Parent (shareholder)	Other related parties (organisations)	Key management personnel
ASSETS				
Amounts due from credit institutions	4 698 758	4 698 758		
Financial assets at fair value through profit or loss	5 435 557	5 435 557		
Net loans outstanding	7 105	0		7 105
Other assets	5 881	4 280	241	1 360
OFF-BALANCE SHEET ASSETS				
Receivables on deliverable term deals, cash (spot) deals and derivatives	23 495 141	23 495 141		
Contingent receivables on the guarantees issued by related parties to the Bank (other than counter-guarantees)	22 659 249	22 620 849	38 400	
LIABILITIES				
Amounts due to credit institutions	11 461 406	11 439 606	21 800	
Amounts due to customers (non-credit institutions)	125 321	0	124 495	826
Financial liabilities at fair value through profit or loss	418 024	418 024		
Other liabilities	33 944	33 148	783	13

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Line item	Total	Parent (shareholder)	Other related parties (organisations)	Key management personnel
OFF-BALANCE SHEET LIABILITIES				
Liabilities under deliverable term deals, cash (spot) deals and derivatives	18 767 045	18 767 045		
Irrevocable lines of credit	700 000	700 000		
Guarantees issued by the Bank to third parties on behalf of or counter-guaranteed by related parties	16 208 971	15 875 348	333 623	

Balances with related parties as of 1 January 2015 are presented in RR'000 in the table below:

Table 6.2

Line item	Total	Parent (shareholder)	Other related parties (organisations)	Key management personnel
ASSETS				
Amounts due from credit institutions	2 085 740	2 085 740		
Financial assets at fair value through profit or loss	3 201 358	3 201 358		
Net loans outstanding	12 489 975	12 476 771		13 204
Other assets	54 951	54 154		797
OFF-BALANCE SHEET ASSETS				
Receivables on deliverable term deals, cash (spot) deals and derivatives	16 052 161	16 052 161		
Contingent receivables on the guarantees issued by related parties to the Bank (other than counter-guarantees)	21 924 802	21 886 402	38 400	
LIABILITIES				
Amounts due to credit institutions	29 744 115	29 467 818	276 297	
Amounts due to customers (non-credit institutions)	88 405	0	87 535	870
Financial liabilities at fair value through profit or loss	143 810	143 810		
Other liabilities	9 191	9 064	53	74
OFF-BALANCE SHEET LIABILITIES				
Liabilities under deliverable term deals, cash (spot) deals and derivatives	13 330 313	13 330 313		
Irrevocable lines of credit	700 000	700 000		
Guarantees issued by the Bank to third parties on behalf of or counter-guaranteed by related parties	10 530 815	10 140 196	390 619	

Transactions with related parties for 2015 are presented in RR'000 in the table below:

Table 6.3

Line item	Total	Parent (shareholder)	Other related parties (organisations)	Management personnel
Interest income	60 008	57 947	1 141	920
Interest expense	124 124	103 951	20 173	0
Fee and commission income	121 057	118 204	2 853	0
Fee and commission expense	120 489	120 489	0	0
Other operating income	2 843	0	2 843	0
Operating expenses (*)	430 559	228 192	202 367	()

(*) Information about operating expenses (compensation) related to key management personnel is disclosed in Section 7 of this Explanatory Note.

Transactions with related parties for 2014 are presented in RR'000 in the table below:

Table 6.4

Line item	Total	Parent (shareholder)	Other related parties (organisations)	Management personnel
Interest income	30 837	28 994	471	1372
Interest expense	30 998	23 238	7 760	0
Fee and commission income	16 250	13 577	2 673	0

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Fee and commission expense	26 953	26 953	0	0
Other operating income	59 992	59 992	0	0
Operating expenses (*)	285 010	155 434	129 576	(*)

(*) Information about operating expenses (compensation) related to key management personnel is disclosed in Section 7 of this Explanatory Note.

7. INFORMATION ABOUT COMPENSATIONS PAID TO MANAGEMENT PERSONNEL AND COMPENSATION PLAN OF THE CREDIT INSTITUTION

For the purposes of this report “management personnel” includes: the Chairman and the members of the Bank's Supervisory Board, the Chairman and the members of the Bank's Management Board, the Bank's Chief Accountant and his deputies, the Head and the Chief Accountant of St Petersburg branch, the Bank's Department Heads, the Head of Internal Audit of the Bank, the Head FIC Sales Team and the Head of FIC Trading Team.

Total compensations paid to the management personnel for 2015 was RR 149 920 thousand (2014: RR 118 841 thousand) of which RR 149 920 thousand represent short-term benefits (2014: RR 118 841 thousand) and RR 0 thousand (2014: RR 0 thousand) – long-term benefits. The compensation paid to key management personnel as a percentage of total compensation was 27.5% (2014: 30.0%).

The Bank does not provide post-employment benefits.

The amount of other long-term benefits paid to management personnel (vacation and long service bonuses, occupational disability and other benefits) for 2015 was RR 0 thousand (2014: RR 0 thousand).

The amount of termination benefits to management personnel for 2015 was RR 8 225 thousand (2014: RR 902 thousand).

As at 1 January 2016, the number of the Bank's employees (excluding employees on maternity leave) was 139 (as at 1 January 2015: 145), the number of the Bank's management personnel (excluding the members of the Bank's Supervisory Board) was 17 (as at 1 January 2015: 15). As at 1 January 2016, the Bank's Supervisory Board consisted of 5 members (as at 1 January 2015: 5 members) who were not the Bank's employees. In 2015 and 2014, the members of the Supervisory Board did not get any compensation.

In 2015, the non-fixed part of labour remuneration (annual bonuses) represented 14.2% in the total staff costs (2014: 17.9%).

Amounts of compensation to key management personnel, including risk takers, are stated above. During the reporting period all payments were made in accordance with internal regulations on employee remuneration.

Chairman of the Management Board

G. Kleckner

Chief Accountant

A. Gorokhovskiy

21 April 2016

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