

AO Toyota Bank

Financial Statements

for 2018

and Independent Auditors' Report

CONTENTS

Independent Auditors' Report	3
Statement of Profit or Loss and Other Comprehensive Income	9
Statement of Financial Position	10
Statement of Cash Flows	11
Statement of Changes in Equity.....	12
Notes to the Financial Statements.....	13
1. Background.....	13
2. Basis of preparation	14
3. Significant accounting policies	17
4. Credit risk analysis.....	32
5. Transition to IFRS 9	37
6. Interest income and expense	38
7. Fee and commission income and expense	38
8. Net foreign exchange expense	38
9. Other operating income	39
10. Personnel expenses	39
11. Other general and administrative expenses.....	39
12. Income tax expense.....	40
13. Cash and cash equivalents	41
14. Loans to banks	41
15. Loans to customers	42
16. Property, equipment and intangible assets	46
17. Other assets	47
18. Loans from banks	47
19. Other borrowings and customers' accounts	47
20. Bonds issued, subordinated borrowings and reconciliation of changes in liabilities and cash flows from financing activities	47
21. Other liabilities	48
22. Share capital.....	48
23. Risk management, corporate governance and internal control	49
24. Capital management	73
25. Contingencies	73
26. Operating leases	74
27. Related party transactions	75
28. Subsequent events.....	76
29. Fair values of financial assets and liabilities.....	76
30. Analysis by segment	77



Independent Auditors' Report

To the Shareholders and Supervisory Board of AO Toyota Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of AO Toyota Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with *International Standards on Auditing (ISAs)*. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the independence requirements that are relevant to our audit of the financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audited entity: AO Toyota Bank
Registration No. in the Unified State Register of Legal Entities
1077711000058.
Moscow, Russian Federation

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Registration No. in the Unified State Register of Legal Entities
1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organizations: No. 11603053203.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses ('ECL') for loans to customers

Please refer to the Notes 4 and 15 in the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Loans to customers represent 90% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>From 1 January 2018 the Bank has implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:</p> <ul style="list-style-type: none"> - timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9); - assessment of probability of default (PD) and loss given default (LGD); - assessment of impact of different scenarios and forward-looking information; - expected cash flows forecast for loans to customers classified in Stage 3. <p>Due to the material amount of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.</p>	<p>We analyzed the key aspects of the Bank's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, including involvement of KPMG financial risks management specialists.</p> <p>To analyze adequacy of professional judgement and assumptions made by the management in relation to estimation of ECL, we included in our audit procedures the following:</p> <ul style="list-style-type: none"> - we tested design and operating effectiveness of automated controls related to calculation of allowance for ECL; - we tested timeliness of allocation of loans into Stages; - for sample of loans to retail and corporate customers we tested adequacy of assigning rating to customer based on Bank's own rating model and verified inputs used for calculation of the allowance for ECL. <p>We assessed an overall predictive capability of the Bank's models used for calculation of the allowance for ECL by comparing the estimate made as at 1 January 2018 with actual results for 2018.</p> <p>We also got evidence that the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.</p>



Adoption of IFRS 9 'Financial instruments'	
Please refer to the Notes 4 and 5 in the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The core business of the Bank is related to operations with financial instruments and financial assets constitute a majority of Bank's assets.</p> <p>From 1 January 2018 the Bank has adopted a new accounting standard for financials instruments, IFRS 9, which provides significant changes to classification and accounting of financial assets.</p> <p>Due to adoption of new requirements, which provide significant changes to the current accounting approach for financial instruments, and due to a significant impact of the new standard on the financial position and performance of the Bank, this area is a key audit matter.</p>	<p>We analyzed definition of business models used to manage financial assets by making inquiries to responsible employees, inspecting Bank's internal documentation and analyzing internal business processes on sampled material portfolios of financial instruments.</p> <p>We checked that the Bank has performed proper assessment of whether contractual cash flows according to the contract are solely payments of principal and interest by analyzing underlying documents and contractual terms for a sample of financial instruments.</p> <p>We also got evidence that the financial statements provide an appropriate disclosure of key aspects of classification and accounting of financial instruments as well as the effects of the Bank's adoption of IFRS 9.</p>
Other Information	

Management is responsible for the other information. The other information comprises the information included in the Annual Report of AO Toyota Bank for 2018 but does not include the financial statements and our auditors' report thereon. The Annual Report of AO Toyota Bank for 2018 is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report of findings from procedures performed in accordance with the requirements of Federal Law No 395-1, dated 2 December 1990, *On Banks and Banking Activity*

Management is responsible for the Bank's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No 395-1, dated 2 December 1990 On Banks and Banking Activity (the "Federal Law"), we have performed procedures to examine:

- the Bank's compliance with mandatory ratios as at 1 January 2019 established by the Bank of Russia; and
- whether the elements of the Bank's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Bank's compliance with the mandatory ratios established by the Bank of Russia, we found that the Bank's mandatory ratios, as at 1 January 2019, were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Bank, other than those which we considered necessary to enable us to express an opinion as to whether the Bank's financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

- Based on our procedures with respect to whether the elements of the Bank's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia, we found that:
 - as at 31 December 2018, the Bank's Internal Audit Service was subordinated to, and reported to, the Supervisory Board, and the risk management function was not

- subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;
- the Bank's internal documentation, effective on 31 December 2018, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, interest rate, concentration and liquidity risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;
 - as at 31 December 2018, the Bank maintained a system for reporting on the Bank's significant credit, operational, market, interest rate, concentration and liquidity risks, and on the Bank's capital;
 - the frequency and consistency of reports prepared by the Bank's risk management function and Internal Audit Service during 2018, which cover the Bank's credit, operational, market, interest rate, concentration and liquidity risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management function and Internal Audit Service as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement;
 - as at 31 December 2018, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Bank's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Bank's risk management procedures and their consistent application during 2018, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management function and Internal Audit Service, and considered the proposed corrective actions.

Procedures with respect to elements of the Bank's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:


Shevarenkov E.V.
JSC "KPMG"
Moscow, Russian Federation
30 April 2019



AO Toyota Bank
Statement of Profit or Loss and Other Comprehensive Income for 2018
(expressed in thousands of Russian Roubles)

	Notes	2018	2017*
Interest income calculated using the effective interest rate method	6	7 112 771	6 836 670
Interest expense	6	(4 056 906)	(4 009 169)
Net interest income		3 055 865	2 827 501
Fee and commission income	7	61 095	109 627
Fee and commission expense	7	(78 571)	(117 249)
Net fee and commission expense		(17 476)	(7 622)
Net foreign exchange expense	8	(1 803)	(138)
Other operating income	9	271 266	197 386
Operating income		3 307 852	3 017 127
Charge for expected credit loss (2017: impairment losses)	15	(366 717)	(238 329)
Personnel expenses	10	(500 432)	(557 535)
Provision under buy-back program	21	-	(364)
Other general and administrative expenses	11	(986 036)	(996 256)
Profit before income tax		1 454 667	1 224 643
Income tax expense	12	(317 437)	(265 657)
Profit and total comprehensive income for the year		1 137 230	958 986

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3).

The financial statements were approved by the Management Board on 30 April 2019.

Koloshenko A.V.
President



Ryabinina S.I.
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

AO Toyota Bank
Statement of Financial Position as at 31 December 2018
(expressed in thousands of Russian Roubles)

	Note	31 December 2018	31 December 2017*
ASSETS			
Cash and cash equivalents	13	3 466 743	1 202 696
Mandatory reserve deposit with the Bank of Russia	13	262 602	238 908
Loans to banks	14	2 501 041	3 343 251
Loans to customers	15	62 406 590	51 578 465
Property, equipment and intangible assets	16	256 257	264 801
Current tax asset	12	-	25 328
Other assets	17	173 663	150 565
Total assets		69 066 896	56 804 014
LIABILITIES			
Loans from banks	18	31 557 608	19 957 380
Other borrowings and customers' accounts	19	18 584 946	15 520 032
Bonds issued	20	5 024 475	8 123 028
Subordinated borrowings	20	862 097	1 414 555
Deferred tax liability	12	104 521	140 027
Current tax liabilities	12	38 263	-
Other liabilities	21	341 116	322 185
Total liabilities		56 513 026	45 477 207
EQUITY			
Share capital	22	5 440 000	5 440 000
Additional paid-in capital		1 343 400	1 343 400
Retained earnings		5 770 470	4 543 407
Total equity		12 553 870	11 326 807
Total liabilities and equity		69 066 896	56 804 014

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3).

Koloshenko A.V.
President



С.И. Рыбина
Ryabinina S.I.
Chief accountant

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

AO Toyota Bank
Statement of Cash Flows for 2018
(expressed in thousands of Russian Roubles)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		7 107 723	6 638 809
Interest payments		(4 097 427)	(3 982 520)
Fee and commission receipts		61 095	107 247
Fee and commission payments		(78 571)	(114 870)
Net cash (used in) provided from foreign exchange		(391)	99
Other operating income receipts		265 206	198 606
Personnel expenses		(491 322)	(517 364)
Other general and administrative expenses		(974 103)	(872 768)
(Increase) decrease in operating assets			
Mandatory reserve deposit with the Bank of Russia		(23 694)	(225 605)
Loans to banks		847 395	55 256
Loans to customers		(11 035 899)	(3 678 883)
Other assets		5 124	25 326
Increase (decrease) in operating liabilities			
Loans from banks		11 539 936	1 935 833
Other borrowings and customers' accounts		3 052 764	(3 728 300)
Other liabilities		-	1 844
Net cash used in operating activities before income tax paid		6 177 836	(4 157 290)
Income tax paid		(289 351)	(254 050)
Cash flows used in operating activities		5 888 485	(4 411 340)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(103 424)	(145 650)
Sales of property, equipment and intangible assets		28 986	3 381
Cash flows used in investing activities		(74 438)	(142 269)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of subordinated borrowings		(550 000)	-
Repayment of bonds issued		(3 000 000)	5 000 000
Cash flows provided from financing activities		(3 550 000)	5 000 000
Net increase in cash and cash equivalents		2 262 635	446 391
Effect of changes in exchange rates on cash and cash equivalents		1 412	(1)
Cash and cash equivalents as at the beginning of the year		1 202 696	756 306
Cash and cash equivalents as at the end of the year	13	3 466 743	1 202 696

Koloshenko A.V.
President



Ryabinina S.I.
Chief accountant

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AO Toyota Bank
Statement of Changes in Equity for 2018
(expressed in thousands of Russian Roubles)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
Balance as at 1 January 2017	5 440 000	1 343 400	3 584 421	10 367 821
Total comprehensive income				
Profit for the year	-	-	958 986	958 986
Balance as at 31 December 2017	5 440 000	1 343 400	4 543 407	11 326 807
Balance as at 31 December 2017*	5 440 000	1 343 400	4 543 407	11 326 807
Impact of adopting IFRS 9 (Note 5)	-	-	89 833	89 833
Balance as at 1 January 2018	5 440 000	1 343 400	4 633 240	11 416 640
Total comprehensive income				
Profit for the year	-	-	1 137 230	1 137 230
Balance as at 31 December 2018	5 440 000	1 343 400	5 770 470	12 553 870

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3).

Koloshenko A.V.
President



Ryabinina S.I.
Chief accountant

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1. Background

Organization and operations

AO Toyota Bank (the Bank) was established on 3 April 2007 in the Russian Federation. The Bank has license № 3470 to carry out banking operations in Roubles and foreign currencies and to attract deposits from individuals. Its principal activities are credit operations, customer account maintenance and interbank transactions. The activities of the Bank are regulated by the Bank of Russia. The majority of the Bank's assets and liabilities are located in the Russian Federation.

As at 31 December 2018 the Bank has presence in 70 cities in Russia in 163 dealers' offices that fully covers network of official dealers and certified partners of Toyota and Lexus (2017: 70 cities and 160 dealers' offices).

The Bank is a member of the state deposit insurance system in the Russian Federation and is included in the register of banks-participants of the state deposit insurance system on 28 October 2013 with Registration No.1004.

The average number of people employed by the Bank during 2018 was 125 (2017: 145).

The Bank's registered address is 29, Serebryanicheskaya nab., Moscow, 109028, Russian Federation.

The Bank's operating income is not subject to seasonal and cyclical industry fluctuations during the financial year. As at 31 December 2018 the Bank's risk profile has not changed significantly compared to that as at 31 December 2017.

The Bank is part of Toyota Motor Corporation (Japan), one of Japan's largest diversified conglomerates. As at 31 December 2018 and 31 December 2017, the main shareholder of the Bank is Toyota Kreditbank GmbH (Germany) with 99.94% share.

Related party transactions are detailed in Note 27.

Russian business environment

The economic and financial markets of the Russian Federation display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. Current economic and politic situation increases local risks for banking operations in the Russian Federation. The Management of the Bank believes that it takes all the necessary efforts to support the economic stability of the Bank in the current environment.

2. Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Bank's annual financial statements to which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Bank is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the Bank's presentation currency for the purposes of these financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Applicable to 2018 only:
 - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3.
 - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

(ii) Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only:
 - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.
- Applicable to 2018 and 2017:
 - estimates of fair values of financial assets and liabilities – Note 29.
 - impairment of financial instruments – Note 3.

(e) Changes in accounting policies and presentation

The Bank has adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Banks's financial statements.

Due to the transition methods chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to IFRS 7.

IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has applied consequential amendments to IAS 1 '*Presentation of Financial Statements*', which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Bank disclosed this amount in notes to the financial statements.

Additionally, the Bank has adopted consequential amendments to IFRS 7 '*Financial Instruments: Disclosures*' that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Banks's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 3(a)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3 (a)(iv).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.
- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.
- If a financial asset had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and other comprehensive income, the Bank has changed the description of the line item from 'interest income' to 'interest income calculated using the effective interest method'.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 'Revenue', IAS 11 'Construction Contracts and related interpretations'.

The Bank initially applied IFRS 15 on 1 January 2018. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

3. Significant accounting policies

The accounting policies applied in these financial statements are the same as those applied in the last annual financial statements, except as explained below, related to the Bank's adoption of IFRS 9 (Note 2), effective from 1 January 2018.

Explanation of how the Bank applies changes in accounting policy is presented below.

Accounting policies, that relate to those activities, that the Bank does not perform or that are insignificant to the Bank, are stated briefly or fully omitted, including the following:

- operations with securities, including equity instruments;
- operations with financial assets, measured at FVTPL;
- operations with financial assets, measured at FVOCI, including financial assets, that were classified by the Bank into this category at its own discretion;
- financial guarantees issued by the Bank;
- issued loan commitments that are measured at FVTPL.

(a) Financial assets and liabilities

Policy applicable from 1 January 2018

(i) Classification

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated by Bank as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated by Bank as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVTPL.

The Bank classifies financial liabilities, except for financial guarantee contracts and loan commitments, as measured at amortized cost.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets.
- How the performance of the portfolio is evaluated and reported to the Bank's management.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected).
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except when the Bank changes its business model for managing those financial assets. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line. Such changes are expected to be very infrequent.

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in

which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the CBR key rate, if the loan agreement entitles the Bank to do so.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature)

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment

losses. In other cases the corresponding profit or loss are recognized as interest income, calculated using the effective interest method.

For loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

As part of credit risk management activities, the Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'). If the Bank plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognized as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Bank concludes that modification of financial assets modified as part of the Bank's forbearance policy is not substantial, the Bank performs qualitative evaluation of whether the modification is substantial.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Bank applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Bank recognizes any adjustment to the amortized cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as a redemption, any costs or fees incurred are recognised as part of the gain or loss on the redemption. If the exchange or modification is not accounted for as a redemption, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

(iv) Impairment

The Bank recognizes loss allowance for expected credit losses (ECL) on financial assets that are debt instruments (Note 4).

The Bank recognizes loss allowance for ECL in the amount equal to ECL that are possible within the next 12 months after the reporting date, or ECL resulting from all possible default events over the expected life of the financial instrument. Initial amount of ECL recognized for a financial asset is equal to 12-month ECL (except for certain receivables included into other assets or purchased or originated credit-impaired financial assets (POCI assets)). If the credit risk on the financial instrument has

increased significantly since initial recognition, the loss allowance for ECL is measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are probability-weighted measurement of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3 (a) (ii)) and ECL are measured as follows

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 3 (a) (iii)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit - impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component (loan issued)*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(v) Policy applicable before 1 January 2018

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale; or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method.

All financial liabilities are measured at amortised cost. The amortized cost is determined using the effective interest method.

The amortized cost of a financial asset or liability is the amount measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums, discount and transaction costs are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on the origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis

over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Gains and losses on subsequent measurement

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Bank writes off assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of contract, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower has financial difficulties and there is little available historical data for similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related impairment allowance. The Bank writes off a loan balance (and any related impairment allowances) when the loan is overdue more than 721 days and the Management Board made a decision to write it off.

Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value plus any transaction costs.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate.

Financial liabilities

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(b) Changes in presentation

As a result of adoption of IFRS 9 the Bank changed presentation of certain captions in the primary forms of the financial statements.

The effect of main changes in presentation of the financial statements is as follows:

- Interest income on loans to customers and loans to banks is presented within the line "Interest income calculated on an effective interest basis".

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(d) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the Bank of Russia and other banks. The mandatory reserve deposit with the Bank of Russia is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(e) Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortised cost (see Note 3 (a)(i)); they are initially measured at fair value plus

incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(f) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(g) Property and equipment, intangible assets and operating lease

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Equipment	2-15 years
Fixtures and fittings	3-10 years
Motor vehicles	3-5 years
Leasehold improvement	The lower of economic life or lease term

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on the straight-line basis over the estimated useful lives of intangible assets and contractual maturity. The estimated useful lives range from 1 to 5 years.

Operating leases under which the Bank does not assume substantially all the risks and rewards of ownership are expensed.

(h) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly.

A contract is recognized as onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

The present obligation under the contract is recognized and measured as a provision. Before a separate provision for an onerous contract is established, the Bank recognizes an impairment loss that has occurred on assets dedicated to that contract.

Future operating costs are not provided for.

(i) Share capital and dividends

Ordinary shares are classified as equity.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly in equity.

Current tax expense is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Interest income and expense

Interest income and expense – Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset; or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets on initial recognition, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or liability is the amount at which the financial asset or liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3 (a) (iv).

Presentation

All financial assets and liabilities of the Bank are measured at amortized cost. Thus, the Bank's interest income and expense include only interest income and expense calculated using an effective interest rate method.

Interest expense presented in the statement of profit or loss includes financial liabilities measured at amortised cost.

Interest income and expense – Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

All financial assets and liabilities of the Bank are measured at amortized cost. Thus, the Bank's interest income and expense include only interest income and expense calculated using the effective interest rate method.

(l) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3 (k)).

Other fee and commission income and expense include mainly transaction and servicing fees and is recognised as the related services are performed

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

(m) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 with earlier application permitted; however, the Bank has not early adopted them in preparing these financial statements, with the exception of the amendment to IFRS 9 affecting prepayment features with negative compensation issued in October 2017.

IFRS 16

The Bank is required to adopt IFRS 16 *Leases* from 1 January 2019. The Bank has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

(i) Leases in which the Bank is a lessee

The Bank has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Bank will recognise new assets and liabilities for its operating leases of the office building, which registered and postal address is 29, Serebryanicheskaya nab., Moscow, 109028, Russian Federation.

Besides, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2018, the Bank's future minimum lease payments under non-cancellable operating leases amounted to RUB 248 531 thousand, on an undiscounted basis, which the Bank estimates it will recognise as additional lease liabilities.

(ii) Transition

The Bank plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements:

- IFRIC 23 Uncertainty over Tax Treatments;
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;
- Amendments to References to Conceptual Framework in IFRS Standards.

4. Credit risk analysis

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades (ratings)

To estimate the default risk the Bank allocates each exposure to a credit risk grade based on a variety of data and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

A rating scale used for loans to customers that are not credit-impaired comprises 11 rating categories. For the presentation purposes, these ratings are aggregated in Note 15 into three credit quality groups:

- good (ratings 1-5) – assets of counterparties with lower default probability and stable ability to meet their financial obligations;
- average (ratings 6-7) – assets of counterparties with moderate default probability and average ability to meet their financial obligations. These assets require more intense attention at the stage of monitoring;
- below average (ratings 8-11) – assets of counterparties with high default probability. These assets require special attention at the stage of monitoring;

A description of each credit rating category is as follows:

Risk-rating	Basis for this risk-rating
1	Very strong credit rating. A borrower has an exceptional financial potential and demonstrates strong performance. A borrower is substantially not vulnerable to default.
2	Strong credit rating. A borrower has very high financial potential. Probability of default is low.
3	Very good rating. Strong financial potential. A borrower demonstrates very good performance and has reduced default risk. The borrower's ability to meet its financial obligations remains strong.
4	Good rating. A borrower demonstrates good performance and has good creditworthiness, but has minor difficulties. Ability to pay principal amount and interests is acceptable.
5	Wholly adequate rating. A borrower demonstrates good performance and has average creditworthiness, but has minor difficulties. Ability to pay principal amount and interests is acceptable.
6	Adequate rating. A borrower has adequate financial potential. Average creditworthiness. Ability to pay principal amount and interests is acceptable, but not confirmed.
7	Moderate rating. A borrower has adequate financial potential and demonstrates adequate performance. Ability to pay principal amount and interests is moderate. Probability of default is higher.

8	Below-moderate rating. A borrower has weak financial potential and performance below the average with many difficulties. Ability to pay principal amount and interests is exceptionally moderate. Probability of default is high.
9	Weak rating. A borrower has very weak financial potential and very low performance with many difficulties. A borrower unlikely has ability to pay in full principal amount and interests. Probability of default is very high.
10	Poor rating. A borrower has very weak financial potential and bad performance with extremely intense difficulties, highly vulnerable to nonpayment, high default risk.
11	Extremely poor rating. A borrower has extremely weak financial potential, has delays in payments and is near default.

Credit risk grade 4 is the highest risk grade for which exemption for low credit risk is applicable. While developing models based on internal ratings, contracts with payments overdue more than 30 days are never included in risk grade 4 or higher, thereupon definition of low credit risk does not contradict to 30 days overdue criterion.

Credit risk grades are defined and calibrated for non-linear increase in probability of default occurrence following the deterioration of credit risk, for example, the difference in risk of default between credit risk grades 2 and 3 is substantially smaller than the difference between credit risk grades 6 and 7.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a credit risk grade different from the grade allocated on initial recognition. The monitoring typically involves use of the following data:

- periodic information provided by auto dealers, including financial statements and management reporting, budgets, forecasts and plans;
- actual and expected significant changes in the debtor's political, regulatory and technological business environment or their trade;
- information on payments, including information on the existence, period and amount of overdue payments, and on early repayments (if applicable)
- current and expected changes in financial, economic conditions and business standards;
- information published by credit rating agencies and mass media and information on the changes of external credit ratings in respect of credit institutions, where the Bank's funds are placed.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For placements with credit institutions, information published by the external rating agencies is used.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth, unemployment rate and automobile prices.

The Bank uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and formal qualitative factors, including indicator "stopper" on cumulative delinquency term of outstanding payments.

The Bank deems the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Bank's modelling, the remaining lifetime PD has increased by more than:

- 4.5 times for loans with high internal credit ratings (low PDs), issued to auto dealers;
- 2 times for retail auto loans.

To identify a significant increase of credit risk, ECL for the term, left for the repayment, are adjusted with regard to the change of repayment term.

Based on the expert credit quality estimation and, where applicable, the corresponding historical experience, the Bank may conclude that credit risk on a financial instrument increased significantly, if the definite qualitative formal figures are indicative thereof, that are the indicators of a significant credit risk increase, the effect of which may not be timely identified within the quantitative analysis. Thus, as a "stopper" indicator, that evidences the significant credit risk increase on a financial asset from the moment of its initial recognition, the Bank considers the cumulative delinquency term of outstanding payments on the asset of more than 30 days within the last 12 months.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement (stage 1) to credit-impaired (stage 3); and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Modified financial assets

The Bank regularly reconsiders terms of loans to customers that face financial difficulties to maximize the amount of recoverable indebtedness and minimize the default risk ("the practice of credit agreements reconsideration"). The reconsideration of terms usually provides for the decrease of annuity payment, increased repayment term and other modifications.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(a)(iv)) / in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Loan terms may also be modified due to a range of reasons that are not associated with the debtor's current or possible creditability decline, including refinancing of retail loans or change of the debtor. Recognition of the existing loan, the terms of which were modified may be terminated and a new loan may be presented in accounting with the modified terms at fair value and in compliance with the accounting policy, described in Note 3 (a)(iii). When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank (the past due date is calculated with consideration of partial repayments of the overdue balance using the FIFO method).

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g., stages of past due amounts recovery, defined using internal procedures of the Bank (namely, legal recovery);
- quantitative – e.g. past due amounts term and extent, nonpayment of other commitments before the Bank by one and the same debtor; and
- other information, received from the own and external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporating of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, such as the Bank of Russia, the Ministry of Economic Development and individual and scientific forecasts.

The Bank has defined and documented the list of the major factors that influence the measurement of credit risk and credit losses on each financial instruments portfolio and, using the analysis of historical data, has defined the relation between the macro economic variables, credit risk and credit losses. GDP forecasts, unemployment factors and auto sales level were defined as a key factor.

Measurement of the ECL

The main inputs in estimating ECL is the time structure of the following indicators:

- probability of default (PD indicator);
- loss given default (LGD indicator);
- exposure at default (EAD indicator).

These indicators are estimated using internal statistic models, designed based on Bank's aggregated own historic data and expert judgements (if the data is not sufficient). Further the Bank adjusts calculated indicators to incorporate forward looking information, as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. For placements with credit institutions the Bank uses market data to derive the PD. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Loans, issued by the Bank to customers, comprise auto loans secured by the pledge of a car. The Bank estimates LGD parameters based on the analysis of the history of recovery rates of claims against defaulted counterparties per types of counteragents and further adjusts it with regard to the forward-looking information.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure at the reporting date and measurement of the expected amount of repayment till the expected default date. The EAD of a financial asset is its gross carrying amount. For loan commitments the EAD amount includes both the claimed amount and the expected amounts that may be claimed under agreement, which are estimated based on historical observations and forward-looking forecasts.

For financial assets that have not shown a significant increase in credit risk since their initial recognition, the expected losses on the horizon of 12 months are used (an estimate of the likelihood

of a default event occurring during the next 12 months from the reporting date) calculated on the basis of a 12- months PD indicator, even if the Bank is considering a different period for risk management purposes. If there has been a significant increase in credit risk since the initial recognition of a financial asset, credit losses are measured during the maximum period under the agreement during which the asset is exposed to the credit risk.

The Bank designs and applies the models separately for the loans, issued to auto dealers and retail customers.

The Bank does not have sufficient historical information for loans to banks and uses defaults and recoveries statistics published by large international rating agencies.

5. Transition to IFRS 9

As at 31 December 2017, under IAS 39 all Bank's financial assets were classified into 'Loans and receivables' measurement category. On transition to IFRS 9 these financial assets were classified as measured at amortized cost. Financial liabilities' measurement category under IFRS 9 and IAS 39 is unchanged and comprises 'at amortized cost'. Classification of financial instruments was changed due to application of accounting policy described in Note 3.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to new standard on 1 January 2018.

	IAS 39 carrying amount 31 December 2017 (opening balance)	Measurement basis change	IFRS 9 carrying amount 1 January 2018 (closing balance)
Financial assets			
Amortized cost			
Cash and cash equivalents	1 202 696	-	1 202 696
Mandatory reserve deposits with the Bank of Russia	238 908	-	238 908
Loans to banks	3 343 251	-	3 343 251
Loans to customers	51 578 465	112 291	51 690 756
Other financial assets	116 398	-	116 398
	56 479 718	112 291	56 592 009

As at 31 December 2017 loans to banks comprise placements with the Bank of Russia for the term of up to 10 days inclusive. These loans are neither overdue, nor impaired. On transition to IFRS 9 the Bank made a decision to create no allowance for ECL on these balances.

As a result of adoption of IFRS 9 there are no reclassification or remeasurement of financial liabilities.

The following table analyses the impact, net of tax, of transition to IFRS 9 on retained earnings.

	Impact of adopting IFRS 9 as at 1 January 2018
Retained earnings	
Opening balance as at 31 December 2017 under IAS 39	4 543 407
Recognition of ECL under IFRS 9	112 291
Deferred taxation movement	(22 458)
Opening balance as at 1 January 2018 under IFRS 9	4 633 240

6. Interest income and expense

	<u>2018</u>	<u>2017</u>
Interest income calculated using the effective interest method		
Loans to customers	6 864 260	6 704 464
Loans to banks	248 511	132 206
Total interest income calculated using the effective interest method	<u>7 112 771</u>	<u>6 836 670</u>
Interest expense		
Loans from banks	(2 163 673)	(1 993 613)
Other borrowings and customers' accounts	(1 333 012)	(1 531 784)
Bonds issued	(477 905)	(365 312)
Subordinated borrowings	(82 316)	(118 460)
Total interest expense	<u>(4 056 906)</u>	<u>(4 009 169)</u>
Net interest income	<u>3 055 865</u>	<u>2 827 501</u>

Interest income on loans to customers for 2017 year includes interest accrued on impaired financial assets in amount of RUB 19 654 thousand.

7. Fee and commission income and expense

	<u>2018</u>	<u>2017</u>
Fee and commission income		
Insurance agent services	-	69 049
Credit line issuance	35 177	32 779
Early closing of credit lines	18 976	-
Other	6 942	7 799
Total fee and commission income	<u>61 095</u>	<u>109 627</u>
Fee and commission expense		
Settlement operations	(77 771)	(61 478)
Promotion of insurance products	-	(54 771)
Other	(800)	(1 000)
Total fee and commission expense	<u>(78 571)</u>	<u>(117 249)</u>
Net fee and commission expense	<u>(17 476)</u>	<u>(7 622)</u>

8. Net foreign exchange expense

	<u>2018</u>	<u>2017</u>
Loss on spot transactions	(391)	12
Loss from revaluation of financial assets and liabilities	(1 412)	(150)
Net foreign exchange expense	<u>(1 803)</u>	<u>(138)</u>

9. Other operating income

	2018	2017
Recovery of retail loans previously written off	157 249	110 410
Penalties on loans issued	107 043	81 558
Gain on sale of property and equipment	6 059	-
Other income	915	5 418
Total other operating income	271 266	197 386

10. Personnel expenses

	2018	2017
Employee compensation	420 952	471 435
Payroll related taxes	79 480	86 100
Total personnel expenses	500 432	557 535

11. Other general and administrative expenses

	2018	2017
Services of staffing companies	233 986	228 261
Communications and information services	223 619	217 182
Operating leases	124 966	156 452
Depreciation and amortization (Note 16)	99 173	99 609
Collection and servicing of loans	93 886	92 911
Advertising and marketing	27 791	66 654
Consulting and information services	34 579	32 338
Professional services	30 739	17 873
Travel	12 975	16 195
Repairs and maintenance	17 990	10 809
Insurance	5 311	7 014
Office supplies	6 786	2 506
Security	4 518	2 876
Taxes other than income tax	428	721
Other	69 289	44 855
Total other general and administrative expenses	986 036	996 256

12. Income tax expense

	<u>2018</u>	<u>2017</u>
Current year tax expense	352 943	267 607
Deferred taxation movement due to origination and reversal of temporary differences	(35 506)	(1 950)
Total income tax expense	<u>317 437</u>	<u>265 657</u>

The applicable tax rate for current and deferred tax in 2018 and 2017 is 20%.

As at 31 December 2018, the Bank has no current tax assets (2017: RUB 25 328 thousand), current tax liabilities amount to RUB 38 263 thousand (2017: nil).

Reconciliation of effective tax rate

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
Profit before income tax	1 454 667		1 224 643	
Income tax expense at the applicable tax rate	290 933	20,00	244 929	20,00
Non-deductible costs	26 504	1,82	20 728	1,69
Total income tax expense	<u>317 437</u>	<u>21,82</u>	<u>265 657</u>	<u>21,69</u>

Deferred tax asset and liability

As at 31 December 2018 and 2017, temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liability.

These deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during 2018 and 2017 are presented as follows.

	<u>1 January 2017</u>	<u>Recognized in profit or loss</u>	<u>31 December 2017</u>	<u>Recognized in profit or loss</u>	<u>Impact of adopting IFRS 9</u>	<u>31 December 2018</u>
Loans to customers	(148 947)	(32 934)	(181 881)	(7 923)	22 458	(167 346)
Property, equipment and intangible assets	(939)	9 439	8 500	4 643		13 143
Other assets	(7 136)	(211)	(7 347)	1 518		(5 829)
Bonds issued	(992)	(1 034)	(2 026)	305		(1 721)
Other liabilities	16 037	26 690	42 727	14 505		57 232
Net deferred tax liability	<u>(141 977)</u>	<u>1 950</u>	<u>(140 027)</u>	<u>13 048</u>	<u>22 458</u>	<u>(104 521)</u>

13. Cash and cash equivalents

	2018	2017
Nostro accounts with the Bank of Russia	3 352 840	1 111 504
Nostro accounts with other banks		
- rated AA- to AA+	10 001	2 030
- rated BBB	19 800	37 254
- rated below B+	-	2 816
- not rated	84 102	49 092
Total nostro accounts with other banks	113 903	91 192
Total cash and cash equivalents	3 466 743	1 202 696

Ratings in the table above represent the rating scale used by Fitch rating agency. If there is no rating issued by Fitch, the rating assigned by Standard & Poor's or Moody's is taken and transformed into the rating scale used by Fitch.

As at 31 December 2018 cash and cash equivalents are referred to Stage 1.

As at 31 December 2017 none of cash and cash equivalents are impaired or past due.

As at 31 December 2018, there is one bank, whose balances individually exceed 10% of total cash and cash equivalents. The gross value of these balances is RUB 3 352 840 thousand, or 97% of total cash and cash equivalents (2017: RUB 1 111 504 thousand, or 92%).

Mandatory reserve deposit with the Bank of Russia

The mandatory reserve deposit is a non-interest bearing deposit issued in accordance with the regulations of the Bank of Russia and which withdrawability is restricted. As at 31 December 2018, mandatory reserve deposit with the Bank of Russia is RUB 262 602 thousand (2017: RUB 238 908 thousand).

14. Loans to banks

As at 31 December 2018 and 2017 loans to banks are RUB 2 501 041 thousand and RUB 3 343 251 thousand and are placed with the Bank of Russia.

As at 31 December 2018 these loans are referred to Stage 1.

As at 31 December 2017 these loans are not impaired or overdue.

15. Loans to customers

	2018	2017
Loans to auto dealers	6 971 699	7 770 868
Retail loans		
Auto loans	56 348 002	44 818 654
Total retail loans	56 348 002	44 818 654
Loans to customers net of estimated allowance for ECL (2017: impairment allowance)	63 319 701	52 589 522
Estimated allowance for ECL (2017: impairment allowance)	(913 111)	(1 011 057)
Total loans to customers net of allowance for ECL (2017: impairment losses)	62 406 590	51 578 465

Movements in allowance for ECL (2017: impairment allowance) during 2018 and 2017 is analyzed below:

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
RUB'000					
Loans to customers at amortised cost – retail customers					
Balance as at 31 December 2017 (IAS 39)	253 435	50 095	378 273	681 803	864 098
Impact of adopting IFRS 9	(137 335)	235 269	(37 633)	60 301	-
Transfer to Stage 1	16 355	(15 731)	(624)	-	-
Transfer to Stage 2	(132 250)	134 925	(2 675)	-	-
Transfer to Stage 3	(24 557)	(41 095)	65 652	-	-
Net remeasurement of loss allowance	(71 631)	10 067	90 531	28 967	301 707
New financial assets originated or purchased	237 491	-	-	237 491	-
Write-offs	-	-	(217 084)	(217 084)	(484 002)
Balance at 31 December	141 508	373 530	276 440	791 478	681 803

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
RUB'000					
Loans to customers at amortised cost – corporate customers					
Balance as at 31 December 2017 (IAS 39)	211 384	58 294	59 576	329 254	392 632
Impact of adopting IFRS 9	(138 907)	(33 684)	-	(172 591)	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(1 390)	1 390	-	-	-
Transfer to Stage 3	(77 598)	(2 016)	79 614	-	-
Net remeasurement of loss allowance	(72 364)	(22 594)	12 829	(82 129)	(63 378)
New financial assets originated or purchased	95 657	-	-	95 657	-
Write-offs	-	-	(48 558)	(48 558)	-
Balance at 31 December	16 782	1 390	103 461	121 633	329 254

The text below provides information on how significant changes in gross carrying amount of financial instruments during the year contributed to changes in loss allowances.

Retail loans

Repayment of loans to retail customers in the amount of RUB 22 668 880 thousand during 2018 resulted in decrease of ECLs by RUB 222 693 thousand.

Write-offs of loans to retail customers in the amount of RUB 217 083 thousand during 2018 resulted in decrease of ECLs by RUB 217 083 thousand.

Transfer from 12-months ECL to lifetime ECL in relation to assets that are not credit-impaired and to lifetime ECL in relation to assets that are credit-impaired during the year in the amount of RUB 1 404 260 thousand resulted in increase in ECLs by RUB 251 659 thousand.

Issuance of loans to retail customers in the amount of RUB 43 603 471 thousand during 2018 resulted in decrease of ECLs by RUB 237 491 thousand.

Loans to corporate customers

Repayment of loans to corporate customers in the amount of RUB 7 716 742 thousand during 2018 resulted in decrease of ECLs by RUB 95 062 thousand.

Write-offs of loans to corporate customers in the amount of RUB 48 558 thousand during 2018 resulted in decrease of ECLs by RUB 48 558 thousand.

Transfer from 12-months ECL to lifetime ECL in relation to assets that are not credit-impaired and to lifetime ECL in relation to assets that are credit-impaired during the year in the amount of RUB 17 203 thousand resulted in increase in ECLs by RUB 12 933 thousand.

Issuance of loans to corporate customers in the amount of RUB 7 220 402 thousand during 2018 resulted in increase of ECLs by RUB 95 657 thousand.

Credit quality of loans to customers

Information on credit quality of loans to customers calculated using IFRS 9 as at 31 December 2018 is provided in the table below:

	Gross carrying amount of loans to customers	Allowance for ECL	Loans to customers net of allowance for ECL	Allowance for ECL to gross carrying amount, %
Retail auto loans				
12-month ECL				
Good quality	47 428 179	(85 826)	47 342 353	0,18
Average quality	5 587 382	(47 044)	5 540 338	0,84
Below average quality	297 255	(8 638)	288 617	2,91
	53 312 816	(141 508)	53 171 308	0,27
Life-time ECL for non-credit impaired assets				
Good quality	117 442	(1 534)	115 908	1,31
Average quality	328 166	(11 336)	316 830	3,45
Below average quality	2 173 107	(360 660)	1 812 447	16,60
	2 618 715	(373 530)	2 245 185	14,26
Life-time ECL for credit impaired assets				
Default	416 471	(276 440)	140 031	66,38
Total retail auto loans	56 348 002	(791 478)	55 556 524	1,40
Loans issued to auto dealers				
12-month ECL				
Good quality	5 907 004	(9 789)	5 897 215	0,17
Average quality	805 255	(6 993)	798 262	0,87
	6 712 259	(16 782)	6 695 477	0,25
Life-time ECL for non-credit impaired assets				
Below average quality	119 856	(1 390)	118 466	1,16

AO Toyota Bank
Notes to the financial statements for the year ended 31 December 2018
(expressed in thousands of Russian Roubles)

Life-time ECL for credit impaired assets				
Default	139 584	(103 461)	36 123	74,12
Total loans to auto dealers	6 971 699	(121 633)	6 850 066	1,74
Total loans to customers	63 319 701	(913 111)	62 406 590	1,44

The table below provides information on the overdue structure of loans to customers as at 31 December 2018:

	Gross carrying amount of loans to customers					Allowance for ECL	Allowance for ECL to gross carrying amount, %
	Good quality	Average quality	Below average quality	Problem	Total		
Retail auto loans							
- not overdue	47 521 935	5 846 581	1 655 221	9 488	55 033 225	(338 056)	0,61
- overdue less than 30 days	23 686	68 967	659 785	2 008	754 446	(135 445)	17,95
- overdue 30-59 days	-	-	113 484	5 693	119 177	(37 440)	31,40
- overdue 60-89 days	-	-	41 872	9 123	50 995	(19 589)	38,41
- overdue 90-179 days	-	-	-	80 182	80 182	(46 341)	57,80
- overdue more than 180 days	-	-	-	309 977	309 977	(214 607)	69,20
Total retail auto loans	47 545 621	5 915 548	2 470 362	416 471	56 348 002	(791 478)	1,40
Loans to auto dealers							
- not overdue	5 907 004	805 255	119 856	-	6 832 115	(18 172)	0,27
- overdue more than 180 days	-	-	-	139 584	139 584	(103 461)	74,12
Total loans to auto dealers	5 907 004	805 255	119 856	139 584	6 971 699	(121 633)	1,74
Total loans to customers	53 452 625	6 720 803	2 590 218	556 055	63 319 701	(913 111)	1,44

The table below provides information on the credit quality of loans to customers as at 31 December 2017:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Retail auto loans				
- not overdue	43 449 072	(257 773)	43 191 299	0,59
- overdue less than 30 days	721 871	(18 347)	703 524	2,54
- overdue 30-59 days	114 005	(16 022)	97 983	14,05
- overdue 60-89 days	48 899	(11 914)	36 985	24,36
- overdue 90-179 days	92 265	(48 184)	44 081	52,22
- overdue more than 180 days	392 542	(329 563)	62 979	83,96
Total retail auto loans	44 818 654	(681 803)	44 136 851	1,52
Loans to auto dealers				
Not overdue loans without individual signs of impairment	7 654 621	(264 956)	7 389 665	3,46
Impaired loans, overdue more than 180 days	116 247	(64 298)	51 949	55,31
Total loans to auto dealers	7 770 868	(329 254)	7 441 614	4,24
Total loans to customers	52 589 522	(1 011 057)	51 578 465	1,92

Changes in the estimates could affect the allowance for ECL. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the allowance for ECL (2017: the impairment allowance) to auto dealers as at 31 December 2018 would be RUB 69 717 thousand lower/higher (2017: RUB 74 416 thousand lower/higher).

To the extent that the net present value of the estimated cash flows differs by minus one percent, the allowance for ECL (2017: the impairment allowance) to retail customers as at 31 December 2018 would be RUB 555 565 thousand higher (2017: RUB 441 369 thousand).

Analysis of collateral

Loans to auto dealers

The following table provides the analysis of loans to auto dealers, net of allowance for ECL, by types of collateral as at 31 December 2018 and 2017:

	2018	% of loans to auto dealers	2017	% of loans to auto dealers
Motor vehicles	6 850 066	100,00	6 733 493	90,48
Real estate	-	-	708 121	9,52
	6 850 066	100,00	7 441 614	100,00

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

For loans to corporate customers that are not credit-impaired, the assessment of the fair value of collateral was performed at the inception date of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

As at 31 December 2018 the Bank does not have loans for which ECLs were not recognized in connection with the collateral.

During the year ended 31 December 2018, the Bank obtained certain assets with carrying amount of RUB 980 thousand by taking possession of collateral for loans to corporate customers. As at 31 December 2018, the carrying amount of such assets is RUB 980 thousand (2017: RUB 0 thousand).

Retail loans

Auto loans are secured by the underlying cars.

The Bank assesses the fair value of collateral as at loan origination date. The management believes that the fair value of collateral is at least equal to the carrying amount of individual loans as at the reporting date.

In 2018 the Bank took possession of collateral for loans to individuals with a net carrying amount of RUB 32 355 thousand (2016: RUB 9 922 thousand). As at 31 December 2018, the carrying amount of repossessed collateral amounts to RUB 16 008 thousand (2017: RUB 5 821 thousand).

Significant credit exposures

Loans to customers are issued primarily to individuals and auto dealers operating in the Russian Federation.

As at 31 December 2018 and 2017 the Bank has no borrowers or groups of related borrowers whose loan balances individually exceed 10% of total loans to customers.

Loans maturities

The maturity of loans to customers is presented in Note 23.

16. Property, equipment and intangible assets

The following table provides information on property, equipment and intangible assets as at 31 December 2018 and 2017:

	<u>Equipment</u>	<u>Fixtures and fittings</u>	<u>Motor vehicles</u>	<u>Software licenses</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost						
Balance as at 1 January 2017	174 508	106 486	31 996	220 263	25 939	559 192
Additions	2 789	296	3 609	138 956	–	145 650
Disposals	(4 060)	(299)	(4 642)	(1 894)	–	(10 895)
Balance as at 31 December 2017	173 237	106 483	30 963	357 325	25 939	693 947
Additions	1 728	1 376	28 074	72 246	–	103 424
Disposals	(746)	(178)	(22 005)	–	–	(22 929)
Balance as at 31 December 2018	174 219	107 681	37 032	429 571	25 939	774 442
Depreciation						
Balance as at 1 January 2017	140 256	78 302	13 483	77 764	25 939	335 744
Depreciation and amortization charge	11 349	17 042	3 227	67 991	–	99 609
Disposals	(4 060)	(299)	–	(1 848)	–	(6 207)
Balance as at 31 December 2017	147 545	95 045	16 710	143 907	25 939	429 146
Depreciation and amortization charge	10 224	11 425	2 284	75 240	–	99 173
Disposals	(687)	(122)	(9 325)	–	–	(10 134)
Balance as at 31 December 2018	157 082	106 348	9 669	219 147	25 939	518 185
Carrying value as at:						
31 December 2017	25 692	11 438	14 253	213 418	-	264 801
31 December 2018	17 137	1 333	27 363	210 424	-	256 257

17. Other assets

	<u>2018</u>	<u>2017</u>
Settlements with suppliers	71 259	57 531
Subventions receivable	32 805	37 646
Guarantee deposit	20 682	21 221
Total other financial assets	<u>124 746</u>	<u>116 398</u>
Advances	20 553	2 954
Others	28 364	31 213
Total other non-financial assets	<u>48 917</u>	<u>34 167</u>
Total other assets	<u>173 663</u>	<u>150 565</u>

As at 31 December 2018 other financial assets are referred to Stage 1.

As at 31 December 2017 the Bank doesn't have overdue and/or impaired other assets.

18. Loans from banks

As at 31 December 2018, loans from banks amount to RUB 31 557 608 thousand. Loans totaling RUB 25 540 896 thousand or 81% of total loans from banks are received from three banks, that individually contribute above 10% to total loans from banks.

As at 31 December 2017, loans from banks amount to RUB 19 957 380 thousand. Loans totaling RUB 15 777 771 thousand or 79% of total loans from banks are received from four banks, that individually contribute above 10% to total loans from banks

19. Other borrowings and customers' accounts

	<u>2018</u>	<u>2017</u>
Borrowings from Toyota Motor Finance (Netherlands) B. V.	17 064 625	14 052 492
Settlement accounts of auto dealers	377 119	595 667
Current accounts of individuals	1 143 202	871 873
	<u>18 584 946</u>	<u>15 520 032</u>

20. Bonds issued, subordinated borrowings and reconciliation of changes in liabilities and cash flows from financing activities

On 10 March 2016 the Bank issued coupon documentary bearer bonds totaling RUB 3 000 000 thousand and maturing on 13 March 2019 with an early redemption option on 12 March 2018. An annual coupon rate for 1-4 coupon payments is 10.75% (annual coupon rate for 5 and 6 coupon payments is determined by the Bank). The Fitch Ratings rated the issue as "A-". On 12 March 2018 the Bank redeemed coupon documentary bearer bonds totaling RUB 3 000 000 thousand through the offer.

On 30 November 2017 the Bank issued coupon documentary bearer bonds totaling RUB 5 000 000 thousand and maturing on 2 December 2020. An annual coupon rate for 1-6 coupon payments is 8.05%. The Fitch Ratings rated the issue as "A-", the ACRA (AO) – as "AAA(RU)".

Subordinated borrowings are provided by Toyota Motor Finance (Netherlands) B.V., mature in 2018 and 2019 and carry an annual interest rate of 8.46%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank. During 2018 the Bank had no new subordinated borrowings and made repayments of principle in the amount of RUB 550 000 thousand.

The reconciliation of changes in financial liabilities and cash flows from financing activities is presented in the table below:

	Bonds issued	Subordinated borrowings	Total
Balance as at 1 January 2017	3 094 886	1 414 393	4 509 279
Changes from cash flows from financing activities			
Bonds issued	5 000 000	-	5 000 000
Total changes from cash flows from financing activities	5 000 000	-	5 000 000
Borrowing costs	(10 120)	-	(10 120)
Interest expense	365 312	118 460	483 772
Interest paid	(327 050)	(118 298)	(445 348)
Balance as at 31 December 2017	8 123 028	1 414 555	9 537 583
Changes from cash flows from financing activities			
Redemption of bonds issued	(3 000 000)	(550 000)	(3 550 000)
Total changes from cash flows from financing activities	(3 000 000)	(550 000)	(3 550 000)
Borrowing costs	(8 607)	-	(8 607)
Interest expense	477 905	82 316	560 221
Interest paid	(567 851)	(84 774)	(652 625)
Balance as at 31 December 2018	5 024 475	862 097	5 886 572

21. Other liabilities

	2018	2017
<i>Financial liabilities</i>		
Settlements with suppliers	260 382	250 562
<i>Non-financial liabilities</i>		
Liability on bonus to employees	60 517	51 709
Provision for unused vacations	20 217	19 914
Total non-financial liabilities	80 734	71 623
Total other liabilities	341 116	322 185

Several Bank's products provided vehicle buy back option. As at 31 December 2018 there are no such loans to customers (2017: RUB 42 181 thousand). On these products the dealer guarantees customer to buy back a vehicle financed through the loan issued by the Bank for a residual payment up to 60% of initial car price. The Bank is obliged to compensate a dealer a difference between the market price and a pre-agreed residual amount if the market price is lower. As at 31 December 2018, the Bank estimates its future liability under these loans to be nil (2017: nil).

22. Share capital

As at 31 December 2018 and 2017, the authorized, issued and outstanding share capital comprises 1 600 000 ordinary shares. All shares have a nominal value of RUB 3 400, rank equally and carry one vote per share at annual and extraordinary general meetings of the Bank's shareholders.

In 2018 and 2017 the Bank did not declare any dividends.

23. Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as a joint stock company in accordance with legislation of the Russian Federation and is a non-public joint stock company. The supreme governing body of the Bank is the General meeting of shareholders. Annual General meetings of shareholders are held annually. Extraordinary General meetings of shareholders are called on request of the Supervisory Board, internal or external auditors, and shareholders owning at least 10% of voting shares of the Bank. The General meeting of shareholders makes strategic decisions on the Bank's operations.

Russian legislation and Bank's Charter list decisions that are exclusively approved by the General meeting of shareholders and that are approved by the Supervisory Board.

General meeting of shareholders. The General meeting of shareholders exclusively approves the following matters:

- introduction of amendments and addenda to the Charter or approval of the new edition of the Charter;
- composition of the Supervisory Board, electing its members and their early resignation;
- determination of quantity, par value and type of shares and rights assigned to these shares;
- decisions on change of charter capital of the Bank;
- assignment of members of the Management Board and President and their resignation;
- electing of controller and his early resignation;
- approval of external auditor of the Bank;
- decisions on distribution of profits and dividends payments;
- approval of annual reports and annual financial statements;
- approval of significant self-dealing transactions;
- decision on participation in associations and other unions of commercial enterprises;
- approval of certain internal policies of the Bank, which regulate the Bank's operations;
- other matters set by Federal Law № 208-FZ *On Joint Stock Companies* dated 26 December 1995.

The above matters are within the sole responsibility of the General meetings of shareholders and shall not be delegated to the Supervisory Board or executive bodies of the Bank, except for the issues specified in Federal Law № 208-FZ *On Joint Stock Companies* dated 26 December 1995.

Supervisory Board. As at 31 December 2018, the Supervisory Board of the Bank comprise:

- Obata Hironobu – Chairman of the Supervisory Board.
- Ruben Christian Ties – member of the Supervisory Board;
- Vatanabe Khitoshi – member of the Supervisory Board;
- Suga Shuji – member of the Supervisory Board;
- Ljubica Ivo Josko – member of the Supervisory Board.

In 2018 there were following changes in composition of the Supervisory Board: Ozaki Hidenori was relieved of his duties as a member of the Supervisory Board, Suga Shuji was elected as a member of the Supervisory Board.

The Supervisory Board exclusively approved the following matters:

- setting priority directions of the Bank's activities;
- convening annual and extraordinary General meetings of shareholders, except as required by law;
- approval of agenda for General meetings of shareholders and decisions on other organizational matters related to General meetings of shareholders, as required by law and Bank's Charter;
- decisions on issue of bonds and other securities by the Bank;
- recommendations on dividends amount and payment procedures;
- utilization of the reserve and other funds;
- approval of internal documents, except when required to be approved by the General meeting of shareholders or when the Charter requires the approval by the executive bodies;
- opening and closing of branches and representative offices;
- approving significant and self-dealing transactions, except for transactions, that are required to be approved by the General meetings of shareholders;
- approval of Bank's risk and capital management strategy and risk management procedures for those risks that are most significant to the Bank and control of implementation of these procedures;

- approval of application of banking risk management techniques and models for quantitative assessment of risks, including assets and liabilities and unrecognized assets and commitments, and of scenarios and results of stress testing;
- approval of conflict of interest preventing procedure;
- approval of financial recovery and business continuity plans;
- approval of the Head of the Internal Audit Service and internal audit working plan;
- approval of staff policy including remuneration of management;
- other matters, as required by legislation and Bank's Charter.

Executive bodies of the Bank. General activities of the Bank are managed by the sole executive body (the President) and collective executive body (the Management Board of the Bank).

The executive bodies of the Bank are responsible for implementation of decisions of the General meeting of the shareholders and the Supervisory Board. Executive bodies of the Bank report to the Supervisory Board and to the General meeting of shareholders. The authorities of executive bodies are set by the legislation and Bank's Charter.

The President of the Bank acts on behalf of the Bank without power of attorney, represents interests of the Bank, concludes deals, approves staff, issues orders, and gives instructions binding for all employees of the Bank.

As at 31 December 2018 and 2017, the Management Board includes:

- Alexander Koloshenko – the Chairman of the Management Board;
- Yulia Sorokina – Management Board member;
- Anna Shengelevich – Management Board member.

In 2018 and 2017, there were no changes in composition of the Management Board.

Internal control policies and procedures

The internal controls are in place to ensure:

- appropriate and comprehensive risk assessment and management;
- appropriate business and accounting and financial reporting functions, including appropriate authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

The internal control comprises:

- the General meeting of shareholders;
- the Supervisory Board;
- Executive bodies: the President and the Management Board;
- the Controller;
- the Chief Accountant and the Deputy Chief Accountant;
- Other employees, functions and services performing internal control in accordance with the responsibilities set by internal policies and procedures, including:
 - the Internal Audit Service;
 - the officer, responsible for anti-money laundering procedures and financing of terrorism prevention and the subordinate Financial monitoring function;
 - the Compliance officer;
 - the Credit policy and risk management department; and
 - other divisions and (or) employees responsible for internal control.

The Supervisory and Management Boards have responsibility for the development, implementation and maintaining of internal controls in the Bank that are appropriate for the scale, nature and complexity of operations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their

effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Internal Audit Service performs continuous and independent assessment of the operating effectiveness of internal control, identifies failures and deficiencies in the control environment and monitors their timely resolution and correction. The Internal Audit Service functions include:

- audit and assessment of efficiency of the internal control as a whole, fulfillment of the decisions of the Bank's management bodies
- audit of efficiency of assessment of banking risks methodology and risk management procedures, regulated by internal documents (methods, programs, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting functions and the reliability (including the accuracy, completeness and timeliness) of the collection and submission of financial information and reporting
- audit of existing procedures aimed at securing Bank's property
- assessment of economic feasibility and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of internal control and risk management functions.

The Internal Audit Service is independent from management and reports directly to the Supervisory Board. The results of Internal audit reviews are discussed with relevant business process managers, with summaries submitted to the Supervisory Board, the President and the Management Board. The frequency and consistency of reports prepared by the Internal Audit Service during 2018 was in compliance with the Bank's internal documentation. The Supervisory Board and executive management periodically discussed reports prepared by the Internal Audit Service, and considered proposed corrective actions. The reports included observations made by the Internal Audit Service as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

The internal control function is performed by the Compliance officer. The Compliance officer is subordinated to and reports to the President. The Compliance officer is primarily focused on regulatory risks faced by the Bank. The Compliance officer performs the following:

- identification of compliance and regulatory risks;
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its consequences;
- monitoring of regulatory risk;
- recommendations on regulatory risk management;
- coordination of and participation in development of activities aimed at mitigation of regulatory risk;
- monitoring of efficiency of regulatory risk management;
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behavior rules, code of professional ethics and minimization of conflicts of interest;
- analysis of dynamics of clients' complaints;
- analysis of economic feasibility of agreements with suppliers;
- participation in communications with authorities, self-regulated organizations, associations and financial market participants.

Russian legislation, including Federal Law dated 2 December 1990 No 395-1 *On banks and banking activity* and Direction of the Bank of Russia dated 1 April 2014 No 3223-U *On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organization* establish the professional qualifications, business reputation and other requirements for the members of the Supervisory and Management Boards, Heads of the Internal

audit, Internal control function, risk management function and other key management personnel. As at the date of these financial statements, the heads of the respective functions comply with the requirements, set by the law and regulations of the Bank of Russia in respect of business reputation.

The Bank developed policies and procedures to ensure appropriate operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including independent authorization of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documenting of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address identified risks;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards and;
- risk mitigation, including insurance where this is effective.

The Bank maintains a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations is automated and a system of automated controls is implemented.

Management believes that the Bank complies with the requirements of the Bank of Russia in respect of internal control systems, including requirements related to the Internal Audit Service and internal control system is appropriate for the scale, nature and complexity of operations.

Information about risk and capital management system

Risk and capital management strategy

Risk and capital management is fundamental to the business of banking and forms an essential element of the Bank's operations. Bank's risk management process includes development and ensuring that the Bank's policies and procedures, minimizing Bank's influenceability to internal and external risk factors, are managed effectively.

The Bank has established a risk and capital management system through the implementation of internal procedures for assessment of capital adequacy ("IPACA"). Requirements over these procedures are set in the Instruction of the Bank of Russia No. 3624-U dated 15 April 2015. IPACA are correspondent to the size of operations performed by the Bank, level and combination of risks.

The objectives of risk and capital management system are as follows:

- identify, evaluate and aggregate the most significant risks that may result in losses material for the assessment of capital adequacy and to control their exposures;
- evaluate the adequacy of Bank's available capital to cover significant risks and new types (additional volumes) of risks, the adoption of which is due to the implementation of the activities under the Bank's development strategy;
- plan equity amount based on the results of a comprehensive assessment of significant risks, Bank's testing in relation to internal and external risk factors, the Bank's development strategy and legislative requirements.

IPACA are integrated in the Bank's strategic planning system, i.e. results of completion of IPACA are an integral part of the Bank's governance and decision-making processes (development of the Bank's strategy) as a basis for measurement of capital required to cover significant and potential risks. In the process of development of the Bank's strategy the expected IPACA results are subject to a review in order to ensure that the coverage of risks remains adapted to the new conditions, changing nature and scale of transactions, diversity and complexity of Bank's activities.

The general principles for the implementation of the IPACA are defined in the Bank's internal document "Risk and Capital Management Strategy" ("the Strategy").

The strategy aims at risks identification, analysis and management, at setting of risks limits and related controls, as well as at regular assessment of risk levels and their compliance with established limits. Risk management policies and procedures are reviewed on a regular basis to reflect the changes in the market environment, offered banking products and services, and emerging best practices. As a part of annual update of risk management procedures, the Supervisory Board approved new values of planning capital adequacy ratio, target significant risk levels, as well as alarming values and capital limits to cover risks by areas of activity, types of significant risks and business units.

Internal procedures for assessment of the Bank's capital adequacy include:

- procedures for capital management, including the definition of the planned (target) level of capital, current capital requirements, the assessment of capital adequacy by the types of significant risks and activities of the Bank; control system in respect of significant risks, capital adequacy and compliance with risk limits;
- Bank's financial reports prepared within implementation of IPACA.

Organization of risk and capital management process

The Supervisory Board approves the Bank's risk and capital management strategy, including as it relates to maintenance of sufficient own funds (capital) and liquidity to cover risks across the Bank and related to specific business activities, as well as approves the risk management policies of the Bank and controls over their implementation.

Management Board is responsible for the implementation of the risk management strategy and policy of the Bank, approved by the Bank's Supervisory Board, identifies, monitors and control risks to which the Bank is exposed, regularly reports to the Supervisory Board on Bank's risk exposure, as well as ensures compliance with IPACA and maintenance of the capital adequacy at the level established by the internal documents of the Bank. Management Board approves duties and composition of collective risk management bodies.

The risk and capital management system provides a functional segregation between the collective risk management bodies.

The Risk Management Committee responsibilities include:

- assessment (definition of acceptable level) and control of the levels of the risks taken by the Bank
- recommendations to the Supervisory Board on risk management
- review of risks reports provided by the Bank's business units
- approval and development of specific actions (including instructions to the Bank's business units) to minimize risks throughout Bank's activities
- review and approval of draft documents regulating risk management and amendments to them
- control over execution of decisions made at the Committee meetings.

The Credit Committee responsibilities include:

- control over credit risks arising in the course of Bank's activities;
- approval or amendment (if required) of conditions, forms, facilities, terms, volume of lending depending on the level of credit risk;
- decisions on change of collateral under the in-force loan and pledge agreements;
- implementation of requirements for means of security loans' collection and other obligations;
- development and approval of decisions on quality of Bank's loan portfolio and its effective use;
- development of Bank's short- and mid-term lending strategy in accordance with business development program;
- review and approval of draft internal documents regulating Bank's lending activities and of amendments to these drafts;
- control over execution of decisions made at Credit Committee meetings;
- review and approval of new projects and programs, changes of projects and programs, relate to development of lending activities of the Bank;

- review and approval of reports on breaches, identified in the credit process, and issues related to quality and completeness of collecting and keeping credit documentation and borrower loan files.

The Asset and Liability Committee responsibilities include:

- Bank's liquidity control and effective management;
- analysis of effectiveness of Bank's business units involved in the liquidity management based on the management reporting;
- control over complying with target rates and status of actual ratios;
- control and cost-benefit analysis of assets and liabilities transactions performed by the Bank;
- analysis of Bank's assets and liabilities structure;
- strategy compliance control of management of currency, interest rate, liquidity, off-balance sheet and other financial risks (except for credit risks).

The Bank ensures segregation of risk acceptance and management functions between business units, in such a way that performing of risk bearing transactions (deals) and risk management are not functions of one business unit.

Credit Policy and Risk Management Department performs general risk management and controls the application of common principles and methods for identification, assessment, management and reporting on the risks. This department develops the risk assessment methodology, carries out independent risk analysis of products, programs and limits on specific clients/operations, performs the portfolio risk analysis, as well as performs risks control function: sets limits, controls their compliance, prepares reports on significant risks levels, which are regularly reported to the Supervisory Board, the Management Board and the Risk Management Committee.

Credit Policy and Risk Management Department is the Bank's business unit, which operates on a regular basis. Head of the Department is subordinated to and reports to the President of the Bank and complies with the Bank of Russia's qualification requirements and requirements on business reputation.

The President of the Bank determines the structure and staffing plan of the Credit Policy and Risk Management Department. The Corporate Risk Management Department, the Retail Risk Management Department and Information Security Service are subordinated to the Head of the Department.

Credit Policy and Risk Management Department and the Bank's Internal Audit Service periodically prepare reports in accordance with internal documents in relation to management of Bank's significant risks and assessment of the effectiveness of measures taken. These reports include observations in relation to assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

As at 31 December 2018, the Bank's Internal Audit Service was subordinated to, and reported to, the Supervisory Board, and the risk management functions were not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia.

The Bank's internal documentation, effective on 31 December 2018, establishing the procedures and methodologies for identifying and managing the Bank's significant risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia.

Information about the risks accepted by the Bank

In 2018 the annual risk analysis was performed and the following significant risks were determined:

- **Credit risk** is the risk arising from the possibility of a borrower's or counterparty's failure to discharge its obligations to the Bank.
- **Market risk** is the risk of financial losses due to the change in current (fair) value of financial instruments, as well as in foreign exchange rates and/or precious metals' accounting prices.

- **Operational risk** is the risk of losses resulting from failures and deficiencies in Bank's internal operational procedures, malfunction of information and other systems or from impact of external events on operations of the Bank.
- **Liquidity risk** is the risk that the Bank will be unable to finance its activities, i.e. to ensure the growth of assets and to meet its obligations as they fall due without incurring losses in the amount threatening the Bank's financial stability.
- **Concentration risk** is defined as the risk arising out of the Bank's large risk exposures, which, if realized, may lead to significant losses that could threaten Bank's financial solvency and its ability to continue as a going concern.
- **Interest risk on the banking portfolio** (interest rate risk) is the risk of deterioration of Bank's financial position through the decrease of equity amount, income level, assets value as a result of changes in market interest rates.
- **Business risk** is the risk of losses due to unfavorable changes in the general economic environment (for example, changes in consumers' behavior, intensity of competition, technological progress, etc.) and (or) due to general macroeconomic conditions.

Also the Bank identified a number of other non-financial risks which are not significant for the Bank, including:

- **Risk of loss of business reputation (reputational risk)** – decrease in number of clients (counterparties) as a result of negative perception of the Bank's creditworthiness, quality of services provided or business as whole.
- **Compliance risk (regulatory risk)** – risk of financial losses of the Bank arising out of non-compliance with the legislation, Bank's internal documents, standards of self-regulatory organizations and also from application of sanctions and (or) other corrective actions from supervisory authorities.
- **Cross-border risk** – risk of freezing of accounts by the foreign state or the Russian legislation or intervention in the transfer of cash funds abroad.
- **Payment processing risk** arises in case of violation and termination of contracts with banks-counterparties and/or payment systems related to acceptance of payment as part of retail loan repayment.
- **Residual value risk** – risk of additional expenses required to compensate the difference between car's repurchase and actual prices at the date of buy-back (residual value) assuming that repurchase price exceeds the residual value.
- **Strategic risk** – risk of adverse changes in Bank's operational results due to wrong decisions made by the management of the Bank, including as part of development, approval and implementation of the Bank's development strategy, improper execution of the decisions made and also inability of the Bank's management to react to changes in external factors.

Capital management procedures

In order to maintain level of capital that corresponds to the nature and size of Bank's operations, the Bank developed capital adequacy procedure.

The Bank determines risk appetite in order to ensure stable going concern basis in the longer term. Risk appetite is determined by the risk and capital management strategy of the Bank based on total ultimate risk accepted by the Bank and targets established in the Bank's business development strategy.

Risk appetite for determination of requirements for specified significant risks and aggregated required capital is determined in terms of qualitative and quantitative indicators.

Quantitative indicators defining the capital adequacy, in particular, include the following:

- Regulatory level of adequacy of own funds (capital) (base capital, main capital and total amount of capital required), defined in accordance with the Regulation No 646-P of the Bank of Russia and Instruction No 180-I of the Bank of Russia;
- Level of adequacy of the Bank's capital expressed as a percentage of required capital to cover its risk exposures (economic capital).

Qualitative indicators include the following:

- Assessment of potential risks and analysis of possibility to comply with established risk appetite framework when the Bank makes decision to enter new markets and perform new kinds of operations (introduce new products).
- Assessment of return-to-risk when the Bank makes management decisions.

Based on risk appetite indicators the Bank determined planning (target) capital level, planning capital structure, sources of funding, planning (target) capital adequacy ratio, as well as planning (target) risk levels and target risk structure. As a part of determining planning (target) capital level, planning capital structure, planning (target) capital adequacy ratio the Bank relies on the business cycle phase, assessment of current capital requirements, required for covering significant risks (the "amount of required capital"), as well as considers possible requirements for attracting additional capital and available sources of funding to cover significant risks taking into account business development guidelines, planning (target) risk levels and target Bank's risk structure established in the business development strategy.

To assess capital adequacy, the Bank develops procedures for reconciliation of total required capital and amount of available capital. The available capital, with consideration to capital's risk appetite indicator, shall cover total amount of required capital (economic capital).

The total amount of capital required for the Bank (economic capital) is determined based on aggregated assessment of capital requirements in relation to each significant risk. According to the methodology of calculation of the total amount of capital required (economic capital) in relation to each type of significant risk, capital requirements are defined based on quantitative methods, except for short-term liquidity risk. Short-term liquidity risk management is performed based on defining acceptable level of liquidity risk, which is determined by establishing a period, over which the Bank is able to continue its activities and meet its financial obligations in the absence of third party (additional) financing (period is determined in days).

For monitoring of own funds (capital) adequacy the Bank has developed a "Capital allocation procedure", that sets out capital allocation procedures through the use of system of limits throughout business activities, types of significant risks, and functions, whose activities require risks taking.

As part of capital allocation process, the Bank ensures that reserve capital is available to cover those risks, that are not assessed through quantitative methods, as well as the risks that cannot or are difficult to be allocated to the business units of the Bank, as well as to facilitate implementation of business development activities.

The Bank controls compliance with risk limits by its business units. As a part of control over limits established, the Bank develops system of indicators revealing high degree of using the limit by business units (alarm values).

A list of corrective measures is designed for each alarm value and depends on how close the use of a limit is to the alarm value, for example:

- take actions to decrease the level of risk taken or by types of activities and relevant business unit
- reallocation of capital between types of significant risks and/or types of activities and relevant business units
- increase of amount of available capital of the Bank.

Results on limits control (instances of reaching alarm values, exceeding limits) are included in the Bank's reports on IPACA and are reported to the Supervisory Board, Bank's executive bodies, heads of Bank's business units engaged in risks taking and risks management.

As at 31 December 2018 the Bank has a reporting system, prepared under IPACA and which also includes reports on: results of IPACA, results of stress-testing, significant risks, amount of capital, results of capital adequacy assessment and complying with statutory ratios

The frequency of reports prepared by risk management functions and the Internal Audit Service during 2018 within the IPACA was in compliance with the Bank's internal documentation.

As at 31 December 2018, the Supervisory Board and the Management Board had responsibility for monitoring the Bank's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Bank's risk management procedures and their consistent application during 2018 the Supervisory Board and the Management Board periodically discussed reports prepared by the Department of credit policy and management and Internal Audit Service, and considered proposed corrective actions.

Credit risk

Credit risk is the risk arising from the possibility of a borrower's or counterparty's failure to discharge its obligations to the Bank.

The Bank has developed a credit policy and procedures regulating assessment of the borrower's financial position, loan decision-making procedures, and procedures for controlling timely repayment of loans.

Credit risks management system is based on the following principles:

- the risk is accepted in accordance with the approved Risk and Capital Management Strategy
- the principle of qualitative and quantitative assessment of risks
- the principle of constant monitoring of the accepted credit risks and control over the procedures used, as well as the loan portfolio concentration management
- use of unified loan agreement templates approved by the Legal Department and Credit Policy and Risk Management Department
- the principle of limiting the amount of unforeseen losses covered by capital with a given probability for a certain period.

Basic actions for credit risk management:

- preliminary assessment of the borrower's creditworthiness and his future ability to service a loan (using scoring and (or) rating models), as well as quantitative and qualitative assessment of the collateral provided
- loan portfolio monitoring
- definition of credit limits
- differentiation of employees' authority.

Credit risk management tools are divided into risk assessment tools and risk management tools (strategic and operational).

In order to assess the risk and calculate the amount of regulatory capital to cover the default risk, the Bank uses a standardized credit risk assessment approach established by the Regulation of the Bank of Russia No. 180-I, as well as the Provisions of the Bank of Russia No. 590-P and 611-P. This method is used for all the Bank's activities, including corporate, retail and interbank lending.

The main tool of a credit risk strategic management is an allocation of a portion of the available capital to cover it. Allocation is performed based on established risk appetite of the Bank. Limits on the capital allocated for covering credit risk is established by the Supervisory Board of the Bank within the process of planning of the capital allocation per types of activities. Limits established by the Bank are monitored on a constant basis. Information on achieving signal values and/or violation of limits is reported to the Management Board and the Supervisory Board of the Bank as soon as possible.

Limits on the capital allocated for covering credit risk are supplemented with operational instruments (measures) that ensure that the risk is taken strictly within the limits set by the Bank, that is, with proper monitoring and control.

The Bank has established a system of limits, particularly credit risk limits and concentration risk limits, since they are of a common nature.

The general limits include regulatory credit limits based on the mandatory ratios N1.0, N1.1, N1.2, N1.4, N6, N7, N10.1, N25 as well as the limits on major concentration of risk by geographic location of borrowers (individuals and legal entities).

In corporate lending, the Bank establishes credit limits per borrower or a group of related borrowers, a group of borrowers and by industry in which borrower operates.

In retail lending, the Bank establishes a limit on the maximum amount of outstanding loan for loans to one individual borrower, as well as limits on the share of total outstanding loans for the retail loan portfolio of the following types of loans:

- for the purchase of a car under the credit products that do not require mandatory insurance of the collateral for CASCO (products "Less CASCO")
- for purchase of used cars
- for credit products with a residual payment or 2 payment periods.

In interbank lending, the Bank establishes credit limits for counterparty banks, including the maximum limit for one counterparty bank.

As of 31 December 2018 and 31 December 2017, the Bank did not violate the mandatory standards established by the Bank of Russia, which are aimed at limiting the amount of credit risk.

On a regular basis the Bank performs an analysis of borrowers' financial position using the borrower's rating system. The Bank also regularly monitors collaterals and guarantees of organizations and individuals.

Market risk

Market risk is the risk of financial losses due to the changes in current (fair) value of financial instruments, as well as foreign exchange rates and (or) accounting prices for precious metals.

The objective of market risk management is to control market risk exposures within acceptable parameters defined in accordance with the of the Bank's business plan.

The objective of the Bank's market risk management is achieved through the system-wide, integrated approach that involves the following tasks:

- collection of current and objective information on the status and exposure to the market risk
- identification and analysis of the market risk arising in the course of the Bank's operations
- qualitative and quantitative market risk assessment (measurement)
- identification of correlations between the different types of risks to assess the impact of activities planned to limit one type of risk on the increase or decrease in the level of the other risks
- development of a market risk management system at the stage of a negative trend appearance, as well as a rapid and appropriate response system aimed at preventing market risk reaching the levels critical for the Bank (risk minimization).

In market risk managing the Bank follows the following principles:

- all operations conducted by the Bank in the money and financial markets are aimed at maintaining the Bank's core business and do not pursue speculative goals
- adequacy to the nature and size of the Bank's business
- making immediate adjustments in case of changes in the external and internal factors
- the possibility of a quantitative assessment of the relevant parameters
- continuous monitoring of the size of certain parameters
- performing risk assessment and preparation of appropriate management decisions by the same specially designated independent business unit
- feasibility of use
- availability of independent information flows on risks.

The following methods are used to achieve goals and objectives of the market risk management while complying with certain principles:

- system of boundary values (limits)
- system of authorities and decisions-making

- monitoring system for financial instruments
- controls system.

The main instrument used in strategic market risk management is the allocation of capital to cover it. The allocation is performed in accordance with risk appetite set for the Bank. The limit for capital used to cover market risk is approved by the Bank's Supervisory board. The limits set by the Bank are monitored on an ongoing basis. Information on achievement of signal values and/or violation of the approved limits is reported to the Management Board and the Supervisory Board of the Bank as soon as possible.

The target values of the capital used to cover market risk are supplemented by the operating measures that ensure that the risk is taken strictly within the prescribed limits and under careful control.

Quantitative indicators are defined in the internal document "Market risk assessment methodology". The Bank applies the following models/methods to measure and assess the currency risk:

- assessment of an open-currency position
- VaR-analysis of a currency position
- Stress testing.

The following limits are used to manage the market risk:

- the required amount of capital to cover market risk, calculated in accordance with the Instruction of the Bank of Russia 180-I *On Mandatory Banking Standards*
- the cumulative long (short) open position in all foreign currencies, as a percentage of the Bank's capital
- the amount of any long (short) open position in a given foreign currency, as well as the balancing position in Russian Roubles, as a percentage of the Bank's capital
- the percentage share of the open positions in a given foreign currency in the amount of the Bank's capital
- the VaR indicator.

Value-at-Risk (VaR) assessment methodology

Value-at-Risk (hereinafter – «VaR») – is a monetary measure of the maximum amount of expected losses for a given period of time determined with a given probability level. The VaR estimate is based on a performance of foreign exchange rates and instruments' prices for the given historic time period.

The VaR provides an estimate of the market risk, the absolute maximum loss that can be expected from holding a financial instrument (or portfolio of instruments) over a fixed period of time (time horizon) under normal market conditions at a given confidence level.

The time horizon is measured as a number of working days. In order to estimate the amount of currency VaR, the Bank uses a time horizon of 250 working days.

The confidence interval used for VaR estimation is set at 95% and 99% (2 versions of estimation are carried out).

The forecasting horizon used for VaR estimation is set to 5 and 10 working days (2 versions of estimation are carried out).

The VAR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential movements in market prices are determined with reference to market data from at least the last 12 months.

Although VAR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- a 10-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- even the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VAR estimate
- VAR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day

- the VAR measure is dependent upon the position and the volatility of market prices. The VAR of an unchanged position reduces if market volatility declines and vice versa.

The VaR providing an estimate of losses relating to the portfolio of financial instruments is as follows:

	31 December 2018	31 December 2017
Foreign exchange risk	(1 803)	77
Interest rate risk	215 852	148 761

The Bank does not solely rely on its VAR calculations in its market risk measurement due to inherent risk of usage of VAR as described above. The limitations of the VAR methodology are recognized by supplementing VAR limits with other open position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

Interest risk on the banking portfolio

Interest risk on the banking portfolio (interest rate risk) is the risk of deterioration of Bank's financial position due to the decrease in the amount of equity, level of income, value of assets as a result of changes in interest rates on the market.

In accordance with the Business Development Strategy, the Bank does not carry out operations with the instrument of the trading book. Nevertheless, the main source of the Bank's profit is the interest margin.

The main sources of the interest risk are the following:

- mismatch of maturities of recognized and unrecognized assets and liabilities relating to instruments with a fixed interest rate
- mismatch of maturities of recognized and unrecognized assets and liabilities relating to instruments with a floating interest rate (interest rate repricing risk)
- changes in the configuration of the yield curve for long and short positions in financial instruments with one counterparty, creating a risk of loss as a result of excess of potential expenses over potential income at the close of these positions (yield curve risk)
- for financial instruments with a fixed interest rate, provided that their maturity is matched – the mismatch in the changes in the interest rates for funds borrowed and placed by the Bank; for financial instruments with a floating interest rate, provided that the floating interest rate is repriced with the same frequency – mismatch in the changes in interest rates (basis risk)

All operations conducted by the Bank in the money and financial markets are aimed at maintaining the Bank's core business and do not pursue speculative goals.

The Bank strives to maintain the interest rate at the level that does not threaten the financial stability of the Bank and concerns of its creditors and depositors, and thereby contributes to the stability and reliability of the Bank.

The main instrument used in strategic interest risk management is the allocation of capital to cover it. The allocation is performed in accordance with risk appetite set for the Bank. The limit for capital used to cover interest risk is approved by the Bank's Supervisory Board. The limits set by the Bank are controlled on an ongoing basis. Information on the achievement of signal values and/or violation of approved limits is brought to the attention of the Management Board and the Supervisory Board of the Bank as soon as possible. The target values of the capital used to cover interest risk are supplemented by the operating measures that ensure that the risk is taken strictly within the prescribed limits and under careful control.

The Bank applies the following models and methods for measurement and assessment:

- assessment of the level and dynamics of the interest margin and spread index
- GAP-model
- VaR method.

Interest margin is the difference between the interest income and the interest expense of the Bank. The margin is calculated both as an absolute value and as derived coefficients.

The absolute value of the margin can be calculated as the difference between the cumulative interest income and expense amount of the Bank, as well as between the interest income from given types of active transactions and the interest expense arising out of funding of these transactions.

The interest margin is determined in accordance with the Bank's Interest Policy, both across the Bank and at individual active transactions level. The risk exposure is estimated based on the dynamics of the margin. If the Bank sets the minimum acceptable interest margin, than the actual value of the coefficient may be compared to the minimum acceptable margin.

Spread is the difference between interest rates for active and passive transactions. The spread index demonstrates the range of variation of interest rates related to placements and funding.

GAP is the difference between the sum of long and short positions in financial instruments that are sensitive to changes in interest rates determined for each time interval. This value can be either positive or negative, and allows an analysis of the possible changes in the Bank's net interest income as a result of fluctuations in the interest rates. The larger the gap is the more is the Bank's exposure to the risk of losses from changes in the interest rates.

Excess of assets that are sensitive to the changes in interest rates over the liabilities that are sensitive to the changes in interest rates means that net interest income will increase as interest rates rise and decrease as the interest rates fall. The opposite situation means that the net interest income will increase as interest rates fall and decrease as the interest rates rise.

A financial instrument is sensitive to the changes in the interest rate if on the time horizon used to assess the interest risk, its value is expected to change based on the market dependent rate. Such assets, liabilities and unrecognized positions generate interest-sensitive margin.

Sensitive assets and liabilities include interbank loans and deposits, loans issued and attracted deposits with floating interest rates or with periodic interest repricing procedure in accordance with the contractual terms.

A financial instrument is not sensitive to the changes in the interest rate if either its value is expected change out of the time horizon, or the instrument is to be reinvested at a rate, that is not dependent on the market.

The VaR method is a quantitative assessment of the risk of loss for measurement of the interest rate risk. The standard deviation of changes in interest rates, profitability of financial instruments is calculated.

Average effective interest rates for interest bearing assets and liabilities as at 31 December 2018 and as at 31 December 2017 are provided in the table below. These interest rates are an approximation of the yields to maturity of these assets and liabilities

	2018			2017		
	Average effective interest rate, %			Average effective interest rate, %		
	RUB	USD	EUR	RUB	USD	EUR
Interest bearing assets						
Nostro accounts with banks	0,01	0,40	0,33	0,01	0,03	0,40
Loans to banks	7,60	-	-	7,53	-	-
Loans to customers	12,67	9,00	-	13,38	9,22	-
Interest bearing liabilities						
Loans from banks	7,89	3,45	-	9,46	1,93	-
Other borrowings and customers' accounts	8,29	-	-	9,65	-	-
Bonds issued	8,05	-	-	9,06	-	-
Subordinated borrowings	8,66	-	-	8,46	-	-

Currency risk

Currency risk is the risk of losses due to unfavorable changes in foreign currency exchange rates and in open positions held by the Bank in foreign currencies.

The currency risk is primarily driven from changes in real value of the monetary obligation during a given time period.

Types of currency risk are as follows:

- operational – the possibility of loss or income deficiency from the transaction
- balance sheet (translational) – the mismatch between assets and liabilities, nominated in the foreign currencies.

All operations conducted by the Bank in the money and financial markets are aimed at maintaining the Bank's core business and do not pursue speculative goals.

The source of currency risk is the open currency position (hereinafter – "OCP"), which is a difference between the balances of assets and liabilities in a foreign currency (including unrecognized positions), that may lead to a possibility of additional profits or a risk of additional losses as a result of changes in the foreign exchange rates.

OCP may be:

- short – when the value of recognized and unrecognized liabilities exceeds the value of recognized and unrecognized assets in each currency
- long – when the value of recognized and unrecognized assets exceeds the value of recognized and unrecognized liabilities in each currency.

The Bank aims at maintaining the OCP value at a minimum level, i.e. at a level that does not threaten the financial solvency of the Bank and the concerns of its creditors and depositors, and thereby contributes to the stability and reliability of the Bank.

The Bank applies the following models and methods for measurement and assessment of currency risk:

- valuation of open currency position
- VaR-analysis of a currency position
- stress testing.

The OCP is assessed for compliance with the limits established by the ALCO (prior to their establishment – restrictions stated in accordance with the requirements of the current legislation). To quantify the currency risk the Bank uses the VaR methodology.

The following table shows the currency structure of assets and liabilities as at 31 December 2018:

	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	3 447 589	15 072	4 082	-	3 466 743
Mandatory reserve deposit with the Bank of Russia	262 602	-	-	-	262 602
Loans to banks	2 501 041	-	-	-	2 501 041
Loans to customers	62 406 026	564	-	-	62 406 590
Property, equipment and intangible assets	256 257	-	-	-	256 257
Other assets	163 070	4 736	-	5 857	173 663
Total assets	69 036 585	20 372	4 082	5 857	69 066 896
LIABILITIES					
Loans from banks	31 488 020	69 589	-	-	31 557 608
Other borrowings and customers' accounts	18 584 946	-	-	-	18 584 946
Bonds issued	5 024 475	-	-	-	5 024 475
Subordinated borrowings	862 097	-	-	-	862 097
Deferred tax liability	104 521	-	-	-	104 521
Current tax liability	38 263	-	-	-	38 263
Other liabilities	341 116	-	-	-	341 116
Total liabilities	56 443 438	69 589	-	-	56 513 026
Net position	12 593 147	(49 216)	4 082	5 857	12 553 870

The following table shows the currency structure of assets and liabilities as at 31 December 2017:

	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	1 170 870	31 077	749	–	1 202 696
Mandatory reserve deposit with the Bank of Russia	238 908	–	–	–	238 908
Loans to banks	3 343 251	–	–	–	3 343 251
Loans to customers	51 572 094	6 371	–	–	51 578 465
Property, equipment and intangible assets	264 801	–	–	–	264 801
Current tax asset	25 328	–	–	–	25 328
Other assets	143 549	2 865	–	4 151	150 565
Total assets	56 758 801	40 313	749	4 151	56 804 014
LIABILITIES					
Loans from banks	19 899 539	57 841	–	–	19 957 380
Other borrowings and customers' accounts	15 520 032	–	–	–	15 520 032
Bonds issued	8 123 028	–	–	–	8 123 028
Subordinated borrowings	1 414 555	–	–	–	1 414 555
Deferred tax liability	140 027	–	–	–	140 027
Other liabilities	322 162	–	23	–	322 185
Total liabilities	45 419 343	57 841	23	–	45 477 207
Net position	11 339 458	(17 528)	726	4 151	11 326 807

The analysis of an impact on the equity and net profit of the RUB exchange rate growth against other currencies is shown below. This analysis is based on foreign currency exchange rate movements that the Bank considers to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2018		31 December 2017	
	Decrease, %	Effect	Decrease, %	Effect
Appreciation of USD against RUB	15%	5 906	15%	2 103
Appreciation of EUR against RUB	15%	(450)	15%	(87)

A weakening of the RUB against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Stock market risk

Stock market risk is the risk of losses resulting from unfavourable price movements of stocks (securities, including those confirming the right to take part in the management) of the trading portfolio and derivative financial instruments due to factors associated with both the issuer of stocks and derivative financial instruments and general movements in derivative financial instrument prices.

The Bank is not subject to stock market risk significantly due to the Bank does not have operations with stocks.

Operational risk

Operational risk is the risk of losses resulting from failures and deficiencies in Bank's internal operational procedures, malfunction of information and other systems or from impact of external events on operations of the Bank. Operational risk includes legal, model, counterparty risks, information technology risk and general operational risk.

The *Model risk* is the risk of loss arising from the poor efficiency or inadequacy of the models used by the Bank.

The *Counterparty risk* is the risk of violation of business processes that may lead to losses or legislation violation by Bank as a result of a default of counterparties on their obligations to the Bank due to various reasons.

Information technology risk (information and communication technology risk) – current or potential risk of losses due to incompatibility or failure of hardware and software, technical infrastructure, that could threaten availability, integrity, security of data and technical infrastructure.

A *legal risk* is the risk of losses as a result of Bank's and/or its counterparties' violation of the terms of written contracts, legal errors made by the Bank in the course of operations (incorrect legal advice or preparation of documents, including when considering disputes in the judicial bodies), legal system inadequacy (inconsistency of legislation, lack of legal norms for regulating certain issues arising in the course of the Bank's activities), counterparties' violation of regulatory legal acts, the location of the Bank's branches, legal entities over which the Bank has control or significant influence, and the Bank's counterparties under the jurisdiction of various countries.

The Bank continuously monitors legal risks in order to take measures to maintain them at an acceptable level that does not threaten the Bank's financial solvency, the concerns of its creditors, depositors, shareholders, employees, counterparties. Taking into account the recommendations of the Basel Committee, the Bank includes legal risks in the operational risks and provides general management systems for all types of operational risks.

To prevent or minimize the negative impact of unfavorable events on the Bank's processes, as well as to reduce (eliminate) possible losses, the Bank has introduced management tools for operational (including legal) risks recommended by the Basel Committee on Banking Supervision, such as: identification and collection of data on internal and external losses, their analysis and evaluation. All Bank's employees, as well as management bodies, when acting and/or taking decisions take into account the impact of operational (legal) risks.

The implementation, monitoring and control over operational (legal) risks are imposed on the Bank's collective bodies, the Risk Management Committee, as well as the Legal Department and the Financial Monitoring Department.

The *General operational risk* refers to operational risks not covered by legal risk, model risk, counterparty risk and information technology risk.

The general operational risk was defined as significant for the Bank based on a procedure for determining the significant risks. Legal risk, model risk, counterparty risk and information technology risk based on a procedure for determining the significant risks are defined as other significant risks, which means that their realization in combination with the most significant risks may result in significant losses. These risks are recognized as relevant and are assessed within the general operational risk.

The significance of certain Bank's operational risk components is assessed within the work performed under the "Procedure for determining the significant risks".

The Bank's approved operational risk management policy provides prevention of the known risks and the identification of new operational risk arising in the course of the Bank's activities, as well as the development of procedures aimed at assessing, identifying and preventing of those risks.

Operational risk is inherent and extends both to the entire structure of the Bank as a whole and to all its activities, therefore operational risk management is based on such basic element as:

- improvement of business processes
- development of the bank's optimal structure
- innovation of control systems
- development of staff motivation schemes
- improvement of information technologies
- enhancing the business corporate culture
- set up a system that supports continuous operations of the Bank.

The main instrument used in strategic operational risk management is the allocation of capital to cover it. The allocation is performed in accordance with risk appetite set for the Bank. The limit for capital used to cover operational risk is determined by the Bank's Supervisory Board. The limits set by the Bank are monitored on an ongoing basis. Information on achievement of signal values and/or violation of the approved limits is reported to the Management Board and the Supervisory Board of the Bank as soon as possible.

The target values of the capital used to cover operational risk are supplemented by the operating measures that ensure that the risk is taken strictly within the prescribed limits and under careful control.

The Bank distinguishes the following methods used to minimize operational risks:

- **Risk awareness.** The management of all levels is responsible for managing the operational risk in the relevant field of activity. The banking operations are carried out in accordance with the rules and procedures approved by the Bank, within the established authorities, limits and restrictions. New banking operations are not allowed if regulations or appropriate decisions of the collegial bodies regulating the procedures for the transaction are not available.
- **“Four eyes principle”.** Segregation of different functions, crosschecking, double control over the use of assets, a system of two signatures for the important documents, etc.
- **Segregation of duties.** The Bank builds adequate management structure that eliminates conflicts of interests: it is not allowed to combine powers (duties) to perform banking transactions with their processing and accounting, as well as to manage and control risks, including operational ones. This principle relates to both: individual performer, his subdivision and line of subordination, i.e. these functions are not allowed to be concentrated in one employee or within one unit, or within units subordinate to one manager. The following tools are used: additional authorization of operations, remote control, automatic checking and restriction, etc.
- **Control of operational risks.** The goal of the operational risks control is to obtain objective information about the level of operational risks, compliance with operational regulations and procedures, compliance with the established authorities and operational limits for assessing the effectiveness of the policies and the adequacy of the operational risk management system and their improvement. The control is performed on two levels: upper (managerial) and lower (operational). The management of Bank and its collective bodies regularly review reports on identified operational risks, the level of realized operational risks, facts, reasons and consequences of violations of established procedures, limits and restrictions, providing control at the upper (management) level. The authorized business units control operational risks at all individual stages of operations, implement procedures in accordance with the functions defined by the regulations on departments and regulatory documents of the Bank, which ensures control at the lower (operational) level. During identification of operational risks that are significant or systemic, the head of the relevant business unit in due order informs the Bank’s management and the risk division. The operational risk control system is implemented in accordance with the principles defined by the Bank’s internal regulatory documents and assumes the implementation of preliminary, current and follow-up controls over operational risks at all stages of transactions/procedures.
- **Use of information technologies.** To ensure timely detection, analysis, evaluation and control of operational risks, the Bank uses all available and accessible information systems and technologies. The specialized software requires preparation of the most detailed technical and user documentation.
- **Continuous improvement of the operational risk management system.** The Bank constantly improves the elements of the operational risk management system, including information systems, procedures and technologies based on the information on the realized risks and taking into account the strategic objectives, changes in the external environment, new international practices on managing of those risks.

Operational risk is assessed in accordance with the requirements of Regulation of Bank of Russia № 652-P dated 3 September 2018 *On the procedure for calculating operational risk*. When calculating the capital requirements for covering the operational risk, the Bank follows a standardized approach of the Instruction of the Bank of Russia 180-I *On Banks’s Mandatory Ratios*.

As of 31 December 2018 and as at 31 December 2017 the Bank complied with the mandatory ratios established by the Bank of Russia.

Liquidity risk

Liquidity risk is the risk that the Bank becomes unable to finance its activities, i.e. to ensure the growth of assets and to settle its obligations as they fall due without incurring losses in the amount threatening the Bank's financial solvency. The liquidity risk includes the following significant components:

- *Short-term liquidity risk* is the risk of a mismatch between the amounts and dates of cash receipts and payments (cash inflows and outflows). The Bank has defined acceptable levels of risks in accordance with the "Risk and Capital Management Strategy".
- *Funding risk* is the risk of losses from entering into necessary funds raising transactions which are only possible at a less favorable terms. The risk relates to potential changes in the cost of funding (own and market credit spread), which affects the amount of the Bank's future income. The Bank manages the funding risk by calculating the level of capital adequacy within the framework of internal procedures for assessing capital adequacy. The Bank allocates capital for full coverage of funding risk. The most realistic scenario of funding risk development, considered by the Bank, is a case when the Bank loses access to the source of its cheapest funding – borrowings from TMFNL loans are subject to full early repayment of all tranches and, as a result, this part of the Bank's liabilities needs to be replaced by raising funds on an interbank loans market.

The main instrument used in strategic liquidity risk management is the allocation of capital to cover funding risk and assessment the Bank's acceptable stable liquidity position in respect of short-term liquidity risks. The allocation is performed in accordance with risk appetite set for the Bank.

The limit for capital used to cover funding risk is approved by the Bank's Supervisory Board. The allocation of capital to cover risk is not used for management of short-term liquidity risk. The exposure to short-term liquidity risk is limited by control over acceptable liquidity risk level.

The Bank has developed a liquidity management policy, which aims to provide liquidity control and timely full settlement of current liabilities.

The Bank's Supervisory Board determines the liquidity management strategy across the Bank, including: approval of the Liquidity policy, hears the information on the liquidity position and provides recommendations on the general liquidity management strategy of the Bank.

The Bank's Management Board approves Policy of The Asset and Liability Committee. Issues related to the liquidity management, if necessary, may be submitted for consideration of the meeting of the Bank's Management Board. In the event of a significant deterioration in the current or forecast liquidity situation, the Management Board may establish a special liquidity management regime, determine the list of operational measures, and determine the list of necessary measures.

The Asset and Liability Committee ("ALCO") is responsible for enabling effective implementation of the liquidity management policies and procedures, as well as for the implementation of operational control of the liquidity position and for the implementation of liquidity management decisions made by the Management Board, including:

- as part of a process of medium- and long-term liquidity management approves the planned volumes and cost of attracting and allocating resources
- determines the range of the funding instruments used
- determines the methodology for quantifying the liquidity risk of the Bank
- decides on measures to mobilize liquid assets in the event of a liquidity shortage
- approves the methodology of the Bank's liquidity risk scenario analysis
- determines the composition and methodology of calculating quantitative indicators
- approves the criteria for classifying customers as large
- determines the maximum / minimum share of the liabilities attracted from non-residents
- performs other functions and has other authorities as defined in the Regulation on the Asset and Liability Committee.

ALCO and the Management Board of the Bank are called together in an emergency order in case of significant deterioration in the current or forecasted Bank's liquidity position.

The Treasury Department implements the ALCO decisions on liquidity management through the use of interbank, foreign exchange and other markets, attracting resources within the approved limits for the instruments of counterparties, and in accordance with the regulations of the Bank of Russia. The Treasury Department performs:

- continuous daily monitoring of the instant and current liquidity ratios
- regulation of the Bank's payment position and open currency positions
- daily consolidation of current information on cash flows from all the Bank's divisions, and setting the priority of payments in order to ensure compliance with the limits of mandatory liquidity ratios established by the Bank of Russia
- keeping the payment calendar by currencies for the nearest month to predict the excess or shortage of short-term liquidity
- informing the members of ALCO and the Management Board about the cases of significant deterioration of the Bank's liquidity or the current financial markets state
- comparison of the forecasted values of the liquidity ratios with the actual data in the financial statements using data provided by the Accounting, Reporting and Financial Control Department;
- together with the Credit Policy and Risk Management Department performs stress testing to determine the impact of stress factors on the liquidity of the Bank
- analysis, forecast and development of proposals on regulation of short-, medium- and long-term liquidity of the Bank together with the Financial Planning and Reporting Department and Credit Policy and Risk Management Department.

The Financial Planning and Reporting Department performs an analysis and planning of the short-, medium- and long-term liquidity, as well as develops mechanisms for monitoring deviations of the actual costs of maintaining liquidity from the planned one and provides recommendations for normalizing the liquidity of the Bank.

The accounting unit within Accounting, Reporting and Financial Control Department calculates on a daily basis the liquidity ratios established by the Bank of Russia, provides methodological support for modeling the impact of various scenarios and liquidity projections on ratios, and informs the Treasury Department and the Financial Planning and Reporting Department, if the critical internal limits on any ratio set by the Bank's internal policy are approached.

Credit Policy and Risk Management Department:

- develops and amends the Regulation on the Asset and Liability Committee
- develops proposals and recommendations on liquidity regulation
- controls compliance of the internal documents regulating the liquidity risk with the requirements of the Bank of Russia and shareholders
- submits to the ALCO an analysis of the liquidity values and the reasons for their violation
- controls compliance with the limits of the Bank's active operations
- develops proposals and recommendations for carrying out stress testing and determining the impact of the stress factors on the liquidity of the Bank
- provides disclosure to external users of the information on the actual liquidity risk level of as a part of the annual Bank's IFRS financial statements
- identifies and assesses the possible banking risks, including the liquidity risk
- standardizes and improves methods of liquidity risk analysis and management.

The liquidity management policy is based on the following principles:

- prediction of cash flows by main currencies and calculation of the required level of the liquid assets related to these cash flows
- maintaining a diversified structure of funding sources
- managing the borrowed funds concentration and structure
- development of plans for attracting financing through borrowed funds
- maintaining a portfolio of highly liquid assets that can be easily realized serving as a protective measure in case of an immediate liquidity gap
- development of reserve plans for maintaining liquidity and a given level of funding
- control over compliance of liquidity levels with the legislatively established ratios.

The following instruments are used to manage the liquidity risk:

- *Analysis of the liquidity gap by maturity* (GAP-analysis) is performed at least once a month and allows to identify the mismatch of assets and liabilities by maturity. The gap is the difference between assets and liabilities with the corresponding maturities before the remaining contractual repayment, combined into maturity groups.
- *Short-term liquidity forecast* (payment position) is performed on a daily basis and accounts for the most recent information, including information on planned issuance and repayments of loans to individuals and legal entities of the given maturity, on balances on correspondent accounts, on planned interbank credit operations, taking into account their maturity and the counterparty creditworthiness, on balances of the customers' accounts and planned account activity. The Bank takes cautious position when performing the analysis, i.e. doubtful assets are not taken into account when predicting the cash inflows, and liabilities with an indefinite maturity are accounted at the nearest possible date of claim.
- *Structuring and diversification of liabilities and funding sources* is used to reduce the risk of early liabilities claim and is performed if possible, preventively – at the stage of signing of credit documentation. The main instrument used to reduce this risk is the exclusion of contractual terms that provide for the creditor's ability to claim a debt before the maturity. Diversification of liabilities allows to reduce the Bank's dependence arising when assets are funded by one type of liability, and it implies a balance between raising funds from corporate clients and credit organizations, between funding instruments (term deposits, interbank loans, credit institutions, bonds, syndicated and subordinated loans, etc.)
- *Method of establishing ratios* is used to prevent violations of mandatory standards established by the Bank of Russia (N2, N3 and N4), as well as internal restrictions on liquidity deficit/surplus. The liquidity deficit/surplus is a cumulative difference between the amount of assets and liabilities with the remaining contractual maturity up to the specified number of days inclusive. The liquidity deficit cannot exceed 5%, 10% and 35% of total assets for the maturity groups "on demand and up to 7 days", up to 30 days and up to 1 year, respectively. The liquidity surplus cannot exceed 10%, 20% and 35% of total assets for the maturity groups "on demand and up to 7 days", up to 30 days and up to 1 year, respectively.

In case of liquidity surplus, a strategy for placing excessive liquidity is being developed. At least 25% of the excessive liquidity is subject to placement in assets for up to 10 days on the correspondent accounts in the Bank of Russia and accounts of credit institutions, classified as the first risk group. Liquidity surplus can lead to a significant decrease in the Bank's profitability due to the low yield of highly liquid and liquid assets and/or high cost of borrowed resources.

To set the limits, it is prohibited to maintain a level of excessive liquidity, resulting in decrease by more than 10% of the Bank's capital during 30 days, calculated in accordance with the Bank of Russia Regulation № 646-P *On the methodology for determining the amount of equity (capital) of credit institutions (Basel III)*. The effect on capital is calculated as 30/365 of the product of the weighted average interest rate for liabilities raised during the reporting month and the average liquidity excess. At the same time, the excess of liquidity is defined as the amounts on the correspondent accounts with the Bank of Russia and on accounts with credit institutions, regardless of their risk group, in amount exceeding 5% of the Bank's capital calculated in accordance with the Regulation.

In case of a liquidity deficit, the responsible departments prepare the reports for consideration by the Bank's ALCO, including recommendations on liquidity ratios, interest rate risk, on increase in borrowings for a given term, and on exiting of certain operations to maintain credit lines open to the Bank for possible further use and/or recommendations to limit asset growth.

As at 31 December 2018 and 2017, the Bank complied with the mandatory liquidity ratios set by the Bank of Russia. The following table shows the mandatory liquidity ratios calculated as at 31 December 2018 and 2017:

	Requirement	31 December 2018	31 December 2017
Instant liquidity ratio (N2)	Not less than 15%	218,3%	189,5%
Current liquidity ratio (N3)	Not less than 50%	248,5%	209,4%
Long-term liquidity ratio (N4)	Not more than 120%	103,0%	74,4%

- *Scenario analysis (stress testing)* provides the identification of alternative scenarios for the development of the market situation and their impact on the liquidity of the Bank, as well as the development of a behavioral strategy in case of an unexpected liquidity crisis in the Bank. The scenario analysis is performed at least quarterly. The following three main scenarios are considered:
 - "Normal", i.e. operations under normal business activity. This is a basic scenario for forward-looking liquidity risk assessment.
 - "Unfavorable", i.e. operations under a temporary liquidity shortage in the Bank. This scenario implies possible unfavorable developments for the Bank that may relate to emerging negative publicity of the Bank, the actions of certain Bank's creditors and borrowers, early redemption of liabilities, and delinquency of large assets.
 - "Stress", i.e. operations in a general market crisis environment. Under this scenario of the liquidity analysis, the Bank's solvency is tested in the environment of sharp changes in the financial markets and absence of internal problems within the Bank caused by other factors. The following external factors on the Bank's activity are assumed: attraction of the interbank loans is impossible, there is a sharp drop in prices in the securities market, an increase in discounts on repurchase transactions at least twice from the current value.

A stress test is carried out in the form of a Report on the state of the Bank's forward-looking liquidity. Based on results of scenario analysis the Treasury develops liquidity recovery plans and proposals on hedging of prospective liquidity risk, and informs the ALCO.

The Treasury monitors the liquidity positions on a daily basis. Reports on liquidity rates are provided to the management at least once a month. Decisions on the liquidity management policy are made by the ALCO and executed by the Treasury. The results of the reports prepared by the ALCO are communicated to the management and the Supervisory Board of the Bank.

The Treasury together with The Financial Planning and Reporting Department and Credit Policy and Risk Management Department performs the following:

- prepares a detailed analysis of the structure of assets and liabilities by different breakdowns; at the same time, the main attention is paid to the forecasted outflow of the resources from the Bank for the next 3 month
- determines the types of business where it is possible to suspend the growth of assets, and provide practical steps in this direction
- forecasts the possibility of sale of assets, outlines the timing of sales and the amounts of proceeds
- develops the activities for dealing with the largest customers and counterparties
- specifies possible changes in the cost of the Bank's services (thus creating favorable conditions for the most important customers).

The employees and heads of the Bank's functions, whose decisions affect the liquidity level, perform operational control over compliance with liquidity management procedures. Timeliness of corrections of identified violations within the liquidity management process is controlled by the Bank's Management Board. To identify trends in improving or deteriorating of the Bank's liquidity position, the actual values of the liquidity ratios for the last reporting period are compared with the previous values for the last three month at least.

If the Bank is unable to raise funds on the interbank market, to maintain liquidity it uses a multicurrency credit line from Toyota Motor Finance (Netherlands) B.V. or other members of the international TOYOTA Group.

Making a decision to cover the liquidity deficit is the responsibility of the Bank's ALCO.

The following tables show the undiscounted cash flows on financial assets and liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. Information about commitments is disclosed in Note 25.

The position as at 31 December 2018 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount	Carrying amount
Financial assets						
Cash and cash equivalents	3 466 743	-	-	-	3 466 743	3 466 743
Loans to banks	2 506 767	-	-	-	2 506 767	2 501 041
Loans to customers	5 767 996	7 163 969	16 837 819	47 595 701	77 365 485	62 406 590
Other financial assets	-	104 064	-	20 682	124 746	124 746
Total financial assets	11 741 506	7 268 033	16 837 819	47 616 383	83 463 741	68 499 120
Financial liabilities						
Loans from banks	2 734 982	4 878 805	14 306 325	12 088 547	34 008 659	31 557 608
Other borrowings and customers' accounts	93 228	1 517 010	6 461 007	11 101 687	19 172 932	18 584 946
Bonds issued	-	-	403 603	5 403 603	5 807 206	5 024 475
Subordinated borrowings	-	18 548	886 492	-	905 040	862 097
Other financial liabilities	185 303	-	75 079	-	260 382	260 382
Total financial liabilities	3 013 513	6 414 363	22 132 506	28 593 837	60 154 219	56 289 508
Net position as at 31 December 2018	8 727 993	853 670	(5 294 687)	19 022 546	23 309 522	12 209 612
Credit related commitments	300 000	-	-	-	300 000	300 000

AO Toyota Bank
Notes to the financial statements for the year ended 31 December 2018
(expressed in thousands of Russian Roubles)

The position as at 31 December 2017 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount	Carrying amount
Financial assets						
Cash and cash equivalents	1 202 696	–	–	–	1 202 696	1 202 696
Loans to banks	3 349 771	–	–	–	3 349 771	3 343 251
Loans to customers	5 268 782	6 871 184	14 413 411	38 040 535	64 593 912	51 578 465
Other financial assets	-	95 177	-	21 221	116 398	116 398
Total financial assets	9 821 249	6 966 361	14 413 411	38 061 756	69 262 777	56 240 810
Financial liabilities						
Loans from banks	2 547 925	2 159 438	4 516 280	13 197 123	22 420 766	19 957 380
Other borrowings and customers' accounts	1 554 077	1 268 065	3 686 964	10 902 752	17 411 858	15 520 032
Bonds issued	–	3 161 692	403 603	5 807 205	9 372 500	8 123 028
Subordinated borrowings	–	579 735	55 040	905 040	1 539 815	1 414 555
Other liabilities	115 981	–	134 581	–	250 562	250 562
Total financial liabilities	4 217 983	7 168 930	8 796 468	30 812 120	50 995 501	45 265 557
Net position as at 31 December 2017	5 603 266	(202 569)	5 616 943	7 249 636	18 267 276	10 975 253
Credit related commitments	400 000	–	–	–	400 000	400 000

The analysis above is used by the Management to monitor current liquidity position of the Bank and to make related operational decisions.

Concentration risk

Concentration risk is the risk arising from the Bank's exposure to major risks, the realization of which may lead to significant losses that could pose a threat to the Bank's solvency and its ability of going concern.

The Bank determines the following forms of concentration risk:

- a significant amount of claims to one borrower or a group of borrowers;
- a significant amount of investments in instruments of one type and instruments, the cost of which depends on changes in general factors;
- credit claims to the counterparties in one economic segment or geographical zone, as well credit claims denominated in one currency;
- credit claims to the counterparties whose financial results depend on one type of activity or sale of the same goods and services;
- indirect exposure to the concentration risk arising from the Bank's implementation of measures to reduce credit risk (use of identical collateral, independent guarantees provided by one counterparty);
- dependence on certain types of income and on certain sources of liquidity.

The procedures for managing the concentration risk correspond to the Bank's business model, the complexity of transactions performed, and are a subject to review at least once a year. The Bank accounts for the concentration risk as a part of significant risk management procedures.

The main instrument used in strategic concentration risk management is the allocation of capital to cover it. The allocation is performed in accordance with risk appetite set for the Bank. The limit for capital used to cover concentration risk is determined by the Bank's Supervisory Board.

The limits set by the Bank are monitored on an ongoing basis. Information on achievement of signal values and/or violation of the approved limits is reported to the Management Board and the Supervisory Board of the Bank as soon as possible.

Business risk

Business risk is the risk of losses due to unfavorable changes in the general economic environment (for example, changes in consumers' behavior, intensity of competition, technological progress, etc.) and (or) due to general macroeconomic conditions. Business risk focuses on such potential effects during a one-year time horizon.

Business risk is considered as a residual risk, that is, a risk not yet mentioned among the above types of risk. Business risk leads to an unexpected decrease in income and (or) a negative deviation from the planned values.

The main component of a business risk is earning risk, i.e. the risk of losing the planned profit (part of profit) due to unforeseen changes in the general conditions of business and (or) the Bank's inability to adapt to such changing conditions. The main determinants of business risk are declining margins and (or) an increase in costs.

Business risk assessment is carried out in accordance with the internal document that determines the order of units' interaction when forecasting the planned level of capital adequacy. Assuming the Bank will continue as going concern, when calculating capital adequacy, the Bank forms a buffer of capital to cover the business risk, which is deducted from the regulatory capital. There is no special limit on capital for the business risk. More important is the continuous monitoring of deviations between the realized profits and the planned ones.

24. Capital management

The Bank of Russia sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. The Bank calculates amount of capital in accordance with Provision of the Bank of Russia dated 28 December 2012 No 395-P *On Methodology of Calculation of own Funds (Capital) of the Credit Organizations (Basel III)* (Provision No 395-P).

The Bank maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Bank provides the territorial Bank of Russia that supervises the Bank with information on mandatory ratios in accordance with the set format. The Bank controls compliance with capital adequacy ratios on a daily basis.

Any cases of capital adequacy ratios approaching the limits set by the Bank of Russia and internal policies are communicated to the Supervisory and Management boards. As at 1 January 2019 and 2018, the Bank complied with the statutory capital ratios.

The information on statutory capital and its adequacy as at 1 January 2019 and 2018 is as follows:

	1 January 2019	1 January 2018
Base capital	10 237 831	9 443 824
Additional capital	-	-
Main capital	10 237 831	9 443 824
Supplementary capital	1 066 500	1 151 338
Own funds (capital)	11 304 331	10 595 162
Risk-weighted assets used to determine adequacy of basic and main capital	67 497 554	57 399 139
Risk-weighted assets used to determine adequacy of own funds (capital)	67 236 447	57 402 707
Basic capital ratio (N1.1)	15,2%	16,5%
Main capital ratio (N1.2)	15,2%	16,5%
Own funds (capital) ratio (N1.0)	16,8%	18,5%
Financial leverage (H1.4)	15,2%	n/a

As at 31 December 2018, the minimum levels of N1.1, N1.2, N1.0 and N1.4 ratios are 4.5%, 6.0%, 8.0% and 3.0% accordingly (2017: 4.5%, 6.0% and 8.0%, accordingly).

25. Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank doesn't have full coverage for temporary business interruption, or third party liability in respect of environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on Bank's operations. To mitigate this risk the Bank developed the Business continuity and disaster recovery plan to decrease this impact. This plan includes an action plan, how to prevent and timely recover from potential disturbance of the Bank's daily operating regime resulted from non-standard and emergency situations.

Litigation

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

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 transfer pricing rules came into force in the Russian Federation which provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to these provisions, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, 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.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

Credit related commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans.

As at 31 December 2018, the contractual amounts of unused loan commitments totals RUB 300 000 thousand (2017: RUB 400 000 thousand). These total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, as it does for granting loans to customers

26. Operating leases

The Bank doesn't have non-cancellable operating leases as lessee. Cancellable operating lease rentals as at 31 December 2018 and 2017 are payable as follows:

	31 December 2018	31 December 2017
Less than 1 year	124 655	120 576
Between 1 and 5 years	123 876	247 216
	248 531	367 792

27. Related party transactions

Transactions with a parent company. The Bank's parent company is Toyota Kreditbank GmbH (Germany). Non-controlling shareholder is Toyota Leasing GmbH. The party with ultimate control over the Bank is Toyota Financial Services Corporation (Japan).

Transactions with the members of the Supervisory and Management Boards. Total remuneration for 2018 and 2017 included in personnel expenses (Note 10) is as follows:

	<u>2018</u>	<u>2017</u>
Wages and salaries	47 994	48 048
Bonuses	10 966	11 117
Apartment rent	3 017	3 076
Others	9 746	10 683
	<u>71 723</u>	<u>72 924</u>

Transactions with other related parties. Other related parties comprise affiliates and subsidiaries of the parent company.

The outstanding balances and average effective interest rates as at 31 December 2018 and related income and expenses for 2018 from transactions with other related parties are as follows:

	Parent company		Others		
	Carrying value	Average effective interest rate, %	Carrying value	Average effective interest rate, %	Total
Statement of financial position					
Other borrowings and customers' accounts					
- In Russian Roubles	-	-	17 064 625	8,29	17 064 625
Subordinated borrowings in Russian Roubles	-	-	862 097	8,66	862 097
Other assets					
- In Russian Roubles	-	-	8 379	-	8 379
- In EUR	-	-	-	-	-
Other liabilities					
- In Russian Roubles	-	-	2 142	-	2 142
- In USD	-	-	176	-	176
Statement of profit or loss and other comprehensive income					
Interest expense	-	-	(1 415 329)	-	(1 415 329)
Expenses on guarantee	-	-	(9 478)	-	(9 478)
Other income	-	-	-	-	-
Other general and administrative expenses	(32 236)	-	(32 215)	-	(64 451)

The outstanding balances and average effective interest rates as at 31 December 2017 and related income and expenses for 2017 from transactions with other related parties are as follows:

	Parent company		Others		
	Carrying value	Average effective interest rate, %	Carrying value	Average effective interest rate, %	Total
Statement of financial position					
Other borrowings and customers' accounts					
- In Russian Roubles	-	-	14 168 434	9,65	14 168 434
Subordinated borrowings in Russian Roubles	-	-	1 414 555	8,46	1 414 555
Other assets					
- In Russian Roubles	-	-	4 707	-	4 707
- In USD	-	-	4108	-	4 108
Other liabilities					
- In Russian Roubles	-	-	2 031	-	2 031
- In USD	-	-	146	-	146
Statement of profit or loss and other comprehensive income					
Interest expense	-	-	(1 650 245)	-	(1 650 245)
Expenses on guarantee	-	-	(5 845)	-	(5 845)
Other income	-	-	26	-	26
Other general and administrative expenses	(33 181)	-	(29 025)	-	(62 206)

28. Subsequent events

Bonds issued

On 19 February 2019 the Bank issued coupon documentary bearer bonds totaling RUB 3 000 000 thousand and maturing on 21 February 2022. An annual coupon rate for 1-6 coupon payments is 8.75%. The Fitch Ratings rated the issue as "A-", the ACRA (AO) – as "AAA(RU)".

"Toyota Leasing" LLC

On 18 February 2019 "Toyota Leasing" LLC ("Company") was registered. The Bank's share in the Company is 100%.

29. Fair values of financial assets and liabilities

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Fair value of financial assets is determined using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

As at 31 December 2018 and 2017, the carrying amounts and fair values of financial assets and liabilities are as follows:

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	3 466 743	3 466 743	1 202 696	1 202 696
Loans to banks	2 501 041	2 501 041	3 343 251	3 343 251
Loans to customers:				
Loans to auto dealers	6 850 066	6 674 557	7 441 614	7 613 885
Retail loans	55 556 524	55 752 493	44 136 851	44 822 695
	68 374 374	68 394 834	56 124 412	56 982 527
Loans from banks	31 557 608	31 544 526	19 957 380	20 616 268
Other borrowings and customers' accounts	18 584 946	18 888 034	15 520 032	15 495 440
Bonds issued	5 024 475	5 027 771	8 123 028	8 153 083
Subordinated borrowings	862 097	862 919	1 414 555	1 431 236
	56 029 126	56 323 250	45 014 995	45 696 027

The following assumptions are used by management to estimate the fair values of financial assets and liabilities:

- discount rates of 12.24% and 9.0% are used for discounting future cash flows in RUB and USD from retail loans to customers, which represent average interest rates for auto loans issued by the Bank during 4th quarter of 2018 (2017: 12.86% and 9.2% accordingly, which represent average interest rates for auto loans issued by the Bank during 4th quarter of 2017)
- discount rate of 11.6% (2017: 11.2%) and is estimated with reference to Mosprime non-deliverable forwards rates for respective tenor and currencies plus 3,0% (2017: 3.5%)
- discount rate for loans from banks is equal to Mosprime non-deliverable forwards rates for respective tenor and currencies;

- discount rate of 7.20% is used for discounting future cash flows in RUB and USD from other borrowings and customers' accounts, which represent average interest rates for borrowings attracted by the Bank during 3rd quarter of 2018 (2017: 9.58%, which represent average interest rates for borrowings attracted by the Bank during 4th quarter of 2017)
- discount rate for subordinated borrowings is equal to Mosprime non-deliverable forwards rates for respective tenor and currencies plus premium for subordinated instruments.

The Bank measures fair values for financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of loans to retail customers and loans from banks and customers is classified to the level 2. Fair value of loans to auto dealers and subordinated borrowings is classified to the level 3 of fair value hierarchy.

30. Analysis by segment

The Bank has two principal reporting segments – retail credit operations and financing of auto dealers. The segments are determined based on organizational structure and types of customers. A description of operations of each segment is provided below:

- **retail credit operations** comprise origination of auto loans to retail customers to facilitate acquisition of “Toyota” and “Lexus” vehicles, and maintenance of customers' current settlement accounts used for issuing and repaying of loans
- **financing of auto dealers** comprises issuing of credit lines and auto loans to official “Toyota” and “Lexus” auto dealers, and maintenance of current settlement accounts of auto dealers

The Bank's operations are located in the Russian Federation and the Bank primarily issues loans to customers and auto dealers, being residents of the Russian Federation and conducting business in the Russian Federation. As the majority of revenues and assets are located in one geographic region (Russian Federation), the geographic analysis is not reported.

The Management measures segment results based on information about net interest margin and the level of assumed credit risk. The segment financial results comprise interest, net fee and commission income, and change in allowance for ECL (2017: impairment allowance) and provision under buy-back program. An average carrying amount of loans to customers, net of allowance for ECL (2017: impairment allowance), is used as basis for allocation of funding sources and related interest expenses.

Segment information for each reportable segment as at 31 December 2018 and for 2018 is set out below:

	Retail credit operations	Financing of auto dealers	Unallocated	Total
Segment financial result				
Interest income calculated using the effective interest method	6 126 228	738 032	248 511	7 112 771
Interest expense	(3 590 806)	(301 005)	(165 095)	(4 056 906)
Net interest income	2 535 422	437 027	83 416	3 055 865
Fee and commission income	4 078	57 017	-	61 095
Fee and commission expense	(78 571)	-	-	(78 571)
Net fee and commission (expense) income	(74 493)	57 017	-	(17 476)
Other operating income	263 342	7 924	-	271 266
Charge for ECL	(340 569)	(26 148)	-	(366 717)
Total segment result	2 383 702	475 820	83 416	2 942 938
Segment assets				
Cash and cash equivalents	-	-	3 466 743	3 466 743
Loans to banks	-	-	2 501 041	2 501 041
Loans to customers	55 556 524	6 850 066	-	62 406 590
Total assets	55 556 524	6 850 066	5 967 784	68 374 374
Segment liabilities				
Loans from banks	19 775 138	6 854 694	4 927 776	31 557 608
Other borrowings and customers' accounts	18 584 569	377	-	18 584 946
Bonds issued	5 024 475	-	-	5 024 475
Subordinated borrowings	862 097	-	-	862 097
Total liabilities	44 246 279	6 855 071	4 927 776	56 029 126

Analysis by segments presented above is prepared using the following allocation principles:

- Loans to customers and the corresponding interest income and customers' accounts are allocated to the relevant segment directly depending on the customer type.
- The Bank's available liquidity includes cash and cash equivalents and loans to banks. These assets are presented as 'unallocated' as they may be used to finance both retail auto loans and loans to auto dealers.
- Other segments' liabilities and corresponding interest expenses are allocated based on the liquidity management model used by the Banks' Treasury Department, which presents the sources of financing for each segment.
- Equity components are not considered in the analysis by segments.

As at 31 December 2017 and 2017, an analysis by segments was prepared on a different basis of allocation of assets and liabilities by segments, except for loans to customers and related interest income and expense. Interest expense as well as other segments' assets and liabilities were allocated on the basis of the average gross carrying amount of loans to customers. As a result, the comparative information presented further is not comparable with the analysis presented above. The Bank decided not to recalculate comparative information as the required information is not available and the costs of obtaining it would be excessive.

Analysis of results of each reportable segment as at 31 December 2017 and 2017 is presented below:

AO Toyota Bank
Notes to the financial statements for the year ended 31 December 2018
(expressed in thousands of Russian Roubles)

	Retail credit operations	Financing of auto dealers	Unallocated	Total
Segment financial result				
Interest income	5 595 059	1 241 611	-	6 836 670
Interest expense	(3 288 982)	(720 187)	-	(4 009 169)
Net interest income	2 306 077	521 424	-	2 827 501
Fee and commission income	73 869	35 758	-	109 627
Fee and commission expense	(117 249)	-	-	(117 249)
Net fee and commission (expense) income	(43 380)	35 758	-	(7 622)
Other operating income	188 952	3 016	5 418	197 386
Charge for impairment losses	(301 707)	63 378	-	(238 329)
Provision under buy-back program	(364)	-	-	(364)
Total segment result	2 149 578	623 576	5 418	2 778 572
Segment assets				
Cash and cash equivalents	986 650	216 046	-	1 202 696
Loans to banks	2 742 686	600 565	-	3 343 251
Loans to customers	44 136 851	7 441 614	-	51 578 465
Total assets	47 866 187	8 258 225	-	56 124 412
Segment liabilities				
Loans from banks	16 372 334	3 585 046	-	19 957 380
Other borrowings and customers' accounts	12 732 089	2 787 943	-	15 520 032
Bonds issued	6 663 847	1 459 181	-	8 123 028
Subordinated borrowings	1 160 452	254 103	-	1 414 555
Total liabilities	36 928 722	8 086 273	-	45 014 995

A reconciliation of segment financial result and profit before income tax is set out below:

	2018	2017
Total segment result	2 942 938	2 778 572
Net foreign exchange expense	(1 803)	(138)
Personnel expenses	(500 432)	(557 535)
Other general and administrative expenses	(986 036)	(996 256)
Profit before income tax	1 454 667	1 224 643

Koloshenko A.V.
President



Ryabinina S.I.
Chief accountant