# AO Toyota Bank

Consolidated Financial Statements

for 2019

and Independent Auditors' Report

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# Independent Auditors' Report

## To the Shareholders and Supervisory Board of AO Toyota Bank

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of AO Toyota Bank (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. 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, Russia

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-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 14 to the consolidated financial statements.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Loans to customers represent 92% of total 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.<br><br>The Group applies ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:<br><br>- 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);<br>- assessment of probability of default (PD) and loss given default (LGD);<br>- assessment of impact of different scenarios and forward-looking information;<br>- expected cash flows forecast for loans to customers classified in Stage 3.<br><br>Due to the material amount of loans to customers and the related estimation uncertainty, this area is a key audit matter. | We analyzed the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, including involvement of KPMG financial risks management specialists.<br><br>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:<br><br>- we verified inputs used for calculation of the allowance for ECL;<br>- we tested design and operating effectiveness of automated controls related to calculation of allowance for ECL;<br>- we tested timeliness of allocation of loans into Stages;<br>- for sample of loans to retail and corporate customers we tested adequacy of assigning rating to a customer based on Group's own rating model.<br><br>We assessed an overall predictive capability of the Group's models used for calculation of the allowance for ECL by comparing the estimate made as at 1 January 2019 with actual results for 2019.<br><br>We also got evidence that the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk. |

## 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 2019 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of AO Toyota Bank for 2019 is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated 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 consolidated 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 consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

— Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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 Group'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 Group's compliance with mandatory ratios as at 1 January 2020 established by the Bank of Russia; and

— whether the elements of the Group'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 Group'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 Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios, as at 1 January 2020, were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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 Group'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 2019, 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 2019, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, concentration and liquidity risks, interest rate risks on the banking portfolio and business 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 2019, the Bank maintained a system for reporting on the Group's significant credit, operational, market, concentration and liquidity risks, interest rate risks on the banking portfolio and business risks, and on the Group's capital;

  - the frequency and consistency of reports prepared by the Bank's risk management function and Internal Audit Service during 2019, which cover the Group's credit, operational, market, concentration and liquidity risks, interest rate risks on the banking portfolio and business risks 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 Group's procedures and methodologies, and recommendations for improvement;

- as at 31 December 2019, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group'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 Group's risk management procedures and their consistent application during 2019, 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 Group'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, Russia

14 May 2020

*(in thousands of Russian Roubles)*

| | Notes | 2019 | 2018 |
|---|---|---|---|
| Interest income calculated using the effective interest rate method | 5 | 8 091 986 | 7 112 771 |
| Other interest income | 5 | 6 277 | - |
| Interest expense | 6 | (4 612 850) | (4 056 906) |
| **Net interest income** | | **3 485 413** | **3 055 865** |
| Fee and commission income | 6 | 38 473 | 61 095 |
| Fee and commission expense | 6 | (91 273) | (78 571) |
| **Net fee and commission expense** | | **(52 800)** | **(17 476)** |
| Net foreign exchange income/(expense) | 7 | 5 031 | (1 803) |
| Other operating income | 8 | 222 281 | 271 266 |
| **Operating income** | | **3 659 925** | **3 307 852** |
| Charge for expected credit losses | 14 | (414 504) | (366 717) |
| Personnel expenses | 9 | (532 790) | (500 432) |
| Other general and administrative expenses | 10 | (1 086 986) | (986 036) |
| **Profit before income tax** | | **1 625 645** | **1 454 667** |
| Income tax expense | 11 | (340 875) | (317 437) |
| **Profit and total comprehensive income for the year** | | **1 284 770** | **1 137 230** |

The consolidated financial statements were approved by the Management Board on 14 May 2020.

Koloshenko A.V.
President

АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1077711000058 * МОСКВА *
FINANCIAL SERVICES | TOYOTA
«Тойота Банк»
AO Toyota Bank

Zvereva E. V.
Deputy Chief Accountant

*(in thousands of Russian Roubles)*

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 12 | 2 704 789 | 3 466 743 |
| Mandatory reserve deposit with the Bank of Russia | 12 | 298 060 | 262 602 |
| Loans to banks | 13 | 2 000 168 | 2 501 041 |
| Loans to customers | 14 | 71 020 615 | 62 406 590 |
| Net investments in finance leases | 15 | 198 607 | - |
| Property, equipment and intangible assets | 16 | 337 074 | 256 257 |
| Current tax assets | 11 | 5 892 | - |
| Other assets | 17 | 330 405 | 173 663 |
| **Total assets** | | **76 895 610** | **69 066 896** |
| **LIABILITIES** | | | |
| Loans from banks | 18 | 35 170 345 | 31 557 608 |
| Other borrowings and customers' accounts | 19 | 14 032 949 | 18 584 946 |
| Bonds issued | 20 | 13 176 907 | 5 024 475 |
| Subordinated borrowings | 20 | - | 862 097 |
| Deferred tax liability | 11 | 209 644 | 104 521 |
| Current tax liability | 11 | - | 38 263 |
| Other liabilities | 21 | 467 125 | 341 116 |
| **Total liabilities** | | **63 056 970** | **56 513 026** |
| **EQUITY** | | | |
| Share capital | 22 | 5 440 000 | 5 440 000 |
| Additional paid-in capital | | 1 343 400 | 1 343 400 |
| Retained earnings | | 7 055 240 | 5 770 470 |
| **Total equity** | | **13 838 640** | **12 553 870** |
| **Total liabilities and equity** | | **76 895 610** | **69 066 896** |

Koloshenko A.V.
President

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FINANCIAL SERVICES | TOYOTA
«Тойота Банк»
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Zvereva E. V.
Deputy Chief Accountant

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

*(in thousands of Russian Roubles)*

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest receipts | | 7 932 362 | 7 107 723 |
| Interest payments | | (4 466 410) | (4 097 427) |
| Fee and commission receipts | | 38 731 | 61 095 |
| Fee and commission payments | | (94 691) | (78 571) |
| Net cash provided from / (used in) foreign exchange transactions | | 314 | (391) |
| Other operating income receipts | | 232 557 | 265 206 |
| Personnel expenses | | (516 265) | (491 322) |
| Other general and administrative expenses | | (1 058 675) | (974 103) |
| | | | |
| **(Increase) decrease in operating assets** | | | |
| Mandatory reserve deposit with the Bank of Russia | | (35 458) | (23 694) |
| Loans to banks | | 500 000 | 847 395 |
| Loans to customers | | (8 846 585) | (11 035 899) |
| Net investments in finance leases | | (196 084) | - |
| Other assets | | (37 255) | 5 124 |
| | | | |
| **Increase (decrease) in operating liabilities** | | | |
| Loans from banks | | 3 634 240 | 11 539 936 |
| Other borrowings and customers' accounts | | (4 575 895) | 3 052 764 |
| **Net cash (used in) / provided from operating activities before income tax paid** | | **(7 489 114)** | **6 177 836** |
| Income tax paid | | (264 244) | (289 351) |
| **Cash flows (used in) / provided from operating activities** | | **(7 753 358)** | **5 888 485** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, equipment and intangible assets | | (126 090) | (103 424) |
| Sales of property, equipment and intangible assets | | 29 847 | 28 986 |
| **Cash flows used in investing activities** | | **(96 243)** | **(74 438)** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of subordinated borrowings | | (850 000) | (550 000) |
| Proceeds from / (repayment of) bonds issued | | 8 000 000 | (3 000 000) |
| Repayment of lease liability | | (63 758) | - |
| **Cash flows provided from / (used in) financing activities** | | **7 086 242** | **(3 550 000)** |
| | | | |
| **Net (decrease) increase in cash and cash equivalents** | | **(763 359)** | **2 262 635** |
| Effect of changes in exchange rates on cash and cash equivalents | | 1 405 | 1 412 |
| Cash and cash equivalents as at the beginning of the year | | 3 466 743 | 1 202 696 |
| **Cash and cash equivalents as at the end of the year** | 12 | **2 704 789** | **3 466 743** |

Koloshenko A.V.
President

АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1077711000058 * МОСКВА *
FINANCIAL SERVICES | TOYOTA
«Тойота Банк»
АО Toyota Bank

Zvereva E. V.
Deputy Chief Accountant

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

*(in thousands of Russian Roubles)*

| | Share capital | Additional paid-in capital | Retained earnings | Total equity |
|---|---|---|---|---|
| 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** |
| **Total comprehensive income** | | | | |
| Profit for the year | - | - | 1 284 770 | 1 284 770 |
| **Balance as at 31 December 2019** | **5 440 000** | **1 343 400** | **7 055 240** | **13 838 640** |

Koloshenko A.V.
President

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FINANCIAL SERVICES TOYOTA
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АО Toyota Bank

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Deputy Chief Accountant

# 1. Background

## Organization and operations

These consolidated financial statements include the financial statements of AO Toyota Bank (the "Bank") and financial statements of its subsidiary OOO Toyota Leasing (together referred to as the "Group").

AO Toyota Bank was established on 3 April 2007 in the Russian Federation. The Bank has license № 3470 to carry out banking operations in rubles 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 Central Bank of the Russian Federation (the "Bank of Russia"). The majority of the Bank's assets and liabilities are located in the Russian Federation.

As at 31 December 2019 the Bank has presence in 71 cities in Russia in 168 dealers' offices that fully covers network of official dealers and certified partners of Toyota and Lexus (2018: 70 cities and 163 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 Group during 2019 was 125 (2018: 125).

The Bank's registered address is floor 3, 29, Serebryanicheskaya nab., Moscow, 109028, Russian Federation.

The Group's operating income is not subject to seasonal and cyclical industry fluctuations during the financial year. As at 31 December 2019 the Group's risk profile has not changed significantly compared to that as at 31 December 2018.

The subsidiary of the Bank – OOO Toyota Leasing was registered at 18 February 2019. The Bank's share in the subsidiary is 100%.

The financial statements of subsidiary are included in the consolidated financial statements starting from 18 February 2019.

The Group is part of Toyota Motor Corporation (Japan), one of Japan's largest diversified conglomerates. As at 31 December 2019 and 31 December 2018, the main shareholder of the Group 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 Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

Additionally, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the Russian Rouble. These events are further increasing the level of uncertainty in the Russian business environment. The Bank's Management is developing assessment of further effect of these events on Group's operations in 2020 year.

# 2. Basis of preparation of consolidated financial statements

## (a) Statement of compliance

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

This is the first set of the Group's annual consolidated financial statements to which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 2 (e).

## (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

## (c) Functional and presentation currency

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

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Consolidated 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 consolidated 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 consolidated financial statements is included in the following notes:

- 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 expected credit losses (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 consolidated financial statements for the year ended 31 December 2019 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.
- estimates of fair values of financial assets and liabilities – Note 28.

## (e) Changes in accounting policies and presentation

The Group has initially adopted IFRS 16 Leases from 1 January 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

**Definition of a lease**

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component based on their relative prices of the separate transactions.

**The Group as a lessee**

The Group is the lessee of the office located in: 109028, Russia, Moscow, Serebryanicheskaya naberezhnaya 29 (legal and postal address).

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group presents right-of-use assets that do not meet the definition of investment property in “property and equipment”, the same line item as it presents underlying assets of the same nature that it owns. The carrying amount of right-of-use assets are RUB 169 916 thousand as at 1 January 2019, RUB 84 958 thousand as at 31 December 2019.

The Group presents lease liabilities in “other liabilities” in the consolidated statement of financial position.

**Group as a lessor**

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on their relative prices of the separate transactions.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in finance lease.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

*(in thousands of Russian Roubles)*

**Significant accounting policies**

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

**Policy applicable before 1 January 2019**

Leases of assets by Bank under which the risks and rewards of ownership were effectively retained by the lessor were classified as operating leases. Lease payments under an operating lease were recognised as expenses on a straight-line basis over the lease term and were included in other general and administrative expenses.

**Transition**

Previously, the Group classified property leases as operating leases under IAS 17.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

**Impacts on consolidated financial statements**

**(i) Impacts on transition**

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. Right-of-use assets amounted to RUB 169 916 thousand, lease liabilities amounted to RUB 147 481 thousand.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. Applied weighted average rate equals 7,72%.

| | As at 1 January 2019 |
|---|---|
| Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Bank's financial statements | 248 531 |
| - Exclusion of maintenance expenses | (77 400) |
| Operating lease commitment at 1 January 2019 | 171 131 |
| Effect of discounting using the incremental borrowing rate at 1 January 2019 | (23 650) |
| Lease liabilities recognised at 1 January 2019 | 147 481 |

**(ii) Impacts for the period**

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RUB 84 958 thousand of right-of-use assets (included in "property and equipment") and RUB 81 902 thousand of lease liabilities (included in "other liabilities") as at 31 December 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest expense, instead of operating lease expense. During the 2019, the Group recognised RUB 84 958 thousand of depreciation charges and RUB 3 799 thousand of interest expense from these leases.

# 3. Significant accounting policies

The accounting policies applied in these consolidated financial statements are the same as those applied in the last annual financial statements, except as explained below, related to the Group's adoption of IFRS 16 (Note 2), effective from 1 January 2019.

Accounting policies, that relate to those activities, that the Group does not perform or that are insignificant to the Group, 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 Group into this category at its own discretion;
- financial guarantees issued by the Group;
- issued loan commitments that are measured at FVTPL.

## (a) Financial assets and liabilities

### *(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 Group 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 Group 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 Group classifies financial liabilities, except for financial guarantee contracts and loan commitments, as measured at amortized cost.

**Business model assessment**

The Group 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 Group'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 Groups'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 ("SPPI criterion"), the Group 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- 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 Group changes its business model for managing those financial assets. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group 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 Group 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 Group 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 Group is recognised as a separate asset or liability.

**Financial liabilities**

The Group 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 Group 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 Group due to changes in the CBR key rate, if the loan agreement entitles the Group to do so.

The Group 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 Group 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 deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group 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 Group 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 Group 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 Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’). If the Group 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 Group concludes that modification of financial assets modified as part of the Group’s forbearance policy is not substantial, the Group performs qualitative evaluation of whether the modification is substantial.

**Financial liabilities**

The Group 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 Group 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 Group 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 Group 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 Group 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 Group recognizes loss allowance for ECL on financial assets that are debt instruments and net investments in finance leases (Note 4).

The Group 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-weighed 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 Group 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Group 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 Group assesses whether financial assets carried at amortised cost? debt financial assets carried at FVOCI, and net investments in finance leases 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 Group on terms that the Group 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 consolidated statement of financial position**

Loss allowances for ECL are presented in the consolidated 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 Group cannot identify the ECL on the loan commitment component separately from those on the drawn component (loan issued):* the Group 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 Group 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 Group's procedures for recovery of amounts due.

### (b) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

### (c) Foreign currency transactions

Transactions in foreign currencies are translated into 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 translated into 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 translation 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 consolidated statement of financial position.

### (e) Loans to customers

'Loans to customers' caption in the consolidated 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) Net investments in finance leases

Lease receivables are recognized by the Group at a value equal to the net investment in the lease, starting from the date of commencement of the lease term.

Finance lease income should be based on a schedule reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Group takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and the carrying amount of collateral at the start date of lease contract.

### (g) Loans from banks, other borrowings and customers' accounts, bonds issued and subordinated borrowings

Loans from banks, other borrowings and customers' accounts, bonds issued and subordinated borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

### (h) Property, equipment and intangible assets

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 |
| Right-of-use assets | 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 of intangible assets range from 1 to 5 years.

### (i) Provisions

A provision is recognized in the consolidated statement of financial position when the Group 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 Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly.

Future operating costs are not provided for.

### (j) 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 Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

### (k) 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 consolidated financial statements 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.

Deferred tax assets are 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.

### (l) Interest income and expense

#### 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 purchased or originated credit-impaired assets, the Group 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 financial 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 financial 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.

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**

The Group's interest income includes interest income calculated using an effective interest rate method on financial assets measured at amortised cost.

Other interest income includes interest income on net investments in finance leases.

Interest expense presented in the consolidated statement of profit or loss and other comprehensive Income includes financial liabilities measured at amortised cost.

### (m) 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 (l)).

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 Group's consolidated 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 Group 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.

### (n) Standards issued but not yet effective

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

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8);
- IFRS 17 Insurance Contracts.

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# 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 Group 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 Group'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 Group 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 14 into three credit quality groups:

- good (ratings 1-5) – assets of counterparties with lower default probability and stable ability to meet their financial obligations;
- moderate (ratings 6-7) – assets of counterparties with moderate default probability and moderate ability to meet their financial obligations. These assets require more intense attention at the stage of monitoring;
- below moderate (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 assigning 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 extremely low. |
| 3 | Very good rating. Strong financial potential. A borrower demonstrates very good performance and has reduced default risk. The probability of repayment of debt is high. |
| 4 | Good rating. A borrower demonstrates good financial performance and has good creditworthiness, but has minor difficulties. Ability to pay principal amount and interests is acceptable. |

| | |
|---|---|
| 5 | Fully satisfactory rating. A borrower demonstrates good financial performance and has moderate creditworthiness, but has some difficulties. Ability to pay principal amount and interests is acceptable. |
| 6 | Satisfactory rating. A borrower has adequate financial potential. Moderate creditworthiness. Ability to pay principal amount and interests is acceptable, but not confirmed. |
| 7 | Acceptable 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-acceptable rating. A borrower has weak financial potential and financial performance below the moderate with many difficulties. Ability to pay principal amount and interests is exceptionally moderate. Probability of default is high. |
| 9 | Low rating. A borrower has very weak financial potential and very low financial performance with many difficulties. A borrower unlikely has ability to pay in full principal amount and interests. Probability of default is very high. |
| 10 | Unsatisfactory rating. A borrower has very weak financial potential and bad financial performance with extremely intense difficulties, highly vulnerable to nonpayment, high default risk. |
| 11 | Unsatisfactory 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 (accounting) statements and management reporting, budgets, forecasts and plans;
- actual and expected significant changes in the debtor's political, regulatory and technological business environment or it's economic activity;
- 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 environment;
- 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 Group deems the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Group’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 Group 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 Group considers the cumulative delinquency term of outstanding payments on the asset of more than 30 days within the last 12 months.

The Group 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 Group regularly reconsiders terms of loans to customers that face financial difficulties to maximize the amount of recoverable indebtedness and minimize the default risk (“forbearance activities”). The revised terms usually include the decrease of annuity payment, increased repayment term and other modifications.

For financial assets modified as part of the Group’s forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group’s ability to collect interest and principal and the Group’s previous experience of similar forbearance action. As part of this process, the Group 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). If 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 Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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 Group (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 Group considers indicators that are:

- qualitative – e.g., stages of past due amounts recovery, defined using internal procedures of the Group (in particular, commencement of legal recovery);
- quantitative – e.g. past due amounts term and extent, nonpayment of other commitments before the Group by 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 Group 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 Group 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 Group operates, such as the Bank of Russia, the Ministry of Economic Development and individual and scientific forecasts.

The Group 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 term 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 Group's aggregated own historic data and expert judgements (if the data is not sufficient). Further the Group adjusts calculated indicators to incorporate forward looking information, as described above.

PD indicators 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 Group uses market data to derive the PD. If the credit quality of a counterparty or a position exposed to credit risk changes, this results in a change in the measurement of the corresponding PD indicators.

Loans, issued by the Group to customers, comprise auto loans secured by the pledge of a car. The Group 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 Group 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 Group 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 Group designs and applies the models separately for the loans, issued to auto dealers and retail customers.

For loans issued to credit institutions for which the Group does not have sufficient historical information, the default and refund statistics of major international rating agencies are used.

*(in thousands of Russian Roubles)*

# 5. Interest income and expense

| | 2019 | 2018 |
|---|---|---|
| **Interest income calculated using the effective interest method** | | |
| Loans to customers | 7 867 722 | 6 864 260 |
| Loans to banks | 224 264 | 248 511 |
| **Total interest income calculated using the effective interest method** | **8 091 986** | **7 112 771** |
| | | |
| **Other interest income** | | |
| Net investments in finance leases | 6 277 | - |
| **Total other interest income** | **6 277** | **-** |
| | | |
| **Interest expense** | | |
| Loans from banks | (2 723 013) | (2 163 673) |
| Other borrowings and customers' accounts | (1 136 858) | (1 333 012) |
| Bonds issued | (706 237) | (477 905) |
| Subordinated borrowings | (42 943) | (82 316) |
| Lease liabilities | (3 799) | - |
| **Total interest expense** | **(4 612 850)** | **(4 056 906)** |
| **Net interest income** | **3 485 413** | **3 055 865** |

# 6. Fee and commission income and expense

| | 2019 | 2018 |
|---|---|---|
| **Fee and commission income** | | |
| Credit line issuance | 32 002 | 35 177 |
| Early closing of credit lines | - | 18 976 |
| Other | 6 471 | 6 942 |
| **Total fee and commission income** | **38 473** | **61 095** |
| **Fee and commission expense** | | |
| Settlement operations | (91 273) | (77 771) |
| Other | - | (800) |
| **Total fee and commission expense** | **(91 273)** | **(78 571)** |
| **Net fee and commission expense** | **(52 800)** | **(17 476)** |

# 7. Net foreign exchange income/(expense)

| | 2019 | 2018 |
|---|---|---|
| Income/(expense) on spot transactions | 314 | (391) |
| Income/(expense) from revaluation of financial assets and liabilities | 4 717 | (1 412) |
| **Net foreign exchange income/(expense)** | **5 031** | **(1 803)** |

*(in thousands of Russian Roubles)*

# 8. Other operating income

| | 2019 | 2018 |
|---|---|---|
| Recovery of retail loans previously written off | 176 894 | 157 249 |
| Penalties on loans issued | 44 915 | 107 043 |
| Gain on sale of property and equipment | 26 | 6 059 |
| Other income | 446 | 915 |
| **Total other operating income** | **222 281** | **271 266** |

# 9. Personnel expenses

| | 2019 | 2018 |
|---|---|---|
| Employee compensation | 442 507 | 420 952 |
| Payroll related taxes | 90 283 | 79 480 |
| **Total personnel expenses** | **532 790** | **500 432** |

# 10. Other general and administrative expenses

| | 2019 | 2018 |
|---|---|---|
| Communications and information services | 299 940 | 223 619 |
| HR Agency Services | 230 745 | 233 986 |
| Depreciation and amortization (Note 16) | 149 168 | 99 173 |
| Collection and servicing of loans | 87 429 | 93 886 |
| Write-off of intangible assets | 82 655 | - |
| Operating leases | 49 829 | 124 966 |
| Consulting and information services | 46 314 | 34 579 |
| Advertising and marketing | 32 553 | 27 791 |
| Professional services | 18 704 | 30 739 |
| Travel expenses | 16 301 | 12 975 |
| Repairs and maintenance | 10 590 | 17 990 |
| Insurance | 5 809 | 5 311 |
| Security | 3 984 | 4 518 |
| Office supplies | 2 866 | 6 786 |
| Taxes other than income tax | 489 | 428 |
| Other | 49 610 | 69 289 |
| **Total other general and administrative expenses** | **1 086 986** | **986 036** |

*(in thousands of Russian Roubles)*

# 11. Income tax expense

| | 2019 | 2018 |
|---|---|---|
| Current year tax expense | 235 752 | 352 943 |
| Deferred taxation movement due to origination and reversal of temporary differences | 105 123 | (35 506) |
| **Total income tax expense** | **340 875** | **317 437** |

The applicable tax rate for current and deferred tax in 2019 and 2018 is 20%.

As at 31 December 2019 the current tax assets are RUB 5 892 thousand (2018: none), the Bank has no current tax liability (2018: RUB 38 263 thousand).

## Reconciliation of effective tax rate

| | 2019 | % | 2018 | % |
|---|---|---|---|---|
| Profit before income tax | 1 625 645 | | 1 454 667 | |
| Income tax expense at the applicable tax rate | 325 129 | 20,00 | 290 933 | 20,00 |
| Non-deductible costs | 15 746 | 0,97 | 26 504 | 1,82 |
| **Total income tax expense** | **340 875** | **20,97** | **317 437** | **21,82** |

## Deferred tax asset and liability

As at 31 December 2019 and 2018, 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.

The term of use these deductible temporary differences is not limited under the current tax legislation.

Movements in temporary differences during 2019 and 2018 are presented as follows.

| | 1 January 2018 | Recognized in profit or loss | Impact of adopting IFRS 9 | 31 December 2018 | Recognized in profit or loss | 31 December 2019 |
|---|---|---|---|---|---|---|
| Loans to customers | (181 881) | (7 923) | 22 458 | (167 346) | (80 069) | (247 415) |
| Property, equipment and intangible assets | 8 500 | 4 643 | - | 13 143 | 4 533 | 17 676 |
| Other assets | (7 347) | 1 518 | - | (5 829) | (2 314) | (8 143) |
| Bonds issued | (2 026) | 305 | - | (1 721) | (1 497) | (3 218) |
| Other liabilities | 42 727 | 14 505 | - | 57 232 | (25 776) | 31 456 |
| **Net deferred tax liability** | **(140 027)** | **13 048** | **22 458** | **(104 521)** | **(105 123)** | **(209 644)** |

*(in thousands of Russian Roubles)*

# 12. Cash and cash equivalents

| | 2019 | 2018 |
|---|---|---|
| Nostro accounts with the Bank of Russia | 2 516 011 | 3 352 840 |
| **Nostro accounts with other banks** | | |
| - rated AA- to AA+ | 6 344 | 10 001 |
| - rated BBB | 74 936 | 19 800 |
| - rated BB- to BB+ | 6 961 | - |
| - only internal credit rating assigned (rating 1) | 100 537 | 84 102 |
| **Total nostro accounts with other banks** | **188 778** | **113 903** |
| **Total cash and cash equivalents** | **2 704 789** | **3 466 743** |

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 2019 cash and cash equivalents are refered to Stage 1 (2018: Stage 1).

As at 31 December 2019, there is one bank, whose balances individually exceed 10% of total cash and cash equivalents. The gross value of these balances is RUB 2 516 011 thousand, or 93% of total cash and cash equivalents (2018: RUB 3 352 840 thousand, or 97%).

**Mandatory reserve deposit with the Bank of Russia**

The mandatory reserve deposit is a non-interest bearing deposit placed in accordance with the regulations of the Bank of Russia and which withdrawability is restricted. As at 31 December 2019, mandatory reserve deposit with the Bank of Russia is RUB 298 060 thousand (2018: RUB 262 602 thousand).

# 13. Loans to banks

As at 31 December 2019 and 2018 loans to banks are RUB 2 000 168 thousand and RUB 2 501 041 thousand and are placed with the Bank of Russia.

As at 31 December 2019 these loans are refered to Stage 1 (2018: Stage 1).

# 14. Loans to customers

| | 2019 | 2018 |
|---|---|---|
| Loans to auto dealers | 6 183 027 | 6 971 699 |
| **Retail loans** | | |
| Auto loans | 65 953 447 | 56 348 002 |
| **Total retail loans** | **65 953 447** | **56 348 002** |
| **Gross carrying amount of loans to customers** | **72 136 474** | **63 319 701** |
| Allowance for ECL | (1 115 859) | (913 111) |
| **Total loans to customers net of allowance for ECL** | **71 020 615** | **62 406 590** |

*(in thousands of Russian Roubles)*

Movements in allowance for ECL during 2019 is analyzed below:

| | **2019** | | | |
|---|---|---|---|---|
| **RUB'000** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Loans to customers at amortised cost – retail customers** | | | | |
| Balance at 1 January | **141 508** | **373 530** | **276 440** | **791 478** |
| Transfer to Stage 1 | 31 667 | (30 954) | (713) | - |
| Transfer to Stage 2 | (9 820) | 12 287 | (2 467) | - |
| Transfer to Stage 3 | (1 004) | (57 334) | 58 338 | - |
| Net remeasurement of loss allowance | (92 747) | (7 938) | 195 274 | 94 589 |
| New financial assets originated or purchased | 99 180 | 119 364 | 51 449 | 269 993 |
| Write-offs | - | - | (182 282) | (182 282) |
| **Balance at 31 December** | **168 784** | **408 955** | **396 039** | **973 778** |

| | **2019** | | | |
|---|---|---|---|---|
| **RUB'000** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Loans to customers at amortised cost – corporate customers** | | | | |
| Balance at 1 January | **16 782** | **1 390** | **103 461** | **121 633** |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | (179) | 179 | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Net remeasurement of loss allowance | (16 517) | (1 039) | 11 946 | (5 610) |
| New financial assets originated or purchased | 17 184 | 8 874 | - | 26 058 |
| **Balance at 31 December** | **17 270** | **9 404** | **115 407** | **142 081** |

Movements in allowance for ECL during 2018 is analyzed below:

| | **2018** | | | |
|---|---|---|---|---|
| **RUB'000** | **Stage 1** | **Stage 1** | **Stage 1** | **Итого** |
| **Loans to customers at amortised cost – retail customers** | | | | |
| Balance as at 31 December 2017 (IAS 39) | 253 435 | 50 095 | 378 273 | 681 803 |
| 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 |
| New financial assets originated or purchased | 237 491 | - | - | 237 491 |
| Write-offs | - | - | (217 084) | (217 084) |
| **Balance at 31 December** | **141 508** | **373 530** | **276 440** | **791 478** |

| | **2018** | | | |
|---|---|---|---|---|
| **RUB'000** | **Stage 1** | **Stage 1** | **Stage 1** | **Итого** |
| **Loans to customers at amortised cost – corporate customers** | | | | |
| Balance as at 31 December 2017 (IAS 39) | 211 384 | 58 294 | 59 576 | 329 254 |
| 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) |
| 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** |

*(in thousands of Russian Roubles)*

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 26 600 117 thousand during 2019 (2018: RUB 22 668 880 thousand) resulted in decrease of ECL by RUB 257 746 thousand (2018: RUB 222 693 thousand).

Write-offs of loans to retail customers in the amount of RUB 182 282 thousand during 2019 (2018: RUB 217 083 thousand) resulted in decrease of ECL by на RUB 182 282 thousand (2018: 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 1 971 259 thousand (2018: RUB 1 404 260 thousand) resulted in increase in ECL by RUB 251 789 thousand (2018: RUB 251 659 thousand).

Transfer from lifetime ECL in relation to assets that are not credit-impaired to lifetime ECL in relation to assets that are credit-impaired during the year in the amount of RUB 250 497 thousand (2018: RUB 158 826 thousand), and remeasurement of lifetime ECL in relation to assets that are credit-impaired resulted in increase in ECL by RUB 100 546 thousand (2018: RUB 52 411 thousand).

Issuance of loans to retail customers in the amount of RUB 36 206 989 thousand during 2019 (2018: RUB 34 454 914 thousand) resulted in increase of ECL by RUB 269 993 thousand (2018: RUB 237 491 thousand)

**Loans to corporate customers**

Payment of loans to corporate customers in the amount of RUB 6 802 797 thousand during 2019 (2018: RUB 7 716 742 thousand) resulted in decrease of ECL by RUB 5 961 thousand (2018: RUB 95 062 thousand).

There were no write-offs of loans to corporate customers during the 2019 (2018: RUB 48 558 thousand resulted in decrease of ECL 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 10 081 thousand (2018: RUB 17 203 thousand) resulted in increase in ECL by RUB 351 thousand (2018: RUB 12 933 thousand).

Issuance of loans to corporate customers in the amount of RUB 6 028 947 thousand during 2019 (2018: RUB 7 220 402 thousand) resulted in increase of ECLs by RUB 26 059 thousand (2018: 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 2019 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 | 53 847 857 | (88 548) | 53 759 309 | 0,16 |
| Moderate quality | 7 696 095 | (58 463) | 7 637 632 | 0,76 |
| Below moderate quality | 798 839 | (21 773) | 777 066 | 2,73 |
| | **62 342 791** | **(168 784)** | **62 174 007** | **0,27** |
| **Life-time ECL for non-credit impaired assets** | | | | |
| Good quality | 123 956 | (1 357) | 122 599 | 1,09 |
| Moderate quality | 314 692 | (11 043) | 303 649 | 3,51 |
| Below moderate quality | 2 551 859 | (391 777) | 2 160 082 | 15,35 |
| | **2 990 507** | **(404 177)** | **2 586 330** | **13,52** |
| **Life-time ECL for credit impaired assets** | | | | |
| Default | 620 149 | (400 817) | 219 332 | 64,63 |
| **Total retail auto loans** | **65 953 447** | **(973 778)** | **64 979 669** | **1,48** |

*(in thousands of Russian Roubles)*

| | 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, % |
|---|---|---|---|---|
| ***Loans issued to auto dealers*** | | | | |
| **12-month ECL** | | | | |
| Good quality | 4 644 108 | (8 321) | 4 635 787 | 0,18 |
| Moderate quality | 1 125 045 | (8 949) | 1 116 096 | 0,80 |
| | **5 769 153** | **(17 270)** | **5 751 883** | **0,30** |
| **Life-time ECL for non-credit impaired assets** | | | | |
| Moderate quality | 81 533 | (943) | 80 590 | 1,16 |
| Below moderate quality | 191 792 | (8 461) | 183 331 | 4,41 |
| | **273 325** | **(9 404)** | **263 921** | **3,44** |
| **Life-time ECL for credit impaired assets** | | | | |
| Default | 140 549 | (115 407) | 25 142 | 82,11 |
| **Total loans to auto dealers** | **6 183 027** | **(142 081)** | **6 040 946** | **2,30** |
| **Total loans to customers** | **72 136 474** | **(1 115 859)** | **71 020 615** | **1,55** |

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 |
| Moderate quality | 5 587 382 | (47 044) | 5 540 338 | 0,84 |
| Below moderate 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 |
| Moderate quality | 328 166 | (11 336) | 316 830 | 3,45 |
| Below moderate 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 |
| Moderate 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 moderate quality | 119 856 | (1 390) | 118 466 | 1,16 |
| **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** |

*(in thousands of Russian Roubles)*

The table below provides information on the overdue structure of loans to customers as at 31 December 2019:

| | Gross carrying amount of loans to customers | | | | | | |
|---|---|---|---|---|---|---|---|
| | Good quality | Moderate quality | Below moderate quality | Problem | Total | Allowance for ECL | Allowance for ECL to gross carrying amount, % |
| Retail auto loans | | | | | | | |
| - not overdue | 53 911 500 | 7 907 373 | 2 388 269 | 9 683 | 64 216 825 | (383 908) | 0,60 |
| - overdue less than 30 days | 60 313 | 102 133 | 746 496 | 986 | 909 928 | (140 596) | 15,45 |
| - overdue 30-59 days | - | 1 281 | 158 938 | 4 254 | 164 473 | (42 401) | 25,78 |
| - overdue 60-89 days | - | - | 74 644 | 3 186 | 77 830 | (22 733) | 29,21 |
| - overdue 90-179 days | - | - | - | 130 545 | 130 545 | (74 913) | 57,38 |
| - overdue more than 180 days | - | - | - | 453 847 | 453 847 | (309 227) | 68,13 |
| Total retail auto loans | 53 971 813 | 8 010 787 | 3 368 346 | 602 500 | 65 953 447 | (973 778) | 1,48 |
| Loans to auto dealers | | | | | | | |
| - not overdue | 4 644 108 | 1 206 578 | 191 792 | - | 6 042 478 | (26 674) | 0,44 |
| - overdue more than 180 days | - | - | - | 140 549 | 140 549 | (115 407) | 82,11 |
| Total loans to auto dealers | 4 644 108 | 1 206 578 | 191 792 | 140 549 | 6 183 027 | (142 081) | 2,30 |
| Total loans to customers | 58 615 921 | 9 217 365 | 3 560 139 | 743 050 | 72 136 474 | (1 115 859) | 1,55 |

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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Good quality | Moderate quality | Below moderate quality | Problem | Total | Allowance for ECL | Allowance for ECL to gross carrying amount, % |
| 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 |

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 to auto dealers as at 31 December 2019 would be RUB 61 830 thousand lower/higher (2018: RUB 69 717 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 to retail customers as at 31 December 2019 would be RUB 659 534 thousand higher (2018: RUB 563 480 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 2019 and 2018:

| | **2019** | **% of loans to auto dealers** | **2018** | **% of loans to auto dealers** |
|---|---|---|---|---|
| Motor vehicles | 6 040 946 | 100,00 | 6 850 066 | 100,00 |
| | **6 040 946** | **100,00** | **6 850 066** | **100,00** |

*(in thousands of Russian Roubles)*

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-impared, 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.

For credit impaired loans to auto dealers the fair value of collateral is not less than carrying amount of these loans.

As at 31 December 2019 and 31 December 2018 the Group does not have loans for which ECL were not recognized in connection with the collateral.

During the 2019, the Bank didn’t take possession of collateral for loans to corporate customers (2018: RUB 980 thousand). As at 31 December 2019, there is no seized collateral on the Group’s balance (2018: RUB 980 thousand).

### *Retail loans*

Auto loans are secured by the underlying cars.

The Group 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 2019 the Bank took possession of collateral for loans to individuals with a net carrying amount of RUB 46 503 thousand (2018: RUB 32 355 thousand). As at 31 December 2019, the carrying amount of repossessed collateral amounts to RUB 30 256 thousand (2018: RUB 16 008 thousand).

**Significant credit exposures**

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

As at 31 December 2019 and 2018 the Group has no borrowers or groups of related borrowers whose loan balances individually exceed 10% of total loans to customers.

**Restructured loans**

As at 31 December 2019 the amortised cost of loans at the restructuring date, for which restructuring didn’t result in derecognition of the existing asset, amounted to RUB 67 350 thousand.

**Loans maturities**

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

## 15. Net investments in finance leases

Net investments in finance leases as at 31 December 2019, include:

| | Within 1 year | From 1 year to 5 years | Total |
|---|---|---|---|
| Gross investments in finance leases | 11 457 | 232 516 | 243 973 |
| Unearned future finance income on finance leases | (1 226) | (43 655) | (44 881) |
| **Net investments in finance leases before allowance for ECL** | **10 231** | **188 861** | **199 092** |
| Allowance for ECL | (24) | (461) | (485) |
| **Net investments in finance leases** | **10 207** | **188 400** | **198 607** |

*(in thousands of Russian Roubles)*

An analysis of the changes in the allowance for ECL during 2019 is presented below.:

| | |
|---|---|
| **Balance as at 1 January 2019** | **-** |
| Net charge for the period | 485 |
| Write-offs | - |
| **Balance as at 31 December 2019** | **485** |

## Credit quality of net investments in finance leases

| | Gross carrying amount of net investments in finance leases | Allowance for ECL | Net investments in finance leases, net of allowance for ECL | The ratio of ECL to gross carrying amount,% |
|---|---|---|---|---|
| **12-month expected credit losses** | | | | |
| Good quality | 199 092 | (485) | 198 607 | 0,24 |
| **Net investments in finance leases** | **199 092** | **(485)** | **198 607** | **0,24** |

As at 31 December 2019, there is no overdue debt on net investments in finance leases.

Leasing assets are actually used as collateral due to the fact that leasing assets are returned to the lessor in case the lessee fails to fulfill its contractual obligations. Leasing payments are made every month. The ownership of the property under the lease belongs to OOO Toyota Leasing during the entire leasing term.

As at 31 December 2019, there are no lessees or groups of related lessees whose debts would exceed 10% of the total gross investments in finance leases.

## Analysis of collateral

Finance lease agreements are secured by the leased asset owned by OOO Toyota Leasing.

The Group estimates the fair value of the leased asset at the date of initial recognition of the lease. Management believes that the fair value of collateral is at least equal to the carrying amount of the net investments in finance leases at the reporting date.

As at 31 December 2019, the Group has no claims for which expected credit losses were not recognized due to collateral.

*(in thousands of Russian Roubles)*

# 16. Property, equipment and intangible assets

The following table provides information on property, equipment and intangible assets as at 31 December 2019 and 2018:

| | Equipment | Fixtures and fittings | Motor vehicles | Software licenses | Leasehold improvements | Right-of-use assets | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance as at 1 January 2018 | 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** |
| Additions | 57 348 | 582 | 11 888 | 57 988 | – | 169 916 | 297 722 |
| Disposals | (3 735) | (812) | (8 958) | (182 777) | – | – | (196 282) |
| **Balance as at 31 December 2019** | **227 832** | **107 451** | **39 962** | **304 782** | **25 939** | **169 916** | **875 882** |
| **Depreciation** | | | | | | | |
| Balance as at 1 January 2018 | 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** |
| Depreciation and amortization charge | 8 978 | 216 | 3 215 | 51 801 | – | 84 958 | 149 168 |
| Disposals | (3 720) | (811) | (8 283) | (115 731) | – | – | (128 545) |
| **Balance as at 31 December 2019** | **162 340** | **105 753** | **4 601** | **155 217** | **25 939** | **84 958** | **538 808** |
| **Carrying value as at:** | | | | | | | |
| **31 December 2018** | **17 137** | **1 333** | **27 363** | **210 424** | **–** | **–** | **256 257** |
| **31 December 2019** | **65 492** | **1 698** | **35 361** | **149 565** | **–** | **84 958** | **337 074** |

*(in thousands of Russian Roubles)*

# 17. Other assets

| | 2019 | 2018 |
|---|---|---|
| Settlements with suppliers | 89 767 | 71 259 |
| Subventions receivable | 15 269 | 32 805 |
| Guarantee deposit (internal credit rating 1) | 47 708 | 20 682 |
| **Total other financial assets** | **152 744** | **124 746** |
| VAT on assets under finance leases | 40 205 | - |
| Advances | 95 678 | 20 553 |
| Others | 41 778 | 28 364 |
| **Total other non-financial assets** | **177 661** | **48 917** |
| **Total other assets** | **330 405** | **173 663** |

As at 31 December 2019 other financial assets are refered to Stage 1 (are not overdue or credit-impaired) (2018: Stage 1).

# 18. Loans from banks

As at 31 December 2019, loans from banks amount to RUB 35 170 345 thousand. Loans totaling RUB 30 161 668 thousand or 86% of total loans from banks are received from three banks, that individually contribute above 10% to total 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 four banks, that individually contribute above 10% to total loans from banks.

# 19. Other borrowings and customers' accounts

| | 2019 | 2018 |
|---|---|---|
| Borrowings from Toyota Motor Finance (Netherlands) B. V. | 11 978 523 | 17 064 625 |
| Settlement accounts of auto dealers | 508 375 | 377 119 |
| Current accounts of individuals | 1 546 051 | 1 143 202 |
| | **14 032 949** | **18 584 946** |

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

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 rating agency ACRA (AO) – as "AAA(RU)".

On 19 February 2019 the Group 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 rating agency ACRA (AO) – as "AAA(RU)".

On 25 October 2019 the Group issued coupon documentary bearer bonds totaling RUB 5 000 000 thousand and maturing on 27 October 2022. An annual coupon rate for 1-6 coupon payments is 7.20%. The Fitch Ratings rated the issue as "A-", the rating agency ACRA (AO) – as "AAA(RU)"

During 2019 the Group had no new subordinated borrowings and made repayments of principle in the amount of RUB 850 000 thousand.

*(in thousands of Russian Roubles)*

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

| | Bonds issued | Subordinated borrowings | Lease liabilities | Total |
|---|---|---|---|---|
| Balance as at 1 January 2018 | 8 123 028 | 1 414 555 | - | 9 537 583 |
| ***Changes from cash flows from financing activities*** | | | | |
| Redemption | (3 000 000) | (550 000) | - | (3 550 000) |
| **Total changes from cash flows from financing activities** | **(3 000 000)** | **(550 000)** | **-** | **(3 550 000)** |
| Costs associated with raising funds | (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** |
| **Impact of adopting IFRS 16** | **-** | **-** | **147 481** | **147 481** |
| ***Changes from cash flows from financing activities*** | | | | |
| Redemption of subordinated borrowings | - | (850 000) | - | (850 000) |
| Issuance of bonds | 8 000 000 | - | - | 8 000 000 |
| Redemption of bonds issued | - | - | - | - |
| Repayment of lease liabilities | - | - | (63 758) | (63 758) |
| **Total changes from cash flows from financing activities** | **8 000 000** | **(850 000)** | **(63 758)** | **7 086 242** |
| Costs associated with raising funds | (18 392) | - | - | (18 392) |
| Interest expense | 706 237 | 42 943 | 3 799 | 752 979 |
| Interest paid | (535 413) | (55 040) | - | (590 453) |
| Forex on lease liabilities | - | - | (5 620) | (5 620) |
| **Balance as at 31 December 2019** | **13 176 907** | **-** | **81 902** | **13 258 809** |

# 21. Other liabilities

| | 2019 | 2018 |
|---|---|---|
| *Financial liabilities* | | |
| Settlements with suppliers | 287 648 | 260 382 |
| Lease liabilities | 81 902 | - |
| Liability on bonus to employees | 75 254 | 60 517 |
| **Total financial liabilities** | **444 804** | **320 899** |
| *Non-financial liabilities* | | |
| Provision for unused vacations | 22 321 | 20 217 |
| **Total non-financial liabilities** | **22 321** | **20 217** |
| **Total other liabilities** | **467 125** | **341 116** |

# 22. Share capital

As at 31 December 2019 and 2018, 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 2019 and 2018 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 2019, the Supervisory Board of the Bank comprise:

- Ljubica Ivo Josko – Chairman of the Supervisory Board.
- Ruben Christian Ties – member of the Supervisory Board;
- Nishiyama Minoru – member of the Supervisory Board;
- Suga Shuji – member of the Supervisory Board;
- Sawada Tateyuki – member of the Supervisory Board.

In 2019 there were following changes in composition of the Supervisory Board: Obata Hironobu was relieved of his duties as a Chairman of the Supervisory Board, Ljubica Ivo Josko was elected as a Chairman 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 Group;
- 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 2019, the Management Board includes:

- Alexander Koloshenko – the Chairman of the Management Board;
- Yulia Sorokina – Management Board member;
- Alexey Lukutsov – Management Board member.

In 2019 there were following changes in composition of the Management Board: Anna Shengelevich was relieved of her duties as a member of the Management Board, Alexey Lukutsov was elected as a member of the Management Board. In 2018, 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 Bank's 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 of the Group;
- 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 2019 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 it's 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 consolidated 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 the banking group's whose parent credit organization is the Bank 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 2019, 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 2019, establishing the procedures and methodologies for identifying and managing the of the banking group's whose parent credit organization is the Bank 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 Group

In 2019 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 Group.
- **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 Group.
- **Liquidity risk** is the risk that the Group 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 Group's financial stability.
- **Concentration risk** is defined as the risk arising out of the Group's large risk exposures, which, if realized, may lead to significant losses that could threaten Group'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 Group 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 Group, 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 Group's operations, the Group 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 Group and targets established in the 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 Group (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 perfomed 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 Group 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 (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 2019 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 2019 within the IPACA was in compliance with the Bank's internal documentation.

As at 31 December 2019, the Supervisory Board and the Management Board had responsibility for monitoring the Group'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 2019 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 Group.

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 Group 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 Group, that is, with proper monitoring and control.

The Group 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 H20.0, H20.1, H20.2, H20.4, H22 as well as the limits on major concentration of risk by geographic location of borrowers (individuals and legal entities).

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

As of 31 December 2019 and 31 December 2018, the Group 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 Group performs an analysis of borrowers’ financial position using the borrower’s rating system. The Group 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 of the Group within acceptable parameters defined in accordance with 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 Group 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;
- use of information technologies;
- 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 Group 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:

*(in thousands of Russian Roubles)*

- 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 there are situations in which market illiquidity can continue for a longer 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 2019 | 31 December 2018 |
|---|---|---|
| Foreign exchange risk | 1 022 | (1 803) |
| Interest rate risk | 147 343 | 215 852 |

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 Group 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 Group 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.

_(in thousands of Russian Roubles)_

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 Group 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, 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 2019 and as at 31 December 2018 are provided in the table below. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

| | **2019 Average effective interest rate, %** | | | **2018 Average effective interest rate, %** | | |
|---|---|---|---|---|---|---|
| | **RUB** | **USD** | **EUR** | **RUB** | **USD** | **EUR** |
| **Interest bearing assets** | | | | | | |
| Nostro accounts with banks | 0,02 | 0,46 | 0,50 | 0,01 | 0,40 | 0,33 |
| Loans to banks | 5,70 | - | - | 7,60 | - | - |
| Loans to customers | 12,03 | 9,30 | - | 12,67 | 9,00 | - |
| Net investments in finance leases | 18,48 | - | - | - | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Interest bearing liabilities** | | | | | | |
| Loans from banks | 7,66 | - | - | 7,89 | 3,45 | - |
| Other borrowings and customers' accounts | 7,14 | - | - | 8,29 | - | - |
| Bonds issued | 7,88 | - | - | 8,05 | - | - |
| Subordinated borrowings | - | - | - | 8,66 | - | - |
| Lease liabilities (other liabilities) | 7,47 | - | - | - | - | - |

## *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 Group 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 Group 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.

*(in thousands of Russian Roubles)*

The following table shows the currency structure of assets and liabilities as at 31 December 2019:

| | RUB | USD | EUR | Other currencies | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 2 696 666 | 1 990 | 6 133 | - | 2 704 789 |
| Mandatory reserve deposit with the Bank of Russia | 298 060 | - | - | - | 298 060 |
| Loans to banks | 2 000 168 | - | - | - | 2 000 168 |
| Loans to customers | 71 020 615 | - | - | - | 71 020 615 |
| Net investments in finance leases | 198 607 | - | - | - | 198 607 |
| Property, equipment and intangible assets | 337 074 | - | - | - | 337 074 |
| Current tax assets | 5 892 | - | - | - | 5 892 |
| Other assets | 325 024 | 5 381 | - | - | 330 405 |
| **Total assets** | **76 882 106** | **7 371** | **6 133** | **-** | **76 895 610** |
| | | | | | |
| **LIABILITIES** | | | | | |
| Loans from banks | 35 170 345 | - | - | - | 35 170 345 |
| Other borrowings and customers' accounts | 14 032 949 | - | - | - | 14 032 949 |
| Bonds issued | 13 176 907 | - | - | - | 13 176 907 |
| Deferred tax liability | 209 644 | - | - | - | 209 644 |
| Other liabilities | 467 102 | - | - | 23 | 467 125 |
| **Total liabilities** | **63 056 947** | **-** | **-** | **23** | **63 056 970** |
| **Net position** | **13 825 159** | **7 371** | **6 133** | **(23)** | **13 838 640** |

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 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 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | **Decrease, %** | **Effect** | **Decrease, %** | **Effect** |
| Appreciation of USD against RUB | 15% | (885) | 15% | 5 906 |
| Appreciation of EUR against RUB | 15% | (736) | 15% | (450) |

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

## Operational risk

Operational risk is the risk of losses resulting from failures and deficiencies in Group's internal operational procedures, malfunction of information and other systems or from impact of external events on operations of the Group. 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 Group.

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

The Group continuously monitors legal risks in order to take measures to maintain them at an acceptable level that does not threated the Group's financial solvency, the concerns of its creditors, depositors, shareholders, employees, counterparties. Taking into account the recommendations of the Basel Committee, the Group 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 Group's processes, as well as to reduce (eliminate) possible losses, the Group 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 Group'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 Banks'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 Group 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 Group's operational risk components is assessed within the work performed under the "Procedure for determining the significant risks".

The Group'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 Group'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 Group 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 Group'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 continues operations of the Group.

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 Group. The limit for capital used to cover operational risk is determined by the Bank's Supervisory Board. The limits set by the Group are controlled 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 Group 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 Group, 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 Group 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 Group 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 Group 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 2019 and as at 31 December 2018 the Group complied with the mandatory ratios established by the Bank of Russia.

## Liquidity risk

**Liquidity risk** is the risk that the Group 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 Group'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 Group 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 Group's future income. The Group manages the funding risk by calculating the level of capital adequacy within the framework of internal procedures for assessing capital adequacy. The Group allocates capital for full coverage of funding risk. The most realistic scenario of funding risk development, considered by the Group, is a case when the Group loses access to the source of its cheapest funding – borrowings from TMFNL with full prepayment of all tranches and, as a result, this part of the Group'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 Group's acceptable stable liquidity position in respect of short-term liquidity risks. The allocation is performed in accordance with risk appetite set for the Group.

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 Group 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 Group;
- 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 consolidated 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.

*(in thousands of Russian Roubles)*

- *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 residents and non-residents, between 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 winding up 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 2019 and 2018, 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 2019 and 2018:

| | **Requirement** | **31 December 2019** | **31 December 2018** |
|---|---|---|---|
| Instant liquidity ratio (N2) | Not less than 15% | 125,8% | 218,3% |
| Current liquidity ratio (N3) | Not less than 50% | 196,3% | 248,5% |
| Long-term liquidity ratio (N4) | Not more than 120% | 102,4% | 103,0% |

- *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 sale and 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.

*(in thousands of Russian Roubles)*

The position as at 31 December 2019 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 | 2 704 789 | - | - | - | 2 704 789 | 2 704 789 |
| Loans to banks | 2 000 168 | - | - | - | 2 000 168 | 2 000 168 |
| Loans to customers | 6 959 095 | 6 843 407 | 19 386 394 | 54 288 527 | 87 477 423 | 71 020 615 |
| Net investments in finance leases | 8 954 | 17 740 | 77 123 | 111 120 | 214 937 | 198 607 |
| Other financial assets | 15 269 | 89 767 | 27 192 | 20 516 | 152 744 | 152 744 |
| **Total financial assets** | **11 688 275** | **6 950 914** | **19 490 709** | **54 420 163** | **92 550 061** | **76 076 923** |
| **Financial liabilities** | | | | | | |
| Loans from banks | 2 739 501 | 5 665 013 | 13 648 330 | 16 106 192 | 38 159 036 | 35 170 345 |
| Other borrowings and customers' accounts | 1 614 303 | 150 032 | 3 551 475 | 9 664 927 | 14 980 737 | 14 032 949 |
| Bonds issued | - | - | 5 896 210 | 9 116 830 | 15 013 040 | 13 176 907 |
| Other financial liabilities | 221 170 | 13 962 | 209 672 | - | 444 804 | 444 804 |
| **Total financial liabilities** | **4 574 974** | **5 829 007** | **23 305 687** | **34 887 949** | **68 597 617** | **62 825 005** |
| **Net position as at 31 December 2019** | **7 113 301** | **1 121 907** | **(3 814 978)** | **19 532 214** | **23 952 444** | **13 251 918** |
| **Credit related commitments** | **100 000** | - | - | - | **100 000** | **100 000** |

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 | 1 236 430 | 373 808 | 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 liabilities | 185 303 | - | 135 596 | - | 260 382 | 260 382 |
| **Total financial liabilities** | **4 156 715** | **5 271 161** | **22 193 023** | **28 593 837** | **60 214 736** | **56 350 025** |
| **Net position as at 31 December 2018** | **7 584 791** | **1 996 872** | **(5 355 204)** | **19 022 546** | **23 249 005** | **12 149 095** |
| **Credit related commitments** | **300 000** | - | - | - | **300 000** | **300 000** |

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 Group's exposure to major risks, the realization of which may lead to significant losses that could pose a threat to the Group's solvency and its ability of going concern.

The Group 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 Group'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 Group's business model, the complexity of transactions performed, and are a subject to review at least once a year. The Group 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 Group. The limit for capital used to cover concentration risk is determined by the Bank's Supervisory Board.

The limits set by the Group 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 Group'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 Group will continue as going concern, when calculating capital adequacy, the Group 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.

*(in thousands of Russian Roubles)*

# 24. Capital management

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

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 3 December 2015 No 509-P On Calculation of own funds (capital), mandatory ratios and open currency position limits for banking groups (Provision No 509-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 2020 and 2019, the Group complied with the statutory capital ratios.

The information on statutory capital and its adequacy as at 1 January 2020 and 2019 is as follows:

| | 1 January 2020 | 1 January 2019 |
|---|---|---|
| Base capital | 11 446 055 | 10 237 831 |
| Additional capital | - | - |
| **Main capital** | **11 446 055** | **10 237 831** |
| Supplementary capital | 294 621 | 1 066 500 |
| **Own funds (capital)** | **11 740 676** | **11 304 331** |
| **Risk-weighted assets used to determine adequacy of basic and main capital** | **76 174 929** | **67 497 554** |
| **Risk-weighted assets used to determine adequacy of own funds (capital)** | **76 164 192** | **67 236 447** |
| Basic capital ratio (H20.1) | 15,0% | 15,2% |
| Main capital ratio (H20.2) | 15,0% | 15,2% |
| Own funds (capital) ratio (H20.0) | 15,4% | 16,8% |
| Financial leverage (H20.4) | 15,4% | 15,2% |

As at 1 January 2020, the minimum levels of H20.1, H20.2, H20.0 and H20.4 ratios are 4,5%, 6,0%, 8,0% and 3,0% accordingly (2018: 4,5%, 6,0%, 8,0% и 3,0% 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 Group 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 Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on Group’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 Group 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 consolidated financial condition or the consolidated results of future operations.

*(in thousands of Russian Roubles)*

**Contingent tax liabilities**

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 consolidated financial position and/or the overall operations of the Group.

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 consolidated financial position, if the authorities were successful in enforcing their interpretations, could be significant.

**Credit related commitments**

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

As at 31 December 2019, the contractual amounts of unused loan commitments total RUB 100 000 thousand (2018: RUB 300 000 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 Group. As at 31 December 2019 and 31 December 2018, these commitments relate to Stage 1.

The Group 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 Group doesn’t have non-cancellable operating leases as lessee. Cancellable operating lease rentals as at 31 December 2019 and 2018 are payable as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Less than 1 year | - | 124 655 |
| Between 1 and 5 years | - | 123 876 |
| | **-** | **248 531** |

*(in thousands of Russian Roubles)*

# 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 Group is Toyota Financial Services Corporation (Japan).

**Transactions with the members of the Supervisory and Management Boards.** Total remuneration for 2019 and 2018 included in personnel expenses (Note 9) is as follows:

| | 2019 | 2018 |
|---|---|---|
| Wages and salaries | 43 403 | 47 994 |
| Bonuses | 11 444 | 10 966 |
| Apartment rent | 1 189 | 3 017 |
| Others | 10 297 | 9 746 |
| | **66 333** | **71 723** |

**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 2019 and related income and expenses for 2019 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 |
| **Consolidated statement of financial position** | | | | | |
| Other borrowings and customers' accounts | | | | | |
| - In RUB | - | - | 12 065 965 | 7,13 | **12 065 965** |
| Other assets | | | | | |
| - In RUB | - | - | 1 652 | - | **1 652** |
| - In EUR | - | - | - | - | **-** |
| Other liabilities | | | | | |
| - In RUB | - | - | 47 690 | - | **47 690** |
| - In USD | - | - | 198 | - | **198** |
| **Consolidated statement of profit or loss and other comprehensive income** | | | | | |
| Interest expense | - | - | (1 179 802) | - | **(1 179 802)** |
| Commission income | - | - | 312 | - | **312** |
| Expenses on guarantee | - | - | (14 433) | - | **(14 433)** |
| Other income | - | - | - | - | **-** |
| Other general and administrative expenses | (54 730) | - | (6 344) | - | **(61 074)** |

As at 31 December 2019 and 31 December 2018 Toyota Motor Finance (Netherlands) B.V. guarantees payments on bonds issued by Group under bonds issuance program with a nominal value of RUB 100 billion, end date – 2032 year (guarantee was received at 7 November 2017). Group pays commission for the guarantee to related party, which amounts to 0.17% of weighted average outstanding amount of bonds.

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 RUB | - | - | 17 064 625 | 8,29 | **17 064 625** |
| Subordinated borrowings in RUB | - | - | 862 097 | 8,66 | **862 097** |

*(in thousands of Russian Roubles)*

| | Parent company | | Others | | |
|---|---|---|---|---|---|
| | **Carrying value** | **Average effective interest rate, %** | **Carrying value** | **Average effective interest rate, %** | **Total** |
| Other assets | | | | | |
| - In RUB | - | - | 8 379 | - | **8 379** |
| - In EUR | - | - | - | - | **-** |
| Other liabilities | | | | | |
| - In RUB | - | - | 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)** |

# 28. Fair values of financial assets and liabilities

The estimates of fair value are intended to determine 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 2019 and 2018, the carrying amounts and fair values of financial assets and liabilities are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Cash and cash equivalents | 2 704 789 | 2 704 789 | 3 466 743 | 3 466 743 |
| Loans to banks | 2 000 168 | 2 000 168 | 2 501 041 | 2 501 041 |
| **Loans to customers:** | | | | |
| Loans to auto dealers | 6 040 946 | 6 007 936 | 6 850 066 | 6 692 976 |
| Retail loans | 64 979 669 | 65 947 460 | 55 556 524 | 55 752 493 |
| Net investments in finance leases | 198 607 | 198 607 | - | - |
| | **75 924 179** | **76 858 960** | **68 374 374** | **68 413 253** |
| Loans from banks | 35 170 345 | 35 912 559 | 31 557 608 | 31 544 526 |
| Other borrowings and customers' accounts | 14 032 949 | 14 338 909 | 18 584 946 | 18 888 034 |
| Bonds issued | 13 176 907 | 13 484 796 | 5 024 475 | 5 027 771 |
| Subordinated borrowings | - | - | 862 097 | 862 919 |
| | **62 380 201** | **63 736 264** | **56 029 126** | **56 323 250** |

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

- discount rate of 10.95% is used for discounting future cash flows in RUB from retail loans to customers, which represent average interest rates for auto loans issued by the Group during 4th quarter 2019 (31 December 2018: 12.24% and 9.0% in RUB and USD accordingly, which represent average interest rates for loans issued by the Group during 4th quarter 2018);
- discount rate of 9.27% is used for discounting future cash flows in RUB from loans to auto dealers, which represent average interest rates for loans to auto dealers issued by the Group during 4th quarter 2019 (31 December 2018: 9.75%, which represent average interest rates for loans to auto dealers issued by the Group during 4th quarter 2018);
- discount rate for loans from banks is equal to Mosprime non-deliverable forwards rates for respective tenor and currencies;

- discount rate of 6,44% is used for discounting future cash flows from other borrowings and customers' accounts, which represent average interest rates for borrowings attracted by the Bank during 4th quarter of 2019 (2018: 7,20%, which represent average interest rates for borrowings attracted by the Bank during 3rd quarter of 2018);
- discount rate for subordinated borrowings is equal to Mosprime non-deliverable forwards rates for respective tenor and currencies plus premium for subordinated instruments;
- discount rate of 15.24% is used for net investments in finance leases.

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, except for credit-impaired loans to customers, which is classified to the Level 3. Fair value of loans to auto dealers and net investments in finance leases and subordinated borrowings is classified to the Level 3 of fair value hierarchy. The fair value of the bonds issued refers to Level 1 in the fair value hierarchy.

# 29. Analysis by segment

The Group 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 sales of new and used "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, other operating income and change in allowance for ECL. An average carrying amount of loans to customers, before allowance for ECL, is used as basis for allocation of funding sources and related interest expenses.

*(in thousands of Russian Roubles)*

Segment information for each reportable segment as at 31 December 2019 and for 2019 is set out below:

| | Retail credit operations | Financing of auto dealers | Net investments in finance leases | Unallocated | Total |
|---|---|---|---|---|---|
| **Segment financial result** | | | | | |
| Interest income | 6 927 265 | 940 457 | 6 277 | 224 264 | 8 098 263 |
| Interest expense | (3 639 852) | (731 488) | (177) | (241 333) | (4 612 850) |
| **Net interest income** | **3 287 413** | **208 969** | **6 100** | **(17 069)** | **3 485 413** |
| Fee and commission income | 3 655 | 34 818 | - | - | 38 473 |
| Fee and commission expense | (124) | - | - | (91 149) | (91 273) |
| **Net fee and commission (expense) income** | **3 531** | **34 818** | **-** | **(91 149)** | **(52 800)** |
| Other operating income | 221 669 | 559 | 28 | 25 | 222 281 |
| Charge for ECL | (393 571) | (20 448) | (485) | - | (414 504) |
| **Total segment result** | **3 119 042** | **223 898** | **5 643** | **(108 193)** | **3 240 390** |
| | | | | | |
| **Segment assets** | | | | | |
| Cash and cash equivalents | - | - | 53 187 | 2 651 602 | 2 704 789 |
| Loans to banks | - | - | - | 2 000 168 | 2 000 168 |
| Loans to customers | 64 979 669 | 6 040 946 | - | - | 71 020 615 |
| Net investments in finance leases | - | - | 198 607 | - | 198 607 |
| **Total assets** | **64 979 669** | **6 040 946** | **251 794** | **4 651 770** | **75 924 179** |
| | | | | | |
| **Segment liabilities** | | | | | |
| Loans from banks | 27 695 027 | 4 614 802 | - | 2 860 516 | 35 170 345 |
| Other borrowings and customers' accounts | 13 524 574 | 508 375 | - | - | 14 032 949 |
| Bonds issued | 13 176 907 | - | - | - | 13 176 907 |
| **Total liabilities** | **54 396 508** | **5 123 177** | **-** | **2 860 516** | **62 380 201** |

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 Group'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 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.

*(in thousands of Russian Roubles)*

Analysis of results of each reportable segment as at 31 December 2018 and 2018 is presented below:

| | Retail credit operations | Financing of auto dealers | Unallocated | Total |
|---|---|---|---|---|
| **Segment financial result** | | | | |
| Interest income calculated using the effective interest rate 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 | 18 207 827 | 377 119 | - | 18 584 946 |
| Bonds issued | 5 024 475 | - | - | 5 024 475 |
| Subordinated borrowings | 862 097 | - | - | 862 097 |
| **Total liabilities** | **43 869 537** | **7 231 813** | **4 927 776** | **56 029 126** |

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

| | 2019 | 2018 |
|---|---|---|
| **Total segment result** | 3 240 390 | 2 942 938 |
| Net foreign exchange expense | 5 031 | (1 803) |
| Personnel expenses | (532 790) | (500 432) |
| Other general and administrative expenses | (1 086 986) | (986 036) |
| **Profit before income tax** | **1 625 645** | **1 454 667** |

# 30. Subsequent events

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Russian government authorities have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home. During March 2020, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theaters and museums and sport facilities. In order to ensure the sanitary and epidemiological well-being of the population, the President of the Russian Federation declared paid non-working days from 30 March to 30 April 2020 for all employees except for medical and pharmacy organizations, emergency services, food and essential goods providers and continuous operating cycle entities.

Due to lockdown and business disruption in many countries, global oil demand has drastically decreased leading to oversupply and sharp fall in oil prices. On 12 April 2020, major global oil producers including Russia agreed to a record cut in crude oil production for stabilizing the oil market, which, however, has not been able to reverse the downward pressure on the oil market. Sharp decrease in oil prices and production volumes results in corresponding decrease of oil producers' income and payments to the budget, which is likely to have major economic and social consequences and unavoidably affect public sector spending.

In March 2020, the Russian government announced a package of measures to support industries most heavily affected by the outbreak of COVID-19. The list of heavily affected industries is closely monitored and may be adjusted based on further developments.

The Group operates in the banking sector that has been moderately affected by the outbreak of COVID-19. There were no disruptions in the Group's operations due to these events. Based on the publicly available information at the date these consolidated financial statements were authorized for issue, Management has considered the potential development of the outbreak and its expected impact on the Group and economic environment, in which the Group operates, including the measures already taken by the Russian government and governments in other countries, where the Group's major business partners and customers are located.

In order to safeguard uninterrupted operating activities and the Group's liquidity position, Management has implemented a number of measures, which include:

— almost all employees of the Group were required to work remotely, only minimum necessary functions are supported in the office;

— all employees have been trained to adhere to very strict precautionary standards including social distancing;

— adjustment to the scale of the Group's operations to respond to the possible decrease in demand for the credit products offered by the Group.

The Management of the Group performs stress-testing as part of quarterly monitoring. The results of recent crises confirm that in case of decrease of loans to customers the amount of interest income and profitability remain at the high level in the short-term period (12 months). Based on the Management's assessment, in case of further decrease of loans to retail customers the profitability will reduce, however, this is applicable to a long-term period of 2 or 3 years. Usually during this period the decrease slows down and converts to the increase. For 2020 the Group has significant profitability margin. Stress-testing of financial results and other Group's performance indicators in the crysis scenario is performed under assumption of distributor's sales decrease by 49%. The cost of risk will be influenced by two multidirectional factors: the repayment of loans issued and decrease of issuance of new loans will decrease cost of risk; the deterioration of overdue receivables, the increase in default rate, the increase of probability of becoming overdue (transition to «90+» overdue category) and decrease of recoverability of receivables due to outbreak will increase cost of risk. According to this scenario the decrease of retail and corporate loans portfolios are expected. Based on the Management's assessment, in case of realisation of shock scenario, the Group will remain profitable, and its capital adequacy ratios will remain significantly above stated limits. According to this forecast the Group's liquidity position will remain positive in the medium-term period. In case of growth of business operations the Group's liquidity position is supported by credit limits provided by Toyota Financial Services Corporation (Japan) and local banks.

Taking into account the above-mentioned measures and the Group's current operational and financial performance along with other currently available public information, Management does not anticipate significant adverse impact of the COVID-19 outbreak on the Group's financial position and financial results in the short term. The Group also considers negative development scenarios and is ready to adapt its operational plans accordingly. Management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they arise.

Koloshenko A.V.
President

АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1077711000058 * МОСКВА
FINANCIAL SERVICES | TOYOTA
«Тойота Банк»
AO Toyota Bank

Zvereva E. V.
Deputy Chief Accountant