AO Toyota Bank

Financial Statements

for 2016

and Auditors’ Report

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Auditors' Report

To the Shareholders and Supervisory Board

AO Toyota Bank

We have audited the accompanying financial statements of AO Toyota Bank (the Bank), which comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these financial statements.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards.

Audited entity: AO Toyota Bank.

Registration No. in the Unified State Register of Legal Entities 1077711000058 on 3 April 2007.

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

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

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

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

- the Bank's compliance with mandatory ratios as at 1 January 2017 as established by the Bank of Russia; and
- compliance of elements of the Bank's internal control and organization of its risk management systems with requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to analyses, inspections of documents, comparisons of the Bank's internal policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, comparisons and reconciliations of numerical data and other information. Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Bank's compliance with mandatory ratios as established by the Bank of Russia, we found that the Bank's mandatory ratios as at 1 January 2017 were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Bank other than those which we considered necessary to enable us to express an opinion as to whether the Bank's financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards.

- Based on our procedures with respect to compliance of elements of the Bank's internal control and organization of its risk management systems with requirements established by the Bank of Russia, we found that:
  - as at 31 December 2016, 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 2016, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, interest rate, legal and liquidity 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;
  - as at 31 December 2016, the Bank maintained a system for reporting on the Bank's significant credit, operational, market, interest rate, legal and liquidity risks, and on the Bank's capital;

- the frequency and consistency of reports prepared by the Bank's risk management functions and Internal audit service during 2016, which cover the Bank's credit, operational, market, interest rate, legal and liquidity risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management functions and Internal audit service as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2016, the Supervisory Board and executive management of the Bank had responsibility for monitoring the Bank's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Bank's risk management procedures and their consistent application during 2016 the Supervisory Board and executive management of the Bank periodically discussed reports prepared by the risk management functions and Internal audit service, and considered proposed corrective actions.

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

Kolosov A.E.
Director
power of attorney dated 24 March 2016 No. 12/16
JSC KPMG
28 April 2017
Moscow, Russian Federation

(expressed in thousands of Russian Roubles)

	Notes	2016	2015
Interest income	4	6 674 433	7 273 995
Interest expense	4	(3 826 070)	(3 811 683)
Net interest income		**2 848 363**	**3 462 312**
Fee and commission income	5	410 594	289 591
Fee and commission expense	5	(332 464)	(220 857)
Net fee and commission income		**78 130**	**68 734**
Net foreign exchange (expense) income	6	(178)	2 203
Other operating income	7	111 484	111 587
Operating income		**3 037 799**	**3 644 836**
Charge for impairment losses	13	(238 631)	(800 895)
Personnel expenses	8	(514 720)	(470 260)
Provision under buy-back program	19	6 561	3 284
Other general administrative expenses	9	(871 829)	(866 387)
Profit before income tax		**1 419 180**	**1 510 578**
Income tax expense	10	(302 077)	(305 755)
Profit and total comprehensive income for the year		**1 117 103**	**1 204 823**

The financial statements were approved by the Management Board on 28 April 2017.

Koloshenko A.V.
President

Ryabinina S.I.
Chief Accountant

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

(expressed in thousands of Russian Roubles)

	Notes	2016	2015
ASSETS			
Cash and cash equivalents	11	756 306	578 576
Mandatory reserve deposit with the Bank of Russia	11	13 303	8 849
Loans to banks	12	3 400 836	2 450 446
Loans to customers	13	47 945 612	45 712 416
Property, equipment and intangible assets	14	223 448	191 609
Current tax asset		51 005	83 675
Other assets	15	176 121	159 699
Total assets		**52 566 631**	**49 185 270**
LIABILITIES			
Loans from banks	16	18 017 703	19 064 511
Other borrowings and customers' accounts	17	19 269 146	18 538 871
Bonds issued	18	3 094 886	-
Subordinated borrowings	18	1 414 393	1 414 354
Deferred tax liability	10	141 977	106 947
Dividends payable	20	-	622 272
Other liabilities	19	260 705	187 597
Total liabilities		**42 198 810**	**39 934 552**
EQUITY			
Share capital	20	5 440 000	5 440 000
Additional paid-in capital		1 343 400	1 343 400
Retained earnings		3 584 421	2 467 318
Total equity		**10 367 821**	**9 250 718**
Total liabilities and equity		**52 566 631**	**49 185 270**

Koloshenko A.V.
President

Ryabinina S.I.
Chief Accountant

(expressed in thousands of Russian Roubles)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		6 661 225	7 327 991
Interest payments		(3 733 300)	(3 825 843)
Fee and commission receipts		403 960	288 083
Fee and commission payments		(323 359)	(240 419)
Net receipts (proceeds) from foreign exchange		1 758	(268)
Other operating income receipts		100 678	76 891
Personnel expenses		(508 059)	(473 082)
Other general administrative expenses		(836 371)	(679 774)
(Increase) decrease in operating assets			
Mandatory reserve deposit with the Bank of Russia		(4 454)	24 009
Loans to banks		(950 000)	5 350 000
Loans to customers		(2 444 365)	3 247 105
Other assets		2 694	(2 728)
Increase (decrease) in operating liabilities			
Loans from banks		(1 000 188)	(3 629 977)
Other borrowings and customers' accounts		737 332	(5 615 979)
Other liabilities		23 639	(6 916)
Net cash (used in) provided from operating activities before income tax paid		**(1 868 810)**	**1 839 093**
Income tax paid		(234 379)	(421 734)
Cash flows (used in) provided from operating activities		**(2 103 189)**	**1 417 359**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(106 726)	(76 416)
Sales of property, equipment and intangible assets		13 783	36 339
Cash flows used in investing activities		**(92 943)**	**(40 077)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	20	(622 272)	(622 272)
Bonds issued		3 000 000	-
Repayment of subordinated borrowing		-	(350 000)
Cash flows provided from (used in) financing activities		**2 377 728**	**(972 272)**
Net increase in cash and cash equivalents		**181 596**	**405 010**
Effect of changes in exchange rates on cash and cash equivalents		(3 866)	2 883
Cash and cash equivalents as at the beginning of the year		578 576	170 683
Cash and cash equivalents as at the end of the year	11	**756 306**	**578 576**

Koloshenko A.V.
President

Ryabinina S.I.
Chief Accountant

(expressed in thousands of Russian Roubles)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
Balance as at 1 January 2015	**5 440 000**	**1 343 400**	**2 507 039**	**9 290 439**
Total comprehensive income				
Profit for the year	-	-	1 204 823	1 204 823
Transactions with owners, recorded directly in equity				
Declared dividends (note 20)	-	-	(1 244 544)	(1 244 544)
Balance as at 31 December 2015	**5 440 000**	**1 343 400**	**2 467 318**	**9 250 718**
Total comprehensive income				
Profit for the year	-	-	1 117 103	1 117 103
Balance as at 31 December 2016	**5 440 000**	**1 343 400**	**3 584 421**	**10 367 821**

Koloshenko A.V.
President

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

Ryabinina S.I.
Chief Accountant

1 Background

Organization and operations

AO Toyota Bank (the Bank) was established in the Russian Federation. The Bank received license № 3470 to carry out banking operations in Roubles and foreign currencies on 22 July 2015. On 28 October 2013, the Bank received a license to attract deposits from individuals.

The activities of the Bank are regulated by the Bank of Russia. The majority of the Bank's assets and liabilities are located in the Russian Federation. The Bank has no branches or additional offices.

The principal activities of the Bank are retail auto lending and corporate lending of official dealers of motor vehicles Toyota and Lexus.

As at 31 December 2016 the Bank has presence in 68 cities in Russia in 155 dealers' offices that fully covers network of official dealers and certified partners of Toyota and Lexus (2015: 68 cities and 152 dealers' offices).

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

The average number of people employed by the Bank during 2016 was 159 (2015: 156).

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

The Bank is part of Toyota Financial Services Corporation (Japan), one of Japan's largest diversified financial conglomerates. As at 31 December 2016 and 2015, the main shareholder of the Bank is Toyota Kreditbank GmbH (Germany) with 99.94% share.

Related party transactions are detailed in note 26.

Russian business environment

The Bank's operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

Current economic and politic situation increases local risks for banking operations in the Russian Federation. The Management of the Bank believes that it takes all the necessary efforts to support the economic stability of the Bank in the current environment.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies relates to estimate of impairment allowance for loans to customers as described in note 13 and to estimate of fair values of financial assets and liabilities as described in note 27.

3. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

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

(b) Cash and cash equivalents

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

(c) Financial instruments

Classification

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

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

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

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

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

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

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

Recognition

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

Measurement

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

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

All financial liabilities are measured at amortized cost which is calculated using the effective interest method.

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

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

Fair value measurement principles

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Gains and losses on subsequent measurement

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

Derecognition

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

Offsetting

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

(a) Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

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

Depreciation

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	3-20 years
Motor vehicles	3-5 years
Leasehold improvement	Over the shorter of economic life or lease term

(b) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on the straight-line basis over the estimated useful lives of intangible assets and contractual maturity. The estimated useful lives range from 2 to 5 years.

(c) Impairment

Financial assets carried at amortized cost

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

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

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

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

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

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

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

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(d) Provisions

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

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

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

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

Future operating costs are not provided for.

(e) Share capital

Ordinary shares

Ordinary shares are classified as equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(f) Taxation

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

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

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

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

(g) Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(h) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance of the Bank. The Bank plans to adopt these pronouncements when they become effective.

IFRS 9 Financial instruments

IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognize expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ('12-month ECL') or expected credit losses resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Initial amount of expected credit losses recognized for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognized are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PDxLGDxEAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Bank does not intend to adopt the standard earlier.

The Bank has not started a formal assessment of potential impact on its financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Bank's financial statements. Currently the Bank is in the process of development of IFRS 9 implementation plan.

(expressed in thousands of Russian Roubles)

4. Interest income and expense

	2016	2015
Interest income		
Loans to customers	6 468 102	6 710 915
Loans to banks	206 331	563 080
Total interest income	**6 674 433**	**7 273 995**
Interest expense		
Loans from banks	(1 821 626)	(1 931 930)
Other borrowings and customers' accounts	(1 613 495)	(1 732 480)
Bonds issued	(272 489)	-
Subordinated borrowings	(118 460)	(147 273)
Total interest expense	**(3 826 070)**	**(3 811 683)**
Net interest income	**2 848 363**	**3 462 312**

5. Fee and commission income and expense

	2016	2015
Fee and commission income		
Insurance agent services	370 170	249 570
Credit line issuance	35 595	36 536
Other	4 829	3 485
Total fee and commission income	**410 594**	**289 591**
Fee and commission expense		
Promotion of insurance products	(256 674)	(154 587)
Settlement	(67 077)	(60 782)
Other	(8 713)	(5 488)
Total fee and commission expense	**(332 464)**	**(220 857)**
Net fee and commission income	**78 130**	**68 734**

6. Net foreign exchange income

	2016	2015
Gain (loss) on spot transactions	1 476	(268)
(Loss) income from revaluation of financial assets and liabilities	(1 654)	2 471
Net foreign exchange income	**(178)**	**2 203**

7. Other operating income

	2016	2015
Penalties on loans issued	52 962	45 632
Recovery of retail loans previously written off	44 918	24 070
Gain on sale of property and equipment and goods for sale	10 523	35 309
Sublease of property	272	1 086
Other income	2 809	5 490
Total other operating income	**111 484**	**111 587**

(expressed in thousands of Russian Roubles)

8. Personnel expenses

	2016	2015
Employee compensation	434 099	395 915
Payroll related taxes	80 621	74 345
Total personnel expenses	**514 720**	**470 260**

9. Other general administrative expenses

	2016	2015
Services of staffing companies	201 003	194 353
Operating lease	200 742	184 115
Communications and information services	173 634	172 525
Depreciation and amortization (note 14)	72 399	91 277
Collection and servicing of loans	69 772	73 779
Advertising and marketing	43 640	35 198
Consulting and information services	24 119	16 001
Professional services	18 783	8 300
Repairs and maintenance	14 547	16 650
Travel	10 168	10 804
Insurance	6 649	5 818
Office supplies	3 899	6 009
Security	2 612	2 771
Taxes other than income tax	1 162	1 524
Other	28 700	47 263
Total other general administrative expenses	**871 829**	**866 387**

10. Income tax expense

	2016	2015
Current year tax expense	267 047	316 479
Deferred taxation movement due to origination and reversal of temporary differences	35 030	(10 724)
Total income tax expense	**302 077**	**305 755**

The applicable tax rate for current and deferred tax in 2016 and 2015 is 20%.

As at 31 December 2016, current tax asset amounts to RUB 51 005 thousand (2015: 83 675 thousand), the Bank has no current tax liabilities (2015: nil).

Reconciliation of effective tax rate

	2016	%	2015	%
Profit before income tax	1 419 180		1 510 578	
Income tax expense at the applicable tax rate	283 836	20.00	302 116	20.00
Non-deductible costs	18 241	1.29	3 639	0.24
Total income tax expense	**302 077**	**21.29**	**305 755**	**20.24**

(expressed in thousands of Russian Roubles)

Deferred tax asset and liability

As at 31 December 2016 and 2015, temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liability.

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

Movements in temporary differences during 2016 and 2015 are presented as follows.

	1 January 2015	Recognized in profit or loss	31 December 2015	Recognized in profit or loss	31 December 2016
Loans to banks	(949)	841	(108)	108	-
Loans to customers	(126 784)	4 938	(121 846)	(27 101)	(148 947)
Property, equipment and intangible assets	(4 353)	3 881	(472)	(13 256)	(13 728)
Other assets	(2 623)	4 611	1 988	3 665	5 653
Bonds issued	-	-	-	(992)	(992)
Other liabilities	17 038	(3 547)	13 491	2 546	16 037
Net deferred tax liability	**(117 671)**	**10 724**	**(106 947)**	**(35 030)**	**(141 977)**

11. Cash and cash equivalents

	2016	2015
Nostro accounts with the Bank of Russia	652 456	470 667
Nostro accounts with other banks		
- rated AA- to AA+	1 757	4 617
- rated A- to A+	-	79 103
- rated BBB	52 082	6 367
- rated BB- to BB+	-	2 433
- rated below B+	12 475	10 370
- not rated	37 536	5 019
Total nostro accounts with other banks	**103 850**	**107 909**
Total cash and cash equivalents	**756 306**	**578 576**

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.

None of cash and cash equivalents are impaired or past due.

As at 31 December 20165, there is one bank (2015: two banks), whose balances individually exceed 10% of total cash and cash equivalents. The gross value of these balances is RUB 652 456 thousand or 86% of total cash and cash equivalents (2015: RUB 549 770 thousand or 95%).

Mandatory reserve deposit with the Bank of Russia

The mandatory reserve deposit is a non-interest bearing deposit issued in accordance with the regulations of the Bank of Russia and which withdrawability is restricted. As at 31 December 2016, mandatory reserve deposit with the Bank of Russia is RUB 13 303 thousand (2015: RUB 8 849 thousand).

(expressed in thousands of Russian Roubles)

12. Loans to banks

	2016	2015
Deposits with the CBR	3 400 836	1 200 000
Loans to other banks rated BB- to BB+	-	500 000
Loans to other banks not rated	-	750 446
Total loans to banks	**3 400 836**	**2 450 446**

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 2016 and 2015, there are no any past due or impaired loans to banks.

As at 31 December 2015, there are three banks, whose balances individually exceed 10% of total loans to banks. The gross value of these balances is 2 450 446 thousand or 100% of total loans to banks.

13. Loans to customers

	2016	2015
Loans to auto dealers	10 829 039	9 669 386
Retail loans		
Auto loans	38 373 303	37 456 767
Mortgage loans	-	3 586
Total retail loans	**38 373 303**	**37 460 353**
Gross loans to customers	**49 202 342**	**47 129 739**
Impairment allowance	(1 256 730)	(1 417 323)
Total net loans to customers	**47 945 612**	**45 712 416**

Movements in the impairment allowance for loans during 2016 and 2015 are as follows:

	Loans to auto dealers	Retail loans	Total
Balance as at 1 January 2015	74 434	746 781	821 215
Net charge for the year	523 565	277 330	800 895
Write-offs	–	(204 787)	(204 787)
Balance as at 31 December 2015	**597 999**	**819 324**	**1 417 323**
Net (recovery) charge for the year	(205 367)	443 998	238 631
Write-offs	–	(399 224)	(399 224)
Balance as at 31 December 2016	**392 632**	**864 098**	**1 256 730**

(expressed in thousands of Russian Roubles)

Credit quality of loans to customers

The table below provides information on the credit quality of loans to customers as at 31 December 2016:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans to auto dealers				
Not overdue loans without individual signs of impairment	10 721 329	(284 922)	10 436 407	2.66
Impaired loans, overdue more than 180 days	107 710	(107 710)	-	100.00
Total loans to auto dealers	**10 829 039**	**(392 632)**	**10 436 407**	**3.63**
Retail loans				
Auto loans				
- not overdue	36 798 926	(221 540)	36 577 386	0.60
- overdue less than 30 days	689 228	(20 909)	668 319	3.03
- overdue 30-59 days	103 366	(15 666)	87 700	15.16
- overdue 60-89 days	54 360	(13 985)	40 375	25.73
- overdue 90-179 days	90 541	(47 929)	42 612	52.94
- overdue more than 180 days	636 882	(544 069)	92 813	85.43
Total retail loans	**38 373 303**	**(864 098)**	**37 509 205**	**2.25**
Total loans to customers	**49 202 342**	**(1 256 730)**	**47 945 612**	**2.55**

The table below provides information on the credit quality of loans to customers as at 31 December 2015:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans to auto dealers				
Not overdue loans without individual signs of impairment	9 561 676	(490 289)	9 071 387	5.13
Impaired loans, overdue more than 180 days	107 710	(107 710)	-	100.00
Total loans to auto dealers	**9 669 386**	**(597 999)**	**9 071 387**	**6.18**
Retail loans				
Auto loans				
- not overdue	35 737 757	(176 557)	35 561 200	0.49
- overdue less than 30 days	640 745	(22 453)	618 292	3.50
- overdue 30-59 days	138 199	(20 946)	117 253	15.16
- overdue 60-89 days	80 007	(16 979)	63 028	21.22
- overdue 90-179 days	186 043	(83 090)	102 953	44.66
- overdue more than 180 days	674 016	(499 299)	174 717	74.08
Total auto loans	**37 456 767**	**(819 324)**	**36 637 443**	**2.19**
Mortgage loans				
Not overdue mortgage loans	3 586	-	3 586	0.00
Total retail loans	**37 460 353**	**(819 324)**	**36 641 029**	**2.19**
Total loans to customers	**47 129 739**	**(1 417 323)**	**45 712 416**	**3.01**

(expressed in thousands of Russian Roubles)

Key assumptions and judgments for estimating the loan impairment

Loans to auto dealers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to auto dealers include the following:

- a breach of contract, such as a default or delinquency in interest or principal payments
- significant deterioration of the financial position of the borrower
- deterioration in business environment, negative changes in the borrower's markets
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

The Bank estimates the loan impairment for loans to auto dealers based on the analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified adjusted on current economic environment and financial position of the borrowers.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans to auto dealers as at 31 December 2016 would be RUB 104 364 thousand lower/higher (2015: RUB 90 714 thousand lower/higher).

Retail loans

The Bank estimates the impairment allowance for retail loans based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment allowance for retail loans include that loss migration rates are constant and can be estimated based on the historic loss probability of default for the past 12 months and recovery rates on default loans are estimated based on all available historic data.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the impairment allowance on retail loans as at 31 December 2016 would be RUB 375 092 thousand higher (2015: RUB 366 410 thousand higher).

Analysis of collateral

Loans to auto dealers

The following table provides the analysis of loans to auto dealers, net of impairment, by types of collateral as at 31 December 2016 and 2015:

	2016	**% of loans to auto dealers**	**2015**	**% of loans to auto dealers**
Motor vehicles	9 482 325	90.86	7 535 981	83.07
Real estate	954 082	9.14	1 535 406	16.93
	10 436 407	**100.00**	**9 071 387**	**100.00**

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

For loans to auto dealers without individual signs of impairment the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

As at 31 December 2016 and 2015, the Bank identified signs of impairment for loans issued to one auto dealer.

(expressed in thousands of Russian Roubles)

Retail loans

Auto loans are secured by the underlying cars, mortgage loans are secured by the underlying housing real estate.

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

In 2016 the Bank took possession of collateral for loans to individuals with a net carrying amount of RUB 1 552 thousand (2015: 5 799 thousand). As at 31 December 2016, the carrying amount of repossessed collateral amounts to RUB 1 552 thousand (2015: 6 576 thousand).

Significant credit exposures

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

As at 31 December 2016 and 2015 the Bank has no borrowers or groups of related borrowers whose loan balances individually exceed 10% of total loans to customers.

Loans maturities

The maturity of loans to customers is presented in note 21.

14. Property, equipment and intangible assets

The following table provides information on property, equipment and intangible assets as at 31 December 2016 and 2015:

	Equipment	Fixtures and fittings	Motor vehicles	Software licenses	Leasehold improvements	Total
Cost						
Balance at 1 January 2015	221 886	106 076	39 798	222 387	25 939	616 086
Additions	5 653	–	12 200	58 604	–	76 457
Disposals	(74 404)	(195)	(13 249)	(104)	–	(87 952)
Balance at 31 December 2015	**153 135**	**105 881**	**38 749**	**280 887**	**25 939**	**604 591**
Additions	22 853	681	9 005	74 958	–	107 497
Disposals	(1 480)	(76)	(15 758)	(135 582)	–	(152 896)
Balance at 31 December 2016	**174 508**	**106 486**	**31 996**	**220 263**	**25 939**	**559 192**
Depreciation and amortization						
Balance at 1 January 2015	179 060	55 078	24 306	138 418	11 106	407 968
Depreciation and amortization charge	27 335	6 013	11 673	36 888	9 368	91 277
Disposals	(73 549)	(195)	(12 456)	(63)	–	(86 263)
Balance at 31 December 2015	**132 846**	**60 896**	**23 523**	**175 243**	**20 474**	**412 982**
Depreciation and amortization charge	8 890	17 482	2 459	38 103	5 465	72 399
Disposals	(1 480)	(76)	(12 499)	(135 582)	–	(149 637)
Balance at 31 December 2016	**140 256**	**78 302**	**13 483**	**77 764**	**25 939**	**335 744**
Carrying value:						
As at 31 December 2015	20 289	44 985	15 226	105 644	5 465	191 609
As at 31 December 2016	34 252	28 184	18 513	142 499	-	223 448

(expressed in thousands of Russian Roubles)

15. Other assets

	2016	2015
Settlements with suppliers	99 199	106 607
Guarantee deposit	27 088	32 486
Prepayments	17 800	8 083
Other	32 034	12 523
Total other assets	**176 121**	**159 699**

As at 31 December 2016 and 2015, the Bank doesn't have overdue and/or impaired other assets.

16. Loans from banks

As at 31 December 2016, loans from banks amount to RUB 18 017 703 thousand. Loans totaling RUB 1 150 619 thousand or 62% of total loans from banks are received from four banks, that individually contribute above 10% to total loans from banks.

As at 31 December 2015, loans from banks amount to RUB 19 064 511 thousand. Loans totaling RUB 12 653 415 thousand or 66% of total loans from banks are received from four banks, that individually contribute above 10% to total loans from banks.

17. Other borrowings and customers' accounts

	2016	2015
Borrowings from Toyota Motor Finance (Netherlands) B. V.	17 843 667	17 975 689
Settlement accounts of auto dealers	1 015 018	438 625
Current accounts of individuals	410 461	124 557
	19 269 146	**18 538 871**

18. Bonds issued and subordinated borrowings

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

Subordinated borrowings are provided by Toyota Motor Finance (Netherlands) B.V., mature in 2018 and 2019 and carry an annual interest rate of 8.46%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank. In 2016 the Bank had no new subordinated borrowings and made no repayments of principle. In 2015 the Bank had no new subordinated borrowings and repaid a subordinated borrowing of RUB 350 000 thousand.

(expressed in thousands of Russian Roubles)

19. Other liabilities

	2016	2015
Settlements with suppliers	226 647	154 005
Provision for unused vacations	22 155	15 782
Liability on bonus to employees	11 539	9 351
Liability under buy-back program	364	6 925
Rosbank guarantee fee accrual	-	1 534
Total other liabilities	**260 705**	**187 597**

The Bank has a number of products with a vehicle buy back option. As at 31 December 2016, the carrying amount recognized in loans to customers of such loans totals RUB 496 369 thousand (2015: 1 174 672 thousand). According to the product, the dealer guarantees customer to buy back vehicle financed through the loan issued by the Bank for a residual payment up to 60% of initial car price. The Bank is obliged to compensate dealer a difference between the market price and a pre-agreed residual amount if the market price is lower. As at 31 December 2016, the Bank estimated its future liability under these loans of RUB 364 thousand (2015: 6 925 thousand).

20. Share capital

As at 31 December 2016 and 2015, 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 2015 the Bank declared dividends of RUB 1 244 544 thousand which were paid in two equal tranches of RUB 622 272 thousand in 2016 and 2015. In 2016 the Bank did not declare dividends.

21. 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, 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 and 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
- increase or decrease of authorized share capital
- forming executive bodies and their early resignation
- electing of controller and his early resignation
- approval of external auditor
- decisions on distribution of profits and dividends payments
- approval of annual reports and annual financial statements
- approval of significant self-dealing transactions
- decisions on participation in associations and other unions of commercial enterprises
- approval of certain internal policies of the Bank
- 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 executive body or 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 2016, the Supervisory Board of the Bank comprise:

- Hironobu Obata – Chairman of the Supervisory Board
- Christian Ties Ruben – member of the Supervisory Board
- Vatanabe Khitoshi – member of the Supervisory Board
- Hidenori Ozaki – member of the Supervisory Board
- Ivo Josko Ljubica – member of the Supervisory Board

In 2016 authorities of Yoichi Tomihara were terminated, Vatanabe Khitoshi was appointed as a member of the Supervisory Board.

The Supervisory Board exclusively approved the following matters:

- setting priority directions of the Bank's activities
- convening annual and extraordinary General meetings of shareholders, except as required by law
- approval of agenda for General meetings of shareholders and decisions on other organizational matters related to General meetings of shareholders, as required by law and Bank's Charter
- decisions on issue of bonds and other securities by the Bank
- recommendations on dividends amount and payment procedures
- utilization of the reserve and other funds
- approval of internal documents, except when required to be approved by the General meeting of shareholders or when the Charter requires the approval by the executive bodies
- opening and closing of branches and representative offices
- approving significant 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 2016 and 2015, the Management Board includes:

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

In 2016 and 2015, 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, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations.

The internal control comprises:

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

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

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

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

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

The Internal audit service is independent from management and reports directly to the Supervisory Board. The results of Internal audit reviews are discussed with relevant business process managers, with summaries submitted to the Supervisory Board, the President and the Management Board. The frequency and consistency of reports prepared by the Internal audit service during 2016 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 associated with regulatory risk, including probability of occurrence and quantitative assessment of their consequences
- monitoring of regulatory risk
- recommendations on regulatory risk management
- coordination of and participation in development of activities aimed at mitigation of regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behavior rules, code of professional ethics and minimization of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic feasibility of agreements with suppliers
- participation in communications with authorities, self-regulated organizations, associations and financial market participants.

Russian legislation, including Federal Law dated 2 December 1990 No 395-1 On banks and banking activity and Direction of the Bank of Russia dated 1 April 2014 No 3223-U On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organization establish the professional qualifications, business reputation and other requirements for the members of the Supervisory and Management Boards, Heads of the Internal audit, Internal control function, risk management function and other key management personnel. As at the date of these financial statements, the heads of the respective functions comply with the requirements, set by the law and regulations of the Bank of Russia in respect of business reputation.

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

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

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

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

Information about the risks accepted by the Bank, methods of their identification, measurement, monitoring and control

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.

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.

Based on the analysis performed in accordance with the approved Bank's "Procedure for determining significant risks" the following significant risks were determined:

- **Credit risk** is the risk arising from the possibility of failure of a borrower or a counterparty of the Bank to discharge contractual obligations.
- **Market risk** is the risk of financial losses due to the change in current (fair) value of financial instruments, as well as in foreign exchange rates and/or precious metals' accounting prices.
- **Operational risk** is the risk of losses resulting from failures and deficiencies in Bank's internal operational procedures, malfunction of information and other systems or from impact of external events on operations of the Bank.
- **Liquidity risk** is the risk that the Bank will be unable to finance its activities, i.e. to ensure the growth of assets and to meet its obligations as they fall due without incurring losses in the amount threatening the Bank's financial stability.
- **Concentration risk** is defined as the risk arising out of the Bank's large risk exposures, which, if realized, may lead to significant losses that could threaten Bank's financial solvency and its ability to continue as a going concern.
- **Interest risk** (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 environment (for example, changes in consumers' behavior, intensity of competition, technological progress, etc.) and/or due to general macroeconomic conditions.

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

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;
- system for monitoring significant risks, capital adequacy and compliance with risk limits;
- Bank's financial statements prepared within implementation of IPACA.

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

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

The strategy aims at risks identification, analysis and management, at setting of risks limits and related controls, as well as at continuous 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 situation, offered banking products and services, and emerging best practices.

The purpose of risk management is to develop and ensure proper operation of internal processes and procedures that minimize the Bank's exposure to the internal and external risk factors.

The implemented systems of risk and capital management and internal controls are appropriate to the nature and scale of Bank's activities as well as the level of risks taken and their combination.

As part of the risk and capital management system the Bank has segregation of duties in place.

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 banking risks management policy and controls its implementation.

The Management Board implements the banking risk management strategy and the policy approved by the Supervisory Board; identifies, monitors and controls the risks, the Bank is exposed to, and regularly informs the Supervisory Board about the exposure of the Bank to the banking risks. The Management Board approves the authorities and composition of the collective risk management bodies, decides on accepting of specific types of risks, and approves the policy on conducting of other active and passive operations.

The Risk Management Committee authorities are as follows:

- 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 topics;
- review of risks reports provided by the Bank's structural units;
- deciding and developing specific actions (including instructions to the Bank's structural units) to minimize risks throughout Bank's activities;
- review and approval of draft documents regulating risk management and changes to them.

The Credit Committee powers:

- development of core principles of the lending and investment, financing and funding policies;
- development of liquid loans portfolio of the Bank and management of funds placed with banks, while ensuring that balanced match between investments and Bank's funding sources;
- minimization of Bank's credit (financial) risks and ensuring profitability on the Bank's customers lending operations;
- establishment of credit limits, definition of the funding instruments, as well as establishing the limits for other investments;
- assessment and regulation of credit (financial) risks, setting the limits for conducting operations within their competence;
- development of recommendations on the amount of impairment allowance for loans to customers and other allowances to be recognized and approval of the quality category of the borrowers.

The Asset and Liability Committee determines the management policy for active and passive transactions and approves the activities to foster the growth of Bank's interest and non-interest income while maintaining adequate liquidity, complying with prudential standards of the Bank of Russia and minimizing the impact on the Bank of the risks present in the financial market.

Credit Policy and Risk Management Department performs general risk management and controls the application of common principles and methods for identification, assessment 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 risks level, covering all basic risks, including credit, market, operation and liquidity risks, which are regularly reported to the Supervisory Board, the Management Board and the Risk Committee.

Credit Policy and Risk Management Department is the Bank's structural unit and performs its functions on a regular basis. The Head of the Department is subordinate and reports to the President of the Bank and complies with the qualification requirements established by the Bank of Russia and requirements to the business reputation.

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

As at 31 December 2016, 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 2016, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, interest rate, legal and liquidity 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.

As at 31 December 2016, the Bank maintained a system for reporting on the Bank's significant credit, operational, market, interest rate, legal and liquidity risks, and on the Bank's capital. The frequency and consistency of reports prepared by the Bank's risk management functions and Internal audit service during 2016, which cover the Bank's credit, operational, market, interest rate, legal and liquidity risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management functions and Internal audit service as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

As at 31 December 2016, the Supervisory Board and executive management of the Bank had responsibility for monitoring the Bank's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Bank's risk management procedures and their consistent application during 2016 the Supervisory Board and executive management of the Bank periodically discussed reports prepared by the risk management functions and Internal audit service, and considered proposed corrective actions.

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

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

In market risk managing the Bank follows the following principles:

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

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

- system of boundary values (limits);
- system of authorities and decisions-making;
- monitoring system for financial instruments;
- controls system.

The main instrument used in strategic market risk management is the allocation of capital to cover it. The allocation is performed in accordance with risk appetite set for the Bank. The limit for capital used to cover market risk is determined across the Bank. The limit for capital used to cover market risk is approved by the Bank's Management Board. Any threats of possible violations of the approved limits are reported to the Management and Supervisory Boards of the Bank as soon as possible to take the adequate actions.

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 139-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 (in % of capital).

(expressed in thousands of Russian Roubles)

Value-at-Risk (VaR) assessment methodology

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

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

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

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

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

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

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

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

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

	31 December 2016	**31 December 2015**
Foreign exchange risk	956	904
Interest rate risk	178 086	99 190

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

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

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

The main sources of the interest risk are the following:

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

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

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

The main instrument used in strategic interest risk management is the allocation of capital to cover it. The allocation is performed in accordance with risk appetite set for the Bank. The limit for capital used to cover interest risk is determined across the Bank. The limit for capital used to cover interest risk is approved by the Bank's Management Board. Any threats of possible violations of the approved limits are reported to the Management and Supervisory Boards of the Bank as soon as possible to take the adequate actions. The target values of the capital used to cover interest risk are supplemented by the operating measures that ensure that the risk is taken strictly within the prescribed limits and under careful control.

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

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

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

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

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

(expressed in thousands of Russian Roubles)

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

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

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

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

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

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

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

Average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 2015 are provided in the table below. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016 Average effective interest rate, %			**2015 Average effective interest rate, %**		
	RUB	**USD**	**EUR**	**RUB**	**USD**	**EUR**
Interest bearing assets						
Nostro accounts with banks	0.21	0.01	0.00	0.01	0.01	0.00
Loans to banks	9.00	-	-	9.24	-	-
Loans to customers	14.95	7.12	-	14.53	7.27	-
Interest bearing liabilities						
Loans from banks	11.06	-	-	11.21	1.55	-
Other borrowings and customers' accounts	9.90	1.81	-	8.71	1.81	-
Subordinated borrowings	8.46	-	-	8.46	-	-

Interest rate risk of the banking portfolio

One of the components of the Bank's liquidity management system is the determination of alternative scenarios for the market development and their impact on the liquidity of the Bank, as well as the development of a behavior strategy in the case of an unexpected liquidity crisis in the Bank.

The 'scenario' is a description of a vision of a future that consists of coordinated, logically inter-related events and a sequence of steps (situations) with a certain probability leading to the predicted end state. The scenario analysis allows to identify the immediate sources of possible liquidity shortages or excess, and to determine the payments flow which can restore the liquidity balance.

At the same time, the forecasting of the Bank's activities comes down to the assessment of the probability of future changes in its individual payment cash flows under the influence of the projected factors.

The ‘factor’ means the events that can cause a significant change in the Bank’s individual cash flows (a change in the financial markets situation, displacement from certain market segments by competitors, financial difficulties of certain large creditors of the Bank, a change in the financial flows of certain large customers, reduction of credit limits by counterparties on the interbank lending market, etc.)

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. At the same time, it assumes that it is impossible to attract interbank loans.

A stress test is carried out in the form of a Report on the state of the Bank’s forward-looking liquidity, based on which the Treasury develops liquidity recovery plans and liquidity risk management proposals, and informs the Asset and Liability Committee (hereinafter – “ALCO”).

Currency risk

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

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

Types of currency risk are as follows:

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

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

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

OCP may be:

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

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

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

- valuation of open currency position;
- VaR-analysis of 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.

(expressed in thousands of Russian Roubles)

The following table shows the currency structure of assets and liabilities as at 31 December 2016:

	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	723 392	32 679	235	–	756 306
Mandatory reserve deposit with the Bank of Russia	13 303	–	–	–	13 303
Loans to banks	3 400 836	–	–	–	3 400 836
Loans to customers	47 807 719	137 893	–	–	47 945 612
Property, equipment and intangible assets	223 448	–	–	–	223 448
Current tax asset	51 005	–	–	–	51 005
Other assets	174 444	825	–	852	176 121
Total assets	**52 394 147**	**171 397**	**235**	**852**	**52 566 631**
LIABILITIES					
Loans from banks	18 017 703	–	–	–	18 017 703
Other borrowings and customers' accounts	19 086 452	182 694	–	–	19 269 146
Bonds issued	3 094 886	–	–	–	3 094 886
Subordinated borrowings	1 414 393	–	–	–	1 414 393
Deferred tax liability	141 977	–	–	–	141 977
Other liabilities	260 684	–	21	–	260 705
Total liabilities	**42 016 095**	**182 694**	**21**	**–**	**42 198 810**
Net position	**10 378 052**	**(11 297)**	**214**	**852**	**10 367 821**

The following table shows the currency structure of assets and liabilities as at 31 December 2015:

	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	494 522	80 700	3 354	–	578 576
Mandatory reserve deposit with the Bank of Russia	8 849	–	–	–	8 849
Loans to banks	2 450 446	–	–	–	2 450 446
Loans to customers	45 305 819	406 597	–	–	45 712 416
Property, equipment and intangible assets	191 609	–	–	–	191 609
Current tax asset	83 675	–	–	–	83 675
Other assets	158 840	400	–	459	159 699
Total assets	**48 693 760**	**487 697**	**3 354**	**459**	**49 185 270**
LIABILITIES					
Loans from banks	18 772 382	292 129	–	–	19 064 511
Other borrowings and customers' accounts	18 319 354	219 517	–	–	18 538 871
Subordinated borrowings	1 414 354	–	–	–	1 414 354
Deferred tax liability	106 947	–	–	–	106 947
Dividends payable	622 272	–	–	–	622 272
Other liabilities	187 571	–	26	–	187 597
Total liabilities	**39 422 880**	**511 646**	**26**	**–**	**39 934 552**
Net position	**9 270 880**	**(23 949)**	**3 328**	**459**	**9 250 718**

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.

	1 January 2017		1 January 2016	
	Decrease, %	**Effect**	**Decrease, %**	**Effect**
Appreciation of USD against RUB	30%	2 711	30%	5 748
Appreciation of EUR against RUB	30%	(51)	30%	(799)

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.

Operational risk

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

A *legal risk* is the risk of losses as a result of:

- Bank's non-compliance with the requirements of regulatory legal acts and written contracts;
- legal errors made in the course of operations (incorrect legal advice or preparation of documents, including when considering disputes in the judicial bodies);
- legal system inadequacy (inconsistency of legislation, lack of legal norms for regulating certain issues arising in the course of the Bank's activities);
- counterparties' violation of regulatory legal acts, as well as the terms of written contracts.

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

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

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

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

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

The *General operational risk* refers to operational risks not covered by model risk and legal risk.

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

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

When calculating the capital requirements for covering the operational risk, the Bank follows a standardized approach of the Instruction of the Bank of Russia 139-I On Banks's Mandatory Ratios.

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

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

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

The main instrument used in strategic operational risk management is the allocation of capital to cover it. The allocation is performed in accordance with risk appetite set for the Bank. The limit for capital used to cover operational risk is determined across the Bank.

Any threats of possible violations of the approved limits are reported to the Management and Supervisory Boards of the Bank as soon as possible to take the adequate actions.

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

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

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

Operational risk is assessed in accordance with the requirements of Regulation of Bank of Russia № 346-P dated 3 November 2009 "*On the procedure for calculating operational risk*". When calculating capital requirements to cover operational risk, the Bank uses standardized approach in accordance with the Instruction of the Bank of Russia 139-I "*On Bank's Mandatory Ratios*".

As of 1 January 2017 and 2016 the Bank complied with the mandatory ratios established by the Bank of Russia.

Liquidity risk

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

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

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

The Bank has developed a liquidity management policy, which aims to provide liquidity control and timely full settlement of current liabilities. The liquidity management policy is reviewed and approved by the Supervisory Board of the Bank.

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

The Bank's Management Board determines the liquidity management policy within the framework of the Bank's Development Strategy. 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") takes responsible for enabling effective implementation of the liquidity management policies and procedures, as well as for the implementation of operational control of the liquidity position and for the implementation of liquidity management decisions made by the Management Board, including:

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

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

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

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

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

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

Credit Policy and Risk Management Department:

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

The liquidity management policy is based on the following principles:

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

(expressed in thousands of Russian Roubles)

The following instruments are used to manage the liquidity risk:

- *Analysis of the liquidity gap by maturity* (GAP-analysis) is performed at least once a month and allows to identify the mismatch of assets and liabilities by maturity. The gap is the difference between assets and liabilities with the corresponding maturities before the remaining contractual repayment, combined into maturity groups.
- *Short-term liquidity forecast* (payment position) is performed on a daily basis and accounts for the most recent information, including information on planned issuance and repayments of loans to individuals and legal entities of the given maturity, on balances on correspondent accounts, on planned interbank credit operations, taking into account their maturity and the counterparty creditworthiness, on balances of the customers' accounts and planned account activity. The Bank takes cautious position when performing the analysis, i.e. doubtful assets are not taken into account when predicting the cash inflows, and liabilities with an indefinite maturity are accounted at the nearest possible date of claim.
- *Structuring and diversification of liabilities and funding sources* is used to reduce the risk of early liabilities claim and is performed if possible, preventively – at the stage of signing of credit documentation. The main instrument used to reduce this risk is the exclusion of contractual terms that provide for the creditor's ability to claim a debt before the maturity. Diversification of liabilities allows to reduce the Bank's dependence arising when assets are funded by one type of liability, and it implies a balance between raising funds from corporate clients and credit organizations, between funding instruments (term deposits, interbank loans, credit institutions, bonds, syndicated and subordinated loans, etc.)
- *Method of establishing ratios* is used to prevent violations of mandatory standards established by the Bank of Russia (N2, N3 and N4), as well as internal restrictions on liquidity deficit/surplus. The liquidity deficit/surplus is a cumulative difference between the amount of assets and liabilities with the remaining contractual maturity up to the specified number of days inclusive. 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 № 395-P "On the methodology for determining the amount of equity (capital) of credit institutions (Basel III)". The effect on capital is calculated as 30/365 of the product of the weighted average interest rate for liabilities raised during the reporting month and the average liquidity excess. At the same time, the excess of liquidity is defined as the amounts on the correspondent accounts with the Bank of Russia and on accounts with credit institutions, regardless of their risk group, in amount exceeding 5% of the Bank's capital calculated in accordance with the Regulation.

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

  As at 1 January 2017 and 2016, 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 1 January 2017 and 2016:

	Requirement	**1 January 2017**	**1 January 2016**
Instant liquidity ratio (N2)	Not less than 15%	249.2%	361.9%
Current liquidity ratio (N3)	Not less than 50%	186.6%	178.1%
Long-term liquidity ratio (N4)	Not more than 120%	73.1%	78.1%

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

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

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

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

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

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

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

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

(expressed in thousands of Russian Roubles)

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 23.

The position as at 31 December 2016 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	756 306	–	–	–	756 306	756 306
Loans to banks	3 400 836	–	–	–	3 400 836	3 400 836
Loans to customers	6 125 042	8 707 950	13 705 331	31 989 240	60 527 563	47 945 612
Total financial assets	**10 282 184**	**8 707 950**	**13 705 331**	**31 989 240**	**64 684 705**	**52 102 754**
Financial liabilities						
Loans from banks	3 012 689	2 255 715	4 293 556	10 934 761	20 496 721	18 017 703
Other borrowings and customers' accounts	1 503 418	2 864 232	5 216 714	12 422 912	22 007 276	19 269 146
Bonds issued	–	161 692	161 692	3 485 075	3 808 459	3 094 886
Subordinated borrowings	–	29 696	88 601	1 539 815	1 658 112	1 414 393
Other liabilities	35 185	364	225 160	–	260 709	260 705
Total financial liabilities	**4 551 292**	**5 311 699**	**9 985 723**	**28 382 563**	**48 231 277**	**42 056 833**
Net position as at 31 December 2016	**5 730 892**	**3 396 251**	**3 719 608**	**3 606 677**	**16 453 428**	**10 045 921**
Credit related commitments	**332 976**	**–**	**–**	**–**	**332 976**	**332 976**

The position as at 31 December 2015 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	578 576	–	–	–	578 576	578 576
Loans to banks	2 450 446	–	–	–	2 450 446	2 450 446
Loans to customers	5 461 613	8 324 824	15 031 843	27 477 507	56 295 787	45 712 416
Total financial assets	**8 490 635**	**8 324 824**	**15 031 843**	**27 477 507**	**59 324 809**	**48 741 438**
Financial liabilities						
Loans from banks	3 288 036	5 346 373	2 851 598	9 994 756	21 480 763	19 064 511
Other borrowings and customers' accounts	840 241	1 189 916	7 758 598	11 267 189	21 055 944	18 538 871
Subordinated borrowings	–	29 492	88 928	1 658 112	1 776 532	1 414 354
Dividends payable	622 272	–	–	–	622 272	622 272
Other liabilities	23 302	6 925	157 370	–	187 597	187 597
Total financial liabilities	**4 773 851**	**6 572 706**	**10 856 494**	**22 920 057**	**45 123 108**	**39 827 605**
Net position as at 31 December 2015	**3 716 784**	**1 752 118**	**4 175 349**	**4 557 450**	**14 201 701**	**8 913 833**
Credit related commitments	**538 306**	**–**	**–**	**–**	**538 306**	

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

Credit risk

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

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

Credit risks management system is based on the following principles:

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

Basic actions for credit risk management:

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

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

In order to assess the risk and calculate the amount of regulatory capital to cover the default risk, the Bank uses a standardized credit risk assessment approach established by the Regulation of the Bank of Russia No. 139-I, as well as the Provisions of the Bank of Russia No. 254-P and 283-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. In the process of planning the allocation of capital to the areas of activity, the Bank's Management Board approves the restrictions on the use of available capital to cover the credit risk.

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

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

The general limits include regulatory credit limits based on the mandatory ratios N1, N6, N7, N9.1, N10.1, as well as the limits on major concentration of risk by geographic location of borrowers (individuals and legal entities).

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

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

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

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

As of 1 January 2017 and during 2016, the Bank did not violate the mandatory standards established by the Bank of Russia, which are aimed at limiting the amount of credit risk.

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

Concentration risk

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

The Bank determines the following forms of concentration risk:

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

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

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 components of a business risk:

- *Earnings risk* – the risk of losing the planned profit (part of profit) due to unforeseen changes in the general conditions of business and (or) the Bank's inability to adapt to such changing conditions. The main determinants of business risk are declining margins and (or) an increase in costs.
- *Reputational risk* – the risk of loss arising from the negative perception of the Bank by its members, counterparties, supervisors and other interested parties. The risk of loss of business reputation is critical for the Toyota brand, that is why the entire Bank's policy is aimed at minimizing the risk. If the Bank suffers from a reputational strike, the losses will firstly come out with a decrease in sales.

In order to prevent the occurrence of reputational risk, the Bank has developed a mechanism that provides a set of effective actions aimed at identifying, assessing, monitoring and minimizing reputational risks.

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

Particular attention is paid to ensuring compliance with the Russian legislation, including anti-money laundering and terrorism financing, compliance of the Bank's activities with the good business practices and the principles of professional ethics, and ensuring the stability of the financial position.

The Bank's collective bodies, authorized Committees, and the Financial Monitoring Department are responsible for organizing, monitoring and controlling how the reputational risk is managed.

(expressed in thousands of Russian Roubles)

22. Capital management

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

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

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

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

Any cases of capital adequacy ratios approaching the limits set by the Bank of Russia and internal policies are communicated to the Supervisory and Management boards. As at 1 January 2017 and 2016, the Bank complied with the statutory capital ratios.

The information on statutory capital and its adequacy as at 1 January 2017 and 2016 is as follows:

	1 January 2017	1 January 2016
Base capital	8 584 871	7 460 602
Additional capital	-	-
Main capital	**8 584 871**	**7 460 602**
Supplementary capital	1 459 532	1 960 765
Own funds (capital)	**10 044 403**	**9 421 367**
Risk-weighted assets used to determine adequacy of basic and main capital	**53 883 180**	**50 939 379**
Risk-weighted assets used to determine adequacy of own funds (capital)	**53 890 797**	**50 939 379**
Basic capital ratio (N1.1)	15.9%	14.6%
Main capital ratio (N1.2)	15.9%	14.6%
Own funds (capital) ratio (N1.0)	18.6%	18.5%

As at 31 December 2016, the minimum levels of N1.1, N1.2 and N1.0 ratios are 4.5%, 6.0% and 10.0%, accordingly (2015: 5.0%, 6.0% and 10.0%, accordingly).

23. Credit related commitments

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

As at 31 December 2016, the contractual amounts of unused loan commitments totals RUB 332 976 thousand (2015: RUB 538 306 thousand). These total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

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

(expressed in thousands of Russian Roubles)

24. Operating leases

The Bank doesn't have non-cancellable operating leases as lessee. Cancellable operating lease rentals as at 31 December 2016 and 2015 are payable as follows:

	2016	2015
Less than 1 year	161 804	164 891
Between 1 and 5 years	455 180	293 522
	616 984	**458 413**

25. Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank doesn't have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

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

Taxation contingencies

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

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

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

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

(expressed in thousands of Russian Roubles)

26. Related party transactions

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

Transactions with the members of the Supervisory and Management Boards. Total remuneration for 2016 and 2015 included in personnel expenses (note 8) is as follows:

	2016	2015
Wages and salaries	45 201	38 582
Bonuses	14 331	13 363
Apartment rent	2 585	2 535
Other	9 768	7 282
	71 885	**61 762**

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 2016 and related income and expenses for 2016 from transactions with other related parties are as follows:

	Parent company		Others		
	Carrying value	Average effective interest rate, %	Carrying value	Average effective interest rate, %	Total
Statement of financial position					
Other borrowings and customers' accounts					
- In Russian Roubles	-	-	18 196 452	9.80	**18 196 452**
- In USD	-	-	182 693	1.81	**182 693**
Subordinated borrowings in Russian Roubles	-	-	1 414 393	8.46	**1 414 393**
Other assets in Russian Roubles	-	-	5 401		**5 401**
Other liabilities					
- In Russian Roubles	-	-	1 282		**1 282**
- In USD	-	-	125		**125**
Statement of profit or loss and other comprehensive income					
Interest expense	-		(1 731 955)		**(1 731 955)**
Expenses on guarantee	-		(4 139)		**(4 139)**
Other income	-		336		**336**
Other general and administrative expenses	(23 360)		(29 993)		**(53 353)**

The outstanding balances and average effective interest rates as at 31 December 2015 and related income and expenses for 2015 from transactions with other related parties are as follows:

	Parent company		Others		
	Carrying value	Average effective interest rate, %	Carrying value	Average effective interest rate, %	Total
Statement of financial position					
Other borrowings and customers' accounts					
- In Russian Roubles	-	-	17 756 172	8.71	**17 756 172**
- In USD	-	-	219 517	1.81	**219 517**
Subordinated borrowings in Russian Roubles	-	-	1 414 354	8.46	**1 414 354**
Other assets in Russian Roubles	-	-	6 576		**6 576**
Other liabilities in USD	-	-	211		**211**
Statement of profit or loss and other comprehensive income					
Interest expense	(1 968)		(1 879 753)		**(1 881 721)**
Other income	-		1 130		**1 130**
Other general and administrative expenses	(15 413)		(33 824)		**(49 237)**

In 2015 the Bank declared dividends in the amount of RUB 1 244 544 thousand which were paid in 2016 and 2015 in equal shares of RUB 622 272 thousand. In 2016 the Bank did not declare any dividends.

(expressed in thousands of Russian Roubles)

27. Fair values of financial assets and liabilities

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

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

As at 31 December 2016 and 2015, the carrying amounts and fair values of financial assets and liabilities are as follows:

	2016		2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	756 306	756 306	578 576	578 576
Loans to banks	3 400 836	3 400 836	2 450 446	2 450 446
Loans to customers:				
Loans to auto dealers	10 436 407	10 322 291	9 071 387	8 899 971
Retail loans	37 509 205	37 503 480	36 641 029	36 167 182
	52 102 754	**51 982 913**	**48 741 438**	**48 096 175**
Loans from banks	18 017 703	17 851 796	19 064 511	19 262 770
Other borrowings and customers' accounts	19 269 146	19 195 300	18 538 871	17 989 599
Bonds issued	3 094 886	3 156 848	-	-
Subordinated borrowings	1 414 393	1 458 321	1 414 354	1 416 256
	41 796 128	**41 662 265**	**39 017 736**	**38 668 625**

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

- discount rates of 15.51% and 9.13% are used for discounting future cash flows in RUB and USD from retail loans to customers, which represent average interest rates for auto loans issued by the Bank in 2016 (2015: 16.14% and 9.07% accordingly, which represent average interest rates for auto loans issued by the Bank in 2015)
- discount rate of 12.74% (2015: 14.34%) is used for discounting future cash flows from loans to auto dealers, which is estimated with reference to Mosprime non-deliverable forwards rates for respective tenor and currencies plus adjustment for the Bank's interest margin of 2.6% (2015: 3%)
- discount rate for loans from banks, customers and subordinated borrowings is equal to Mosprime non-deliverable forwards rates for respective tenor and currencies.

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 and fair value of loans to auto dealers and subordinated borrowings is classified to the level 3 of fair value hierarchy.

(expressed in thousands of Russian Roubles)

28. Analysis by segment

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

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

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

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

Segment information for each reportable segment as at 31 December 2016 and for 2016 is set out below:

	Retail credit operations	Financing of auto dealers	Unallocated	Total
Segment financial result				
Interest income	5 252 789	1 421 644	-	6 674 433
Interest expense	(3 011 924)	(814 146)	-	(3 826 070)
Net interest income	**2 240 865**	**607 498**	**-**	**2 848 363**
Fee and commission income	372 114	38 480	-	410 594
Fee and commission expense	(332 464)	-	-	(332 464)
Net fee and commission income	**39 650**	**38 480**	**-**	**78 130**
Other operating income	96 559	1 603	13 322	111 484
Charge for impairment losses	(443 998)	205 367	-	(238 631)
Provision under buy-back program	6 561	-	-	6 561
Total segment result	**1 939 637**	**852 948**	**13 322**	**2 805 907**
Segment assets				
Cash and cash equivalents	589 849	166 457	-	756 306
Loans to banks	2 652 339	748 497	-	3 400 836
Loans to customers	37 509 205	10 436 407	-	47 945 612
Total assets	**40 751 393**	**11 351 361**	**-**	**52 102 754**
Segment liabilities				
Loans from banks	14 052 152	3 965 551	-	18 017 703
Other borrowings and customers' accounts	14 326 881	4 942 265	-	19 269 146
Bonds issued	2 413 727	681 159	-	3 094 886
Subordinated borrowings	1 103 096	311 297	-	1 414 393
Total liabilities	**31 895 856**	**9 900 272**	**-**	**41 796 128**

(expressed in thousands of Russian Roubles)

Segment information for each reportable segment as at 31 December 2015 and for 2015 is set out below:

	Retail credit operations	Financing of auto dealers	Unallocated	Total
Segment financial result				
Interest income	5 840 335	1 433 660	-	7 273 995
Interest expense	(3 029 658)	(782 025)	-	(3 811 683)
Net interest income	**2 810 677**	**651 635**	**-**	**3 462 312**
Fee and commission income	250 342	39 249	-	289 591
Fee and commission expense	(220 857)	-	-	(220 857)
Net fee and commission income	**29 485**	**39 249**	**-**	**68 734**
Other operating income	64 901	4 801	41 885	111 587
Charge for impairment losses	(277 330)	(523 565)	-	(800 895)
Provision under buy-back program	3 284	-	-	3 284
Total segment result	**2 631 017**	**172 120**	**41 885**	**2 845 022**
Segment assets				
Cash and cash equivalents	497 825	80 751	-	578 576
Loans to banks	2 108 443	342 003	-	2 450 446
Loans to customers	36 641 029	9 071 387	-	45 712 416
Total assets	**39 247 297**	**9 494 141**	**-**	**48 741 438**
Segment liabilities				
Loans from banks	16 403 721	2 660 790	-	19 064 511
Other borrowings and customers' accounts	15 591 420	2 947 451	-	18 538 871
Subordinated borrowings	1 124 178	290 176	-	1 414 354
Total liabilities	**33 119 319**	**5 898 417**	**-**	**39 017 736**

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

	2016	2015
Total segment result	**2 805 907**	**2 845 022**
Net foreign exchange income	(178)	2 203
Personnel expenses	(514 720)	(470 260)
Other general administrative expenses	(871 829)	(866 387)
Profit before income tax	**1 419 180**	**1 510 578**

Koloshenko A.V.
President

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Chief Accountant