AO Toyota Bank

Financial Statements

for 2015

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 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, 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 and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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.

Audited entity: AO Toyota Bank.

Registered by the Bank of Russia on 3 April 2007, Registration No. 3470.

Entered in the Unified State Register of Legal Entities on 3 April 2007 by Moscow Inter-Regional Tax Inspectorate No. 50 of the Ministry of Taxes and Duties of the Russian Federation, Registration No. 1077711000058, Certificate series 77 No. 008760429.

Address of the audited entity: 29, Serebryanicheskaya emb., floor 3, Moscow, Russian Federation, 109028.

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

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-Regulated Auditors' Organization "Chamber of Auditors of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organizations: No.10301000804.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

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 organising 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 2016 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 2016 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 2015, and its financial performance and its cash flows for 2015 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 2015, 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 2015, establishing the procedures and methodologies for identifying and managing the Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational 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 2015, the Bank maintained a system for reporting on the Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational 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 2015, which cover the Bank's credit, operational, market, interest rate, legal, liquidity and reputational 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 2015, 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 2015 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 16 March 2015 No. 44/15
JSC KPMG

26 April 2016
Moscow, Russian Federation

(expressed in thousands of Russian Roubles)

	Notes	2015	2014
Interest income	4	7 273 995	6 376 070
Interest expense	4	(3 811 683)	(3 319 605)
Net interest income		**3 462 312**	**3 056 465**
Fee and commission income	5	289 591	226 313
Fee and commission expense	5	(220 857)	(169 873)
Net fee and commission income		**68 734**	**56 440**
Net foreign exchange income	6	2 203	428
Other operating income	7	111 587	61 930
Operating income		**3 644 836**	**3 175 263**
Charge for impairment losses	13	(800 895)	(245 017)
Personnel expenses	8	(470 260)	(416 697)
Provision under buy-back program	19	3 284	29 391
Other general administrative expenses	9	(866 387)	(764 911)
Profit before income tax		**1 510 578**	**1 778 029**
Income tax expense	10	(305 755)	(395 013)
Profit and total comprehensive income for the year		**1 204 823**	**1 383 016**

The financial statements were approved by the Management Board on 26 April 2016.

Koloshenko A.V.
President

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

Zvereva E.V.
Deputy Chief Accountant

(expressed in thousands of Russian Roubles)

	Notes	2015	2014
ASSETS			
Cash and cash equivalents	11	578 576	170 683
Mandatory reserve deposit with the Bank of Russia	11	8 849	32 858
Loans to banks	12	2 450 446	7 821 729
Loans to customers	13	45 712 416	49 691 031
Property, equipment and intangible assets	14	191 609	208 118
Current tax asset		83 675	39 921
Other assets	15	159 699	201 530
Total assets		**49 185 270**	**58 165 870**
LIABILITIES			
Loans from banks	16	19 064 511	22 614 786
Other borrowings and customers' accounts	17	18 538 871	24 123 368
Subordinated borrowings	18	1 414 354	1 768 720
Deferred tax liability	10	106 947	117 671
Current tax liability		-	61 501
Dividends payable	20	622 272	-
Other liabilities	19	187 597	189 385
Total liabilities		**39 934 552**	**48 875 431**
EQUITY			
Share capital	20	5 440 000	5 440 000
Additional paid-in capital		1 343 400	1 343 400
Retained earnings		2 467 318	2 507 039
Total equity		**9 250 718**	**9 290 439**
Total liabilities and equity		**49 185 270**	**58 165 870**

Koloshenko A.V.
President

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

Zvereva E.V.
Deputy Chief Accountant

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

(expressed in thousands of Russian Roubles)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		7 327 991	6 185 124
Interest payments		(3 825 843)	(3 189 727)
Fee and commission receipts		288 083	190 965
Fee and commission payments		(240 419)	(114 448)
Net receipts from foreign exchange		(268)	1 098
Other operating income receipts		76 891	22 508
Personnel expenses		(473 082)	(417 598)
Other general administrative expenses		(679 774)	(692 329)
(Increase) decrease in operating assets			
Mandatory reserve deposit with the Bank of Russia		24 009	(21 699)
Loans to banks		5 350 000	(6 500 000)
Loans to customers		3 247 105	(455 718)
Other assets		(2 728)	(96 871)
Increase (decrease) in operating liabilities			
Loans from banks		(3 629 977)	1 227 816
Other borrowings and customers' accounts		(5 615 979)	2 615 245
Other liabilities		(6 916)	86 869
Net cash provided from (used in) operating activities before income tax paid		**1 839 093**	**(1 158 765)**
Income tax paid		(421 734)	(331 715)
Cash flows provided from (used in) operating activities		**1 417 359**	**(1 490 480)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(76 416)	(62 755)
Sales of property, equipment and intangible assets		36 339	1 177
Cash flows used in investing activities		**(40 077)**	**(61 578)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	20	(622 272)	–
Repayment of subordinated borrowing		(350 000)	–
Cash flows used in financing activities		**(972 272)**	–
Net increase (decrease) in cash and cash equivalents		**405 010**	**(1 552 058)**
Effect of changes in exchange rates on cash and cash equivalents		2 883	314 440
Cash and cash equivalents as at the beginning of the year		170 683	1 408 301
Cash and cash equivalents as at the end of the year	11	**578 576**	**170 683**

Koloshenko A.V.
President

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FINANCIAL SERVICES TOYOTA
«Тойота Банк»
AO Toyota Bank

Zvereva E.V.
Deputy Chief Accountant

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

(expressed in thousands of Russian Roubles)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
Balance as at 1 January 2014	**5 440 000**	**1 343 400**	**1 124 023**	**7 907 423**
Total comprehensive income				
Profit for the year	-	-	1 383 016	1 383 016
Balance as at 31 December 2014	**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**

Koloshenko A.V.
President

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

Zvereva E.V.
Deputy Chief Accountant

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

1 Background

Organization and operations

AO Toyota Bank (the Bank) was established 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 principal activities of the Bank are lending, customers' accounts maintenance and interbank operations. 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 average number of people employed by the Bank during 2015 was 156 (2014: 150).

The Bank's registered address is 29, Serebryanicheskaya nab., floor 3, 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 2015 and 2014, 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 Russian Federation displays characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

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

2 Basis of preparation

(a) Statement of compliance

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

(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. Amortized cost is calculated using the effective interest method.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is 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 and discounts, including initial 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 maximise the use of relevant observable inputs and minimise 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.

(d) 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

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(expressed in thousands of Russian Roubles)

(k) 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 2015, 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*, published in July 2014, replaces the existing guidance in International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. The Bank recognizes that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Bank has not analyzed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016. The Bank has not yet analyzed the likely impact of the improvements on its financial position or performance.

4 Interest income and expense

	2015	2014
Interest income		
Loans to customers	6 710 915	6 267 436
Loans to banks	563 080	108 634
Total interest income	**7 273 995**	**6 376 070**
Interest expense		
Other borrowings and customers' accounts	(1 732 480)	(1 638 712)
Loans from banks	(1 931 930)	(1 528 833)
Subordinated borrowings	(147 273)	(152 060)
Total interest expense	**(3 811 683)**	**(3 319 605)**
Net interest income	**3 462 312**	**3 056 465**

5 Fee and commission income and expense

	2015	2014
Fee and commission income		
Insurance agent services	249 570	178 695
Credit line issuance	36 536	44 415
Other	3 485	3 203
Total fee and commission income	**289 591**	**226 313**
Fee and commission expense		
External promotion services for insurance products	(154 587)	(107 711)
Settlement	(60 782)	(60 398)
Other	(5 488)	(1 764)
Total fee and commission expense	**(220 857)**	**(169 873)**
Net fee and commission income	**68 734**	**56 440**

(expressed in thousands of Russian Roubles)

6 Net foreign exchange income

	2015	2014
(Loss) gain on spot transactions	(268)	1 092
Income (loss) from revaluation of financial assets and liabilities	2 471	(664)
Net foreign exchange income	**2 203**	**428**

7 Other operating income

	2015	2014
Penalties on loans issued	45 632	18 650
Gain on sale of property and equipment and goods for sale	35 309	-
Recovery of retail loans previously written off	24 070	39 313
Sublease of property	1 086	665
Other income	5 490	3 302
Total other operating income	**111 587**	**61 930**

8 Personnel expenses

	2015	2014
Employee compensation	395 915	360 394
Payroll related taxes	74 345	56 303
Total personnel expenses	**470 260**	**416 697**

9 Other general administrative expenses

	2015	2014
Services of staffing companies	194 353	191 378
Operating lease	184 115	132 185
Communications and information services	172 525	181 644
Depreciation and amortization (note 14)	91 277	80 786
Collection and servicing of loans	73 779	20 221
Advertising and marketing	35 198	43 128
Repairs and maintenance	16 650	18 722
Consulting and information services	16 001	20 248
Travel	10 804	11 936
Professional services	8 300	8 055
Office supplies	6 009	4 327
Insurance	5 818	5 564
Security	2 771	2 594
Taxes other than income tax	1 524	1 958
Other	47 263	42 165
Total other general administrative expenses	**866 387**	**764 911**

(expressed in thousands of Russian Roubles)

10 Income tax expense

	2015	2014
Current year tax expense	316 479	356 330
Deferred taxation movement due to origination and reversal of temporary differences	(10 724)	38 683
Total income tax expense	**305 755**	**395 013**

The applicable tax rate for current and deferred tax in 2015 and 2014 is 20%.

As at 31 December 2015, current tax asset amounts to RUB 83 675 thousand (2014: 39 921 thousand), the Bank has no current tax liabilities (2014: a liability of RUB 61 501 was settled by the Bank in 2015).

Reconciliation of effective tax rate

	2015	%	2014	%
Profit before income tax	1 510 578		1 778 029	
Income tax expense at the applicable tax rate	302 116	20.00	355 606	20.00
Non-deductible costs	3 639	0.24	39 407	2.22
Total income tax expense	**305 755**	**20.24**	**395 013**	**22.22**

Deferred tax asset and liability

As at 31 December 2015 and 2014, 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 2015 and 2014 are presented as follows.

	1 January 2014	Recognized in profit or loss	31 December 2014	Recognized in profit or loss	31 December 2015
Loans to banks	-	(949)	(949)	841	(108)
Loans to customers	(98 136)	(28 648)	(126 784)	4 938	(121 846)
Property, equipment and intangible assets	5 412	(9 765)	(4 353)	3 881	(472)
Other assets	686	(3 309)	(2 623)	4 611	1 988
Other liabilities	13 050	3 988	17 038	(3 547)	13 491
Net deferred tax liability	**(78 988)**	**(38 683)**	**(117 671)**	**10 724**	**(106 947)**

(expressed in thousands of Russian Roubles)

11 Cash and cash equivalents

	2015	2014
Nostro accounts with the Bank of Russia	470 667	72 893
Nostro accounts with other banks		
- rated AA- to AA+	4 617	-
- rated A- to A+	79 103	57 683
- rated BBB	6 367	13 000
- rated BB- to BB+	2 433	1 825
- rated below B+	10 370	24 743
- not rated	5 019	539
Total nostro accounts with other banks	**107 909**	**97 790**
Total cash and cash equivalents	**578 576**	**170 683**

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 2015, there are two banks (2014: three banks), whose balances individually exceed 10% of total cash and cash equivalents. The gross value of these balances is RUB 549 770 thousand or 95% of total cash and cash equivalents (2014: RUB 154 108 thousand or 90%).

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 2015, mandatory reserve deposit with the Bank of Russia is RUB 8 849 thousand (2014: RUB 32 858 thousand).

12 Loans to banks

	2015	2014
- rated BBB	–	3 565 299
- rated BB- to BB+	500 000	1 756 430
- rated below B+	–	–
- not rated	1 950 446	2 500 000
Total loans to banks	**2 450 446**	**7 821 729**

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 2015 and 2014, there are no any past due or impaired loans to banks.

As at 31 December 2015, there are three banks (2014: two 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 (2014: RUB 5 665 359 thousand or 72%).

(expressed in thousands of Russian Roubles)

13 Loans to customers

	2015	2014
Loans to auto dealers	9 669 386	3 958 281
Retail loans		
Auto loans	37 456 767	46 548 973
Mortgage loans	3 586	4 992
Total retail loans	**37 460 353**	**46 553 965**
Gross loans to customers	**47 129 739**	**50 512 246**
Impairment allowance	(1 417 323)	(821 215)
Net loans to customers	**45 712 416**	**49 691 031**

Movements in the impairment allowance for loans during 2015 and 2014 are as follows:

	Loans to auto dealers	Retail loans	Total
Balance as at 1 January 2014	221 718	432 769	654 487
Net (recovery) charge for the year	(147 284)	392 301	245 017
Write-offs	–	(78 289)	(78 289)
Balance as at 31 December 2014	**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**

Credit quality of loans to customers

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)

The table below provides information on the credit quality of the loans to customers as at 31 December 2014:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans to auto dealers				
Not overdue loans without individual signs of impairment	3 958 281	(74 434)	3 883 847	1.88
Total loans to auto dealers	**3 958 281**	**(74 434)**	**3 883 847**	**1.88**
Retail loans				
Auto loans				
- not overdue	45 038 643	(236 070)	44 802 573	0.52
- overdue less than 30 days	622 178	(26 527)	595 651	4.26
- overdue 30-59 days	126 226	(23 163)	103 063	18.35
- overdue 60-89 days	73 827	(19 178)	54 649	25.98
- overdue 90-179 days	181 264	(84 111)	97 153	46.40
- overdue more than 180 days	506 835	(357 732)	149 103	70.58
Total auto loans	**46 548 973**	**(746 781)**	**45 802 192**	**1.60**
Mortgage loans				
Not overdue mortgage loans	4 992	-	4 992	0.00
Total retail loans	**46 553 965**	**(746 781)**	**45 807 184**	**1.60**
Total loans to customers	**50 512 246**	**(821 215)**	**49 691 031**	**1.63**

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 2015 would be RUB 90 714 thousand lower/higher (2014: RUB 38 838 thousand lower/higher).

(expressed in thousands of Russian Roubles)

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 2015 would be RUB 366 410 thousand higher (2014: RUB 458 072 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 2015 and 2014:

	2015	**% of loans to auto dealers**	**2014**	**% of loans to auto dealers**
Motor vehicles	7 535 981	83.07	2 028 100	52.22
Real estate	1 535 406	16.93	1 855 747	47.78
	9 071 387	**100.00**	**3 883 847**	**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 2015, the Bank identified signs of impairment for loans issued to one auto dealer (2014: none of the loans to auto dealers are impaired or overdue).

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 2015 the Bank took possession of collateral for loans to individuals with a net carrying amount of RUB 5 799 thousand (2014: 3 628 thousand). As at 31 December 2015, the carrying amount of repossessed collateral amounts to RUB 6 576 thousand (2014: 4 433 thousand).

Significant credit exposures

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

As at 31 December 2015 and 2014, 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.

(expressed in thousands of Russian Roubles)

14 Property, equipment and intangible assets

The following table provides information on property, equipment and intangible assets as at 31 December 2015 and 2014:

	Equipment	Fixtures and fittings	Motor vehicles	Software licenses	Leasehold improvements	Total
Cost						
Balance at 1 January 2014	204 146	106 591	36 232	184 881	25 939	557 789
Additions	18 770	–	5 828	38 157	–	62 755
Disposals	(1 030)	(515)	(2 262)	(651)	–	(4 458)
Balance at 31 December 2014	**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**
Depreciation and amortization						
Balance at 1 January 2014	152 512	49 297	15 028	111 618	1 738	330 193
Depreciation and amortization charge	26 581	6 296	11 090	27 451	9 368	80 786
Disposals	(33)	(515)	(1 812)	(651)	–	(3 011)
Balance at 31 December 2014	**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**
Carrying value:						
As at 31 December 2014	42 826	50 998	15 492	83 969	14 833	208 118
As at 31 December 2015	20 289	44 985	15 226	105 644	5 465	191 609

15 Other assets

	2015	2014
Settlements with suppliers	106 607	142 097
Guarantee deposit	32 486	40 447
Prepayments	8 083	14 720
Other	12 523	4 266
Total other assets	**159 699**	**201 530**

As at 31 December 2015 and 2014, the Bank doesn't have overdue and/or impaired other assets.

16 Loans from banks

As at 31 December 2015, loans from banks amount to RUB 19 064 511 thousand. Loans from four banks exceed individually 10% of total loans from banks and amount to RUB 12 653 415 thousand or 66% of total loans from banks.

As at 31 December 2014, loans from banks amount to RUB 22 614 786 thousand. Loans from three banks exceed individually 10% of total loans from banks and amount to RUB 17 775 342 thousand or 79% of total loans from banks.

(expressed in thousands of Russian Roubles)

17 Other borrowings and customers' accounts

	2015	**2014**
Borrowings from Toyota Motor Finance (Netherlands) B. V.	17 975 689	23 888 226
Settlement accounts of auto dealers	438 625	218 758
Current accounts of individuals	124 557	16 384
	18 538 871	**24 123 368**

18 Subordinated borrowings

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 2015 the Bank did not obtain new subordinated borrowings and repaid a subordinated borrowing of RUB 350 000 thousand. In 2014 the Bank did not obtain new subordinated borrowings and no repayments of principle were made.

19 Other liabilities

	2015	**2014**
Settlements with suppliers	153 108	143 566
Provision for unused vacations	15 782	15 333
Liability on bonus to employees	9 351	12 810
Liability under buy-back program	6 925	10 209
Professional services fees	897	5 900
Rosbank guarantee fee accrual	1 534	1 567
Total other liabilities	**187 597**	**189 385**

The Bank offers a buy-back guarantee under certain retail loan products. As at 31 December 2015, the carrying amount recognized in loans to customers of such loans totals RUB 1 174 672 thousand (2014: 1 680 155 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 guarantees dealer to compensate for the difference between market price and pre-agreed residual amount in case the market price is lower. As at 31 December 2015, the Bank estimated its future liability under these loans of RUB 6 925 thousand (2014: 10 209 thousand).

20 Share capital

As at 31 December 2015 and 2014, 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.

On 30 September 2015, the Extraordinary General meeting of shareholders made a decision to distribute RUB 622 272 thousand as dividends from the retained earnings of prior years. The dividends were paid in October 2015.

On 30 December 2015, the Extraordinary General meeting of shareholders made a decision to distribute RUB 622 272 thousand as dividends from the retained earnings of prior years. As at 1 January 2016, the amount of unpaid declared dividends is recorded as "Dividends payable". The dividends were paid in January 2016.

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. The Bank 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 2015, the members of the Supervisory Board are:

- Hironobu Obata – Chairman of the Supervisory Board
- Christian Ties Ruben
- Yoichi Tomihara
- Hidenori Ozaki
- Ivo Josko Ljubica

In October 2015, the authorities of Hironobu Obata, Yoichi Tomihara, Hidenori Ozaki, Miguel Fonseca and Hitoshi Watanabe as members of the Supervisory Board were early terminated, and Hironobu Obata, Christian Ties Ruben, Yoichi Tomihara, Hidenori Ozaki, Ivo Josko Ljubica were appointed as a new members of the Supervisory Board. In October 2015, Hironobu Obata was appointed as the Chairman of the Supervisory Board.

The Supervisory Board exclusively approved the following matters:

- setting priority directions of the Bank's activities
- convening annual and extraordinary General meetings of shareholders, except as required by law
- approval of agenda for General meetings of shareholders and decisions on other organizational matters related to General meetings of shareholders, as required by law and Bank's Charter
- decisions on issue of bonds and other securities by the 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 2015 and 2014, the Management Board includes:

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

In 2015 and 2014, 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
- the President and the Management Board
- the Controller
- the Chief Accountant and the deputy Chief accountant
- divisions, functions and employees 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
  - the Compliance officer
  - the Financial monitoring function
  - the Risk Management
  - other employees/divisions with control responsibilities.

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 2015 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, compliance and risk management services 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.

Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Bank to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered by the Bank and emerging best practice.

The Supervisory Board has overall responsibility for the oversight of the risk management framework and the management of principal risks and reviewing risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Bank operates within the established risk limits. The heads of risk management functions are responsible for the overall risk management and control over consistent application of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of Credit Policy and Risk Management Department reports directly to the President of the Bank. The risk management and control functions are not subordinate to, and do not report to, divisions accepting relevant risks.

As at 31 December 2015, the Supervisory Board and executive bodies 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. To monitor effectiveness of the Bank’s risk management procedures and their consistent application the Supervisory Board and executive bodies of the Bank in 2015 regularly discussed reports prepared by the risk management functions and Internal audit service, and considered proposed corrective actions.

The Bank’s internal documentation, effective as at 31 December 2015, establishing the procedures and methodologies for identifying and managing the Bank’s significant credit, operational, market, interest rate, legal, liquidity and reputational 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.

Credit, market, liquidity and operational risks both at the portfolio and transactional levels are managed and controlled through a Credit Committee, an Asset & Liabilities Committee (an ALCO), a Risk and Compliance Committee and the Management Board of the Bank.

Both external and internal risk factors are identified and managed throughout the Bank’s organizational structure. Apart from the standard credit and market risk analysis the Credit Policy and Risk Management monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

As at 31 December 2015, the Bank maintained a system for reporting on the Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Bank's capital. During 2015 the frequency and consistency of reports prepared by the Bank's risk management function, which cover the Bank's credit, operational, market, interest rate, legal, liquidity and reputational risk management, were in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management function as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the Bank of Russia. As at 31 December 2015 and 2014, the mandatory ratios were in compliance with limits set by the Bank of Russia.

Market risk

Market risk is the risk that movements in market prices including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and exchange rates.

The objective of the market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return on risk.

Market risk limits and interest rates offered to be paid by the borrowers (legal entities) for the loan are approved by the ALCO.

The Bank operates with very narrow range of financial instruments. The Bank does not deal with securities. Any foreign currency exposure other than equity investment should be fully hedged back to the local currency.

In addition the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include risk factor stress testing, where stress movements are applied to each risk category, and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

The Bank also utilizes Value-at-Risk (VAR) methodology to monitor interest rate and currency risk. The Bank is not exposed to price risk, as it does not deal with securities.

(expressed in thousands of Russian Roubles)

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Bank's income or the value of its portfolios of financial instruments.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2015 and 2014. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2015 Average effective interest rate, %			**2014 Average effective interest rate, %**		
	RUB	**USD**	**EUR**	**RUB**	**USD**	**EUR**
Interest bearing assets						
Nostro accounts with banks	0.01	0.01	0.00	0.26	–	0.58
Loans to banks	9.24	–	–	17.83	–	–
Loans to customers	14.53	7.27	–	13.17	7.49	–
Interest bearing liabilities						
Loans from banks	11.21	1.55	–	10.09	1.72	–
Other borrowings and customers' accounts	8.71	1.81	–	7.55	1.52	–
Subordinated borrowings	8.46	–	–	8.69	–	–

Interest gap analysis is supplemented by the monitoring of the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2015 and 2014 is as follows:

	2015	**2014**
300 bp parallel fall	(168 942)	(151 973)
300 parallel rise	168 942	151 973

Due to the fact that substantially all the financial instruments are fixed rated contracts, these undiscounted cash flows maturity dates, included in liquidity risk analysis further in note 21, also represent the contractual interest rate repricing dates.

(expressed in thousands of Russian Roubles)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank has assets and liabilities denominated in several foreign currencies. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

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 following table shows the currency structure of assets and liabilities as at 31 December 2014:

	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	107 590	61 800	1 293	-	170 683
Mandatory reserve deposit with the Bank of Russia	32 858	-	-	-	32 858
Loans to banks	7 821 729	-	-	-	7 821 729
Loans to customers	49 065 248	625 783	-	-	49 691 031
Property, equipment and intangible assets	208 118	-	-	-	208 118
Current tax asset	39 921	-	-	-	39 921
Other assets	199 505	245	-	1 780	201 530
Total assets	**57 474 969**	**687 828**	**1 293**	**1 780**	**58 165 870**
LIABILITIES					
Loans from banks	22 247 595	367 191	-	-	22 614 786
Other borrowings and customers' accounts	23 784 738	338 630	-	-	24 123 368
Subordinated borrowings	1 768 720	-	-	-	1 768 720
Deferred tax liability	117 671	-	-	-	117 671
Current tax liability	61 501	-	-	-	61 501
Other liabilities	189 361	-	24	-	189 385
Total liabilities	**48 169 586**	**705 821**	**24**	**-**	**48 875 431**
Net position	**9 305 383**	**(17 993)**	**1 269**	**1 780**	**9 290 439**

An analysis of profit and equity (net of taxes) sensitivity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2015 and 2014 and a simplified scenario of a 30% change in exchange rates of major currencies is as follows:

	2015		**2014**	
	Change in exchange rate	**Net effect on profit and equity**	**Change in exchange rate**	**Net effect on profit and equity**
Appreciation of USD against RUB	30%	(5 748)	30%	(4 318)
Appreciation of EUR against RUB	30%	799	30%	305

A strengthening 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 remained constant.

(expressed in thousands of Russian Roubles)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Bank does not bear any other price risk as it operates with very narrow range of financial instruments and does not make any operations with securities.

Value at Risk (VAR) estimates

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model used by the Bank is based upon a 99 percent confidence level and assumes a 10-day holding period. 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.

The time horizon is measured by the number of working days. In order to calculate foreign exchange VAR the Bank uses time horizon of 250 working days.

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
- 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 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 position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

A summary of the VAR estimates in respect of all financial assets as at 31 December 2015 and 2014 is as follows:

	2015	2014
Foreign exchange risk	904	57
Interest rate risk	99 190	270 921

The above figures represent the maximum risk exposure of the Bank during the 10 days period after the reporting date, assessed based on a required probability of 99%. The negative amount means that the Bank will not incur any losses at a required 99% probability.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Supervisory Board.

The Credit policy and other internal documents of the Bank establish:

- procedures for review and approval of loan applications
- methodology for credit assessment of borrowers (corporate and retail)
- methodology for credit assessment of counterparties, issuers and insurance companies
- methodology for evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan applications are originated by the relevant client managers and are then passed on to the analyst of the Wholesale Department. This department is responsible for the corporate loan portfolio. Analyst's reports are based on a structured analysis focusing on the customer's business and financial performance. The Credit Policy and Risk Management Department performs an independent review of the loan application and the report, including a verification that credit policy requirements are met, and issues an opinion and recommendations. The Credit Committee reviews the loan application on the basis of submissions by the Wholesale Department and the Credit Policy and Risk Management. Individual transactions are also reviewed by the Legal Department and Economical Security Division depending on the specific risks and before the approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

Retail loan applications are reviewed by the Division for Review of Credit Applications of Individuals through the use of scoring models and application data verification procedures developed by the Credit Policy and Risk Management Department.

Apart from individual customer analysis, the loan portfolio is assessed by the Credit Policy and Risk Management with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk from unused loan commitments at the reporting date is presented in note 23.

In accordance with the requirements of the Bank of Russia, daily the Bank calculates mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates (mitigates) the Bank's credit risk in respect of a borrower or a group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2015 and 2014, the maximum level of N6 ratio set by the Bank of Russia was 25%. The N6 ratio calculated by the Bank as at 31 December 2015 was 19.7% (2014: 9.8%) and was in compliance with limits set by the Bank of Russia.

(expressed in thousands of Russian Roubles)

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its financial commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Supervisory Board.

The Bank seeks to actively support a diversified and stable funding base comprising loans from banks and corporate customers, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Bank of Russia. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

The Bank was in compliance with these ratios as at 1 January 2016 and 2015. The following table shows the mandatory liquidity ratios calculated as at 1 January 2016 and 2015.

	Requirement	**1 January 2016**	**1 January 2015**
Instant liquidity ratio (N2)	Not less than 15%	361.9%	1 108.5%
Current liquidity ratio (N3)	Not less than 50%	178.1%	442.1%
Long-term liquidity ratio (N4)	Not more than 120%	78.1%	97.8%

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

(expressed in thousands of Russian Roubles)

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

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.

	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**	**538 306**

The position as at 31 December 2014 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	170 683	-	-	-	170 683	170 683
Loans to banks	7 821 729	-	-	-	7 821 729	7 821 729
Loans to customers	3 349 866	4 871 463	16 569 291	36 374 833	61 165 453	49 691 031
Total financial assets	**11 342 278**	**4 871 463**	**16 569 291**	**36 374 833**	**69 157 865**	**57 683 443**
Financial liabilities						
Loans from banks	2 230 463	3 661 386	10 649 852	7 862 312	24 404 013	22 614 786
Other borrowings and customers' accounts	755 647	1 829 479	9 370 903	14 848 510	26 804 539	24 123 368
Subordinated borrowings	-	37 661	463 702	1 776 533	2 277 896	1 768 720
Total financial liabilities	**2 986 110**	**5 528 526**	**20 484 457**	**24 487 355**	**53 486 448**	**48 506 874**
Net position as at 31 December 2015	**8 356 168**	**(657 063)**	**(3 915 166)**	**11 887 478**	**15 671 417**	**9 176 569**
Credit related commitments	**825 665**	**-**	**-**	**-**	**825 665**	**825 665**

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

(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 Organisations (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 31 December 2015 and 2014, the Bank complied with the statutory capital ratios.

The information on statutory capital and its adequacy as at 1 January 2016 and 2015 is as follows:

	1 January 2016	**1 January 2015**
Base capital	7 460 602	7 444 843
Additional capital	-	-
Main capital	**7 460 602**	**7 444 843**
Supplementary capital	1 960 765	2 257 698
Own funds (capital)	**9 421 367**	**9 702 541**
Risk-weighted assets	**50 939 379**	**55 024 733**
Basic capital ratio (N1.1)	14.7%	13.5%
Main capital ratio (N1.2)	14.7%	13.5%
Own funds (capital) ratio (N1.0)	18.5%	17.6%

As at 31 December 2014, the minimum levels of basic capital ratio (ratio N1.1), main capital ratio (ratio N1.2), own funds (capital) ratio (ratio N1.0) are 5.0%, 5.5% and 10.0%, accordingly. Since 1 January 2015 the minimum level of ratio N1.2 is 6.0%.

23 Credit related commitments

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

As at 31 December 2015, the contractual amounts of unused loan commitments totals RUB 538 306 thousand (2014: RUB 825 665 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 2015 and 2014 are payable as follows:

	2015	2014
Less than 1 year	164 891	199 834
Between 1 and 5 years	293 522	570 761
	458 413	**770 595**

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.

(expressed in thousands of Russian Roubles)

Starting from 1 January 2012 new transfer pricing rules came into force in the Russian Federation. These 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 the provisions of transfer pricing rules, 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.

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 included in personnel expenses (note 8) for 2015 and 2014 is as follows:

	2015	**2014**
Wages and salaries	38 582	30 607
Bonuses	13 363	8 625
Apartment rent	2 535	2 485
Other	7 282	3 457
	61 762	**45 174**

(expressed in thousands of Russian Roubles)

Transactions with other related parties

Other related parties comprise the parent company and its affiliates and subsidiaries of the parent company.

The outstanding balances and the related average effective interest rates as at 31 December 2015 and related profit or loss amounts for 2015 in relation to 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)**

The outstanding balances and the related average effective interest rates as at 31 December 2014 and related profit or loss amounts for 2014 in relation to 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					
Loans from banks - In Russian Roubles	201 804	7.38	-	-	**201 804**
Other borrowings and customers' accounts					
- In Russian Roubles	-	-	23 594 885	7.55	**23 594 885**
- In USD	-	-	338 629	1.52	**338 629**
Subordinated borrowings - In Russian Roubles	-	-	1 768 720	8.69	**1 768 720**
Other assets - In Russian Roubles	-	-	11 545	-	**11 545**
Other liabilities – In USD	-	-	248	-	**248**
Statement of profit or loss and other comprehensive income					
Interest expense	(34 870)		(1 718 989)		**(1 753 859)**
Other income	-		700		**700**
Other general and administrative expenses	(19 441)		(32 907)		**(52 348)**

In 2015 and 2014, the Bank entered into transactions with the related parties on arm's length terms.

(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 2015 and 2014, the carrying amounts and fair values of financial assets and liabilities are as follows:

	2015		2014	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	578 576	578 576	170 683	170 683
Loans to banks	2 450 446	2 450 446	7 821 729	7 821 729
Loans to customers:				
Loans to auto dealers	9 071 387	8 899 971	3 883 847	3 606 846
Retail loans	36 641 029	36 167 182	45 807 184	42 317 193
	48 741 438	**48 096 175**	**57 683 443**	**53 916 451**
Loans from banks	19 064 511	19 262 770	22 614 786	21 828 251
Other borrowings and customers' accounts	18 538 871	17 989 599	24 123 368	22 693 153
Subordinated borrowings	1 414 354	1 416 256	1 768 720	1 626 196
	39 017 736	**38 668 625**	**48 506 874**	**46 147 600**

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

- discount rates of 16.14% and 9.07% 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 2015 (2014: 21.2% and 9.1% accordingly, which represent average interest rates for auto loans issued by the Bank in 2014)
- discount rate of 14.34% (2014: 22.9%) 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 3.0% (2014: 4.6%)
- 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.

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.

Analysis by segment is prepared on the basis, that all income and expenses, except for interest expenses, as well as loans to customers and customers' settlement accounts are directly allocated to the specific segment. Interest expenses and remainder assets and liabilities are allocated on the basis of average carrying amount of loans to customers, net of impairment allowance. Equity components are not included in the analysis by segment.

(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**

Segment information for each reportable segment as at 31 December 2014 and for 2014 is set out below:

	Retail credit operations	Financing of auto dealers	Unallocated	Total
Segment financial result				
Interest income	5 724 889	651 181	-	6 376 070
Interest expense	(3 059 471)	(260 134)	-	(3 319 605)
Net interest income	**2 665 418**	**391 047**	**-**	**3 056 465**
Fee and commission income	178 704	47 609	-	226 313
Fee and commission expense	(169 873)	-	-	(169 873)
Net fee and commission income	**8 831**	**47 609**	**-**	**56 440**
Other operating income	53 801	4 027	4 102	61 930
Charge for impairment losses	(392 301)	147 284	-	(245 017)
Provision under buy-back program	29 391	-	-	29 391
Total segment result	**2 365 140**	**589 967**	**4 102**	**2 959 209**
Segment assets				
Cash and cash equivalents	152 992	17 691	-	170 683
Loans to banks	7 011 035	810 694	-	7 821 729
Loans to customers	45 807 184	3 883 847	-	49 691 031
Total assets	**52 971 211**	**4 712 232**	**-**	**57 683 443**
Segment liabilities				
Loans from banks	20 270 845	2 343 941	-	22 614 786
Other borrowings and customers' accounts	21 428 681	2 694 687	-	24 123 368
Subordinated borrowings	1 630 118	138 602	-	1 768 720
Total liabilities	**43 329 644**	**5 177 230**	**-**	**48 506 874**

(expressed in thousands of Russian Roubles)

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

	2015	2014
Total segment result	**2 845 022**	**2 959 209**
Net foreign exchange income	2 203	428
Personnel expenses	(470 260)	(416 697)
Other general administrative expenses	(866 387)	(764 911)
Profit before income tax	**1 510 578**	**1 778 029**

29 Subsequent events

On 10 March 2016 the Bank issued coupon certificated pay-to-bearer bonds for the total amount of RUB 3 000 000 thousand and maturity in 13 March 2019 with early put option available on 12 March 2018. The first four coupon payments under these bonds are set at the rate of 10.75% per annum (coupon rates for 5th and 6th coupon payments will be set by the issuer). The issue is rated “A-” by Fitch Ratings.

Koloshenko A.V.
President

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