Translation from the Russian original

AO Toyota Bank and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2020
and Independent Auditor's Report

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Translation from the Russian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AO Toyota Bank

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements AO Toyota Bank (the Bank) (OGRN 1077711000058, Build. 1, 2B Otradnaya Str., Moscow, 127273) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements for the year ended 31 December 2020, which comprise a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Estimation of Expected Credit Losses on Loans Issued clients

Due to the significant volume of loans to clients, as well as the complexity and the need to apply judgments by the Group's management, including those related to changes in the economic environment caused by the COVID-19 pandemic, in relation to the assessment of expected credit losses in accordance with the requirements of the IFRS 9 “Financial instruments” (IFRS 9) this issue is a key audit matter.

With respect to this key audit matter, we performed the following procedures:

- we analysed the main aspects of the Group’s methodology and policies related to expected credit losses on loans issued to clients for compliance with the IFRS 9;
- we analysed the Group's approaches to assessing forecast information and macroeconomic indicators, as well as the assumptions underlying the calculation of the estimated provision for expected credit losses on loans to clients;
- we tested, on a sample basis, for loans to clients, the correctness of the rating assignment to borrowers (including taking into account the possible impact of the COVID-19 pandemic) and verified the initial data for the purpose of calculating the provision for expected credit losses, as well as the correctness of the assignment of loans at the appropriate stages;
- we assessed the overall predictive ability of the models used by the Group to calculate the provision for expected credit losses by evaluating the results of the validation reports;
- we checked the completeness and correctness of disclosures in the explanatory information to the consolidated financial statements.

Information on provision for expected credit losses for loans to clients and the Group's approach to the assessment and management of credit risk is disclosed in the notes 2 “Significant accounting policies”, 3 “Credit risk analysis”, 13 “Loans to customers” and 22 “Risk management, corporate governance and internal control” to the consolidated financial statements for the year ended 31 December 2020.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 14 May 2020.

Other Information

President of Bank (management) is responsible for the other information. The other information comprises the Issuer Report for the first quarter of 2021, but does not include the consolidated financial statements and our auditor’s report thereon. The Issuer Report for the first quarter of 2021 is expected to be made available to us after the date of this auditors’ report.

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

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

When we read the Issuer Report for the first quarter of 2021, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report in compliance with requirements of Article 42 of Federal Law No. 395-1 of 2 December 1990 "On Banks and Banking Activity"

Management of the Bank is responsible for the Group's compliance with the mandatory ratios set by the Central Bank of the Russian Federation (the Bank of Russia) and for compliance of the Group's internal control and organisation of its risk management systems with the requirements established by the Bank of Russia in respect of these systems.

In accordance with Article 42 of Federal Law No. 395-1 of 2 December 1990 "On Banks and Banking Activity", we have examined the following in the course of the audit of the Bank's financial statements for the year 2020:

- the Group's compliance as at 1 January 2021 with the mandatory ratios set by the Bank of Russia; and
- compliance of the Group's internal control and organisation of its risk management systems with the requirements established by the Bank of Russia for these systems.

The examination was limited to procedures selected on the basis of our judgment, such as inquiries, analysis, examination of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, as well as recalculation and comparison of amounts and other information.

We report the following based on our examination:

1. Regarding the Group's compliance with the mandatory ratios established by the Bank of Russia:

   - as at 1 January 2021, the Group's mandatory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

   We have not performed any procedures with respect to the Group's accounting data, except for the procedures we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs.

2. Regarding compliance of the Group's internal control and organisation of its risk management systems with requirements established by the Bank of Russia in respect of such systems:

   a) in accordance with the requirements and recommendations issued by the Bank of Russia as at 31 December 2020, the Bank's Internal Audit Department was subordinated and accountable to Bank's Supervisory Board, and the Bank's risk management divisions were not subordinated and accountable to the departments assuming the respective risks; the heads of the Internal Audit Department and the risk management divisions of the Bank meet the competence requirements set forth by the Bank of Russia;

   b) the Bank's internal documents effective as at 31 December 2020, which establish the methodologies for identifying and managing the Group's significant credit, operational, market risks, liquidity risks, concentration risks, interest rate risks for the Banks' portfolio, and business risks for stress testing were approved by the authorised management bodies of the Bank in accordance with the requirements and recommendations issued by the Bank of Russia;

   c) as at 31 December 2020, the Bank's internal documents establish a system of reporting on the Group's significant credit, operational, market risks, liquidity risks, concentration risks, interest rate risks for the Banks' portfolio, and business risks, and on the Group's equity (capital);

   d) the periodicity and consistency of reports prepared by the Bank's risk management divisions and Internal Audit Department during 2020 on the Bank's credit, operational, market risks, liquidity risks, concentration risks, interest rate risks for the banks' portfolio, and business risks management were in compliance with the Bank's internal documentation. Those reports included observations of the Bank's risk management divisions and Internal Audit Department on the effectiveness of the Bank's respective methodologies and recommendations for their improvement;

   e) as at 31 December 2020, the authority of the Bank's Supervisory Board and its executive bodies included control over the Group's compliance with the risk limits and equity (capital) adequacy ratios established by the Bank's internal documents. For the purpose of monitoring the efficiency of, and consistency in, applying the Group's risk management procedures during 2020, the Bank's Supervisory Board and executive bodies discussed on a regular basis the reports prepared by the Bank's risk management divisions and Internal Audit Department, and considered the proposed measures to eliminate weaknesses.

Our procedures related to the Group’s internal control and organisation of its risk management systems were performed solely for the purpose of determining whether the Group’s internal control and organisation of risk management systems comply with requirements set forth by the Bank of Russia in respect of such systems.

The translation is true and correct.

The engagement partner on the audit resulting in this independent auditor’s report is A.V. Efremov

Audit company:
BDO Unicon Aktsionernoe Obshchestvo
Main State Registration Number: 1037739271701
Suite 50, Office I, 3rd Floor, Section 11, Block 1, Bldg. 125, Warshavskoye Shosse, Moscow, 117587, Russia
Member of the Self-regulatory organization of auditors Association “Sodruzhestvo”
Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 12006020340

29 April 2021

(in thousands of Russian Roubles)

	Notes	2020	2019
Interest income calculated using the effective interest rate method	5	7 744 283	8 091 986
Other interest income	5	100 244	6 277
Interest expense	6	(4 413 296)	(4 612 850)
Net interest income		**3 431 231**	**3 485 413**
Fee and commission income	6	35 654	38 473
Fee and commission expense	6	(102 227)	(91 273)
Net fee and commission expense		**(66 573)**	**(52 800)**
Net foreign exchange gain	7	8 407	5 031
Other operating income	8	189 637	222 281
Operating income		**3 562 702**	**3 659 925**
Charge of expected credit loss allowance	14	(543 471)	(414 504)
Staff costs	9	(564 495)	(532 790)
Provision under buy-back program	20	(377)	-
Other general and administrative expenses	10	(1 060 016)	(1 086 986)
Profit before income tax		**1 394 343**	**1 625 645**
Income tax expense	11	(388 906)	(340 875)
Profit and total comprehensive income for the year		**1 005 437**	**1 284 770**

The consolidated financial statements were approved by the Management Board on 29 April 2021.

Koloshenko A.V.
President

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

Ryabinina S.I.
Chief Accountant

29 April 2021

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

(in thousands of Russian Roubles)

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	12	2 268 561	2 704 789
Mandatory reserve deposit with the Bank of Russia	12	336 342	298 060
Loans to banks	13	4 300 397	2 000 168
Loans to customers	14	66 633 127	71 020 615
Net investments in finance leases	15	1 536 169	198 607
Property, equipment and intangible assets	16	906 340	337 074
Current tax assets	11	188 741	5 892
Other assets	17	597 432	330 405
Total assets		**76 767 109**	**76 895 610**
LIABILITIES			
Loans from banks	18	33 649 738	35 170 345
Other borrowings and customers' accounts	19	13 899 567	14 032 949
Bonds issued	20	13 213 398	13 176 907
Deferred tax liability	11	236 520	209 644
Other liabilities	20	923 809	467 125
Total liabilities		**61 923 032**	**63 056 970**
EQUITY			
Share capital	22	5 440 000	5 440 000
Additional paid-in capital		1 343 400	1 343 400
Retained earnings		8 060 677	7 055 240
Total equity		**14 844 077**	**13 838 640**
Total liabilities and equity		**76 767 109**	**76 895 610**

Koloshenko A.V.
President

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

Ryabinina S.I.
Chief Accountant

29 April 2021

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

(in thousands of Russian Roubles)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		7 662 257	7 932 362
Interest paid		(4 490 228)	(4 466 410)
Fees and commissions received		54 520	38 731
Fees and commissions paid		(159 662)	(94 691)
Net cash provided from foreign exchange transactions		1 286	314
Other operating income received		189 636	232 557
Staff costs		(509 809)	(516 265)
Other general and administrative expenses		(873 388)	(879 133)
Payments to suppliers of lease equipment		(180 953)	(179 542)
(Increase) decrease in operating assets			
Mandatory reserve deposit with the Bank of Russia		(38 282)	(35 458)
Loans to banks		(2 300 000)	500 000
Loans to customers		3 956 548	(8 846 585)
Net investments in finance leases		(1 341 384)	(196 084)
Other assets		(30 862)	(37 255)
(Increase) decrease in operating liabilities			
Loans from banks		(334 000)	3 634 240
Other borrowings and customers' accounts		(1 206 568)	(4 575 895)
Net cash (used in) /provided by operating activities before income tax paid		**399 111**	**(7 489 114)**
Income tax paid		(544 857)	(264 244)
Cash flows (used in) /provided by operating activities		**(145 746)**	**(7 753 358)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		(211 244)	(126 090)
Sales of property, equipment and intangible assets		47 669	29 847
Cash flows used in investing activities		**(163 575)**	**(96 243)**

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

(in thousands of Russian Roubles)

	Note	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of subordinated borrowings		-	(850 000)
Bonds issued		5 000 000	8 000 000
Redemption of bonds issued		(5 000 000)	-
Payments under lease liabilities		(120 395)	(63 758)
Cash flows provided by (used in) financing activities		**(120 395)**	**7 086 242**
Net (decrease) increase in cash and cash equivalents		**(429 716)**	**(763 359)**
Effect of exchange rate changes on cash and cash equivalents		(6 512)	1 405
Cash and cash equivalents at beginning of the year		2 704 789	3 466 743
Cash and cash equivalents at the end of the year	12	**2 268 561**	**2 704 789**

Koloshenko A.V.
President

Ryabinina S.I.
Chief Accountant

29 April 2021

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

(in thousands of Russian Roubles)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
Balance as at 1 January 2019	5 440 000	1 343 400	5 770 470	12 553 870
Total comprehensive income				
Profit for the year	-	-	1 284 770	1 284 770
Balance as at 31 December 2019	**5 440 000**	**1 343 400**	**7 055 240**	**13 838 640**
Total comprehensive income				
Profit for the year	-	-	1 005 437	1 005 437
Balance as at 31 December 2020	**5 440 000**	**1 343 400**	**8 060 677**	**14 844 077**

Koloshenko A.V.
President

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

Ryabinina S.I.
Chief Accountant

29 April 2021

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

(in thousands of Russian Roubles)

1. Background

Organisation and operations

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

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

As at 31 December 2020, the Bank has presence in 71 cities in Russia in 168 dealers’ offices that fully covers the network of official dealers and certified partners of Toyota and Lexus (2019: 71 cities and 168 dealers’ offices).

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

The average number of people employed by the Group during 2020 was 126 (2019: 125).

The Bank’s registered and mailing address is at: 2b/1, Otradnaya Street, Moscow, 127273, Russian Federation.

The Group's operating income is not subject to seasonal and cyclical industry fluctuations during the financial year. As at 31 December 2020, the Group’s risk profile has not changed significantly as compared to that as at 31 December 2019.

The subsidiary of the Bank – OOO Toyota Leasing was registered on 18 February 2019. The Bank’s participating interest in the subsidiary is 100%.

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

Information about shareholders and beneficiary of the Bank:

№	**Shareholders**	**Amount of shares (ownership interest) of shareholders, %**	
		01.01.2021	**01.01.2020**
1	TOYOTA Kreditbank GmbH	99.937%	99.937%
2	Other shareholders holding less than 5% of the Bank's shares: TOYOTA Leasing GmbH	0.063%	0.063%
	Total	**100.00**	**100.00**

Toyota Kreditbank GmbH is controlled by Toyota Motor Corporation (Japan) through its sole participant Toyota Financial Services Corporation. Toyota Motor Corporation (Japan) is a publicly traded company (100% of shares in public circulation), under control of which the Bank is as at 1 January 2021 and as at 1 January 2020.

Related party transactions are detailed in Note 25.

Russian business environment

During the first quarter of 2020, global markets demonstrated significant volatility caused by the COVID-19 pandemic. Together with other factors, this triggered a sharp fall in oil prices and securities quotations, depreciation of the Russian rouble against major foreign currencies, and impacted the economic activity of enterprises, which, as a result, led and will continue to lead to deteriorating quality of corporate borrowers in certain industries and decrease in creditworthiness of the households, both directly and indirectly related to these industries. On 30 March 2020, a regime of complete self-isolation was introduced in the Russian Federation and was lifted on 12 May 2020, but still can be extended in certain regions of the Russian Federation by heads of local self-governments. The above events had an impact on the business processes of most sectors of the Russian economy, and this situation, as expected, may set off a second wave of deterioration in the quality of corporate borrowers and decrease in the household creditworthiness. The Bank of Russia takes various measures to support the banking system, facilitating implementation of prudential requirements by banks.

The COVID-19 pandemic had an adverse effect on liquidity in the banking sector. Despite the measures taken by the Government of the Russian Federation and the Central Bank of the Russian Federation to maintain liquidity in the banking and other sectors of the economy, uncertainty remains about the future operating environment of the Group and its counterparties, which may affect the Group's liquidity position. At the same time, the Group assesses its current liquidity position to be sufficient for further sustainable operations. The Group monitors its liquidity position on a daily basis. The Group is taking adequate measures in response to changing external environment, including those resulting from the impact of the COVID – 19 pandemic.

In more detail, the impact of the COVID-19 pandemic on credit risk is disclosed in Note 13. The Group assessed and took into account the impact of the COVID-19 pandemic and various measures of provided and planned government support to the population and businesses in assessing the validity of the going concern assumption used in preparation of these consolidated financial statements. According to the Group’s management estimates, there is no material uncertainty about the Group's ability to operate as a going concern.

These events, the implications of which are currently difficult to predict, may have a further significant impact on the Group's future operations and financial position. Development of the economic situation and its impact on the Group's operations may differ from the current estimates of the Group's management.

The Group's management believes that it takes appropriate measures to maintain the Group's business sustainability in the current environment.

Basis of preparation of consolidated financial statements

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

All amounts presented in the consolidated financial statements are rounded to the nearest thousand.

(d) Use of estimates and judgments

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

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

The accompanying consolidated financial statements have been prepared on a going concern basis.

(i) Judgements

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

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

(ii) Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the consolidated financial statements for the year ended 31 December 2020 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.
- estimates of fair values of financial assets and liabilities – Note 27.

2. Significant accounting policies

The accounting policies applied in these consolidated financial statements are the same as those applied by the Group in the last annual consolidated financial statements.

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

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

(a) Financial assets and liabilities

(i) Classification of financial instruments

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

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

Reclassification

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

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

Financial liabilities

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

(iii) Modification of financial assets and liabilities

Financial assets

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

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

(iv) Impairment

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

The Group recognises ECL allowance in the amount equal to ECL that are possible within the next 12 months after the reporting date, or ECL resulting from all possible default events over the expected life of the financial instrument. Initial amount of ECL recognised for a financial asset is equal to 12-month ECL (except for certain receivables included into other assets or purchased or originated credit-impaired financial assets (POCI assets)). If the credit risk on the financial instrument has increased significantly since initial recognition, the ECL allowance is measured at an amount equal to lifetime ECL.

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

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

Measurement of ECL

ECL are PD-weighed measurement of credit losses. They are measured as follows:

- *for financial assets that are not credit-impaired at the reporting date*: as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);

- *for financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *for undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *for financial guarantee contracts*: as the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower;
- a breach of a contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

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

Presentation of ECL allowance in the consolidated statement of financial position

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

- *for financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;

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

Write-offs

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

(b) Offsetting

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

(c) Foreign currency transactions

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

(d) Cash and cash equivalents

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

(e) Loans to customers

'Loans to customers' caption in the consolidated statement of financial position includes loans to customers measured at amortised cost (Note 3 (a)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(f) Net investments in finance leases

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

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

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

(g) Loans from banks, other borrowings and customer accounts, debt securities issued and subordinated borrowings

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

(h) Property, equipment and intangible assets

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

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

Equipment	2-15 years
Fixtures and fittings	3-10 years
Motor vehicles	3-5 years
Leasehold improvement	the shorter of economic life or lease term
Right-of-use assets	lease term

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

(i) Lease

Definition of a lease

When entering into a contract, the Group assesses whether the contract is a lease or contains a lease based on the definition of a lease contract in accordance with the requirements of IFRS 16.

Under IFRS 16, a contract is a lease or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At inception of a contract containing a lease component, the Group allocates the contractual consideration to each lease and non-lease component based on the relative standalone selling prices.

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

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As a rule, the Group uses the incremental borrowing rate.

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

The Group as lessee

The Group leases office space at the registered and postal address: 2b/1, Otradnaya Street, Moscow, 127273, Russia.

In accordance with IFRS 16, the Group recognises right-of-use assets and lease liabilities in respect of most leases – i.e., these leases are reflected on the balance sheet.

The Group presents right-of-use assets that do not meet the definition of investment property as "property and equipment" under the same reporting line item where it presents its own assets, which are similar in nature to the underlying assets.

The Group presents lease liabilities within "Other liabilities" in the consolidated statement of financial position.

At inception or modification of a contract containing a lease component, the Group allocates the contractual consideration to each lease component the basis of their relative stand-alone prices.

The Group as lessor

Where the Group is a lessor, it determines at the commencement date whether each of the contracts is a finance lease or an operating lease.

To classify a lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset. If this is the case, the lease is a finance lease; otherwise, the contract is an operating lease. Under this assessment, the Group considers certain indicators, in particular, whether the lease term represents a significant portion of the asset's economic life.

The Bank applies the requirements of IFRS 9 for derecognition and impairment in relation to net investments in finance leases.

(j) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount of this liability 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 recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(k) Share capital and dividends

Ordinary shares are classified as equity.

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

(l) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss in full amount, except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised 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 assets and liabilities are recognised in respect of temporary differences arising between the carrying amounts of assets and liabilities for consolidated financial statements purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if they arise on initial recognition of assets or liabilities and affect neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused prior year tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Interest income and expense

Effective interest rate

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

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

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

Amortised cost and gross carrying amount

The ‘amortised cost’ of a financial asset or liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

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

Calculation of interest income and expense

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

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

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

Information on when financial assets are credit-impaired is presented in Note 3 (a) (iv).

Presentation

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

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

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

Presentation

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

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

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

(n) Fees and commission

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

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

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

(o) Standards issued but not yet effective

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

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

3. Credit risk analysis

Inputs, assumptions and techniques used for estimating impairment

Refer to Accounting Policies presented in Note 3.

Significant increase in credit risk

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

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

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

Credit risk grades (ratings)

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

A rating scale used for loans to customers that are not credit-impaired comprises 11 rating categories. For the presentation purposes, these ratings are aggregated in Note 14 into three credit quality groups:

- good (ratings 1-5) – assets of counterparties with lower default probability and stable ability to meet their financial obligations;
- moderate (ratings 6-7) – assets of counterparties with moderate default probability demonstrating moderate ability to meet their financial obligations on a timely basis and requiring more intense attention at the stage of monitoring;
- below moderate (ratings 8-11) – assets of counterparties with high default probability.

These assets require special attention at the stage of monitoring.

A description of each credit rating category is as follows.

Credit risk grade	**Basis for assigning this risk rating**
1	Very strong credit rating. A borrower has an exceptional financial potential and demonstrates strong performance. A borrower is substantially not vulnerable to default.
2	Strong credit rating. A borrower has a very high financial potential. Probability of default is extremely low.

3	Very good rating. Strong financial potential. A borrower demonstrates very good performance and has reduced default risk. The probability of repayment of debt is high.
4	Good rating. A borrower demonstrates good financial performance and has good creditworthiness, but has minor difficulties. Ability to pay principal amount and interest is acceptable.
5	Fully satisfactory rating. A borrower demonstrates good financial performance and has moderate creditworthiness, but has some difficulties. Ability to pay principal amount and interest is acceptable.
6	Satisfactory rating. A borrower has adequate financial potential. Moderate creditworthiness. Ability to pay principal amount and interest is acceptable, but not confirmed.
7	Acceptable rating. A borrower has adequate financial potential and demonstrates adequate performance. Ability to pay principal amount and interest is moderate. Probability of default is higher.
8	Below acceptable rating. A borrower has weak financial potential and financial performance below moderate with many difficulties. Ability to pay principal amount and interest is exceptionally moderate. Probability of default is high.
9	Low rating. A borrower has very weak financial potential and very poor financial performance with many difficulties. A borrower is unlikely to pay in full principal amount and interest. Probability of default is very high.
10	Unsatisfactory rating. A borrower has very weak financial potential and bad financial performance with extremely intense difficulties, highly vulnerable to non-payment, high default risk.
11	Unsatisfactory rating. A borrower has extremely weak financial potential, has delays in payments and is near default.

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

Credit risk grades are defined and calibrated in such a way that the probability of default increases non-linearly as the credit risk rating decreases, for example, the difference in risk of default between credit risk grades 2 and 3 is substantially smaller than the difference between credit risk grades 6 and 7.

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

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

Generating the term structure of PD

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

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

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

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

Determining whether credit risk has increased significantly

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

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

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

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

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

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

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

Modified financial assets

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

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

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

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

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

Definition of default

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

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

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

- qualitative – e.g., stages of past due amounts recovery, defined using internal procedures of the Group (in particular, commencement of legal recovery);
- quantitative – e.g. past due amounts term and extent, non-payment of other commitments to the Group by the same debtor; and
- other information, received from the own and external sources.

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

Incorporating of forward-looking information

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

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

Measurement of the ECL

The main input in estimating ECL is the term structure of the following indicators:

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

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

PD indicators are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. For placements with credit institutions the Group uses market data to derive the PD. If the credit quality of a counterparty or a position exposed to credit risk changes, this results in a change in the measurement of the corresponding PD indicators.

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

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

For financial assets that have not shown a significant increase in credit risk since their initial recognition, the expected losses on the horizon of 12 months are used (an estimate of the likelihood of a default event occurring during the next 12 months from the reporting date), calculated on the basis of a 12- months PD indicator, even if the Group is considering a different period for risk management purposes. If there has been a significant increase in credit risk since the initial recognition of a financial asset, credit losses are measured during the maximum period under the agreement during which the asset is exposed to the credit risk.

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

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

(in thousands of Russian Roubles)

4. Interest income and expense

	2020	2019
Interest income calculated using the effective interest method		
Loans to customers	7 507 059	7 867 722
Loans to banks	237 224	224 264
Total interest income calculated using the effective interest method	**7 744 283**	**8 091 986**
Other interest income		
Net investments in finance leases	100 244	6 277
Total other interest income	**100 244**	**6 277**
Interest expense		
Loans from banks	(2 430 008)	(2 723 013)
Other borrowings and customer accounts	(895 121)	(1 136 858)
Bonds issued	(1 078 256)	(706 237)
Subordinated borrowings	-	(42 943)
Lease liabilities	(9 911)	(3 799)
Total interest expense	**(4 413 296)**	**(4 612 850)**
Net interest income	**3 431 231**	**3 485 413**

5. Fee and commission income and expense

	2020	2019
Fee and commission income		
Credit line issuance	20 425	32 002
Insurance of leased property	8 113	-
Other	7 116	6 471
Total fee and commission income	**35 654**	**38 473**
Fee and commission expense		
Settlement operations	(102 171)	(91 273)
Other	(56)	-
Total fee and commission expense	**(102 227)**	**(91 273)**
Net fee and commission expense	**(66 573)**	**(52 800)**

6. Net foreign exchange gain

	2020	2019
Income on spot transactions	1 286	314
Income from revaluation of financial assets and liabilities	7 121	4 717
Net foreign exchange gain	**8 407**	**5 031**

(in thousands of Russian Roubles)

7. Other operating income

	2020	2019
Recovery of retail loans previously written off	154 343	176 894
Penalties on loans issued	31 706	44 915
Gain on sale of property and equipment	848	26
Other income	2 740	446
Total other operating income	**189 637**	**222 281**

8. Staff costs

	2020	2019
Employee compensation	474 269	442 507
Payroll related taxes	90 226	90 283
Total staff costs	**564 495**	**532 790**

9. Other general and administrative expenses

	2020	2019
Communications and information services	291 310	299 940
HR Agency Services	237 870	230 745
Depreciation and amortisation (Note 16)	182 545	149 168
Collection and servicing of loans	102 554	87 429
Consulting and information services	71 517	46 314
Operating leases	52 680	49 829
Advertising and marketing	11 497	32 553
Office supplies	24 945	2 866
Professional services	19 613	18 704
Repairs and maintenance	10 095	10 590
Write-off of intangible assets	8 275	82 655
Insurance	5 085	5 809
Security	4 254	3 984
Travel expenses	1 644	16 301
Taxes other than income tax	-	489
Other	36 132	49 610
Total other general and administrative expenses	**1 060 016**	**1 086 986**

(in thousands of Russian Roubles)

10. Income tax expense

	2020	2019
Current year tax expense	346 086	235 752
Deferred taxation movement due to origination and reversal of temporary differences	44 597	105 123
Total income tax expense	**390 682**	**340 875**

The applicable tax rate for current and deferred tax in 2020 and 2019 is 20%.

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

Reconciliation of effective tax rate

	2020	%	2019	%
Profit before income tax	1 394 343		1 625 645	
Income tax expense at the applicable tax rate	278 869	20.00	325 129	20.00
Non-deductible expenses	110 037	7.89	15 746	0.97
Total income tax expense	**388 906**	**27.71**	**340 875**	**20.97**

Deferred tax asset and liability

As at 31 December 2020 and 2019, temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liability.

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

Movements in temporary differences during 2020 and 2019 are presented as follows:

	1 January 2019	Recognised in profit or loss	31 December 2019	Recognised in profit or loss	31 December 2020
Loans to customers	(167 346)	(80 069)	(247 415)	143 894	(103 521)
Property, equipment and intangible assets	13 143	4 533	17 676	1 457	19 133
Other assets	(5 829)	(2 314)	(8 143)	37 476	29 334
Bonds issued	(1 721)	(1 497)	(3 218)	(207)	(3 425)

(in thousands of Russian Roubles)

Other liabilities	57 232	(25 776)	31 456	(204 910)	(173 454)
Net deferred tax liability	**(104 521)**	**(105 123)**	**(209 644)**	**(26 876)**	**(236 520)**

11. Cash and cash equivalents

	2020	2019
Nostro accounts with the Bank of Russia	2 132 773	2 516 011
Nostro accounts with other banks		
- rated AA- to AA+	123	6 344
- rated BBB	128 070	74 936
- rated BB- to BB+	1 784	6 961
- only internal credit rating assigned (Rating 1)	5 811	100 537
Total nostro accounts with other banks	**135 788**	**188 778**
Total cash and cash equivalents	**2 268 561**	**2 704 789**

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 2020, cash and cash equivalents are classified in Stage 1in the category of good credit quality (2019: Stage 1, good credit quality). As at 31 December 2020 and 31 December 2019, there are no ECL allowances.

As at 31 December 2020, there is one bank, in which balances individually exceed 10% of total cash and cash equivalents. The gross value of these balances is RUB 2 132 773 thousand, or 94% of total cash and cash equivalents (2019: RUB 2 516 011 thousand, or 93%).

Mandatory reserve deposit with the Bank of Russia

The mandatory reserve deposit is a non-interest bearing deposit placed in accordance with the regulations of the Bank of Russia and which availability is restricted. As at 31 December 2020, mandatory reserve deposit with the Bank of Russia is RUB 336 342 thousand (2019: RUB 298 060 thousand).

12. Loans to banks

As at 31 December 2020 and 31 December 2019, loans to banks are RUB 4 300 397 thousand and RUB 2 000 168 thousand and are placed with the Bank of Russia.

As at 31 December 2020, these loans are classified in Stage 1in the category of good credit quality (2019: Stage 1, good credit quality). As at 31 December 2020 and 31 December 2019, there are no ECL allowances.

(in thousands of Russian Roubles)

13. Loans to customers

	2020	2019
Car loans to retail customers	65 221 688	65 953 447
Loans to auto dealers	2 850 785	6 183 027
Gross carrying amount of loans to customers	**68 072 473**	**72 136 474**
ECL allowance	(1 439 346)	(1 115 859)
Total loans to customers net of ECL allowance	**66 633 127**	**71 020 615**

Movements in ECL allowance during 2020 are analyzed below:

	2020			
RUB'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost - retail customers				
Balance at 1 January	**168 784**	**408 955**	**396 039**	**973 778**
Transfer to Stage 1	26 499	(26 499)	-	-
Transfer to Stage 2	(15 428)	16 805	(1 377)	-
Transfer to Stage 3	(3 798)	(89 354)	93 152	-
Net change of ECL allowance	(70 254)	19 040	434 504	383 290
New financial assets originated or purchased	57 374	81 329	64 353	203 056
Write-offs	-	-	(216 161)	(216 161)
Balance at 31 December	**163 177**	**410 276**	**770 510**	**1 343 963**

	2020			
RUB'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost - corporate customers				
Balance at 1 January	**17 270**	**9 404**	**115 407**	**142 081**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net change of ECL allowance	(13 690)	(9 404)	(23 743)	(46 837)
New financial assets originated or purchased	139	-	-	139
Balance at 31 December	**3 719**	**-**	**91 664**	**95 383**

Movements in ECL allowance during 2019 are analyzed below:

	2019			
RUB'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost - retail customers				
Balance at 1 January	**141 508**	**373 530**	**276 440**	**791 478**

(in thousands of Russian Roubles)

Transfer to Stage 1	31 667	(30 954)	(713)	-
Transfer to Stage 2	(9 820)	12 287	(2 467)	-
Transfer to Stage 3	(1 004)	(57 334)	58 338	-
Net change of ECL allowance	(92 747)	(7 938)	195 274	94 589
New financial assets originated or purchased	99 180	119 364	51 449	269 993
Write-offs	-	-	(182 282)	(182 282)
Balance at 31 December	**168 784**	**408 955**	**396 039**	**973 778**

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

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

Retail loans

Repayment of loans to retail customers in the amount of RUB 18 402 714 thousand during 2020 (2019: RUB 26 600 117 thousand) resulted in decrease of ECL by RUB 194 129 thousand (2019: RUB 257 746 thousand).

Write-offs of loans to retail customers in the amount of RUB 216 161 thousand during 2020 (2019: RUB 182 282 thousand) resulted in decrease of ECL by RUB 216 161 thousand (2019: RUB 182 282 thousand).

Transfer from 12-months ECL to lifetime ECL in relation to assets that are not credit-impaired and to lifetime ECL in relation to assets that are credit-impaired during the year in the amount of RUB 3 292 736 thousand (2019: RUB 1 971 259 thousand) resulted in increase in ECL by RUB 438 667 thousand (2019: RUB 251 789 thousand).

Transfer from lifetime ECL in relation to assets that are not credit-impaired to lifetime ECL in relation to assets that are credit-impaired during the year in the amount of RUB 448 186 thousand (2019: RUB 250 497 thousand), and remeasurement of ECL in relation to assets that are credit-impaired resulted in increase in ECL by RUB 177 145 thousand (2019: RUB 100 546 thousand).

Loans issued to retail customers in the amount of RUB 33 018 609 thousand during the year (2019: RUB 36 206 989 thousand) resulted in ECL increase by RUB 235 914 thousand (2019: RUB 269 993 thousand).

Loans to corporate customers

Payment of loans to corporate customers in the amount of RUB 6 026 123 thousand during the calendar year 2020 (2019: RUB 6 802 797 thousand) resulted in decrease of ECL by RUB 28 375 thousand (2019: RUB 5 961 thousand).

There were no write-offs of loans to corporate customers during the 2020 and 2019.

There were no transfers from the category of the 12-month ECL to the category of the life-time ECL that are not credit-impaired, and to the category of the life-time ECL that are credit-impaired during 2020 (2019: RUB 10 081 thousand resulting in ECL increase by RUB 351 thousand).

Issuance of loans to corporate customers in the amount of RUB 2 703 748 thousand during the year (2019: RUB 6 028 947 thousand) resulted in increase of ECL by RUB 3 719 thousand (2019: RUB 26 058 thousand).

(in thousands of Russian Roubles)

Credit quality of loans to customers

Information on credit quality of loans to customers calculated using IFRS 9 as at 31 December 2020 is provided in the table below

	Gross carrying amount of loans to customers	ECL allowance	Loans to customers net of ECL allowance	ECL allowance to gross carrying amount, %
Retail auto loans				
12-month ECL				
Good quality	52 123 189	(84 776)	52 038 413	0.16
Moderate quality	7 294 968	(56 530)	7 238 438	0.77
Below moderate quality	781 825	(21 871)	759 954	2.80
	60 199 982	**(163 177)**	**60 036 805**	**0.27**
Life-time ECL for non-credit impaired assets				
Good quality	538 949	(6 131)	532 818	1.14
Moderate quality	509 177	(14 916)	494 261	2.93
Below moderate quality	2 771 605	(389 229)	2 382 376	14.04
	3 819 731	**(410 276)**	**3 409 455**	**10.74**
Life-time ECL for credit impaired assets				
Default	1 201 975	(770 510)	431 465	64.10
Total retail auto loans	**65 221 688**	**(1 343 963)**	**63 877 725**	**2.06**
Loans issued to auto dealers				
12-month ECL				
Good quality	2 759 121	(3 719)	2 755 402	0.13
	2 759 121	**(3 719)**	**2 755 402**	**0.13**
Life-time ECL for credit impaired assets				
Default	91 664	(91 664)	-	100.00
Total loans to auto dealers	**2 850 785**	**(95 383)**	**2 755 402**	**3.35**
Total loans to customers	**68 072 473**	**(1 439 346)**	**66 633 127**	**2.11**

Information on credit quality of loans to customers calculated using IFRS 9 as at 31 December 2019 is provided in the table below:

	Gross carrying amount of loans to customers	ECL allowance	Loans to customers net of ECL allowance	ECL allowance to gross carrying amount, %
Retail auto loans				

12-month ECL				
Good quality	53 847 857	(88 548)	53 759 309	0.16
Moderate quality	7 696 095	(58 463)	7 637 632	0.76
Below moderate quality	798 839	(21 773)	777 066	2.73
	62 342 791	**(168 784)**	**62 174 007**	**0.27**
Life-time ECL for non-credit impaired assets				
Good quality	123 956	(1 357)	122 599	1.09
Moderate quality	314 692	(11 043)	303 649	3.51
Below moderate quality	2 551 859	(391 777)	2 160 082	15.35
	2 990 507	**(404 177)**	**2 586 330**	**13.52**
Life-time ECL for credit impaired assets				
Default	620 149	(400 817)	219 332	64.63
Total retail auto loans	**65 953 447**	**(973 778)**	**64 979 669**	**1.48**
Loans issued to auto dealers				
12-month ECL				
Good quality	4 644 108	(8 321)	4 635 787	0.18
Moderate quality	1 125 045	(8 949)	1 116 096	0.80
	5 769 153	**(17 270)**	**5 751 883**	**0.30**
Life-time ECL for non-credit impaired assets				
Moderate quality	81 533	(943)	80 590	1.16
Below moderate quality	191 792	(8 461)	183 331	4.41
	273 325	**(9 404)**	**263 921**	**3.44**
Life-time ECL for credit impaired assets				
Default	140 549	(115 407)	25 142	82.11
Total loans to auto dealers	**6 183 027**	**(142 081)**	**6 040 946**	**2.30**
Total loans to customers	**72 136 474**	**(1 115 859)**	**71 020 615**	**1.55**

(in thousands of Russian Roubles)

The table below provides information on the structure of overdue loans to customers as at 31 December 2020:

	Gross carrying amount of loans to customers						
	Good quality	**Moderate quality**	**Bellow moderate quality**	**Default**	**Total**	**ECL allowance**	**ECL allowance to gross carrying amount, %**
Retail auto loans							
- not overdue	52 567 976	7 694 699	2 687 705	34 516	62 984 896	(417 628)	0.66
- overdue less than 30 days	93 316	109 446	624 167	26 575	853 504	(126 810)	14.86
- overdue 30-59 days	846	-	161 011	35 385	197 242	(62 183)	31.53
- overdue 60-89 days	-	-	80 547	11 552	92 099	(30 030)	32.61
- overdue 90-179 days	-	-	-	206 388	206 388	(114 341)	55.40
- overdue more than 180 days	-	-	-	887 559	887 559	(592 971)	66.81
Total retail auto loans	**52 662 138**	**7 804 145**	**3 553 430**	**1 201 975**	**65 221 688**	**(1 343 963)**	**2.06**
Loans to auto dealers							
- not overdue	2 759 121	-	-	-	2 759 121	(3 719)	0.13
- overdue more than 180 days	-	-	-	91 664	91 664	(91 664)	100.00
Total loans to auto dealers	**2 759 121**	**-**	**-**	**91 664**	**2 850 785**	**(95 383)**	**3.35**
Total loans to customers	**55 421 259**	**7 804 145**	**3 553 429**	**1 293 640**	**68 072 473**	**(1 439 346)**	**2.11**

(in thousands of Russian Roubles)

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

	Gross carrying amount of loans to customers						
	Good quality	Moderate quality	Bellow moderate quality	Default	Total	ECL allowance	ECL allowance to gross carrying amount, %
Retail auto loans							
- not overdue	53 911 500	7 907 373	2 388 269	9 683	64 216 825	(383 908)	0.60
- overdue less than 30 days	60 313	102 133	746 496	986	909 928	(140 596)	15.45
- overdue 30-59 days	-	1 281	158 938	4 254	164 473	(42 401)	25.78
- overdue 60-89 days	-	-	74 644	3 186	77 830	(22 733)	29.21
- overdue 90-179 days	-	-	-	130 545	130 545	(74 913)	57.38
- overdue more than 180 days	-	-	-	453 847	453 847	(309 227)	68.13
Total retail auto loans	**53 971 813**	**8 010 787**	**3 368 346**	**602 500**	**65 953 447**	**(973 778)**	**1.48**
Loans to auto dealers							
- not overdue	4 644 108	1 206 578	191 792	-	6 042 478	(26 674)	0.44
- overdue more than 180 days	-	-	-	140 549	140 549	(115 407)	82.11
Total loans to auto dealers	**4 644 108**	**1 206 578**	**191 792**	**140 549**	**6 183 027**	**(142 081)**	**2.30**
Total loans to customers	**58 615 921**	**9 217 365**	**3 560 139**	**743 050**	**72 136 474**	**(1 115 859)**	**1.55**

(in thousands of Russian Roubles)

As at 31 December 2020, the Group assessed the information on the forecast economic conditions used to assess the ECL. As the COVID-19 pandemic is an unprecedented phenomenon that has no analogues in modern history, as well as due to the limited amount of up-to-date, verifiable and consistent information about the financial position of borrowers, a high level of cash flow uncertainty exists when the amount of ECL is determined for certain groups of borrowers.

Despite these limitations, the Group has developed various macroeconomic forecast scenarios used in the ECL models. Taking into account the updated forecast for the GDP dynamics and the unemployment rate, the macroeconomic add-on to the PD level for Stages 1 and 2 was calculated.

Given a high degree of uncertainty and forecast changes , it is not possible to assess reliably further impact of COVID-19 on the ECL amount during the current financial year. At the same time, the Group continues to assess the impact of the COVID-19 pandemic on the estimated ECLs, taking into account new information updates.

Changes in the estimates could affect the ECL allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the ECL allowance to auto dealers as at 31 December 2020 would be RUB 28 508 thousand lower/higher (2019: RUB 61 830 thousand).

To the extent that the net present value of the estimated cash flows differs by minus one percent, the ECL allowance for loans to retail customers as at 31 December 2020 would be RUB 652 217 thousand higher (2019: RUB 659 534 thousand).

Analysis of collateral

Loans to auto dealers

The following table provides the analysis of loans to corporate customers, net of ECL allowance, by types of collateral as at 31 December 2020 and 31 December 2019:

	2020	% of loans to auto dealers	2019	% of loans to auto dealers
Motor vehicles	2 755 402	100.00	6 040 946	100.00
	2 755 402	**100.00**	**6 040 946**	**100.00**

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

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

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

As at 31 December 2020 and 31 December 2019, the Group does not have loans for which ECL were not recognised in connection with the collateral.

During 2020 and 2019, the Bank did not repossess collateral for loans to corporate customers. As at 31 December 2020 and 31 December 2019, there is no repossessed collateral in the Group’s consolidated statement of financial position.

Retail loans

Auto loans are secured by the underlying cars.

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

(in thousands of Russian Roubles)

In 2020 the Bank repossesses collateral for loans to individuals with a net carrying amount of RUB 36 486 thousand (2019: RUB 46 503 thousand). As at 31 December 2020, the carrying amount of repossessed collateral amounts to RUB 36 915 thousand (2019: RUB 30 256 thousand).

Significant credit exposures

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

As at 31 December 2020 and 31 December 2019, the Group has no borrowers or groups of related borrowers whose loan balances individually exceed 10% of total loans to customers.

Restructured loans

As at 31 December 2020, the amortised cost of loans at the restructuring date, for which restructuring didn't result in derecognition of the existing asset, amounted to RUB 2 072 174 thousand (2019: 67 350 thousand).

Loans maturities

The maturity of loans to customers is presented in Note 22.

14. Net investments in finance leases

	31 December 2020			31 December 2019		
	Within 1 year	**From 1 year to 5 years**	**Total**	**Within 1 year**	**From 1 year to 5 years**	**Total**
Gross investments in finance leases	991 422	789 010	1 780 432	11 457	232 516	243 973
Unearned future finance income on finance leases	(148 570)	(91 385)	(239 955)	(1 226)	(43 655)	(44 881)
Net investments in finance leases before ECL allowance	**842 852**	**697 625**	**1 540 477**	**10 231**	**188 861**	**199 092**
ECL allowance	(2 847)	(1 461)	(4 308)	(24)	(461)	(485)
Net investments in finance leases	**840 005**	**696 164**	**1 536 169**	**10 207**	**188 400**	**198 607**

The analysis of changes in the ECL allowance during 2020 is presented below:

	2020			
RUB'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost - retail customers				
Balance as at 1 January	**485**	**-**	**-**	**485**
Transfer to Stage 2	(1 080)	1 080	-	-
Transfer to Stage 3	-	(1 080)	1 080	-
Net change of ECL allowance	3 823	-	-	**3 823**

(in thousands of Russian Roubles)

Balance as at 31 December	**3 228**	**-**	**1 080**	**4 308**

The analysis of changes in the ECL allowance during 2019 is presented below:

	2019			
RUB'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost				
- retail customers				
Balance as at 1 January	**-**	**-**	**-**	**-**
New financial assets originated or purchased	485	-	-	**485**
Balance as at 31 December	**485**	**-**	**-**	**485**

Credit quality of net investments in finance leases

The table below provides information on the credit quality of net investments in finance leases as at 31 December 2020:

	Gross carrying amount of net investments in finance leases	**ECL allowance**	**Net investments in finance leases, net of ECL allowance**	**ECL allowance to gross carrying amount, %**
12-month expected credit losses				
Good quality	1 538 030	(3 228)	1 534 802	0.21
	1 538 030	**(3 228)**	**1 534 802**	**0.21**
Life-time ECL for credit impaired assets				
Default	2 447	(1 080)	1 367	44.14
Net investment in finance leases	**1 540 477**	**(4 308)**	**1 536 169**	**0.28**

The table below provides information on the credit quality of net investments in finance leases as at 31 December 2019:

	Gross carrying amount of net investments in finance leases	**ECL allowance**	**Net investments in finance leases, net of ECL allowance**	**ECL allowance to gross carrying amount, %**
12-month expected credit losses				
Good quality	199 092	(485)	198 607	0.24
Net investments in finance leases	**199 092**	**(485)**	**198 607**	**0.24**

(in thousands of Russian Roubles)

The table below provides information on the structure of past due receivables on net investments in finance leases as at 31 December 2020:

	Gross carrying amount of receivables			ECL allowance	ECL allowance to gross carrying amount, %
	Good quality	Default	Total		
Receivables from lessees					
- not past overdue	1 513 616	2 447	1 516 063	(4 102)	0.27
- less than 30 days past due	17 419	-	17 419	(66)	0.38
- 30-59 days past due	6 995	-	6 995	(140)	2.00
Total receivables:	**1 538 030**	**2 447**	**1 540 477**	**(4 308)**	**0.28**

As at 31 December 2019, there are no past due receivables on net investments in finance leases.

Leased assets are actually used as collateral because they are returned to the lessor if a lessee does not fulfil its contractual obligations. Lease payments are made every month. The right of ownership to the leased property belongs to OOO Toyota Leasing during the entire lease term.

As at 31 December 2020 and 31 December 2019, there are no lessees or groups of related lessees whose debts exceeds 10% of the total gross investment in finance leases.

Analysis of collateral

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

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

As at 31 December 2020 and 31 December 2019, the Group has no claims for which expected credit losses were not recognised due to collateral.

(in thousands of Russian Roubles)

15. Property, equipment and intangible assets

The following table provides information on property, equipment and intangible assets as at 31 December 2020 and 2019:

	Equipment	Fixtures and fittings	Motor vehicles	Software	Leasehold improvements	Right-of-use assets	Total
Cost							
Balance as at 1 January 2019	174 219	107 681	37 032	429 571	25 939	-	774 442
Additions	57 348	582	11 888	57 988	-	169 916	297 722
Disposals	(3 735)	(812)	(8 958)	(182 777)	-	-	(196 282)
Balance as at 31 December 2019	**227 832**	**107 451**	**39 962**	**304 782**	**25 939**	**169 916**	**875 882**
Additions	63 745	8 840	3 752	58 063	76 284	545 680	756 364
Disposals	(50 085)	(90 703)	(5 636)	(3 119)	(25 939)	(169 916)	(345 398)
Balance as at 31 December 2020	**241 492**	**25 588**	**38 078**	**359 726**	**76 284**	**545 680**	**1 286 848**
Depreciation and amortisation							
Balance as at 1 January 2019	157 082	106 348	9 669	219 147	25 939	-	518 185
Depreciation and amortisation charge	8 978	216	3 215	51 801	-	84 958	149 168
Disposals	(3 720)	(811)	(8 283)	(115 731)	-	-	(128 545)
Balance as at 31 December 2019	**162 340**	**105 753**	**4 601**	**155 217**	**25 939**	**84 958**	**538 808**
Depreciation and amortisation charge	21 409	852	3 906	59 449	31	96 897	182 544
Disposals	(50 085)	(90 703)	(1 084)	(3 119)	(25 939)	(169 916)	(340 845)
Balance as at 31 December 2020	**133 664**	**15 902**	**7 425**	**211 547**	**31**	**11 939**	**380 508**
Carrying amount as at:							
31 December 2019	**65 492**	**1 698**	**35 361**	**149 565**	**-**	**84 958**	**337 074**
31 December 2020	**107 828**	**9 686**	**30 653**	**148 179**	**76 253**	**533 741**	**906 340**

(in thousands of Russian Roubles)

16. Other assets

	2020	2019
Settlements with suppliers	111 574	89 767
Guarantee deposit (Internal Credit Rating 1)	47 709	47 708
Subventions receivable	15 595	15 269
Total other financial assets	**174 878**	**152 744**
VAT on leased assets	281 299	40 205
Advances	81 386	95 678
Other	59 869	41 778
Total other non-financial assets	**422 554**	**177 661**
Total other assets	**597 432**	**330 405**

Subventions receivable are claims to the car producer for compensation of interest income on loans issued to retail customers, and claims to insurance companies for compensation of commission income for insurance.

As at 31 December 2020, other financial assets are classified in Stage 1 in the category of good credit quality (2019: Stage 1, good credit quality). As at 31 December 2020 and 31 December 2019, there are no ECL allowances.

17. Loans from banks

As at 31 December 2020, loans from banks amount to RUB 33 649 738 thousand. Loans totalling RUB 30 404 399 thousand or 90% of total loans from banks are received from five banks, that individually contribute above 10% to total loans from banks.

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

18. Other borrowings and customer accounts

	2020	2019
Borrowings from Toyota Motor Finance (Netherlands) B. V.	12 091 697	11 978 523
Settlement accounts of auto dealers	135 011	508 375
Term deposits of legal entities	25 011	-
Current accounts of individuals	1 647 848	1 546 051
	13 899 567	**14 032 949**

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

The table below provides data on the bonds issued as at 31 December 2020 and 31 December 2019:

Security issue	Issue date	Maturity date	Coupon rate, %	Issue value	2020	2019
Series BO-001P-01	30.11.2017	02.12.2020	8.05	5 000 000	-	5 029 481
Series BO-001P-02	19.02.2019	21.02.2022	8.75	3 000 000	3 092 197	3 089 797

(in thousands of Russian Roubles)

Series BO-001P-03	25.10.2019	27.10.2022	7.20	5 000 000	5 060 630	5 057 628
Series BO-001P-04	06.10.2020	09.10.2023	5.90	5 000 000	5 060 570	-
					13 213 398	**13 176 907**

The rating agency Fitch Ratings assigned all three issues an international scale rating of the "A" level, and the Analytical Credit Rating Agency (ACRA) assigned a national scale rating at the "AAA (RU)" level.

The Group has no past due balances as at 31 December 2020 and 31 December 2019.

During 2020, the Group did not raise any new subordinated loans and did not repay any loans.

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

	Bonds issued	**Subordinated borrowings**	**Lease liabilities**	**Total**
Balance as at 1 January 2019	5 024 475	862 097	-	5 886 572
Impact of adopting IFRS 16	**-**	**-**	**147 481**	**147 481**
Changes generated by cash flows from financing activities				
Redemption of subordinated borrowings	-	(850 000)	-	(850 000)
Bonds issued	8 000 000	-	-	8 000 000
Repayment of lease liabilities	-	-	(63 758)	(63 758)
Total changes generated by cash flows from financing activities	**8 000 000**	**(850 000)**	**(63 758)**	**7 086 242**
Cost associated with raising funds	(18 392)	-	-	(18 392)
Interest expense	706 237	42 943	3 799	752 979
Interest paid	(535 413)	(55 040)	-	(590 453)
Forex loss on lease liabilities	-	-	(5 620)	(5 620)
Balance as at 31 December 2019	**13 176 907**	**-**	**81 902**	**13 258 809**
Changes generated by cash flows from financing activities				
Redemption of subordinated borrowings	(5 000 000)	-	-	(5 000 000)
Bonds issued	5 000 000	-	-	5 000 000
Lease liabilities recognised during the period			545 680	545 680
Repayment of lease liabilities	-	-	(120 395)	(120 395)
Total changes generated by cash flows from financing activities	**-**	**-**	**425 286**	**425 286**
Cost associated with raising funds	(17 123)	-	-	(17 123)
Interest expense	1 078 256	-	14 780	1 093 036
Interest paid	(1 024 642)	-	-	(1 024 642)
Forex loss on lease liabilities	-	-	(609)	(609)
Balance as at 31 December 2020	**13 213 398**	**-**	**521 359**	**13 734 757**

(in thousands of Russian Roubles)

20. Other liabilities

	2020	2019
Financial liabilities		
Settlements with suppliers	256 036	287 648
Lease liabilities	521 359	81 902
Liability on bonus payable to employees	111 583	75 254
Total financial liabilities	**888 978**	**444 804**
Non-financial liabilities		
Provision for unused vacations	34 454	22 321
Provision for the car buyback program	377	-
Total non-financial liabilities	**34 831**	**22 321**
Total other liabilities	**923 809**	**467 125**

21. Share capital

As at 31 December 2020 and 2019, the authorised, issued and outstanding share capital comprises 1 600 000 ordinary shares. All shares have a nominal value of RUB 3 400, rank equally and carry one vote per share at annual and extraordinary general meetings of the Bank's shareholders.

In 2020 and 2019 the Bank did not declare any dividends.

22. Risk management, corporate governance and internal control

Corporate governance framework

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

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

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

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

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

Supervisory Board. As at 31 December 2020, the Supervisory Board of the Bank comprises:

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

During 2020, there were no changes in the composition of the Supervisory Board. In 2019, the Supervisory Board was changed as follows: Obata Hironobu was relieved from the post of Chairman of the Supervisory Board, and Ljubica Ivo Josko was elected Chairman of the Supervisory Board.

The Supervisory Board exclusively approves 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 organisational matters related to General meetings of shareholders, as required by law and Bank's Charter;
- decisions on issue of bonds and other securities by the Group;
- recommendations on dividends amount and payment procedures;
- utilisation of the reserve and other funds;
- approval of internal documents, except when required to be approved by the General meeting of shareholders or when the Charter requires the approval by the executive bodies;
- opening and closing of branches and representative offices;
- approving significant and self-dealing transactions, except for transactions, that are required to be approved by the General meetings of shareholders;
- approval of Bank's Risk and Capital Management Strategy and risk management procedures for those risks that are most significant to the Bank and control of implementation of these procedures;
- approval of application of banking risk management techniques and models for quantitative assessment of risks, including assets and liabilities and off-balance sheet 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 Department (IAD) and IAD working plans;
- approval of staff policy including remuneration of management;
- other matters, as required by the legislation and the Bank's Charter.

Executive bodies of the Bank. Current operations of the Bank are managed by the sole executive body (the "President") and a 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 2020, the Management Board includes:

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

During 2020, there were no changes in the composition of the Management Board. In 2019, the following changes occurred in the Management Board: Anna Shengelevich was relieved of the duty as a member of the Management Board, and Alexey Lukuttsov was elected a member of the Management Board.

Intermal 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 authorisation, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, and regulatory reports;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

The Bank's internal control comprises:

- the General meeting of shareholders;
- the Supervisory Board;
- Executive bodies: the President and the Management Board;
- the Controller;
- the Chief Accountant and the Deputy Chief Accountant;
- other employees, functions and services responsible for compliance with established standards, policies, and procedures, including:

- the Internal Audit Department;
- the officer responsible for anti-money laundering procedures and financing of terrorism prevention and the subordinate financial monitoring function;
- the Compliance officer;
- the Credit policy and risk management department; and
- other divisions and (or) employees responsible for internal control.

The Supervisory and Management Boards have responsibility for the development, implementation and maintaining of internal controls in the Bank that are appropriate for the scale and nature 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 Department performs continuous and independent assessment of the operating effectiveness of internal control, identifies failures and deficiencies in the Bank's control environment and monitors their timely resolution and correction. The Internal Audit Department functions include:

- review and assessment of efficiency of the internal control as a whole, fulfilment of the decisions of the Bank's management bodies;
- review of efficiency of assessment of banking risks methodology and risk management procedures regulated by internal documents of the Bank (methods, programs, rules and procedures for banking operations and transactions, and for the management of banking risks);
- review of reliability of the 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;
- review of the existing procedures (methods) aimed at securing the Bank's property;
- assessment of economic feasibility and efficiency of operations and other deals of the Group;
- review of internal control processes and procedures;

- review of internal control and risk management functions.

The Internal Audit Department 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 Department during 2020 was in compliance with the Bank's internal documentation. The Supervisory Board and executive management periodically discussed reports prepared by the Internal Audit Department, and considered proposed corrective actions. The reports included observations made by the Internal Audit Department as to their assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for their 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 regulatory (compliance) risk;
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of possible consequences;
- monitoring of regulatory risk;
- provision of 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 behaviour rules, code of professional ethics and minimization of conflicts of interest;
- analysis of dynamics of clients' complaints (requests, applications);
- analysis of economic feasibility of agreements with the Bank's suppliers;
- participation in communications with authorities, self-regulated organisations, associations and financial market participants.

The Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity* and Bank of Russia Ordinance dated 1 April 2014 No. 3223-U *On the Requirements for Heads of Risk Management Department, Internal Control Department and Internal Audit Department of a Credit Institution,* establish professional qualifications, business reputation and other requirements for the members of the Supervisory and Management Boards, heads of the internal audit, internal control function, risk management function and other key management personnel. As at the date of these consolidated financial statements, the heads of the respective functions comply with the requirements set by the legislation 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 authorisation 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 by the Bank, 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 for recovery;
- 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 authorisation 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 the Internal Audit Department and the internal control system is appropriate for the scale, nature and complexity of operations.

Information about risk and capital management system

Risk and Capital Management Strategy

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

The Bank has established a risk and capital management system through the implementation of internal procedures for assessment of capital adequacy (“IPACA”). Requirements for these procedures are set in Bank of Russia Ordinance No. 3624-U dated 15 April 2015. IPACA are adequate to the scale of operations performed by the Bank, as well as to the level and combination of risks.

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

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

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

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

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

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

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

Organisation of risk and capital management process

The Supervisory Board approves the Bank's Risk and Capital Management Strategy, inter alia, relating to maintenance of sufficient own funds (capital) and liquidity to cover risks across the Bank and related to specific business activities, as well as approves the risk management policies of the Bank and controls over their implementation.

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

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

The Risk Management Committee responsibilities include:

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

The Credit Committee responsibilities include:

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

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

The Asset and Liability Committee responsibilities include:

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

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

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

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

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

The Credit Policy and Risk Management Department and the Bank's Internal Audit Department periodically prepare reports in accordance with internal documents on management of the major risks of the banking group whose parent credit organisation is the Bank and on assessment of the effectiveness of measures taken. These reports include observations in relation to assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

As at 31 December 2020, the Bank's Internal Audit Department was subordinated to, and reporting 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 2020, establishing the procedures and methodologies for identifying and managing the major risks of the banking group whose parent credit organisation is the Bank, and for stress-testing was approved by the authorised management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia.

Information about the risks accepted by the Group

In 2020 the annual risk analysis was performed and the following significant risks were determined:

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

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

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

Capital management procedures

In order to maintain the level of capital that corresponds to the nature and scale of the Group's operations, the Group developed a capital management procedure.

The Bank determines risk appetite in order to ensure a stable going concern basis in the longer term. Risk appetite is determined by the Risk and Capital Management Strategy of the Bank based on total ultimate risk accepted by the Group and targets established in the Business Development Strategy.

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

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

- Regulatory level of adequacy of own funds (capital) (base capital, main capital and total amount of capital required) defined in accordance with Bank of Russia Regulation No. 646-P and Bank of Russia Instruction No. 199-I;
- Level of adequacy of the Bank's available capital expressed as a percentage of required capital to cover its risk exposures (economic capital).

Qualitative indicators include the following:

- Assessment of potential risks and analysis of possibility to comply with the established risk appetite framework when the Bank makes a decision to enter new markets and perform new kinds of operations (introduce new products);
- Risk/benefit assessment in management decision-making.

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

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

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

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

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

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

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

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

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

As at 31 December 2020, the Bank has a reporting system prepared under IPACA, which also includes reports on: results of IPACA compliance, results of stress-testing, significant risks, amount of capital, results of capital adequacy assessment and compliance with statutory ratios.

The frequency of reports prepared by risk management functions and the Internal Audit Department of the Bank during 2020 within the IPACA was in compliance with the Bank's internal documentation.

As at 31 December 2020, the Supervisory Board and the Management Board had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Bank's risk management procedures and their consistent application during 2020, the Supervisory Board and the Management Board periodically discussed reports prepared by the Credit Policy and Risk Management Department and the Internal Audit Department of the Bank, and considered proposed corrective actions.

Credit risk

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

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

Credit risks management system is based on the following principles:

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

Basic actions for credit risk management:

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

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

In order to assess the risk and calculate the amount of regulatory capital to cover the default risk, the Bank uses a standardised credit risk assessment approach established by Bank of Russia Instruction No. 199-I, as well as Bank of Russia Regulations No. 590-P and 611-P. This method is used for all of the Bank's activities, including corporate, retail and interbank lending.

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

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

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

The general limits include regulatory credit limits based on the mandatory ratios N20.0, N20.1, N20.2, N20.4, N22, as well as the limits on major concentration of risk by geographic location of borrowers (individuals and legal entities).

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

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

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

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

As at 31 December 2020 and 31 December 2019, the Group did not violate the mandatory standards established by the Bank of Russia, which are aimed at limiting the amount of credit risk.

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

Market risk

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

The objective of market risk management is to control market risk exposures of the Group within acceptable parameters defined in accordance with the Bank's Business Development Strategy.

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

- collection of current and objective information on the status and exposure to the market risk;

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

In the course of market risk management the Bank is governed by the following principles:

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

The goals and objectives of market risk management are achieved through compliance with the above principles using the following methods:

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

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

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

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

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

The following limits are used to manage the market risk:

- the required amount of capital to cover market risk calculated in accordance with Bank of Russia Instruction No. 199-I *On Mandatory Banks' Ratios*;
- the cumulative long (short) open position in all foreign currencies, as well as a balancing position in roubles , as a percentage of the Bank's capital;
- the amount of any long (short) open position in a given foreign currency, as well as the balancing position in Russian Roubles, as a percentage of the Bank's capital;

(in thousands of Russian Roubles)

- the percentage share of the open positions in a given foreign currency in the amount of the Bank's capital;
- the VaR indicator.

Value-at-risk (VAR) assessment methodology

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

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

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

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

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

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

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

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

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

	31 December 2020	31 December 2019
Foreign exchange risk	7 948	1 022
Interest rate risk	299 294	147 343

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 recognised by supplementing VAR limits with other open position and sensitivity limit structures, including structural gap analysis.

Interest risk on the banking portfolio

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

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

The main sources of the interest risk are the following:

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

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

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

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

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

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

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

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

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

(in thousands of Russian Roubles)

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

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

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

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

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

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

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

Average effective interest rates for interest bearing assets and liabilities as at 31 December 2020 and as at 31 December 2019 are provided in the table below. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2020 Average effective interest rate, %			**2019 Average effective interest rate, %**		
	RUB	**USD**	**EUR**	**RUB**	**USD**	**EUR**
Interest bearing assets						
Nostro accounts with banks	0.53	0.08	-0.25	0.02	0.46	0.50
Loans to banks	3.98	-	-	5.70	-	-
Loans to customers	11.29	-	-	12.03	9.30	-
Net investments in finance leases	13.31	-	-	18.48	-	-
Interest bearing liabilities						
Loans from banks	6.59	-	-	7.66	-	-
Other borrowings and customer accounts	6.33	-	-	7.14	-	-
Bonds issued	7.06	-	-	7.88	-	-
Lease liabilities (other liabilities)	6.29	-	-	7.47	-	-

Currency risk

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

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

Types of currency risk are as follows:

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

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

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

OCP may be:

- short – when the value of recognised and off-balance sheet liabilities exceeds the value of recognised and off-balance sheet assets in each currency;
- long – when the value of recognised and off-balance sheet assets exceeds the value of recognised and off-balance sheet liabilities in each currency.

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

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

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

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

(in thousands of Russian Roubles)

The following table shows the currency structure of assets and liabilities as at 31 December 2020:

	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	2 190 737	44 610	33 214	-	2 268 561
Mandatory reserve deposit with the Bank of Russia	336 342	-	-	-	336 342
Loans to banks	4 300 397	-	-	-	4 300 397
Loans to customers	66 633 127	-	-	-	66 633 127
Net investments in finance leases	1 536 169	-	-	-	1 536 169
Property, equipment and intangible assets	906 340	-	-	-	906 340
Current tax assets	188 741	-	-	-	188 741
Other assets	592 136	5 296	-	-	597 432
Total assets	**76 683 989**	**49 906**	**33 214**	**-**	**76 767 109**
LIABILITIES					
Loans from banks	33 649 738	-	-	-	33 649 738
Other borrowings and customer accounts	13 899 567	-	-	-	13 899 567
Bonds issued	13 213 398	-	-	-	13 213 398
Deferred tax liabilities	236 520	-	-	-	236 520
Other liabilities	923 779	-	-	30	923 809
Total liabilities	61 923 002	-	-	30	61 923 032
Net position	**14 760 987**	**49 906**	**33 214**	**(30)**	**14 844 077**

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

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

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

	31 December 2020		31 December 2019	
	Decrease, %	**Effect**	**Decrease, %**	**Effect**
Depreciation of USD against RUB	15%	(5 989)	15%	(885)
Depreciation of EUR against RUB	15%	(3 986)	15%	(736)

Depreciation of the Russian rouble against the above currencies would have had the opposite effect, provided that all other variables remained constant.

Stock market risk

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

The Group does not have a significant exposure to stock market risk as it is not involved in stocks trading.

Operational risk

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

The model risk is the risk of loss arising from the poor efficiency or inadequacy of the models used by the Group.

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

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

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

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

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

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

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

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

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

The Group's operational risk management system is in the process of being brought in compliance with the requirements of Bank of Russia Regulation No. 716-P of 08.04.2020 *On the Requirements for the Operational Risk Management System in a Credit Institution or a Banking Group* dated 1 January 2022.

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

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

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

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

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

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

- **Risk awareness**. The management of all levels is responsible for managing the operational risk in the relevant field of activity. The banking operations are carried out in accordance with the rules and procedures approved by the Group, within the established authority, limits and restrictions. New banking operations are not allowed if regulations or appropriate decisions of the collegial bodies regulating the procedures for the transaction are not available.

- **"Four eyes principle".** Segregation of different functions, crosschecking, double control over the use of assets, a system of two signatures for the important documents, etc.

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

The operational risk assessment is carried out in accordance with the requirements of Bank of Russia Regulation No. 716-P dated 8 April 2020 *On the Requirements for the Operational Risk Management System in a Credit Institution or a Banking Group*. When calculating capital requirements to cover operational risk, the Bank follows the standardised approach of Bank of Russia Instruction No. 199-I *On Mandatory Banks' Ratios*.

As at 31 December 2020 and 31 December 2019, the banking group with the Bank acting as the parent credit institution complied with the mandatory ratios set by the Bank of Russia.

Liquidity risk

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

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

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

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

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

The Bank's Supervisory Board determines the liquidity management strategy across the Bank, in particular: approves the Liquidity Policy, hears the information on the liquidity position and provides recommendations on the general liquidity management strategy of the Bank.

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

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

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

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

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

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

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

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

The Credit Policy and Risk Management Department:

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

The liquidity management policy is based on the following principles:

- prediction of cash flows by main currencies and calculation of the required level of the liquid assets related to these cash flows;
- maintaining a diversified structure of funding sources;
- managing the borrowed funds concentration and structure;
- development of plans for attracting financing through borrowed funds;

- maintaining a portfolio of highly liquid assets that can be easily realised serving as a protective measure in case of an immediate liquidity gap;
- development of contingency plans for maintaining liquidity and a given level of funding;
- control over compliance of liquidity levels with the legislatively established ratios.

The following instruments are used to manage the liquidity risk:

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

(in thousands of Russian Roubles)

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

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

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

As at 31 December 2020 and 31 December 2019, the Bank complied with the mandatory liquidity ratios set by the Bank of Russia. The following table shows the mandatory liquidity ratios calculated as at 31 December 2020 and 31 December 2019:

	Requirement	**31 December 2020**	**31 December 2019**
Instant liquidity ratio (N2)	Not less than 15%	120.2%	125.8%
Current liquidity ratio (N3)	Not less than 50%	233.7%	196.3%
Long-term liquidity ratio (N4)	Not more than 120%	82.1%	102.4%

- *Scenario analysis (stress testing)* provides the identification of alternative scenarios for development of the market situation and their impact on the liquidity of the Bank, as well as the development of a behavioral strategy in case of an unexpected liquidity crisis in the Bank. The scenario analysis is performed at least quarterly. The following three main scenarios are considered:

- "Normal", i.e. operations under normal business activity. This is a basic scenario for forward- looking liquidity risk assessment.
- "Unfavourable", i.e. operations under a temporary liquidity crisis in the Bank. This scenario implies possible unfavourable developments for the Bank that may relate to emerging negative publicity of the Bank, actions of certain Bank's creditors and borrowers, early redemption of liabilities, and delinquency of large assets.

- "Stress", implies operations in a general market crisis environment. Under this scenario of the liquidity analysis, the Bank's solvency is tested in the environment of sharp changes in the financial markets and absence of internal problems within the Bank caused by other factors. The following external factors of the Bank's activity are assumed: attraction of interbank loans is impossible, there is a sharp drop in prices in the securities market, an increase in discounts on sale and repurchase transactions at least twice from the current value.

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

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

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

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

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

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

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

The following tables show the undiscounted cash flows on financial assets and liabilities and credit- related commitments on the basis of their earliest possible contractual maturity. The total gross cash inflows and outflows disclosed in the tables are the contractual undiscounted cash flow on the financial asset, liability or commitment. Information on commitments is disclosed in Note 24.

The position as at 31 December 2020 is as follows:

(in thousands of Russian Roubles)

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount	Carrying amount
Financial assets						
Cash and cash equivalents	2 268 561	-	-	-	2 268 561	2 268 561
Loans to banks	4 306 751	-	-	-	4 306 751	4 300 397
Loans to customers	3 750 752	6 500 751	19 321 511	50 985 418	80 558 433	66 633 127
Net investments in finance leases	94 553	185 417	862 554	636 537	1 779 061	1 536 169
Other financial assets	15 595	111 574	-	47 709	174 878	174 878
Total financial assets	**10 436 212**	**6 797 742**	**20 184 065**	**51 669 665**	**89 087 684**	**74 912 735**
Financial liabilities						
Loans from banks	1 704 159	3 352 986	11 086 793	20 184 043	36 327 981	33 649 738
Other borrowings and customer accounts	525 140	1 212 419	3 378 612	8 045 679	13 161 850	13 899 567
Bonds issued	-	131 610	788 410	14 084 210	15 004 230	13 213 398
Other financial liabilities	193 620	1 889	207 911	485 559	888 979	888 978
Total financial liabilities	**2 422 919**	**4 698 904**	**15 461 726**	**42 799 491**	**65 383 040**	**61 678 600**
Net position as at 31 December 2020	**8 013 293**	**2 098 838**	**4 722 339**	**8 870 174**	**23 704 644**	**13 234 135**

The position as at 31 December 2019 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount	Carrying amount
Financial assets						
Cash and cash equivalents	2 704 789	-	-	-	2 704 789	2 704 789
Loans to banks	2 000 168	-	-	-	2 000 168	2 000 168
Loans to customers	6 959 095	6 843 407	19 386 394	54 288 527	87 477 423	71 020 615
Net investments in finance leases	8 954	17 740	77 123	111 120	214 937	198 607
Other financial assets	15 269	89 767	27 192	20 516	152 744	152 744
Total financial assets	**11 688 275**	**6 950 914**	**19 490 709**	**54 420 163**	**92 550 061**	**76 076 923**
Financial liabilities						
Loans from banks	2 739 501	5 665 013	13 648 330	16 106 192	38 159 036	35 170 345
Other borrowings and customer accounts	1 614 303	150 032	3 551 475	9 664 927	14 980 737	14 032 949
Bonds issued	-	-	5 896 210	9 116 830	15 013 040	13 176 907
Other financial liabilities	221 170	13 962	209 672	-	444 804	444 804
Total financial liabilities	**4 574 974**	**5 829 007**	**23 305 687**	**34 887 949**	**68 597 617**	**62 825 005**
Net position as at 31 December 2019	**7 113 301**	**1 121 907**	**(3 814 978)**	**19 532 214**	**23 952 444**	**13 251 918**
Credit related commitments	**100 000**	-	-	-	**100 000**	**100 000**

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

Non-financial assets and liabilities as at 31 December 2020 and 31 December 2019, excluding property, equipment and intangible assets, are current.

Concentration risk

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

The Group determines the following forms of concentration risk:

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

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

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

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

Business risk

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

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

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

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

(in thousands of Russian Roubles)

23. Capital management

The Bank of Russia establishes and monitors compliance with the capital requirements of the banking group, the parent credit institution of which is the Bank.

The Bank classifies as capital those items that are defined in accordance with the legislation as items making up capital. The Bank calculates the amount of capital in accordance with Bank of Russia Regulation No. 509-P dated 3 December 2015 *On Calculating the Amount of Equity (Capital), Mandatory Ratios and the Amount (Limits) of Open Currency Positions of Banking Groups* (hereinafter – Regulation No. 509-P).

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

The Bank provides the territorial Bank of Russia office 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.

If the capital adequacy ratios are close to the indicators set by the Bank of Russia and the Bank's internal policy, this situation is submitted for discussion to the Supervisory Board and Management. As at 1 January 2020 and 2019, the Group's capital adequacy ratios were in compliance with the established requirements.

The calculation of capital adequacy as at 1 January 2021 and 1 January 2020, based on the legislation requirements, is presented below:

	1 January 2021	1 January 2020
Common Equity Tier 1 (CET 1)	11 716 704	11 446 055
Additional capital	-	-
Tier 1 Capital	**11 716 704**	**11 446 055**
Additional capital	1 256 526	294 621
Equity (capital)	**12 973 230**	**11 740 676**
Risk-weighted assets used to determine Common Equity Tier 1 (CET 1) adequacy and Tier 1 Capital adequacy	**74 901 355**	**76 174 929**
Risk-weighted assets used to determine total capital adequacy	**74 890 745**	**76 164 192**
CET 1 adequacy ratio (N20.1)	16.0%	15.0%
Tier 1 Capital adequacy ratio (N20.2)	16.0%	15.0%
Total capital adequacy ratio (N20.0)	17.7%	15.4%
Financial leverage (N20.4)	17.7%	15.4%

As at 1 January 2021, the minimum values of the ratios N20.1, N20.2, N20. 0 and N20. 4 were 4.5%, 6.0%, 8.0% and 3.0%, respectively (2019: 4.5%, 6.0%, 8.0% and 3.0%, respectively).

The impact of application of easements granted by the Central Bank of the Russian Federation on regulatory capital and statutory ratios is disclosed in the Bank's financial statements prepared in accordance with the rules for preparation financial statements for credit institutions established in the Russian Federation.

24. Contingencies

Insurance

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

Litigation

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

Contingent tax liabilities

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

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

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

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

Credit related commitments

(in thousands of Russian Roubles)

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

As at 31 December 2020, there are no contractual amounts of unused credit lines (2019: RUB 100 000 thousand). These commitments do not represent an expected cash outflow, as they may terminate without their partial or complete fulfilment. Most of the commitments to extend loans and credit lines do not represent the Group's unconditional obligations. As at 31 December 2019, these commitments were classified in Stage 1 and assigned good credit quality.

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

25. Related party transactions

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

Transactions with the members of the Supervisory and Management Boards. Total remuneration for 2020 and 2019 included in staff costs (Note 10) is as follows:

	2020	**2019**
Wages and salaries	44 765	43 403
Bonuses	15 069	11 444
Apartment rent	1 604	1 189
Others	10 079	10 297
	71 517	**66 333**

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

(in thousands of Russian Roubles)

The outstanding balances and average effective interest rates as at 31 December 2020 and related income and expenses for 2020 from transactions with other related parties are as follows:

	Parent company		Others		
	Carrying value	Average effective interest rate, %	Carrying value	Average effective interest rate, %	Total
Consolidated statement of financial position					
Other borrowings and customer accounts					
- In RUB	-	-	12 091 697	6.33	**12 091 697**
Other assets					
- In RUB	-	-	51 708	-	**51 708**
- In EUR	-	-	-	-	**-**
Other liabilities					
- In RUB	-	-	51 698	-	**51 698**
- In USD	-	-	218	-	**218**
Consolidated statement of profit or loss and other comprehensive income					
Interest expense	-	-	(890 241)	-	**(890 241)**
Fee and commission income	-	-	-	-	**-**
Expenses on guarantee	-	-	(23 454)	-	**(23 454)**
Other income	-	-	8 113	-	**8 113**
Other general and administrative expenses	(74 605)	-	(23 454)	-	**(98 058)**

As at 31 December 2020 and 31 December 2019, Toyota Motor Finance (the Netherlands) B. V. guarantees payments on the Group's issued bonds under the bond program in the amount of RUB 100 billion until 2032 (the guarantee was received on 7 November 2017). For the amount of the issued bonds, the Group pays a guarantee fee to the related party at the rate of 0.17% of the weighted average outstanding portion of the bonds.

The outstanding balances and average effective interest rates as at 31 December 2019 and related income and expenses for 2019 from transactions with other related parties are as follows:

	Parent company		Others		
	Carrying value	Average effective interest rate, %	Carrying value	Average effective interest rate, %	Total
Consolidated statement of financial position					
Other borrowings and customer accounts					
- In RUB	-	-	17 064 625	8,29	**17 064 625**
Subordinated loans in RUB	-	-	862 097	8,66	**862 097**
Other assets					
- In RUB					
- In EUR	-	-	8 379	-	**8 379**
Other liabilities	-	-	-	-	**-**
- In RUB					
- In USD	-	-	2 142	-	**2 142**
Consolidated statement of profit or loss and other comprehensive income	-	-	176	-	**176**

(in thousands of Russian Roubles)

Interest expense	-	-	(1 415 329)	-	**(1 415 329)**
Expenses on guarantee	-	-	(9 478)	-	**(9 478)**
Other income	-	-	-	-	**-**
Other general and administrative expenses	(32 236)	-	(32 215)	-	**(64 451)**

26. Fair values of financial assets and liabilities

The estimates of fair value are intended to determine the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable 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 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 2020 and 31 December 2019, the carrying amounts and fair values of financial assets and liabilities are as follows:

	2020		**2019**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	2 268 561	2 268 561	2 704 789	2 704 789
Loans to banks	4 300 397	4 300 397	2 000 168	2 000 168
Loans to customers:				
Loans to auto dealers	2 755 402	2 745 277	6 040 946	6 007 936
Retail loans	63 877 725	63 283 632	64 979 669	65 947 460
Net investments in finance leases	1 536 169	1 567 217	198 607	198 607
	74 738 254	**74 165 084**	**75 924 179**	**76 858 960**
Loans from banks	33 649 738	34 500 671	35 170 345	35 912 559
Other borrowings and customer accounts	13 899 567	14 188 434	14 032 949	14 338 909
Bonds issued	13 213 398	13 544 421	13 176 907	13 484 796
	60 762 703	**62 233 526**	**62 380 201**	**63 736 264**

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

- discount rate of 11.90% is used for discounting retail loans to customers in RUB, which represent weighted average interest rate for loans issued by the Group during 4th quarter of 2020 (2019: 10.95% on RUB-denominated loans determined as the weighted average interest rate on loans issued by the Group during the 4th quarter of 2019)
- discount rate of 6.59% is used for discounting loans to auto dealers, which represent the weighted average interest rate for loans issued by the Group during the 4th quarter 2020 (2019: 9.27%, which represents the weighted average interest rate for loans issued by the Group during the 4th quarter of 2019);

- discount rate for loans from banks is equal to Mosprime non-deliverable forwards rates for respective tenor and currencies;
- discount rate of 4.69% is used for discounting other borrowings from customers, which represent the weighted average interest rate for borrowings attracted by the Bank during the 4th quarter of 2020 (2019: 6.44%, which represents the weighted average interest rate for borrowings attracted by the Bank during the 4th quarter of 2019);
- discount rate of 12.78% is used for net investments in finance leases(2019: 15.24%).

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 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 retail loans and loans from banks, and the fair value of other borrowings and customer accounts is classified to Level 2 in the fair value hierarchy, with the exception of credit-impaired loans that are classified to Level 3 in the fair value hierarchy (2020: RUB 431 465 thousand; 2019: RUB 244 474 thousand). The fair value of loans to auto dealers, as well as net investments in finance leases are referred to Level 3 in the fair value hierarchy. The fair value of the bonds issued belongs to Level 1 in the fair value hierarchy.

The fair value of financial assets and financial liabilities not presented in the table above does not differ materially from the carrying amount and is assigned to Level 3 in the fair value hierarchy.

The Bank has no financial assets and financial liabilities carried at fair value. All financial assets and financial liabilities are recorded as measured at amortised cost, and their fair values are disclosed separately.

27. Analysis by segment

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

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

(in thousands of Russian Roubles)

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.

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

Segment information for each reportable segment as at 31 December 2020 and for 2020 is set out below:

	Retail credit operations	Financing of auto dealers	Net invest-ments in finance leases	Unallocated	Total
Segment financial result					
Interest income	7 507 059	-	100 244	237 224	7 844 527
Interest expense	(3 925 309)	(297 367)	(55 641)	(134 979)	(4 413 296)
Net interest income	**3 581 750**	**(297 367)**	**44 603**	**102 245**	**3 431 231**
Fee and commission income	4 239	23 302	8 113	-	35 654
Fee and commission expense	(2)	-	(56)	(102 169)	(102 227)
Net fee and commission (expense) income	**4 237**	**23 302**	**8 057**	**(102 169)**	**(66 573)**
Other operating income	183 759	53	-	5 825	189 637
Charge of ECL allowance	(586 346)	46 698	(3 823)	-	(543 471)
Provision for the car buyback program	(377)	-	-	-	(377)
Total segment result	**3 183 023**	**(227 314)**	**48 837**	**5 901**	**3 010 447**
Segment assets					
Cash and cash equivalents	-	-	-	2 268 561	2 268 561
Loans to banks	-	-	-	4 300 397	4 300 397
Loans to customers	63 877 725	2 755 402	-	-	66 633 127
Net investments in finance leases	-	-	1 536 169	-	1 536 169
Total assets	**63 877 725**	**2 755 402**	**1 536 169**	**6 568 958**	**74 738 254**
Segment liabilities					
Loans from banks	28 366 750	2 806 743	451 912	2 024 334	33 649 738
Other borrowings and customer accounts	12 691 575	135	1 207 857	-	13 899 567
Bonds issued	13 213 398	-	-	-	13 213 398
Total liabilities	**54 271 723**	**2 806 878**	**1 659 768**	**2 024 334**	**60 762 702**

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

(in thousands of Russian Roubles)

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

Segment information for each reportable segment as at 31 December 2020 and for 2019 is set out below:

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

(in thousands of Russian Roubles)

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

	2020	2019
Total segment result	3 010 447	3 240 390
Net foreign exchange loss	8 407	5 031
Staff costs	(564 495)	(532 790)
Other general and administrative expenses	(1 060 016)	(1 086 986)
Profit before income tax	**1 394 343**	**1 625 645**

Koloshenko A.V.
President

«Тойота Банк»
АО Toyota Bank

Ryabinina S.I.
Chief accountant

29 April 2021