AO Toyota Bank

Interim Condensed Financial Statements
for the six months ended 30 June 2018

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To the Shareholders and Supervisory Board of AO Toyota Bank

Introduction

We have reviewed the accompanying interim condensed statement of financial position of AO Toyota Bank (the "Bank") as at 30 June 2018, and the related interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim condensed financial statements (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of this interim condensed financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements as at 30 June 2018 and for the six-month period then ended is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Other information

The review of the comparative information for the six-month period ended 30 June 2017 was not performed.

Акционерное общество ОГРН 1027700125628
КПМГ
KPMG
Москва

Shevarenkov E.V.

JSC "KPMG"
Moscow, Russia
29 August 2018

(expressed in thousands of Russian Roubles)

		For the six months ended 30 June (unaudited)	
	Notes	**2018**	**2017***
Interest income calculated using the effective interest method	6	3 373 136	3 476 255
Interest expense	6	(1 948 746)	(1 992 283)
Net interest income		**1 424 390**	**1 483 972**
Fee and commission income		18 642	88 821
Fee and commission expense		(33 305)	(87 474)
Net fee and commission (expense) income		**(14 663)**	**1 347**
Net foreign exchange income (expense)		477	(346)
Other operating income		126 770	94 089
Operating income		**1 536 974**	**1 579 062**
Charge for expected credit loss (2017: impairment losses)	7	(247 859)	(315 564)
Personnel expenses		(270 485)	(286 900)
Provision under buy-back program		(7 344)	91
Other general and administrative expenses		(404 299)	(455 140)
Profit before income tax		**606 987**	**521 549**
Income tax expense		(126 087)	(113 159)
Profit and total comprehensive income for the period		**480 900**	**408 390**

** not reviewed*

The interim condensed financial statements were approved by the Management Board on 29 August 2018.

Koloshenko A.V.
President

Ryabinina S.I.
Chief Accountant

(expressed in thousands of Russian Roubles)

	Notes	30 June 2018 (unaudited)	31 December 2017*
ASSETS			
Cash and cash equivalents		1 136 143	1 202 696
Mandatory reserve deposit with the Bank of Russia		214 562	238 908
Loans to banks		950 479	3 343 251
Loans to customers	7	56 775 772	51 578 465
Property, equipment and intangible assets		263 431	264 801
Current tax asset		40 483	25 328
Other assets		325 455	150 565
Total assets		**59 706 325**	**56 804 014**
LIABILITIES			
Loans from banks		27 000 457	19 957 380
Other borrowings and customers' accounts	8	14 429 470	15 520 032
Bonds issued	9	5 021 287	8 123 028
Subordinated borrowings	9	861 693	1 414 555
Deferred tax liability		158 053	140 027
Other liabilities		337 825	322 185
Total liabilities		**47 808 785**	**45 477 207**
EQUITY			
Share capital		5 440 000	5 440 000
Additional paid-in capital		1 343 400	1 343 400
Retained earnings		5 114 140	4 543 407
Total equity		**11 897 540**	**11 326 807**
Total liabilities and equity		**59 706 325**	**56 804 014**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (note 2).

Koloshenko A.V.
President

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

Ryabinina S.I.
Chief Accountant

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

(expressed in thousands of Russian Roubles)

	Notes	For the six months ended 30 June (unaudited) 2018	2017*
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		3 325 175	3 335 831
Interest payments		(2 058 144)	(2 036 842)
Fee and commission receipts		18 124	81 274
Fee and commission payments		(33 305)	(89 876)
Net cash (used in) provided from foreign exchange		(134)	80
Other operating income receipts		128 688	93 057
Personnel expenses		(259 534)	(288 444)
Other general and administrative expenses		(346 294)	(402 441)
(Increase) decrease in operating assets			
Mandatory reserve deposit with the Bank of Russia		24 346	(220 502)
Loans to banks		2 391 240	48 504
Loans to customers		(5 495 560)	(936 703)
Other assets		(5 365)	36 001
Increase (decrease) in operating liabilities			
Loans from banks		7 045 691	5 303 265
Other borrowings and customers' accounts		(1 088 382)	(3 964 385)
Other liabilities		3 539	(52 085)
Net cash provided from operating activities before income tax paid		**3 650 085**	**906 734**
Income tax paid		(123 216)	(99 639)
Cash flows provided from operating activities		**3 526 869**	**807 095**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(52 979)	(105 628)
Sales of property, equipment and intangible assets		9 557	1 004
Cash flows used in investing activities		**(43 422)**	**(104 624)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of subordinated borrowings	9	(550 000)	-
Repayment of bonds issued	9	(3 000 000)	-
Cash flows used in financing activities		**(3 550 000)**	**-**
Net (decrease) increase in cash and cash equivalents		**(66 553)**	**702 471**
Cash and cash equivalents as at 1 January		1 202 696	756 306
Cash and cash equivalents as at 30 June		**1 136 143**	**1 458 777**

** not reviewed*

Koloshenko A.V.
President

Ryabinina S.I.
Chief Accountant

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

(expressed in thousands of Russian Roubles)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
Balance as at 1 January 2017	5 440 000	1 343 400	3 584 421	10 367 821
Total comprehensive income				
Profit for the period (unaudited, not reviewed)	-	-	408 390	408 390
Balance as at 30 June 2017 (unaudited, not reviewed)	**5 440 000**	**1 343 400**	**3 992 811**	**10 776 211**
Balance as at 31 December 2017*	5 440 000	1 343 400	4 543 407	11 326 807
Impact of adopting IFRS 9 (note 5)	-	-	89 833	89 833
Balance as at 1 June 2018	**5 440 000**	**1 343 400**	**4 633 240**	**11 416 640**
Total comprehensive income				
Profit for the period (unaudited)	-	-	480 900	480 900
Balance as at 30 June 2018 (unaudited)	**5 440 000**	**1 343 400**	**5 114 140**	**11 897 540**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (note 2).

Koloshenko A.V.
President

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

Ryabinina S.I.
Chief Accountant

1. Background

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

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

The Bank is part of Toyota Motor Corporation (Japan), one of Japan's largest diversified financial conglomerate. As at 30 June 2018 and 31 December 2017 the main shareholder of the Bank is Toyota Kreditbank GmbH (Germany) with 99.94% share.

The Bank's operating income is not subject to seasonal and cyclical industry fluctuations during the financial year. As at 30 June 2018 the Bank's risk profile has not changed significantly compared to that as at 31 December 2017.

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

2. Basis of preparation

Statement of compliance. The accompanying interim condensed financial statements are prepared in accordance with the International Financial Reporting Standard (the IFRS) IAS 34 *Interim Financial Reporting*. They do not include all of the disclosures required in a complete set of the financial statements and should be read in conjunction with the Bank's financial statements for 2017, as these interim condensed financial statements provide an update of previously reported financial information.

Basis of measurement. The interim condensed financial statements are prepared on the historical cost basis.

Functional and presentation currency. The functional currency of the Bank is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The RUB is also the Bank's presentation currency for the purposes of these interim condensed financial statements. All financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgements. 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 interim condensed financial statements in conformity with IFRS. Actual results could differ from those estimates.

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

Judgements, estimates and assumptions, that impact the application of the accounting policy and the key sources of estimating uncertainty, used in preparation of these interim condensed financial statements, are the same to those used in the preparation of the financial statements as at 31 December 2017, except that estimates and assumptions relating to valuation of allowance for expected credit losses (ECL) on loans to customers, including the assessment of whether the credit risk has increased significantly after the initial recognition and the incorporation of forward-looking element in the valuation of ECL (note 4).

Changes in accounting policies and presentation

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Bank has adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2018 and early adopted amendments to IFRS 9 on the same date. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

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

Classification and measurement

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

Impairment of financial assets

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

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

Transition

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

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at 1 January 2018. Accordingly, the information presented for the six-month period ended 30 June 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the six-month period ended 30 June 2018 under IFRS 9.
- The business model in which a financial asset is managed has been assessed on the basis of the facts and circumstances that existed at the date of initial application.
- If a financial asset had low credit risk as at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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

3. Significant accounting policies

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

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

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

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

(a) Interest income and expense

Effective interest rate

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

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

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

Amortized cost and gross carrying amount

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

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

Calculation of interest income and expense

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 amortized cost of the liability.

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

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

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

Presentation

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

(b) Financial assets and liabilities

(i) Classification

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

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

Business model assessment

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

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

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

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

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

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

Reclassification

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

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

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

(iii) Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value. Changes in cash flows on existing financial assets or liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the key rate of the Bank of Russia, if the loan contract entitles the Bank to do so.

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

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

- change the currency of the financial asset;
- change in collateral or other credit enhancement.

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

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

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

Financial liabilities

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

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

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

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- 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 an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

(iv) Impairment

The Bank recognizes allowance for ECL on financial assets that are debt instruments (note 4), and on loan commitments issued.

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

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

Presentation of allowance for ECL in the interim condensed statement of financial position

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

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

Write-offs

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

(c) Presentation of comparative information

As the result of adoption of IFRS 9, the Bank did not change presentation of captions in the key statements of interim condensed financial statements.

(d) Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application if permitted; however, the Bank has not early adopted these new or amended standards when preparing these interim condensed financial statements.

The Bank has no updates to the information provided in the last annual financial statements about the standards issued but not yet effective that may have significant impact on the Bank's interim condensed financial statements.

4. Credit risk analysis

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in note 3.

Significant increase in credit risk

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

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

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

Credit risk grades (ratings)

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

A rating scale used for loans to customers that are not credit-impaired comprises 11 rating categories. For the presentation purposes, these ratings are aggregated in note 8 into three credit quality groups: good (ratings 1-5), average (ratings 6-7) and below average (ratings 8-11).

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

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

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

Generating the term structure of PD

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

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

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

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

Determining whether credit risk has increased significantly

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

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

- 4.5 times for loans, issued to auto dealers;
- 2 times for retail auto loans.

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

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- items that are exposed to credit risk are not transferred directly from the portfolio, on which the allowance is recognized in the amount of 12-month ECL (stage 1) into the portfolio of credit-impaired assets (stage 3);
- lack of groundless volatility of the amount of allowance for ECL during the transfer of positions exposed to credit risk from the portfolio on which the allowance is recognized in the amount of 12-month ECL (stage 1) to the portfolio on which the allowance is recognized in the amount of ECL for the whole term (stage 2).

Modified financial assets

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

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

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

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

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

Definition of default

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

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

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

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

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

Incorporating of forward-looking information

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

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

Measurement of the ECL

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

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

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

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

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

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

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

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

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

(expressed in thousands of Russian Roubles)

5. Transition to IFRS 9

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

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

	IAS 39 carrying amount 31 December 2017 (opening balance)	Measurement basis change	IFRS 9 carrying amount 1 January 2018 (closing balance)
Financial assets			
Amortized cost			
Cash and cash equivalents	1 202 696	-	1 202 696
Mandatory reserve deposits with the Bank of Russia	238 908	-	238 908
Loans to banks	3 343 251	-	3 343 251
Loans to customers	51 578 465	112 291	51 690 756
Other financial assets	150 565	-	150 565
	56 513 885	**112 291**	**56 626 176**

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

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

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

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

(expressed in thousands of Russian Roubles)

6. Interest income and expense

	For six months ended 30 June	
	2018 (unaudited)	**2017*** (unaudited)
Interest income		
Loans to customers	3 270 792	3 412 143
Loans to banks	102 344	64 112
Total interest income	**3 373 136**	**3 476 255**
Interest expense		
Loans from banks	(1 005 516)	(970 915)
Other borrowings and customers' accounts	(629 377)	(798 710)
Bonds issued	(268 633)	(163 915)
Subordinated borrowings	(45 220)	(58 743)
Total interest expense	**(1 948 746)**	**(1 992 283)**
Net interest income	**1 424 390**	**1 483 972**

** not reviewed*

7. Loans to customers

	30 June 2018 (unaudited)	**31 December 2017**
Retail auto loans	48 917 573	44 818 654
Loans to auto dealers	8 768 844	7 770 868
Gross carrying amount of loans to customers	**57 686 417**	**52 589 522**
Allowance for ECL (2017: impairment allowance)	(910 645)	(1 011 057)
Total loans to customers net of allowance for ECL (2017: impairment losses)	**56 775 772**	**51 578 465**

Movements in allowance for ECL during the six months period ended 30 June 2018 (unaudited) and 30 June 2017 (unaudited, not reviewed), is analyzed below:

	Retail auto loans	**Loans to auto dealers**	**Total**
Balance as at 1 January 2017	864 098	392 632	1 256 730
Net charge for impairment losses during the period	145 106	170 458	315 564
Write-offs	(273 696)	-	(273 696)
Balance as at 30 June 2017	**735 508**	**563 090**	**1 298 598**
Balance as at 31 December 2017	681 803	329 254	1 011 057
Impact of adopting IFRS 9 as at 1 January 2018	60 300	(172 591)	(112 291)
Balance as at 1 January 2018	**742 103**	**156 663**	**898 766**
Net charge for ECL during the period	200 591	47 268	247 859
Write-offs	(181 026)	(54 954)	(235 980)
Balance as at 30 June 2018	**761 668**	**148 977**	**910 645**

(expressed 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 30 June 2018 is provided in the table below:

	Gross carrying amount of loans to customers	Allowance for ECL	Loans to customers net of allowance for ECL	Allowance for ECL to gross carrying amount, %
Retail auto loans				
12-month ECL				
Good quality	41 060 893	(71 643)	40 989 250	0.17
Average quality	4 523 698	(38 230)	4 485 468	0.85
Below average quality	258 752	(7 401)	251 351	2.86
	45 843 343	**(117 274)**	**45 726 069**	**0.26**
Life-time ECL for non-credit impaired assets				
Good quality	170 062	(2 321)	167 741	1.36
Average quality	435 241	(15 753)	419 488	3.62
Below average quality	2 031 449	(332 510)	1 698 939	16.37
	2 636 752	**(350 584)**	**2 286 168**	**13.30**
Life-time ECL for credit impaired assets				
Problem	437 478	(293 810)	143 668	67.16
Total retail auto loans	**48 917 573**	**(761 668)**	**48 155 905**	**1.56**
Loans issued to auto dealers				
12-month ECL				
Good quality	6 229 050	(13 554)	6 215 496	0.22
Average quality	1 944 115	(17 821)	1 926 294	0.92
Below average quality	200 311	(3 737)	196 574	1.87
	8 373 476	**(35 112)**	**8 338 364**	**0.42**
Life-time ECL for non-credit impaired assets				
Below average quality	269 790	(9 950)	259 840	3.69
Life-time ECL for credit impaired assets				
Problem	125 578	(103 915)	21 663	82.75
Total loans to auto dealers	**8 768 844**	**(148 977)**	**8 619 867**	**1.70**
Total loans to customers	**57 686 417**	**(910 645)**	**56 775 772**	**1.58**

(expressed in thousands of Russian Roubles)

The table below provides information on the overdue structure of loans to customers as at 30 June 2018:

	Gross carrying amount of loans to customers						
	Good quality	**Average quality**	**Below average quality**	**Problem**	**Total**	**Allowance for ECL**	**Allowance for ECL to gross carrying amount, %**
Retail auto loans							
- not overdue	41 122 541	4 843 478	1 369 491	3 254	47 338 764	(282 818)	0.60
- overdue less than 30 days	108 414	115 461	740 938	1 840	966 653	(136 404)	14.11
- overdue 30-59 days	-	-	91 710	3 296	95 006	(28 287)	29.77
- overdue 60-89 days	-	-	55 029	290	55 319	(16 474)	29.78
- overdue 90-179 days	-	-	26 551	87 544	114 095	(54 752)	47.99
- overdue more than 180 days	-	-	6 482	341 254	347 736	(242 933)	69.86
Total retail auto loans	**41 230 955**	**4 958 939**	**2 290 201**	**437 478**	**48 917 573**	**(761 668)**	**1.56**
Loans to auto dealers							
- not overdue	6 229 050	1 944 115	470 101	-	8 643 266	(45 060)	0.52
- overdue 30-59 days	-	-	-	110 461	110 461	(88 800)	80.39
- overdue 60-89 days	-	-	-	3 429	3 429	(3 429)	100.00
- overdue more than 180 days	-	-	-	11 688	11 688	(11 688)	100.00
Total loans to auto dealers	**6 229 050**	**1 944 115**	**470 101**	**125 578**	**8 768 844**	**(148 977)**	**1.70**
Total loans to customers	**47 460 005**	**6 903 054**	**2 760 302**	**563 056**	**57 686 417**	**(910 645)**	**1.58**

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

	Gross loans	**Impairment allowance**	**Net loans**	**Impairment allowance to gross loans, %**
Retail auto loans				
- not overdue	43 449 072	(257 773)	43 191 299	0.59
- overdue less than 30 days	721 871	(18 347)	703 524	2.54
- overdue 30-59 days	114 005	(16 022)	97 983	14.05
- overdue 60-89 days	48 899	(11 914)	36 985	24.36
- overdue 90-179 days	92 265	(48 184)	44 081	52.22
- overdue more than 180 days	392 542	(329 563)	62 979	83.96
Total retail auto loans	**44 818 654**	**(681 803)**	**44 136 851**	**1.52**
Loans to auto dealers				
Not overdue loans without individual signs of impairment	7 654 621	(264 956)	7 389 665	3.46
Impaired loans, overdue more than 180 days	116 247	(64 298)	51 949	55.31
Total loans to auto dealers	**7 770 868**	**(329 254)**	**7 441 614**	**4.24**
Total loans to customers	**52 589 522**	**(1 011 057)**	**51 578 465**	**1.92**

(expressed in thousands of Russian Roubles)

Analysis of collateral

Retail auto loans

Auto loans are secured by the pledge of the underlying cars.

The Bank assesses the fair value of collateral as at date of loan issue. 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.

Loans to auto dealers

The table below shows the analysis of loans to auto dealers net of allowance for ECL by collateral types as at 30 June 2018 and 31 December 2017:

	30 June 2018 (unaudited)	**Share in loans to auto dealers**	**31 December 2017**	**Share in loans to auto dealers**
Motor vehicles	7 972 581	92.49	6 733 493	90.48
Real estate	647 286	7.51	708 121	9.52
	8 619 867	**100.00**	**7 441 614**	**100.00**

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

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

As at 30 June 2018 and 31 December 2017 the Bank identified signs of impairment for loans issued to one auto dealer.

Significant credit risk exposures

Loans were issued primarily to retail and corporate customers operating in the Russian Federation.

As at 30 June 2018 and 31 December 2017 the Bank has no borrowers or groups of related borrowers whose loan balances individually exceed 10% of total loans to customers.

(expressed in thousands of Russian Roubles)

8. Other borrowings and customers' accounts

	30 June 2018 (unaudited)	**31 December 2017**
Borrowings from Toyota Motor Finance (Netherlands) B. V.	13 038 618	14 052 492
Settlement accounts of corporate customers	678 614	595 667
Current accounts of individuals	712 238	871 873
	14 429 470	**15 520 032**

9. Bonds issued and subordinated borrowings

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

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

Subordinated borrowings are provided by Toyota Motor Finance (Netherlands) B.V., mature in 2018 and 2019 and carry an annual interest rate of 8.46%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank. During the six months ended 30 June 2018, the Bank had no new subordinated borrowings and repaid borrowings in the amount of RUB 550 000 thousand. In 2017 the Bank had no any new subordinated borrowings and made no repayments of principle.

10. Contingencies

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

As at 30 June 2018 the contractual amount of unused credit lines is RUB 400 000 thousand (31 December 2017: RUB 400 000 thousand). The stated commitments do not represent the expected outflow, as these liabilities may be terminated without being fully or partially performed.

(expressed in thousands of Russian Roubles)

11. Related party transactions

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

As at 30 June 2018 and 31 December 2017 there are no outstanding balances with the parent companies. Income and expenses from transactions with the parent companies for the six months ended 30 June 2018 include other general and administrative expenses in the amount of RUB 9 972 thousand (unaudited), for the six months ended 30 June 2017 - other general and administrative expenses in the amount of RUB 16 096 thousand (unaudited, not reviewed).

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

The outstanding balances and average effective interest rates on transactions with other related parties are as follows:

	30 June 2018 (unaudited)		31 December 2017	
	Carrying amount	**Average effective interest rates, %**	**Carrying amount**	**Average effective interest rates, %**
Other borrowings and customers' accounts in RUB	13 346 650	9.40	14 168 434	9.65
Subordinated loans in RUB	861 693	8.66	1 414 555	8.46
Other assets:				
- in RUB	9 712	-	4 707	-
- in Euro	-	-	4 108	-
Other liabilities:				
- in RUB	2 219	-	2 031	-
- in USD	-	-	146	-

Income and expenses from transactions with other related parties is as follows (unaudited):

	For the six months ended 30 June	
	2018	**2017** (not reviewed)
Interest expense	(674 597)	(857 452)
Fee and commission expense	(216)	-
Expenses on guarantee	(5 193)	(2 529)
Other income	-	26
Other general and administrative expenses	(16 245)	(13 990)

Transactions with the members of the Supervisory and Management Boards. The total amount of remuneration for the six months ended 30 June 2018 and 2017, included in the personnel expenses is presented as follows (unaudited):

	For the six months ended 30 June	
	2018	**2017** (not reviewed)
Wages and salaries	23 200	23 435
Bonuses	3 556	9 058
Apartment rent	1 207	1 939
Others	4 694	5 564
	32 657	**39 996**

(expressed in thousands of Russian Roubles)

12. Fair values of financial assets and liabilities

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

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

As at 30 June 2018 и 31 December 2017, the carrying amounts and fair values of financial assets and liabilities are as follows:

	30 June 2018 (unaudited)		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	1 136 143	1 136 143	1 202 696	1 202 696
Loans to banks	950 479	950 479	3 343 251	3 343 251
Loans to customers:				
Loans to auto dealers	8 619 867	8 458 823	7 441 614	7 301 755
Retail auto loans	48 155 905	48 918 708	44 136 851	45 246 844
	58 862 394	**59 464 153**	**56 124 412**	**57 094 546**
Loans from banks	27 000 457	27 411 530	19 957 380	20 616 268
Other borrowings and customers' accounts	14 429 470	14 738 191	15 520 032	16 048 330
Bonds issued	5 021 287	5 086 960	8 123 028	8 153 083
Subordinated borrowings	861 693	880 770	1 414 555	1 448 466
	47 312 907	**48 117 451**	**45 014 995**	**46 266 147**

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

- discount rates of 11.9% and 9.2% are used for discounting future cash flows in RUB and USD from retail auto loans to customers, which represent average interest rates for auto loans issued by the Bank for six months ended 30 June 2018 (31 December 2017: 13.3% and 9.2% accordingly, which represent average interest rates for auto loans issued by the Bank in 2017);
- discount rate of 10.4% is used for loans to auto dealers (31 December 2017: 11.2%) and is estimated with reference to Mosprime non-deliverable forwards rates for respective tenor and currencies plus 3.0% (31 December 2017: 3.5%);
- discount rates on loans to and from banks and on subordinated loans are determined based on MosPrime rate under non-deliverable forwards on the corresponding terms and currencies.

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

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

Fair value of loans to retail auto loans and loans from banks and customers is classified to the level 2. Fair value of loans to auto dealers and subordinated borrowings is classified to the level 3 of fair value hierarchy. The fair value of the issued debt securities refers to Level 1 in the fair value hierarchy.

(expressed in thousands of Russian Roubles)

13. Analysis by segments

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

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

The Bank’s operations are located in the Russian Federation and the Bank primarily issues loans to retail and corporate customers, 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 (the Russian Federation), the geographic analysis is not reported.

The Management measures segment results based on information about net interest margin and the level of assumed credit risk. The financial result by segments consists of interest, net commission and other operating income and of the change of allowance for ECL and provision under buy-back program.

Analysis of the results of each reporting segment as at 30 June 2018 and for the six months ended thereon is presented below (unaudited):

	Retail auto loans	Loans to auto dealers	Unallocated	Total
Segment financial result				
Interest income	2 879 866	390 926	102 344	3 373 136
Interest expense	(1 601 033)	(294 155)	(53 558)	(1 948 746)
Net interest income	**1 278 833**	**96 771**	**48 786**	**1 424 390**
Fee and commission income	2 071	16 571	-	18 642
Fee and commission expense	(33 305)	-	-	(33 305)
Net fee and commission (expense) income	**(31 234)**	**16 571**	**-**	**(14 663)**
Other operating income	115 051	7 700	4 019	126 770
Charge for allowance for ECL	(200 591)	(47 268)	-	(247 859)
Provision under buy-back program	(7 344)	-	-	(7 344)
Total segment result	**1 154 715**	**73 774**	**52 805**	**1 281 294**
Segment assets				
Cash and cash equivalents	-	-	1 136 143	1 136 143
Mandatory reserve deposit in the Bank of Russia	195 562	19 000	-	214 562
Loans to banks	-	-	950 479	950 479
Loans to customers	48 155 905	8 619 867	-	56 775 772
Total assets	**48 351 467**	**8 638 867**	**2 086 622**	**59 076 956**
Segment liabilities				
Loans from banks	17 232 380	7 933 933	1 834 144	27 000 457
Other borrowings and customers’ accounts	13 750 856	678 614	-	14 429 470
Bonds issued	5 021 287	-	-	5 021 287
Subordinated borrowings	861 693	-	-	861 693
Total liabilities	**36 866 216**	**8 612 547**	**1 834 144**	**47 312 907**

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

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

(expressed in thousands of Russian Roubles)

As at and for the six months ended 30 June 2017, an analysis by segments was prepared on a different basis of allocation of assets and liabilities by segments, except for loans to customers and related interest income and expense. Interest expense as well as other segments' assets and liabilities were allocated on the basis of the average gross carrying amount of loans to customers. As a result, the comparative information presented further is not comparable with the analysis presented above. The Bank decided not to recalculate comparative information as the required information is not available and the costs of obtaining it would be excessive.

Analysis of results of each reportable segment as at 31 December 2017 and for the six months ended 30 June 2017 (unaudited, not reviewed), is presented below:

	Retail auto loans	Loans to auto dealers	Unallocated	Total
Segment financial result				
Interest income	2 760 434	715 821	-	3 476 255
Interest expense	(1 573 864)	(418 419)	-	(1 992 283)
Net interest income	**1 186 570**	**297 402**	**-**	**1 483 972**
Fee and commission income	71 352	17 469	-	88 821
Fee and commission expense	(87 474)	-	-	(87 474)
Net commission (expense) income	**(16 122)**	**17 469**	**-**	**1 347**
Other operating income	71 626	1 135	21 328	94 089
Charge for impairment allowance	(145 106)	(170 458)	-	(315 564)
Provision under buy-back program	91	-	-	91
Total segment results	**1 097 059**	**145 548**	**21 328**	**1 263 935**
Segment assets				
Cash and cash equivalents	986 650	216 046	-	1 202 696
Loans to banks	2 742 686	600 565	-	3 343 251
Loans to customers	44 136 851	7 441 614	-	51 578 465
Total assets	**47 866 187**	**8 258 225**	**-**	**56 124 412**
Segment liabilities				
Loans from banks	16 372 334	3 585 046	-	19 957 380
Other borrowings and customers' accounts	12 732 089	2 787 943	-	15 520 032
Bonds issued	6 663 847	1 459 181	-	8 123 028
Subordinated borrowings	1 160 452	254 103	-	1 414 555
Total liabilities	**36 928 722**	**8 086 273**	**-**	**45 014 995**

A reconciliation of segment financial result to profit before income tax is set out below (unaudited):

	For the six months ended 30 June	
	2018	2017
Total segment result	1 281 294	1 263 935
Net foreign exchange income (expense)	477	(346)
Personnel expenses	(270 485)	(286 900)
Other general and administrative expenses	(404 299)	(455 140)
Profit before income tax	**606 987**	**521 549**

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

Koloshenko A.V.
President

Ryabinina S.I.
Chief Accountant