PPF Financial Holdings B.V.

Annual accounts 2017

Content:

Directors' Report

Description of the Company

PPF Financial Holdings B.V.
Date of inception: 30.11.2014
Seat: Netherlands, Strawinskylaan 933, 1077XX Amsterdam
Identification number:
Authorised capital: EUR 45,000
Issued capital: EUR 45,000
Paid up capital: EUR 45,000
Principal business: Holding company activities and financing thereof

Management Board of PPF Financial Holdings B.V. (the "Company"), is pleased to present to you the Directors' report as part of the financial statements for the year 2017. This Directors' report aims to provide a comprehensive overview of significant events within the Company as well as within the group of companies with which it forms a group.

Board of Directors

Jan Cornelis Jansen, Director
Rudolf Bosveld, Director
Paulus Aloysius de Reijke, Director
Lubomír Král, Director
Kateřina Jirásková, Director

General information

The Company is the parent holding company of the group of companies (the "Group") that operates under the name PPF Financial Holdings in the field of financial services. The Group is composed of three main investments: Home Credit Group, PPF banka and ClearBank.

The Home Credit Group (the "HC Group") is the largest component of the Group, which is focused on consumer finance and retail banking. Its activities span from Europe to Russia, the US and across Asia.

PPF banka (the "Bank") is the treasury bank of PPF Group seated in the Czech Republic with sizeable operations in the financial markets, corporate segment, municipalities and private banking.

ClearBank is a start-up bank licensed in the United Kingdom which is focused on providing clearing services. The Group holds a minority interest in ClearBank.

The Company is a 100% subsidiary of PPF Group N.V. ("PPF Group").

For more information, visit www.ppf.eu.

Highlights

<u>The Home Credit Group</u>

2017 was a pivotal year for the Home Credit Group as it rebranded across all its markets to present itself as more innovative, more accessible and more trusted by its customers. The HC Group has continued to balance high growth and strong customer acquisition with solid performance and well-controlled risk.

The key themes of the year were to leverage the HC Group's fintech capabilities – using advanced technology that underpins its acquisition, approval and risk management processes, as well as innovative products, support services like customer apps, and channels like online marketplaces – and improving customer satisfaction, which was evidenced by increased net promoter scores across the HC Group. The HC Group has also been recognised as an employer of choice by numerous awards across its markets.

All key HC Group businesses contributed to this year's profit - the second profitable year in a row. Two of four investment-phase operations (Indonesia and the Philippines) broke even over the course of the year, while the remaining two (India and the United States) remain on track in their development plan.

The HC Group thus boasts a wide portfolio of successful businesses across its footprint, sustaining market-leading positions and command over the fast-growing mobile phone financing market segment in particular. It achieves this while being vigilant on risk and costs, running a fast and lean underwriting process, and staying able to quickly adapt to seize new opportunities.

PPF banka

In 2017, PPF banka generated the highest net profit in its history (MEUR 58), representing a return on average equity of 15.83%. In addition, PPF banka improved its capital position, demonstrated by an increase of the capital adequacy ratio from 15.86% in December 2016 to 16.22% at the end of 2017. The Bank's above-average profitability and good capital position are good news for two main ultimate shareholders: the Capital City of Prague and the PPF Group.

The Bank increased the volume of loans granted to clients by 12% to BEUR 1.3, showing above-average growth in this indicator compared with the rest of the Czech banking market while maintaining our operations' high effectiveness. PPF banka's general administrative expenses in 2017 accounted for only 0.4% of total assets, which is half of what is reported by the Czech banking market.

The Bank became the most active dealer with Czech government bonds on the primary market in 2017 and ranked first in the summary evaluation by the Czech Ministry of Finance. Of all primary bond market makers, PPF banka helped the Czech Republic place on the market the largest number of government bonds used by the Ministry of Finance of the CR to finance the state debt.

The Bank as the administrator successfully organised the issue of subordinated bonds of PPF Financial Holdings B. V. totalling MCZK 4,000 (MEUR 157).

Looking at the operational level, the Bank significantly strengthened our IT systems allowing a more effective use of our database. We also completed a number of projects arising from regulatory requirements or the need to enhance the Bank's internal processes (such as IFRS9, PSD2, MiFID II).

ClearBank

Throughout 2016, the Group invested into a newly incorporated company in the UK, which was authorised to operate as a credit institution in December 2016 by the competent domestic authorities. The bank is jointly regulated by the Prudential Regulation Authority and the Financial Conduct Authority, and since 2017 it started to provide clearing and settlement services to non-retail customers as part of its core business model. As of 31 December 2017, the Group holds a 36.36% share, entailing an investment of MEUR 29.

Key results

At the end of 2017 the consolidated shareholders' equity of PPF Financial Holdings B.V. amounted to MEUR 2,509 (31 December 2016: MEUR 2,339).

The consolidated profit attributable to equity shareholders of the Group for 2017 reached MEUR 285 (2016: MEUR 250).

The Home Credit Group

The HC Group put forward another strong result for the year ended 31 December 2017, with a total net profit of MEUR 244: a modest, but solid increase of 16% over the result for 2016 (MEUR 210). Each quarter of 2017 was profitable, thus extending the run of profitable quarters to ten. This demonstrates The HC Group's solid financial footing and that the adjustments made following weaker results in previous years have proven prudent, effective and sustainable in the long term. Although there continue to be both intermittent and lasting pressures on the consumer lending market in some of our markets, Home Credit is well-adapted to this operational context.

Risk performance remains strong, and the HC Group boasts a diversified funding base and a growing asset base. This is also thanks to the completion of rolling out risk-based pricing, which has now been adopted by all of the HC Group's country operations. The result of this transition is also visible in improved market penetration and an improvement in the overall risk-return profile of our loan portfolio.

Home Credit's distinctive business model of providing consumer finance products which are easily accessible even at the lower end of the economic scale, and the Group's size, make it attractive to manufacturers and retailers in a number of its markets who are seeking a consumer finance partner. This in turn supports Home Credit's rapid development, particularly in Asia. New loans granted in 2017 totalled MEUR 20,693, representing an increase of 79% compared to 2016, with the HC Group having 29.9 million active customers at the end of 2017.

Home Credit's global POS network is a key pillar of its successful distribution model and incorporates 399,228 sites worldwide and provides access to customers in areas where bank and post office branches are more limited. The expansion of the POS network was strongest in Asia, where the increase was 122,494 new sites over the period.

The HC Group's companies are performing strongly. Russia, China, Vietnam and Kazakhstan – four of the key profit contributors to the group – are all profitable.

PPF banka

2017 was a year of best-ever performance for the Bank. Profit after tax in 2017 amounted to MEUR 58, exceeding the result for 2016 by MEUR 12. Equity increased by almost 16%, to MEUR 397. Compared with the end of 2016, the volume of receivables from customers increased by 12% and total assets grew to BEUR 9.1.

Net interest income increased by 36% year-on-year, to MEUR 93. The effect of the CNB's rise of the repo rate at the end of 2017 and the pressure arising from a surplus of the Czech crown resulted in an increase in total assets, an increase in interest income (26%) and a decrease in interest expense (9%). Net fee and commission income decreased by 20% in 2017, to MEUR 4.9, as a result of lower transaction fees from customers. In 2017, PPF banka reported a net gain from financial operations of MEUR 24, showing a 31% rise compared with 2016. These excellent results are primarily due to trading with securities and favourable conditions in the Czech market, especially the strengthening of the local currency.

The gross amount of non-performing loans increased to MEUR 184, as compared with MEUR 168 in 2016. The non-performing loan ratio currently amounts to 13.8%, showing a slight decrease compared with the end of 2016. However, this percentage does not accurately reflect the risk borne by PPF banka, as the category of non-performing loans contains loans covered by EGAP insurance. The non-performing loan ratio is calculated based on gross exposure per client, and EGAP insurance is not considered. After adjusting the volume of non-performing loans for EGAP insurance (for non-performing loans and loans insured by EGAP, the insurance value is deducted from gross exposure), the ratio of non-performing loans to total loans provided equals 6.8%. The actual credit portfolio exposure is thus significantly lower.

Deposits from customers are the primary source of financing. The volume of funds in client accounts totalled BEUR 6.1. The massive increase in deposits repayable on demand is attributable to non-resident businesses and the public sector. The year-on-year increase in term deposits is attributable to the public sector segment but mostly to the financial services segment.

Return on equity was 15.83% in 2017, and total capital ratio at 31 December 2017 was 16.22%.

Staff development, environmental influence and research and development

The average number of employees during 2017 was 145,000 (2016: 93,000).

The impact of the Group's operations on the environment is not quantified as it is considered insignificant. The Group dedicates ample resources to research and development activities, primarily in the area of the development of consumer finance IT systems.

Composition of the Board of Directors

The size and composition of the Board of Directors and the expertise should fit, as closely as possible, the profile and strategy of the Company. The Company believes that the individual currently acting in the role of director adequately fits these requirements. If, in the future, the Board of Directors will be extended, the Company will pay close attention to gender diversity in the process of recruiting and appointing new members of the Board of Directors in order to increase gender diversity in accordance with article 2:276 section 2 of the Dutch Civil Code. The Group will retain an active and open attitude as regards selecting more female candidates.

Financial instruments and risk management

The Group's main strategic risk concerns the appropriateness of the selected business model, i.e. marketing, sales and risk strategies as well as the resources allocated to support the strategy. Such risks are mitigated through careful selection of the markets and calibrating start-up pilot projects on one hand and geographic diversification on the other hand. The Group is exposed to various risks as a result of its activities, primarily credit risk, liquidity risk, market risks (interest rate risk and currency risk), insurance risk and operational risk.

The Group's primary exposure to credit risk arises from the provision of consumer financing to private customers, which is the Group's principal business. Credit risk is managed both at the level of individual Group members and at the Group level.

Liquidity risk arises from the general funding of the Group's activities and from the management of its positions. The Group has access to a diversified funding base. Funds are raised using a broad range of instruments including deposits, debt securities, bank loans, subordinated debt and shareholders' equity.

All financial instruments and positions are subject to market risk: the risk that future changes in market conditions may change the value of the instrument. The majority of the Group's exposure to market risk arises in connection with the funding of the Group's operations with liabilities denominated in foreign currencies, and to the extent the term structure of interest-bearing assets differs from that of liabilities.

The main risk faced by the Group as part of the insurance business is the difference in actual and expected claims for insurance benefits and claims. Price risk arises as insurance premiums may not be sufficient to cover future losses and expenses on insurance contracts. To manage price risk the Group regularly analyses profitability and makes appropriate adjustments in pricing and underwriting policies. Reserve deficiency risk arises from the uncertainty regarding the development of loss reserves in the future and takes into account the likelihood that insurance reserves are insufficient to meet the Group's obligations to policyholders. Managing this risk is performed through regular checking of the adequacy of loss reserves and loss analysis of insurance products.

Operational risk is the risk arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements, financial reporting and generally accepted standards of corporate behaviour. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

For detailed information on risk management see Note C of the financial statements.

Future development

In 2018, the Company will continue to manage and finance its holdings and other assets.

From the Group's perspective, the Group will continue complementing its offline "point-of-sale excellence" with a strong online presence. The goal is to move into online offering as self-standing business with a unique value proposition, not just an additional distribution channel. In 2018, the Group will continue to manage and finance its holdings carefully, pursuing organic growth, whilst managing its risk and capital in a prudent and disciplined manner. The Group's focus will remain on managing the business for long-term sustainability and improving retention. We aim to increase the number of active transaction clients and give them more value through loyalty and partner schemes.

In Amsterdam on 30 April 2018,

Directors of PPF Financial Holdings B.V.

PPF Financial Holdings B.V.

Consolidated financial statements for the year ended 31 December 2017

Table of contents

Glossary of abbreviations

OCI	- other comprehensive income
NCI	- non-controlling interests
UCC	- business combinations under common control
AFS	- available for sale
FVTPL	- fair value through profit or loss
FVOCI	- fair value through other comprehensive income
HTM	- held to maturity
OTC	- over the counter
PPE	- property, plant and equipment
FX	- foreign exchange
FV	- fair value
CGU	- cash generating unit
AC	- amortised cost

Consolidated statement of financial position

As at 31 December

In millions of EUR

	Note	2017	2016
ASSETS			
Cash and cash equivalents	E1	8,982	4,531
Investment securities	E2	2,913	2,685
Loans and receivables due from banks and other financial institutions	E3	539	537
Loans due from customers	E4	16,663	11,047
Trade and other receivables	E5	95	82
Current tax assets		16	7
Investments in associates	E7	17	11
Property, plant and equipment	E8	191	162
Intangible assets	E9	246	173
Deferred tax assets	E6.2	335	182
Other assets	E10	254	188
TOTAL ASSETS		**30,251**	**19,605**
LIABILITIES			
Financial liabilities at fair value through profit or loss	E2.2	794	407
Due to non-banks	E11	12,097	9,066
Due to banks and other financial institutions	E12	11,959	6,243
Debt securities issued	E13	891	323
Subordinated liabilities	E14	532	315
Current tax liabilities		207	119
Trade and other payables	E16	933	531
Provisions	E15	44	44
Deferred tax liabilities	E6.2	11	18
TOTAL LIABILITIES		**27,468**	**17,066**
CONSOLIDATED EQUITY			
Capital issued	E17	-	-
Share premium	E17	2,231	2,217
Other reserves	E18	(787)	(687)
Retained earnings		1,065	809
Total equity attributable to owners of the Parent		2,509	2,339
Non-controlling interests	E19	274	200
Total consolidated equity		**2,783**	**2,539**
TOTAL LIABILITIES AND EQUITY		**30,251**	**19,605**

Consolidated income statement

For the year ended 31 December

In millions of EUR

	Note	2017	2016
Interest income		3,621	2,302
Interest expense		(1,067)	(654)
Net interest income	E21	**2,554**	**1,648**
Fee and commission income		797	522
Fee and commission expense		(131)	(103)
Net fee and commission income	E22	**666**	**419**
Net gains/(losses) on financial assets/liabilities	E23	50	(36)
Net impairment losses on financial assets	E24	(1,126)	(572)
Other banking result		**(1,076)**	**(608)**
NET BANKING INCOME		**2,144**	**1,459**
Net earned premiums		34	36
Net insurance benefits and claims		(1)	(2)
Acquisition costs		(8)	(12)
NET INSURANCE INCOME	E25	**25**	**22**
Other income	E26	25	71
OTHER OPERATING INCOME		**25**	**71**
General administrative expenses	E27	(1,568)	(1,058)
Other operating expenses	E28	(160)	(87)
OPERATING EXPENSES		**(1,728)**	**(1,145)**
Net loss from disposal of investments in subsidiaries		(3)	-
Share of earnings of associates	E7	(7)	(4)
PROFIT BEFORE TAX		**456**	**403**
Income tax expense	E6.1	(149)	(128)
NET PROFIT FOR THE PERIOD		**307**	**275**
Net profit attributable to non-controlling interests	E19	22	25
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		**285**	**250**

Consolidated statement of comprehensive income

For the year ended 31 December

In millions of EUR

	2017	2016
NET PROFIT FOR THE PERIOD	**307**	**275**
Other comprehensive income*		
Valuation gains/(losses) on available-for-sale financial assets	(45)	19
AFS revaluation (gains)/losses transferred to income statement	12	(13)
Currency translation differences	(116)	94
Cash flow hedge - net amount transferred to profit or loss	-	(1)
Income tax relating to components of other comprehensive income	6	(1)
Other comprehensive income/(loss) for the period (net of tax)	**(143)**	**98**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**164**	**373**
Total comprehensive income attributable to non-controlling interests	3	35
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT	**161**	**338**

* Items that are or may be reclassified to the income statement.

The consolidated financial statements were approved by the Board of Directors on 30 April 2018.

Consolidated statement of changes in equity

In millions of EUR, for the year ended 31 December

	Capital issued*	Share premium	Available-for-sale reserve	Legal and statutory reserves	Translation reserve	Reserve for UCC	Hedging reserve	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
Balance at 1 January 2017	**-**	**2,217**	**43**	**57**	**(283)**	**(504)**	**-**	**809**	**2,339**	**200**	**2,539**
Profit for the period	-	-	-	-	-	-	-	285	285	22	307
Currency translation differences	-	-	-	-	(100)	-	-	-	(100)	(16)	(116)
Valuation gains/(losses) taken to equity for AFS	-	-	(42)	-	-	-	-	-	(42)	(3)	(45)
AFS revaluation (gains)/ losses transferred to income statement	-	-	12	-	-	-	-	-	12	-	12
Tax on items taken directly to or transferred from equity	-	-	6	-	-	-	-	-	6	-	6
Total comprehensive income	**-**	**-**	**(24)**	**-**	**(100)**	**-**	**-**	**285**	**161**	**3**	**164**
Net allocation to legal and statutory reserves	-	-	-	24	-	-	-	(24)	-	-	-
Other changes in NCI	-	-	-	-	-	-	-	(5)	(5)	4	(1)
Contributions for the year	-	14	-	-	-	-	-	-	14	-	14
Contributions/(distributions) by non-controlling interest	-	-	-	-	-	-	-	-	-	67	67
Total transactions with owners of the Company	**-**	**14**	**-**	**24**	**-**	**-**	**-**	**(29)**	**9**	**71**	**80**
Balance at 31 December 2017	**-**	**2,231**	**19**	**81**	**(383)**	**(504)**	**-**	**1,065**	**2,509**	**274**	**2,783**

* Capital issued is TEUR 45.

Consolidated statement of changes in equity

In millions of EUR, for the period ended 31 December

	Capital issued*	Share premium	Available-for-sale reserve	Legal and statutory reserves	Translation reserve	Reserve for UCC	Hedging reserve	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
Balance at 1 January 2016	**-**	**1,873**	**38**	**38**	**(370)**	**(504)**	**4**	**581**	**1,660**	**159**	**1,819**
Profit for the period	-	-	-	-	-	-	-	250	250	25	275
Currency translation differences	-	-	-	-	87	-	(3)	-	84	10	94
Valuation gains/(losses) taken to equity for AFS	-	-	19	-	-	-	-	-	19	-	19
AFS revaluation (gains)/losses transferred to income statement	-	-	(13)	-	-	-	-	-	(13)	-	(13)
Effect of hedge accounting	-	-	-	-	-	-	(1)	-	(1)	-	(1)
Tax on items taken directly to or transferred from equity	-	-	(1)	-	-	-	-	-	(1)	-	(1)
Total comprehensive income	**-**	**-**	**5**	**-**	**87**	**-**	**(4)**	**250**	**338**	**35**	**373**
Net allocation to legal and statutory reserves	-	-	-	19	-	-	-	(19)	-	-	-
Other changes in NCI	-	-	-	-	-	-	-	(3)	(3)	6	3
Contributions for the year	-	344	-	-	-	-	-	-	344	-	344
Total transactions with owners of the Company	**-**	**344**	**-**	**19**	**-**	**-**	**-**	**(22)**	**341**	**6**	**347**
Balance at 31 December 2016	**-**	**2,217**	**43**	**57**	**(283)**	**(504)**	**-**	**809**	**2,339**	**200**	**2,539**

* Capital issued is TEUR 45.

Consolidated statement of cash flows

For the year ended 31 December, prepared using the indirect method

In millions of EUR

	Notes	2017	2016
Cash flows from operating activities			
Profit before tax		456	403
Adjustments for:			
Depreciation and amortisation	E.28	91	84
Impairment/(reversal of impairment) of current and non-current assets	E.24	1,126	572
(Profit)/loss on disposal of PPE, intangible assets and investment property		1	1
(Profit)/loss on sale of investment securities		25	73
(Gains)/losses on disposal of subsidiaries		3	-
Interest expense	E.21	1,067	654
Interest income	E.21	(3,621)	(2,302)
Other (income)/expenses not involving movements of cash		503	342
Interest received		4,056	2,366
Change in loans and receivables due from banks and other financial institutions		(12)	(106)
Change in loans due from customers		(7,727)	(4,700)
Change in trade and other receivables		(13)	12
Change in other assets		(69)	(100)
Change in liabilities due to non-banks		2,795	1,711
Change in trade and other payables		402	21
Income tax paid		(238)	(106)
Net cash from/(used in) operating activities		**(1,155)**	**(1,075)**
Cash flows from investing activities			
Purchase of tangible assets and intangible assets	E.8, E.9	(211)	(129)
Dividends received from associates		3	-
Purchase of financial assets at FVTPL		(299)	(439)
Proceeds from financial assets at FVTPL		320	597
Proceeds from sale of financial assets at FVTPL not held for trading		205	-
Purchase of financial assets at FVTPL not held for trading		-	(22)
Purchase of financial assets held to maturity		(27)	(5)
Purchase of financial assets available for sale		(3,117)	(1,451)
Acquisition of associates, net of cash acquired		-	(15)
(Contributions)/distributions of capital in associates		(16)	-
Proceeds from disposals of PPE and intangible assets		9	3
Proceeds from financial assets held to maturity		27	9
Proceeds from sale of financial assets available for sale		2,671	1,478
Net cash from/(used in) investing activities		**(435)**	**26**
Cash flows from financing activities			
Proceeds from the issue of capital		14	344
Proceeds from the issue of debt securities		1,778	237
Proceeds from loans due to banks and other financial institutions		13,144	12,222
Repayment of debt securities		(930)	(979)
Repayment of loans due to banks and other financial institutions		(6,901)	(8,234)
Interest paid		(1,145)	(695)
Cash flow from/(used in) financing activities	**E.20**	**5,960**	**2,895**
Net increase in cash and cash equivalents		**4,370**	**1,846**
Cash and cash equivalents as at 1 January		**4,531**	**2,451**
Effect of exchange rate movements on cash and cash equivalents		81	234

Cash and cash equivalents as at 31 December	**8,982**	**4,531**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

PPF Financial Holdings B.V. (the "Parent Company" or the "Parent") is a company domiciled in the Netherlands. It focuses on the following market segments: consumer finance, retail banking and corporate banking. Its activities span from Europe to Russia, the US and across Asia.

The Parent Company was incorporated on 13 November 2014 as a 100% subsidiary of PPF Group N.V. On 30 June 2015, PPF Group contributed its share in Home Credit B.V. and PPF banka, a.s. to the Parent Company.

The consolidated financial statements of the Parent Company for the year ended 31 December 2017 comprise the Parent Company and its subsidiaries (together the "PPF Financial Holdings Group" or the "Group") and the Group's interests in associates, joint ventures and affiliated entities. For a listing of significant Group entities and changes to the Group in 2017 and 2016, please refer to Section B of these consolidated financial statements.

The registered office address of the Parent Company is Strawinskylaan 933, 1077XX Amsterdam.

The Parent is a 100% subsidiary of PPF Group N.V., the ultimate controlling party is Mr Petr Kellner.

A.2. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, including International Accounting Standards ("IASs"), promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

A.3. Basis of preparation

Dutch accounting legislation enables the Group to prepare these consolidated financial statements in accordance with IFRS (as adopted by the EU).

The consolidated financial statements are presented in euros (EUR), which is the Company's functional currency and the Group's reporting currency, rounded to the nearest million.

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments designated upon initial recognition as financial instruments at fair value through profit or loss, and financial instruments classified as available for sale. Financial assets and liabilities as well as non-financial assets and liabilities measured at historical cost are stated at amortised cost using the effective interest method or historical cost, as appropriate, net of any relevant impairment.

Non-current assets and disposal groups held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

A.4. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The following key estimates are based on the information available at the consolidated financial statements date and specifically relate to the determination of:

- provisions recognised under liabilities (refer to E.15); and
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits (refer to E.6.2).

During 2017, the Group enhanced its credit risk prediction model to limit the volatility of risk costs caused by seasonal and other effects related to the end-of-month provision calculation cycle. Specifically, the Group decided to extend the definition of the "current" bucket from the exact 0 days past due ("DPD") to a wider category of DPD 0-15. This change has been in effect since 1 July 2017. As a result, the Group released a part of its existing collective impairment allowances amounting to MEUR 71. The change was recognised in the income statement.

A.5. Basis of consolidation

Subsidiaries are those entities that are controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into consideration. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The Group has established a number of special purpose entities ("SPEs") to raise finance. The Group does not have any direct or indirect shareholdings in these entities. These SPEs are controlled by the Group through the predetermination of the activities of SPEs, having the rights to obtain the majority of benefits of the SPEs, and retaining the majority of the residual risks related to the SPEs.

Associates are those entities in which the Group has significant influence, but not control, over financial and operating policies. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates and jointly controlled entities on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate or jointly controlled entity, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate or jointly controlled entity.

Reorganisations and mergers involving companies under common control are accounted for using consolidated net book values, and consequently no adjustment is made to carrying amounts in the consolidated accounts and no goodwill arises on such transactions.

The derecognition of subsidiaries, associates and joint ventures follows the applicable contractual arrangements and statutory terms.

All intra-group balances, transactions, income and expenses as well as unrealised gains and losses, and dividends are eliminated in the preparation of the consolidated financial statements.

B. Consolidated group and main changes for the period

B.1. Group entities

The following list shows only significant holding and operating entities that are subsidiaries or associates of the Parent Company as of 31 December 2017 and 2016.

Company	Domicile	Effective proportion of ownership interest 2017	Effective proportion of ownership interest 2016
PPF Financial Holdings B.V.	Netherlands	Parent Company	Parent Company
Home Credit subgroup -subsidiaries			
Home Credit B.V.	Netherlands	88.62%	88.62%
AB 2 B.V.	Netherlands	88.62%	88.62%
AB 4 B.V.	Netherlands	88.62%	88.62%
AB 7 B.V.	Netherlands	88.62%	88.62%
Air Bank a.s.	Czech Republic	88.62%	88.62%
Asnova Insurance CJSIC *(renamed)*	Belarus	88.62%	88.62%
Bank Home Credit SB JSC	Kazakhstan	88.62%	88.62%
Favour Ocean Ltd.	Hong Kong	88.62%	88.62%
Guangdong Home Credit Number Two Information Consulting Co., Ltd. *(renamed)*	China	88.62%	88.62%
HC Consumer Finance Philippines, Inc.	Philippines	88.62%	87.99%
HCPH Financing 1, Inc.	Philippines	88.62%	-
Home Credit a.s.	Czech Republic	88.62%	88.62%
Home Credit and Finance Bank LLC	Russia	88.62%	88.62%
Home Credit Asia Ltd.	Hong Kong	88.62%	88.62%
Home Credit Consumer Finance Co. Ltd.	China	88.62%	88.62%
Home Credit Group B.V.	Netherlands	100.00%	-
Home Credit India Finance Private Ltd.	India	88.62%	88.62%
Home Credit Indonesia PT	Indonesia	75.33%	75.33%
Home Credit Insurance LLC	Russia	88.62%	88.62%
Home Credit International a.s.	Czech Republic	88.62%	88.62%
Home Credit Lab N.V.	Netherlands	88.62%	88.62%
Home Credit Slovakia, a.s.	Slovakia	88.62%	88.62%
Home Credit US, LLC	USA	44.40%	44.40%
Home Credit Vietnam Finance Company Ltd.	Vietnam	88.62%	88.62%
Homer Software House LLC	Ukraine	88.62%	88.62%
Non-banking Credit and Financial Organization Home Credit OJSC	Belarus	88.62%	88.62%
Shenzhen Home Credit Number One Consulting Co., Ltd.	China	88.62%	88.62%
Shenzhen Home Credit Xinchi Consulting Co., Ltd.	China	88.62%	88.62%
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd	China	88.62%	88.62%
Zonky s.r.o.	Czech Republic	88.62%	88.62%
PPF banka subgroup - subsidiaries			
PPF banka a.s.	Czech Republic	92.96%	92.96%
Ruconfin B.V.	Netherlands	92.96%	92.96%
PPF Co3 B.V.	Netherlands	92.96%	92.96%
Associates			
ClearBank Ltd.	United Kingdom	36.36%	35.00%

B.2. Acquisitions and disposals 2017/2016

B.2.1. Acquisition of minority stake in ClearBank

Throughout 2016, the Group invested into a newly incorporated company in the UK, which has been authorised to operate as a credit institution in December 2016 by the competent domestic authorities. The bank is jointly regulated by the Prudential Regulation Authority and the Financial Conduct Authority. It provides clearing and settlement services to non-retail customers as part of its core business model. As of 31 December 2017, the Group holds a 36.36% share, entailing an investment of MEUR 29 (2016: MEUR 15).

C. Risk exposures, risk management objectives and procedures

This section provides details on the Group's exposure to risks and describes the methods used by the management to control the risks. The most important types of financial risks to which the Group is exposed are the credit, market, operational and liquidity risks. Market risk includes mainly currency risk and interest rate risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors annually approves the risk appetite statement, the key risk limits, and the capital budget of the Group. The Board of Directors also reviews the current risk profile of the Group and the utilisation of key risk limits on a quarterly basis.

The Board of Directors establishes the Group Risk Committee and mandates it to assist the Board of Directors in the risk management area. The Group Risk Committee designs and implements the risk management framework in the Group. The Group Risk Committee approves the main risk management internal regulations such as the group risk management framework, the internal capital adequacy assessment framework, and the internal liquidity assessment framework. The Group Risk Committee approves the counterparty exposure limits for the largest counterparties.

As the most significant part of the Group's financial operations, the Home Credit subgroup established the function of Chief Risk Officer (CRO) who heads the Home Credit Group's risk management department. The Home Credit Group also established two risk-related committees: the Asset Liability Committee (ALCO) and the Group Operational Risk Management Committee. Home Credit Group's CRO and the committees are responsible for the development, implementation, and monitoring of risk management in their specified areas.

PPF banka a.s. and Air Bank a.s. established the function of Chief Risk Officer who heads an independent risk management function in the respective banks.

The Group's risk management policies are designed to identify and analyse the risks faced by the Group, set appropriate risk limits and controls, and monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and changes in the offered products and services. Through training and management standards and procedures, the Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

C.1. Derivative financial instruments

The Group holds a variety of derivative financial instruments for trading and risk management purposes. This note describes the derivatives used by the Group. Further details of the Group's objectives and strategies in the use of derivatives are set out in the following sections. The nature of the derivative instruments outstanding at the reporting date is described in the following sections of this note.

Derivative financial instruments used by the Group include swaps, futures, forwards, options and other similar contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices, and/or price indices. Derivatives are either standardised contracts transacted through regulated exchanges (referred to as exchange-traded products) or individually negotiated over-the-counter contracts (referred to as OTC products). The principal types of derivative instruments used by the Group are described below.

C.1.1. Swaps

Swaps are over-the-counter agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts. The swaps most commonly used by the Group are interest rate and cross-currency interest rate swaps. Under interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Cross-currency swaps require an exchange of interest payment flows and capital amounts in different currencies. The Group is subject to credit risk arising from default of the respective counterparties. Market risk arises from potentially unfavourable movements in interest rates relative to the rates set in the contract, or from movements in foreign exchange rates.

C.1.2. Futures and forwards

Forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or index at a specified future date for a specified price and may be settled in cash or another financial asset. Forward contracts result in credit exposure to the counterparty and exposure to market risk based on changes in market prices relative to the contracted amounts.

C.1.3. Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Group enters into interest rate options, foreign exchange options, equity and index options and credit failure options (swaps). Interest rate options, including caps and floors, may be used as hedges against a rise or fall in interest rates. They provide protection against changes in interest rates of floating rate instruments above or below a specified level. Foreign currency options may also be used (commensurate with the type of option) to hedge against rising or falling currency rates. As a buyer of over-the-counter options, the Group is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Group exercises the option. As a writer of over-the-counter options, the Group is subject to market risk, as it is obliged to make payments if the option is exercised by the counterparty.

C.2. Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers (Home Credit), retail banking (Air Bank) and corporate banking (PPF banka).

C.2.1. Home Credit Group (including Air Bank)

For risk management purposes, the Home Credit Group classifies the loans made to individual customers into several classes, the most significant of which are cash loans, consumer loans, revolving loans, car loans and mortgage loans. This core part of the Group's loan portfolio consists of a large number of loans with relatively low outstanding amounts.

The Board of Directors has delegated responsibility for the management of credit risk to the Home Credit Group Credit Risk Department. This department is responsible for overseeing the Group's credit risk, including:

- formulation, in consultation with the business, of credit policies concerning credit assessment, underwriting policies, collection policies, and risk reporting by business unit and loan class;
- establishment of an authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the management of the various business units, while large exposures and new types of exposures require Home Credit Group approval. The Home Credit Group uses one central loan administration system to facilitate loan underwriting;
- continuous monitoring of performance of the Home Credit Group's individual credit exposures by country, product class and distribution channel;
- limiting of concentrations of credit exposures by country, product class and distribution channel;
- review of business units' compliance with agreed exposure limits;
- provision of advice, guidance and specialist skills to business units to promote best practice throughout the Home Credit Group in the management of credit risk.

The Home Credit Group continuously monitors the performance of individual credit exposures at both individual business unit and Home Credit Group levels using a number of criteria, including delinquency rates, default rates, and collection efficiency metrics. The Home Credit Group has an active fraud prevention and detection programme. Credit risk developments are reported by the Home Credit Group Credit Risk Department to the Board of Directors on a regular basis.

<u>Credit underwriting process</u>

The credit underwriting process involves the verification of customer data, combined with sophisticated scoring models that take into account both risk and profitability to determine whether an applicant is eligible for a product and, if so, at what price.

Information supplied by the applicant may be cross checked with information in the Group's customer database for the relevant country. Consumer loans are provided with minimum documentation from the customer. Applications for other products, in particular cash loans, require more supporting documentation and verification. If the standards set by the Group are not being adhered to, the Group discontinues selling through the relevant retailer's employee or the relevant retailer.

Fraud prevention

The Group has developed a set of tools aimed at fraud prevention, detection and investigation that keep the levels of fraud risk observed low. The focus is on the tight monitoring of the sales process and proper design of the incentive models. Other tools include cross checks and the verification of application data provided by the customer, biometrical ID verification tools and use of third-party data in the underwriting process. The use of specific tools varies, based on their availability in the respective market and on the legal and regulatory framework.

General loan collection

The Group's loan collection system follows standard steps and procedures, which may vary depending on country-specific requirements and the legal and operational tools available for collection.

Pre-collection measures

Various forms of communication are used to remind customers how and when to pay – e.g. welcome letters (or calls) – and SMS reminders are sent to customers a short time prior to payment due dates.

Early collection

The early collection procedures vary depending on which specific collection segment a customer is assigned to, based on exposure, customer account data and previous collection behaviour. These procedures are typically applied to payments which are 5 to 75 days overdue. The Group uses SMS messages, outbound calls, letters and interactive voice response tools to communicate with customers to remind them of, and procure, the overdue amounts.

Administrative and personal collection

The Group sends the customer written correspondence including a warning that the full amount of the loan could be declared immediately due and payable if a loan reaches a higher stage of delinquency, with outstanding payments typically more than 60 to 90 days overdue (the point in time at which a loan moves from early collection to administrative and personal collection may vary). Letters are then followed by a call explaining to the customer the consequences of not repaying the debt.

Late collection

Late collection procedures are usually initiated when a loan becomes 90 days overdue. Usage of external agencies or internal field collector methods is typically considered.

Legal collection, debt sale

Loans with outstanding repayments that have been overdue for more than 360 days are referred to the Group's external legal counsel, who informs the customer through formal correspondence that the loan is closed and that legal action will commence against the customer. As an alternative, debt selling to collection agencies may also be considered. The approval authority for any debt sale in the Group rests with the ALCO.

C.2.2. PPF banka (the "Bank")

The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee. A separate Credit Risk Management Department, reporting to the Credit

Committee, is responsible for the oversight of the Bank's credit risk similar to the Home Credit Group procedures mentioned above, but with the following business specifics:

- limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities);
- developing and maintaining the Bank's grading to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used to determine where impairment provisions may be required against specific credit exposures. Current risk grades are subject to regular reviews by the Bank's risk department;
- reviewing the compliance of business units with agreed exposure limits, including those for selected industries, country risks and product types. Regular reports are provided on the credit quality of local portfolios and appropriate corrective action is taken.

Since 2014, the Bank has calculated the capital requirement for the credit risk of the investment portfolio using a standardised approach in accordance with the Basel III standard and the Regulation of the European Parliament and of the Council on Prudential Requirements for Credit Institutions and Investment Firms.

<u>Loans with renegotiated terms and the Group's forbearance policy (applicable to PPF banka)</u>

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

The Group has implemented a new forbearance methodology according to the EBA regulation. Exposures with forbearance are exposures where the debtor is considered unable to comply with the contract due to financial difficulties and the Group has decided to grant a concession to the debtor. A forbearance measure may be either a modification of terms and conditions or the refinancing of the contract. A modification of terms includes payment schedule changes (deferrals or reductions of regular payments, extended maturities, etc.), interest rate reductions or penalty interest waivers.

The Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on the debt or if there is a high risk of default, there is evidence that the debtor has made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

<u>Concentration of credit risks</u>

A concentration of credit risk arises as a result of the existence of loans with similar economic characteristics affecting the debtor's ability to meet its obligations. The Group treats a receivable from a debtor or an economically connected group of debtors exceeding 10% of the Group's eligible capital as a large exposure and applies a limit of the higher of MEUR 150 and 25% of the Group's eligible capital to such exposures. As at the balance sheet date, the Group did not have any significant concentration of credit risk with respect to any individual debtor and the limits were not exceeded in relation to individual debtors and to related parties.

The same principles apply for PPF banka and Air Bank on their individual levels.

The following tables show the economic and geographic concentration of credit risk:

In millions of EUR, as at 31 December

	2017	2017	2016	2016
Economic concentration				
Households/individuals	15,217	72.60%	10,327	67.97%
Financial services	2,544	12.14%	1,345	8.85%
Public sector	1,660	7.92%	2,056	13.53%
Corporate sector	876	4.18%	1,198	7.88%
Construction and real estate	627	2.99%	238	1.57%
Other	35	0.17%	30	0.20%
Total	**20,959**	**100.00%**	**15,194**	**100.00%**
Geographic concentration				
China	9,794	46.73%	5,371	35.35%
Czech Republic	3,807	18.16%	3,648	24.00%
Russia	3,603	17.19%	3,230	21.26%
Slovakia	331	1.58%	472	3.11%
Kazakhstan	561	2.68%	372	2.45%
Cyprus	264	1.26%	288	1.90%
Vietnam	631	3.01%	475	3.12%
Netherlands	51	0.24%	171	1.13%
Other EU countries	743	3.55%	553	3.64%
Other	1,174	5.60%	614	4.04%
Total	**20,959**	**100.00%**	**15,194**	**100.00%**
Of which:				
Investment securities (except for equity securities)	2,897	13.83%	2,683	17.66%
Hedging derivatives	5	0.02%	-	-
Loans and receivables due from banks and other financial institutions	539	2.57%	537	3.53%
Loans due from customers	16,663	79.50%	11,047	72.71%
Trade and other receivables	95	0.45%	82	0.54%
Loan commitments and guarantees	760	3.63%	845	5.56%

The amounts in the tables represent the maximum accounting loss that would be recognised at the reporting date if the counterparts failed completely to meet their obligations and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses that are included in the allowance for uncollectibility. The table comprises off-balance sheet items (refer to E.31.1) and financial assets, except for equity securities.

The following table provides information about the credit quality of the Group's loan exposure:

In millions of EUR, as at 31 December

	Loans due from customers		Trade and other receivables	
	2017	2016	2017	2016
Individually impaired				
Gross amount	162	175	-	-
Allowance for impairment	(49)	(42)	-	-
Carrying amount	113	133	-	-
Collectively impaired			-	
Current	14,809	9,427	-	-
1-90 days past due	759	487	-	-
91-365 past due	985	505	-	-
>365 past due	160	145	-	-
Gross amount	16,713	10,564	-	-
Allowance for impairment	(1,414)	(847)	-	-
Carrying amount	15,299	9,717	-	-
Unimpaired				
Current	1,243	1,184	95	82
1-90 days past due	8	13		-
91-365 past due		-		-
Carrying amount	1,251	1,197	95	82
Total carrying amount	**16,663**	**11,047**	**95**	**82**

The Group holds collateral for loans and advances to non-banks in the form of mortgage interests over property, debt and/or equity securities and received guarantees. Collateral for loans and advances to banks is held mainly under reverse repos and as a part of securities borrowing activity. There are no overdue loans to banks.

All these transactions are conducted at arm's length.

The following table shows the fair value of collateral received in respect of loans and receivables:

In millions of EUR, as at 31 December

	Loans and receivables due from banks		Loans and receivables due from customers	
	2017	2016	2017	2016
Against individually impaired	-	-	84	13
Property	-	-	82	10
Deposits with banks	-	-	2	2
Other	-	-	-	1
Against collectively impaired	-	-	520	461
Property	-	-	502	442
Debt securities	-	-	18	-
Equity securities	-	-	-	19
Against neither past due nor impaired	7,301	431	721	734
Securities received under reverse repo*	7,301	431	-	84
Property	-	-	358	283
Debt securities	-	-	-	22
Equity securities	-	-	329	313
Deposits with banks	-	-	23	14
Other	-	-	11	18
Total collateral received	**7,301**	**431**	**1,325**	**1,208**

* incl. cash and cash equivalents with central banks

The total value of assets held as collateral is MEUR 8,626 (2016: MEUR 1,726; refer to E.31.3) and consists of the collateral stated above (2017: MEUR 8,626; 2016: MEUR 1,639) less securities received under reverse repos that were repledged or sold (2017: nil; 2016: MEUR nil), plus collateral received for the guarantees provided (2017: MEUR nil; 2016: MEUR 87).

No collateral is held for trade and other receivables.

C.3. Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. It includes the risk of being unable to fund assets using instruments with appropriate maturities and rates, the risk of being unable to liquidate an asset sufficiently quickly and in the appropriate amount, and the risk of being unable to meet obligations as they become due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. All liquidity policies and procedures, as well as liquidity position projections, are subject to review and approval by the senior management.

The Group's Treasury Department collects information from business units and holding companies regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. A portfolio of short-term liquid assets is maintained to ensure sufficient liquidity. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The individual scenarios focus on liquidity available on specific markets and facilities, the nature of the related risks and the magnitude of their impact on the Group's business, management tools available and preventive actions.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, bank loans, loans from central banks, debt securities and subordinated debt. Management strives to maintain a balance between continuity of funding and flexibility through use of liabilities with a range of maturities.

The following tables show exposure to liquidity risk:

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Cash and cash equivalents	8,982	-	-	-	-	8,982
Investment securities	490	306	584	1,522	11	2,913
Financial assets at FVTPL	31	16	48	248	-	343
Financial assets AFS	459	290	536	1,274	11	2,570
Loans and receivables due from banks and other financial institutions	331	44	141	-	23	539
Loans due from customers	3,923	5,582	6,753	357	48	16,663
Trade and other receivables	87	8	-	-	-	95
Total financial assets	**13,813**	**5,940**	**7,478**	**1,879**	**82**	**29,192**

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities at FVTPL	16	13	149	303	313	794
Due to non-banks	9,539	1,820	652	86	-	12,097
Due to banks and other financial institutions	3,000	5,528	3,427	4	-	11,959
Debt securities issued	237	301	353	-	-	891
Subordinated liabilities	-	181	126	225	-	532
Trade and other payables	843	66	14	3	7	933
Total financial liabilities	**13,635**	**7,909**	**4,721**	**621**	**320**	**27,206**
Net liquidity position 2017	**178**	**(1,969)**	**2,757**	**1,258**	**(238)**	**1,986**

The less than three months interval within due to non-banks contains banking deposits, most of which are repayable on demand.

In millions of EUR, as at 31 December 2016

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Cash and cash equivalents	4,531	-	-	-	-	4,531
Investment securities	116	500	601	1,466	2	2,685
Financial assets at FVTPL	22	14	23	486	-	545
Financial assets AFS	94	486	578	980	2	2,140
Loans and receivables due from banks and other financial institutions	434	50	29	-	24	537
Loans due from customers	2,779	3,826	4,009	394	39	11,047
Trade and other receivables	76	6	-	-	-	82
Total financial assets	**7,936**	**4,382**	**4,639**	**1,860**	**65**	**18,882**

In millions of EUR, as at 31 December 2016

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities at FVTPL	29	15	118	245	-	407
Due to non-banks	6,677	1,947	442	-	-	9,066
Due to banks and other financial institutions	1,008	3,886	1,349	-	-	6,243
Debt securities issued	1	89	233	-	-	323
Subordinated liabilities	-	15	212	88	-	315
Trade and other payables	464	43	16	2	6	531
Total financial liabilities	**8,179**	**5,995**	**2,370**	**335**	**6**	**16,885**
Net liquidity position 2016	**(243)**	**(1,613)**	**2,269**	**1,525**	**59**	**1,997**

The following tables show the residual maturities of balance sheet and off-balance sheet liabilities on an undiscounted cash flow basis. Only those liability items are shown for which the total estimated undiscounted cash flows differ from the book values shown in the consolidated statement of the financial position.

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Due to non-banks	9,557	1,908	701	95	-	12,261
Due to banks and other financial institutions	3,186	6,035	3,738	4	-	12,963
Debt securities issued	245	316	368	-	-	929
Subordinated liabilities	2	204	187	270	-	663
Trade and other payables	843	66	14	3	7	933
Loan commitments	373	77	59	2	181	692
Payment guarantees provided	15	3	10	8	-	36
Total	**14,221**	**8,609**	**5,077**	**382**	**188**	**28,477**

In millions of EUR, as at 31 December 2016

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Due to non-banks	6,691	2,043	487	-	-	9,221
Due to banks and other financial institutions	1,128	4,131	1,486	-	-	6,745
Debt securities issued	6	104	248	-	-	358
Subordinated liabilities	1	33	253	103	-	390
Trade and other payables	464	43	16	2	6	531
Loan commitments	370	29	125	15	217	756
Payment guarantees provided	2	1	15	32	-	50
Total	**8,662**	**6,384**	**2,630**	**152**	**223**	**18,051**

The expected cash outflows and inflows related to trading and hedging derivatives are as follows:

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Outflows					
Interest rate derivatives held for trading	(54)	(2,277)	(2,340)	(2,136)	(6,807)
Currency derivatives held for trading	(2,317)	(2,197)	(4,800)	(6)	(9,320)
Hedging derivatives	-	(2)	(7)	(18)	(27)
Inflows					
Interest rate derivatives held for trading	54	2,277	2,342	2,134	6,807
Currency derivatives held for trading	2,321	2,197	4,802	6	9,326
Hedging derivatives	-	1	8	24	33
Net position	**4**	**(1)**	**5**	**4**	**12**

In millions of EUR, as at 31 December 2016

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Outflows					
Interest rate derivatives held for trading	(91)	(289)	(1,843)	(818)	(3,041)
Currency derivatives held for trading	(1,966)	(2,650)	(176)	-	(4,792)
Inflows					
Interest rate derivatives held for trading	92	289	1,843	816	3,040
Currency derivatives held for trading	1,987	2,645	168	-	4,800
Net position	**22**	**(5)**	**(8)**	**(2)**	**7**

C.4. Market risk

Market risk is the risk that changes in market rates, such as interest rates, foreign exchange rates, and prices of equity securities will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risk exposure and keep it within acceptable limits.

The bulk of the Group's exposure to market risk arises in connection with the use of liabilities denominated in foreign currencies to finance the Group's operations, and to the extent the term structure of interest-bearing assets differs from that of liabilities. Exposure to market risk is formally managed by buying or selling instruments or entering into offsetting positions subject to risk limits or frameworks set by senior management.

C.4.1. Interest rate risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating-rate assets and liabilities the Group is also exposed to interest rate cash-flow risk, which varies depending on the different repricing characteristics of the various floating-rate instruments.

Interest rate risk is managed principally by monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Group's senior management monitors compliance with these limits. Interest rate derivatives (refer to E.2.2) are one of the tools the Group uses to manage this position.

Interest rate derivatives are primarily used to bridge the repricing mismatch between assets and liabilities. In addition, the Group enters into interest rate swaps to fix the interest rates on its floating-rate debts at a certain level.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring of the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100-basis-point parallel fall or rise in all yield curves worldwide. In such a case, the net interest income for the year ended 31 December 2017 would be approximately MEUR 118 higher/lower (2016: MEUR 76).

The tables below summarise the interest rate repricing gap of the Group's financial assets and liabilities at the reporting date. The carrying amounts of interest-rate-sensitive assets and liabilities and the notional amounts of swaps and other derivative financial instruments are presented in the periods in which they mature or in which the interest rates will next be fixed. To reflect anticipated prepayments, certain asset and liability categories are included in the table based on estimated rather than contractual maturity dates. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the expected maturity date.

The following tables present an analysis of the interest rate gap position:

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Cash and cash equivalents	0.6%	8,982	-	-	-	-	8,982
Investment securities	3.3%	534	1,191	435	595	158	2,913
Financial assets at FVTPL	1.2%	7	55	(10)	144	147	343
Financial assets AFS	3.5%	527	1,136	445	451	11	2,570
Loans and receivables due from banks and other financial institutions	2.1%	340	44	136	-	19	539
Loans due from customers	30.8%	4,385	5,955	6,121	133	69	16,663
Trade and other receivables	-	87	8	-	-	-	95
Total financial assets	**-**	**14,328**	**7,198**	**6,692**	**728**	**246**	**29,192**

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities at FVTPL	1.8%	-	181	84	107	422	794
Due to non-banks	1.6%	9,539	1,820	652	86	-	12,097
Due to banks and other financial institutions	7.9%	3,647	5,528	2,780	4	-	11,959
Debt securities issued	8.3%	237	301	353	-	-	891
Subordinated liabilities	8.1%	-	181	245	106	-	532
Trade and other payables	-	843	66	14	3	7	933
Total financial liabilities	**-**	**14,266**	**8,077**	**4,128**	**306**	**429**	**27,206**
Net position 2017	**-**	**62**	**(879)**	**2,564**	**422**	**(183)**	**1,986**

In millions of EUR, as at 31 December 2016

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Cash and cash equivalents	0.5%	4,531	-	-	-	-	4,531
Investment securities	2.5%	279	1,313	506	536	51	2,685
Financial assets at FVTPL	2.0%	-	76	14	406	49	545
Financial assets AFS	2.7%	279	1,237	492	130	2	2,140
Loans and receivables due from banks and other financial institutions	1.8%	455	40	19	-	23	537
Loans due from customers	32.7%	3,329	3,977	3,605	98	38	11,047
Trade and other receivables	-	76	6	-	-	-	82
Total financial assets	**-**	**8,670**	**5,336**	**4,130**	**634**	**112**	**18,882**

In millions of EUR, as at 31 December 2016

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Betwee n 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities at FVTPL	1.8%	-	118	41	163	85	407
Due to non-banks	2.9%	6,677	1,947	442	-	-	9,066
Due to banks and other financial institutions	9.8%	1,022	3,872	1,348	-	1	6,243
Debt securities issued	7.4%	-	89	234	-	-	323
Subordinated liabilities	9.3%	-	15	212	88	-	315
Trade and other payables	-	465	43	16	2	5	531
Total financial liabilities	**-**	**8,164**	**6,084**	**2,293**	**253**	**91**	**16,885**
Net position 2016	**-**	**506**	**(748)**	**1,837**	**381**	**21**	**1,997**

C.4.2. Equity price risk

Equity price risk is the risk that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices.

The Group manages its use of equity investments in response to changing market conditions and limits the risk by maintaining a diversified portfolio.

C.4.3. Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its assets and liabilities denominated in foreign currencies. Foreign currency risk arises when the actual or forecast assets denominated in a given foreign currency are either greater or less than the liabilities denominated in that currency. It is the Group's policy to hedge such mismatches with derivative financial instruments to eliminate the foreign currency exposure.

The Group's main foreign exposures are to the European and Asian countries in which the Group operates. Its exposures are measured mainly in Czech crowns, Chinese yuan, Russian roubles and US dollars. As the currency in which the Group presents its consolidated financial statements is the euro, movements in the exchange rates between these currencies and the euro affect the Group's consolidated financial statements. Net investments in foreign operations are not hedged.

The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Group companies that are not denominated in the functional currency of the respective Group company. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate, or through short-term FX trades.

The following tables show the distribution of financial assets and liabilities among the main currencies (but do not include non-financial assets and liabilities):

In millions of EUR, as at 31 December 2017

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Cash and cash equivalents	48	7,409	1,222	162	31	24	86	8,962
Investment securities	146	1,654	-	512	596	-	5	2,913
Loans and receivables due from banks and other financial institutions	41	243	48	57	141	2	7	539
Loans due from customers	903	1,486	9,727	2,493	156	472	1,426	16,663
Trade and other receivables	1	39	16	8	3	5	23	95
Total financial assets	**1,139**	**10,831**	**11,013**	**3,232**	**927**	**503**	**1,547**	**29,192**

In millions of EUR, as at 31 December 2017

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Financial liabilities at FVTPL	-	479	313	-	-	-	2	794
Due to non-banks	378	8,357	-	2,555	543	226	38	12,097
Due to banks and other financial institutions	1,287	879	9,104	60	156	61	412	11,959
Debt securities issued	11	191	348	22	-	57	262	891
Subordinated liabilities	-	230	-	-	302	-	-	532
Trade and other payables	66	341	283	58	39	21	125	933
Total financial liabilities	**1,742**	**10,477**	**10,048**	**2,695**	**1,040**	**365**	**839**	**27,206**
Effect of foreign currency derivatives	**(57)**	**240**	**295**	**40**	**107**	**(65)**	**(544)**	**16**
Net foreign currency position	**(660)**	**594**	**1,260**	**577**	**(6)**	**73**	**164**	**2,002**

In millions of EUR, as at 31 December 2016

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Cash and cash equivalents	44	3,053	1,121	172	25	37	79	4,531
Investment securities	186	1,828	-	179	492	-	-	2,685
Loans and receivables due from banks and other financial institutions	68	171	40	65	186	2	5	537
Loans due from customers	818	1,212	5,314	2,319	290	334	760	11,047
Trade and other receivables	4	27	9	6	15	4	17	82
Total financial assets	**1,120**	**6,291**	**6,484**	**2,741**	**1,008**	**377**	**861**	**18,882**

In millions of EUR, as at 31 December 2016

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Financial liabilities at FVTPL	12	394	-	-	-	-	1	407
Due to non-banks	770	5,349	-	2,192	525	192	38	9,066
Due to banks and other financial institutions	473	25	5,303	-	135	44	263	6,243
Debt securities issued	11	86	-	8	-	20	198	323
Subordinated liabilities	-	92	-	7	216	-	-	315
Trade and other payables	25	86	206	75	18	15	106	531
Total financial liabilities	**1,291**	**6,032**	**5,509**	**2,282**	**894**	**271**	**606**	**16,885**
Effect of foreign currency derivatives	**(115)**	**342**	**-**	**(30)**	**1**	**(20)**	**(189)**	**(11)**
Net foreign currency position	**(286)**	**601**	**975**	**429**	**115**	**86**	**66**	**1,986**

The following tables present an analysis of the sensitivity of the Group's equity to changes in currency exchange rates based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 5% change in CZK, CNY, RUB, USD and KZT to EUR exchange rates:

In millions of EUR, as at 31 December 2017

	CZK	CNY	RUB	USD	KZT
Effect of 5% currency depreciation against EUR	(19)	(74)	(36)	(2)	(4)
Effect of 5% currency appreciation against EUR	19	74	36	2	4

In millions of EUR, as at 31 December 2016

	CZK	CNY	RUB	USD	KZT
Effect of 5% currency depreciation against EUR	(39)	(51)	(30)	(6)	(5)
Effect of 5% currency appreciation against EUR	39	51	30	6	5

C.4.4. Hedging

The Group uses derivative financial instruments to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instruments are used for this purpose, including interest rate swaps and currency swaps, options, forward contracts and other derivatives. The purpose of the Group's hedging activities is to protect the Group from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Group enters into transactions to ensure that it is economically hedged in accordance with its asset-liability risk management policies.

Interest rate hedging derivatives are designated as economic hedges of benchmark interest rates for specified assets or groups of similar assets, as well as liabilities or groups of similar liabilities, or anticipated transactions. The Group's risk management activities concentrate on economic hedging of the Group's net exposure based on its asset and liability positions. Therefore the Group monitors its interest rate risk exposures by reviewing the net asset or liability gaps within the relevant repricing bands.

When the Group economically hedges a portfolio of loans or liabilities in respect of the interest rate risk, it classifies the loans in question into homogenous groups, each with specific maturities.

The Group manages its use of hedging derivatives in response to changing market conditions, as well as to changes in the characteristics and mix of the related assets, liabilities and firm commitments.

C.5. Insurance risk

The main risk faced by the Group under insurance contracts is that the actual claims and benefit payments, or the timing thereof, will differ from expectations. This is influenced by the frequency of claims, severity of claims, claims settlement period, etc. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover current and future liabilities under insurance contracts. The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Non-life insurance business comprises mainly loan and accident insurance. Insurance risk on non-life insurance contracts is divided into price risk and reserve deficiency risk. The Group's portfolio of accident insurance is not subject to catastrophe risk.

Price risk arises due to the fact that insurance premiums may not be sufficient to cover future losses and expenses on insurance contracts. To manage price risk, the Group regularly analyses profitability in the context of insurance products and makes appropriate adjustments in its pricing and underwriting policies.

Reserve deficiency risk arises from uncertainty regarding the future development of loss reserves and takes into account the likelihood that insurance reserves are insufficient to meet the Group's obligations to policyholders. This risk is managed by regularly checking the adequacy of loss reserves and conducting loss analyses of insurance products, including the analysis of the sensitivity of insurance reserves to changes in expected insurance contract loss rates. The Group analyses its assumptions against publicly available market data. The uncertainty associated with the analysis of incurred but not reported (IBNR) provisions is greater than that of the reported but not settled (RBNS) analysis. The identification of claims generated by the Group's insurance portfolio is of a short-term nature. Therefore, most claims are settled within one year of the loss incident. Refer to section E.15 for quantitative information related to insurance provision.

C.6. Fair value of financial assets and liabilities

The Group measures fair values using the following fair value hierarchy, which 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 measured using: market prices quoted in active markets for similar instruments; prices quoted 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 measured based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include a comparison with similar instruments for which market observable prices exist, the net present value and discounted cash flow models, Black-Scholes option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of debt securities available for sale and foreign currency futures is based on their quoted market price. The other derivative contracts are not exchange traded and their fair value is estimated using an arbitrage pricing model, the key parameters of which are the relevant foreign exchange rates and interbank interest rates prevailing at the reporting date.

The following table shows the carrying amounts and fair values of financial instruments measured at amortised cost, including their levels in the fair value hierarchy:

In millions of EUR, as at 31 December 2017

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and receivables due from banks and other financial institutions	539	539	-	539	-
Loans due from customers	16,663	16,801	-	-	16,801
Trade and other receivables	95	95	-	-	95
Due to non-banks	(12,097)	(12,108)	-	(12,108)	-
Due to banks and other financial institutions	(11,959)	(11,961)	-	(11,961)	-
Debt securities issued	(891)	(889)	(7)	(882)	-
Subordinated liabilities	(532)	(540)	(309)	(231)	-
Trade and other payables	(933)	(933)	-	-	(933)

In millions of EUR, as at 31 December 2016

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and receivables due from banks and other financial institutions	537	537	-	537	-
Loans due from customers	11,047	11,065	-	-	11,065
Trade and other receivables	82	82	-	-	82
Due to non-banks	(9,066)	(9,075)	-	(9,075)	-
Due to banks and other financial institutions	(6,243)	(6,246)	-	(6,246)	-
Debt securities issued	(323)	(323)	(8)	(315)	-
Subordinated liabilities	(315)	(324)	(223)	(101)	-
Trade and other payables	(531)	(531)	-	-	(531)

The Group's fair-value estimates for its other financial assets and liabilities are not materially different from their carrying values.

The following table presents an analysis of financial instruments recorded at fair value, broken down by how the fair value calculation is accomplished: i.e. based on quoted market prices (Level 1), calculated using valuation techniques where all the model inputs are observable in the market (Level 2), or calculated using valuation techniques where significant model inputs are not observable in the market (Level 3):

In millions of EUR, as at 31 December 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	192	151	-	343
Financial assets AFS	2,362	197	11	2,570
Financial liabilities at FVTPL*	(372)	(109)	(313)	(794)
Total	**2,182**	**239**	**(302)**	**2,119**

* Refer to E2.2 for more details on liability in the Level 3 bucket.

In millions of EUR, as at 31 December 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	501	44	-	545
Financial assets AFS	1,821	317	2	2,140
Financial liabilities at FVTPL	(333)	(74)	-	(407)
Total	**1,989**	**287**	**2**	**2,278**

There were no transfers between Level 1, 2 and 3 in 2017.

In 2016, certain available-for-sale equity securities amounting to MEUR 2 were transferred from Level 2 into Level 3 of the fair value hierarchy due to a change in the market conditions of some shares. Quoted prices for such instruments were not available, thus the purchase price was the best estimation of the fair value.

C.7. Offsetting financial assets and liabilities

The Group’s derivative transactions are predominantly entered into under International Derivative Swaps and Dealers Association Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency are aggregated into a single net amount payable by one party to the other. In certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2017 and 31 December 2016 the reported balances of positive and negative fair values of derivatives do not include any offset amounts.

Loans and advances provided and received under repo operations are covered by Global Master Repurchase Agreements and similar agreements with terms similar to those of International Derivative Swaps and Dealers Association Master Netting Agreements.

Such agreements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2017 and 31 December 2016 the reported balances of loans and advances provided under repo operations do not include any offset amounts. The remaining balances of liabilities due from banks and non-banks are not subject to any offsetting arrangements.

C.8. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk to balance the avoidance of financial losses/damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk has been assigned to the senior management of the Group. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

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

Compliance with Group standards is supported by a programme of periodic reviews undertaken by internal audit. The individual subsidiaries have their local internal audit teams that also cooperate with the Group internal audit on PPF Group level. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Group.

C.9. Capital management

As of 30 June 2015, PPF Group restructured its consumer finance and other banking business represented by Home Credit, Air Bank and PPF banka under PPF Financial Holdings B.V., a new holding entity. The Group became a financial holding company and as such it became subject to consolidated prudential requirements based on Regulation No 575/2013 of the European Parliament and of the Council. The Czech National Bank acts as the consolidating supervisor of the Group. PPF banka was appointed as the responsible reporting entity for the Group.

The Group is required to fulfil the following capital requirements: a Tier 1 capital adequacy ratio of at least 6% and a total capital adequacy ratio of at least 8%. Moreover, the Group is required to maintain a capital conservation buffer amounting to 2.5% of its risk-weighted assets and an institution-specific countercyclical capital buffer that is currently immaterial given the geographical placement of its assets.

The Group monitors and maintains other regulatory requirements, such as liquidity and leverage ratios.

In a November 2015 decision of the Czech National Bank, the Group was identified as an "Other Systemically Important Institution" (O-SII). This classification was confirmed in 2016 and 2017. No additional capital requirement was imposed due to this classification.

The following table presents the composition of the Group's regulatory capital:

In millions of EUR, as at 31 December

	2017	2016
Issued capital	0.05	0.05
Share premium	2,231	2,217
Retained earnings and other reserves	(5)	(114)
Interim profit included into capital	280	96
Minority interests on CET 1	10	7
(-) Additional valuation adjustment	(3)	(3)
(-) Intangible assets	(232)	(166)
(-) Deferred tax assets carry loss forward	(118)	(4)
Total Tier 1 capital	**2,163**	**2,033**
Total Tier 2 capital	**268**	**49**
Total capital	**2,431**	**2,081**
Total capital adequacy ratio	**11.08%**	**11.55%**

The total regulatory capital of the Group consists of Tier 1 capital and Tier 2 capital. Tier 1 capital comprises the following items: issued capital, share premium, retained earnings, interim profit approved by the regulator, accumulated other comprehensive income, other reserves, and minority interests. Tier 1 capital is decreased by intangible assets, the additional valuation adjustment and deferred tax assets directly deductible from capital. The Group has no additional Tier 1 capital.

Tier 2 capital consists of the eligible portion of Tier 2 instruments issued by PPF Financial Holdings B.V., PPF banka a.s., Air Bank a.s., and Home Credit and Finance Bank LLC.

Some of the Group's subsidiaries operating in the banking, consumer finance and insurance sectors maintain capital adequacy in compliance with local regulatory requirements, requiring the respective entities to maintain a ratio of total capital to total risk-weighted assets at or above a certain minimum level. The ratios are calculated based on the entities' financial statements prepared in accordance with local accounting standards. The Group's policy in this respect is to support the subsidiaries with capital as necessary to maintain the subsidiaries' full compliance with the relevant requirements.

The Group and their individually regulated operations complied with all externally imposed capital requirements, liquidity requirements, and leverage requirements throughout the reporting period.

D. Segment reporting

The Group recognises reportable segments that are defined in both geographical and sector terms. These segments offer different products and services, and are managed separately because they operate in completely distinct business sectors. The Group's Board of Directors and shareholders (the Chief Operating Decision Maker) review the internal management reports of individual segments on a regular basis.

The following summary describes the operations and geographic focus of each reportable segment.

Reportable segment	Business name/brand	Operations	Geographic focus
Corporate banking	PPF banka	Loans, deposits and other transactions and balances with corporate customers, trading activities	Czech Republic
Retail banking and consumer finance	Air Bank	Deposits, loans and other transactions and balances with retail customers	Czech Republic
	Home Credit	Lending to private individual customers, deposit-taking	Czech Republic, Slovakia, Russia, Asia
	subsidiaries of PPF banka and Air Bank	Lending to private individual customers	Czech Republic, Slovakia, Russia
	ClearBank *(associate)*	Clearing and settlement services	United Kingdom

The Home Credit ("HC") business is divided into segments based on geographical regions corresponding to the geographical location of customers. The HC Group operates in the following principal geographical areas: China, the Russian Federation, the Czech Republic, Vietnam, Kazakhstan, Slovakia, India, Indonesia, and the Philippines. The Russian and Kazakh Home Credit segments operate under banking licences enabling taking of deposit. The countries not presented in a separate segment column are included in the Other segment.

ClearBank as an associate with insignificant value is included in Unallocated segment.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis. Segment assets and liabilities include all assets and liabilities attributable to segments. Significant non-cash expenses comprise mainly impairment losses on financial and non-financial assets. Eliminations represent intercompany balances among individual reporting segments.

Total segment revenue contains the following categories that may be reconciled to the income statement as follows:

In millions of EUR, for the year ended 31 December

	2017	2016
Interest income	3,621	2,302
Fee and commission income	797	522
Net earned premiums	34	36
Total revenue from external customers	**4,452**	**2,860**

The following table shows the main items from the financial statements broken down according to reportable segments for 2017 and 2016:

In millions of EUR

2017	Corporate banking	Retail banking				Consumer finance					Unallocated	Eliminations	**Consolidated**
	PPF banka	Air Bank	HC China	HC Russian Federation	HC Czech Republic	HC Vietnam	HC Kazakhstan	HC Slovakia	HC India	Other			
Revenue from customers	90	62	2,639	747	96	249	186	55	145	171	12	-	4,452
Inter-segment revenue	27	35	-	6	12	-	-	-	-	1	11	(92)	-
Total revenue	**117**	**97**	**2,639**	**753**	**108**	**249**	**186**	**55**	**145**	**172**	**23**	**(92)**	**4,452**
Net interest income from external customers	67	34	1,450	381	83	161	106	48	121	122	(19)	-	2,554
Inter-segment net interest income	26	35	-	(12)	(14)	-	-	(8)	(27)	(9)	(2)	7	-
Total net interest income	**93**	**69**	**1,450**	**369**	**69**	**161**	**106**	**40**	**94**	**113**	**(17)**	**7**	**2,554**
Income tax expense	(15)	(5)	(40)	(43)	(9)	(16)	(16)	(1)	-	4	(8)	-	(149)
Net profit from continuing operations	**58**	**21**	**123**	**169**	**7**	**64**	**60**	**8**	**(69)**	**(40)**	**(110)**	**16**	**307**
Capital expenditure	(4)	(12)	(85)	(13)	(14)	(4)	(8)	(7)	(25)	(37)	(31)	70	(170)
Depreciation and amortisation	(3)	(10)	(23)	(21)	(2)	(5)	(7)	(1)	(13)	(12)	(21)	26	(92)
Other significant non-cash expenses	(5)	(3)	(965)	(35)	7	(41)	2	(13)	(41)	(37)	-	-	(1,131)
Segment assets (incl. associates)	9,122	3,827	11,440	3,848	640	656	568	256	575	628	865	(2,174)	30,251
Segment liabilities	8,728	3,599	9,939	3,174	622	518	451	243	458	397	1,521	(2,182)	27,468
Segment equity	**394**	**228**	**1,501**	**674**	**18**	**138**	**117**	**13**	**117**	**231**	**(656)**	**8**	**2,783**

In millions of EUR

2016	Corporate banking	Retail banking				Consumer finance					Unallocated	Eliminations	**Consolidated**
	PPF banka	Air Bank	HC China	HC Russian Federation	HC Czech Republic	HC Vietnam	HC Kazakhstan	HC Slovakia	HC India	Other			
Revenue from customers	74	50	1,351	724	103	198	145	63	58	80	14	-	2,860
Inter-segment revenue	19	36	-	16	2	-	-	-	-	1	13	(87)	-
Total revenue	**93**	**86**	**1,351**	**740**	**105**	**198**	**145**	**63**	**58**	**81**	**27**	**(32)**	**2,860**
Net interest income from external customers	49	24	783	358	86	129	75	54	44	49	(3)	-	1,648
Inter-segment net interest income	18	35	-	(10)	(20)	-	(7)	(12)	(4)	(2)	(1)	3	-
Total net interest income	**67**	**59**	**783**	**348**	**66**	**129**	**68**	**42**	**40**	**47**	**(4)**	**3**	**1,648**
Income tax expense	(10)	(3)	(58)	(17)	(3)	(12)	(12)	-	-	(3)	(10)	-	(128)
Net profit from continuing operations	**46**	**11**	**196**	**74**	**22**	**46**	**46**	**4**	**(61)**	**(44)**	**(43)**	**(22)**	**275**
Capital expenditure	(1)	(9)	(33)	(10)	(2)	(5)	(8)	-	(18)	(24)	(21)	-	(131)
Depreciation and amortisation	(3)	(8)	(11)	(24)	(1)	(5)	(5)	-	(7)	(9)	(30)	19	(84)
Other significant non-cash expenses	-	(9)	(311)	(161)	2	(37)	(3)	(18)	(26)	(12)	-	-	(575)
Segment assets (incl. associates)	5,055	3,201	6,641	3,373	520	515	410	301	248	287	776	(1,722)	19,605
Segment liabilities	4,732	3,012	5,673	2,776	514	398	304	296	203	149	705	(1,696)	17,066
Segment equity	**323**	**189**	**968**	**597**	**6**	**117**	**106**	**5**	**45**	**138**	**71**	**(26)**	**2,539**

E. Notes to the consolidated financial statements

E.1. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Cash on hand	110	92
Current accounts	1,385	1,268
Balances with central banks	189	2,007
Placements with financial institutions due within one month	21	879
Reverse repo operations with central banks	7,277	285
Total cash and cash equivalents	**8,982**	**4,531**

As of 31 December 2017, cash and cash equivalents amounting to MEUR 834 (2016: MEUR 985) are restricted by borrowing agreements contracted by Chinese Home Credit with the creditors either to the disbursement of loans to retail clients or repayment of loans received from the creditors. If the cash is used to provide loans to retail clients, the loans are pledged as collateral.

There are no other restrictions on the availability of cash and cash equivalents.

E.2. Investment securities

Investment securities comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Financial assets at fair value through profit or loss	343	545
Financial assets available for sale	2,570	2,140
Total investment securities	**2,913**	**2,685**

E.2.1. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss held for trading (except for the part of government bonds that are non-trading) comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Government and other public-sector bonds	183	479
Corporate bonds	13	17
Positive fair values of trading derivatives	143	49
Interest rate derivatives	67	25
Currency derivatives	76	24
Positive fair values of hedging derivatives	4	-
Total financial assets at FVTPL	**343**	**545**

In 2016, government bonds included non-trading 10-year fixed-interest bonds amounting to MEUR 201. The fixed interest income from these bonds was economically hedged by interest rate swaps. The bonds were sold in 2017.

E.2.2. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Negative fair values of trading derivatives	109	85
Interest rate derivatives	49	35
Currency derivatives	60	50
Liabilities from short sales of securities	372	322
Other	313	-
Total financial liabilities at FVTPL	**794**	**407**

In July 2017, the Group signed a strategic partnership agreement with PAG Asia Capital ("PAG"), one of Asia's largest private equity firms, with the aim of supporting the long-term development of the Group's business, in China. Within this deal, through one of its investment funds PAG made an investment to the Group in form of a long-term loan provided to the Group's subsidiary. The loan is measured at fair value through profit or loss. The fair value was categorised as Level 3 and determined as MEUR 313 as at 31 December 2017. In accordance with the partnership agreement, the value of the loan was derived from the fair value of the Chinese business. The fair value of the Chinese business was determined using generally accepted valuation techniques, in particular the dividend discount model. The majority of inputs to this model are not observable from the market.

Details of derivatives are provided in the following tables:

In millions of EUR, as at 31 December 2017

Interest rate derivatives	Notional amount	Positive fair values	Negative fair values
OTC products:			
Forward rate agreements	1,727	-	-
Interest rate swaps	5,104	63	(49)
Interest rate options (purchase)	26	-	-
Interest rate options (sale)	18	-	-
Exchange-traded products:			
Interest rate futures	18	4	-
Total	**6,893**	**67**	**(49)**
Currency derivatives			
OTC products:			
Forward exchange contracts	1,654	8	(26)
Currency/cross currency swaps	7,691	67	(33)
Foreign exchange options (purchase)	24	1	-
Foreign exchange options (sale)	23	-	(1)
Total	**9,392**	**76**	**(60)**
Hedging derivatives			
OTC products:			
Interest rate swap contracts	59	4	-
Total	**59**	**4**	**-**

In millions of EUR, as at 31 December 2016

Interest rate derivatives	Notional amount	Positive fair values	Negative fair values
OTC products:			
Interest rate swaps	3,236	20	(35)
Exchange-traded products:			
Interest rate futures	20	5	-
Total	**3,256**	**25**	**(35)**
Currency derivatives			
OTC products:			
Forward exchange contracts	766	-	(20)
Currency/cross currency swaps	4,174	24	(30)
Total	**4,940**	**24**	**(50)**

E.2.3. Financial assets available for sale

Financial assets available for sale comprise the following:

In millions of EUR, as at 31 December 2017

	Carrying amount	Amortised cost
Debt securities	2,558	2,533
Government bonds	1,480	1,463
Corporate bonds	991	980
Other debt securities	87	90
Equity securities - shares	12	12
Total AFS assets	**2,570**	**2,545**

In millions of EUR, as at 31 December 2016

	Carrying amount	Amortised cost
Debt securities	2,138	2,075
Government bonds	1,207	1,159
Corporate bonds	820	805
Other debt securities	111	111
Equity securities - shares	2	2
Total AFS assets	**2,140**	**2,077**

There were no impaired available-for-sale financial assets.

E.3. Loans and receivables due from banks and other financial institutions

Loans and receivables due from banks and other financial institutions comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Term deposits at banks	25	119
Minimum reserve deposits with central banks	153	141
Loans to banks	7	9
Loans and advances provided under repos	130	141
Cash collateral for derivative instruments	65	88
Other	159	39
Total loans and receivables due from banks and other financial institutions	**539**	**537**

The minimum reserve deposits are mandatory non-interest-bearing deposits calculated in accordance with regulations issued by central banks. Their withdrawability is restricted.

E.4. Loans due from customers

Loans due from customers comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Gross amount		
Cash loan receivables	9,967	5,488
Consumer loan receivables	5,959	4,265
Revolving loan receivables	524	584
Car loan receivables	117	117
Mortgage loan receivables	147	111
Loans to corporations	1,411	1,309
Loans and advances provided under repos	-	59
Other	1	3
Total gross amount	**18,126**	**11,936**
Collective allowances for impairment		
Cash loan receivables	(882)	(465)
Consumer loans receivables	(441)	(265)
Revolving loan receivables	(64)	(86)
Car loan receivables	(22)	(23)
Mortgage loan receivables	(5)	(8)
Total collective impairment	**(1,414)**	**(847)**
Individual allowances for impairment		
Loans to corporations	(49)	(42)
Total individual impairment	**(49)**	**(42)**
Total carrying amount	**16,663**	**11,047**

Movements in allowances for impairment may be broken down as follows:

In millions of EUR, for the year ended 31 December

	2017	2016
Balance as at 1 January	889	828
Impairment losses recognised in the income statement	1,126	572
Amount related to loans written off and disposed of	(499)	(566)
Translation difference	(53)	55
Balance as at 31 December	**1,463**	**889**

The Group has estimated the impairment on loans to customers in accordance with the accounting policy described in section F1.5.1. Changes in collection estimates could significantly affect the carrying amount of loans to customers and related recognised impairment losses.

E.5. Trade and other receivables

Trade and other receivables comprise the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Trade receivables	92	75
Accrued income	3	7
Balance as at 31 December	**95**	**82**

There were no impaired receivables, neither as at 31 December 2017 nor 2016.

E.6. Income taxes

E.6.1. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Current tax expense	(317)	(175)
Deferred tax benefit	168	47
Total income tax expense	**(149)**	**(128)**

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2017	2016
Tax rate	25.00%	25.00%
Profit from continuing operations (before taxation)	456	403
Computed taxation using applicable tax rate	(114)	(101)
Tax non-deductible expenses	(44)	(21)
Non-taxable income	4	19
Tax rate differences on foreign results	33	12
Tax loss carry forward not recognised	(26)	(45)
Other	(2)	8
Total income tax expense	**(149)**	**(128)**

E.6.2. Deferred tax

Deferred tax assets and liabilities comprise the following:

In millions of EUR, as at 31 December

	2017 Deferred tax liabilities	2017 Deferred tax assets	2016 Deferred tax liabilities	2016 Deferred tax assets
Investment securities	(5)	4	(11)	2
Loans	(1)	285	(1)	160
Property, plant and equipment	(10)	2	(12)	2
Intangible assets	(8)	-	(6)	-
Other assets	(4)	27	(5)	6
Other liabilities	-	18	-	14
Provisions	(3)	5	(3)	5
Other temporary differences	(3)	12	(4)	11
Value of loss carry-forwards recognised	-	4	-	5
Value of tax credits	-	1	-	1
Deferred tax assets/(liabilities)	**(34)**	**358**	**(42)**	**206**
Net deferred tax assets/(liabilities)	**(11)**	**335**	**(18)**	**182**

The table below shows the roll-forward of net deferred taxes:

In millions of EUR, for the year ended 31 December

	2017	2016
Net deferred tax assets/(liabilities) at 1 January	164	103
Deferred tax (expense)/income for the period	168	47
Deferred tax recognised directly in equity	6	(1)
Net exchange differences	(14)	15
Net deferred tax assets/(liabilities) at 31 December	**324**	**164**

Deferred tax assets arising from other temporary differences consist mainly of uneven balance sheet eliminations from intra-group transactions.

E.6.3. Tax losses

As at 31 December 2017 the Group incurred tax losses from recent years of MEUR 630 (2016: MEUR 523) available to be carried forward and offset against future taxable income. To the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilised, the deferred tax assets are not recognised. The unrecognised deferred tax assets amount to MEUR 133 (2016: MEUR 109). The unutilised tax losses can be claimed in the period from 2018 to 2026 in the Netherlands (2018 to 2022 in the Czech Republic and Cyprus, and for an indefinite time in Hong Kong and in the Russian Federation) and expire as follows:

In millions of EUR, as at 31 December

	2017	2016
2017	-	10
2018	20	32
2019	26	26
2020	37	33
2021	44	40
2022	27	22
2023	23	35
2024	53	50
2025	80	83
2026	56	-
Tax losses that can be carried forward indefinitely	264	192
Total	**630**	**523**

E.7. Investments in associates

The following table shows the breakdown of individual investments in associates:

In millions of EUR

	2017	2016
ClearBank	14	9
Barion Payment Zrt.	2	-
Equifax Credit Services LLC	1	2
Total investments in associates	**17**	**11**

The following table shows the breakdown of the share of earnings of associates and joint ventures:

In millions of EUR

	2017	2016
ClearBank	(10)	(6)
Equifax Credit Services LLC	3	2
Total share of earnings in associates	**(7)**	**(4)**

ClearBank

Clearbank is a newly established UK bank that from 2017 has been providing clearing and settlement services. The following table shows the bank's performance (since April 2016):

In millions of EUR

	2017	2016
Non-current assets	8	2
Current assets	32	22
Current liabilities	(7)	(3)
Net assets (100%)	33	21
Group's share of net assets (36.36%; 2016:35%)	12	7
Goodwill included in carrying amount	1	2
Carrying amount of investment in associate	**13**	**9**
Total net loss for the period (100%)	(19)	(6)
Group's share of the net loss (36.36%; 2016: 35%)	(7)	(2)
Dilution loss	(3)	(4)
Total share in profit/(loss)	**(10)**	**(6)**

E.8. Property, plant and equipment

The following table shows the roll-forward of property, plant and equipment:

In millions of EUR, for the year ended 31 December 2017

	Land and buildings	Other tangible assets and equipment	Total
Carrying amount			
Balance at 1 January	66	96	162
Additions	1	94	95
Disposals	(4)	(3)	(7)
Depreciation charge	(3)	(43)	(46)
Other movements	8	(9)	(1)
Net FX differences	(4)	(8)	(12)
Total	**64**	**127**	**191**
Cost	92	294	386
Accumulated depreciation and impairment	(28)	(167)	(195)

In millions of EUR, for the year ended 31 December 2016

	Land and buildings	Other tangible assets and equipment	Total
Carrying amount			
Balance at 1 January	57	82	139
Additions	1	47	48
Disposals	-	(3)	(3)
Depreciation charge	(2)	(32)	(34)
Impairment charge	-	(1)	(1)
Net FX differences	10	3	13
Total	**66**	**96**	**162**
Cost	93	249	342
Accumulated depreciation and impairment	(27)	(153)	(180)

E.9. Intangible assets

The following table shows the roll-forward of the remaining categories of intangible assets:

In millions of EUR, for the year ended 31 December 2017

	Goodwill	Software	Other intangible assets	Total
Carrying amount				
Balance at 1 January	3	168	2	173
Additions	-	75	2	77
Additions from internal development	-	41	-	41
Disposal	-	(3)	-	(3)
Other changes	-	(1)	3	2
Amortisation charge	-	(44)	(2)	(46)
Net FX differences	-	4	(2)	2
Balance at 31 December	**3**	**240**	**3**	**246**
Cost	3	516	13	532
Accumulated amortisation and impairment losses	-	(276)	(10)	(286)

In millions of EUR, for the year ended 31 December 2016

	Goodwill	Software	Other intangible assets	Total
Carrying amount				
Balance at 1 January	3	134	1	138
Additions	-	44	1	45
Additions from internal development	-	36	-	36
Disposal	-	(1)	-	(1)
Other changes	-	(3)	2	(1)
Amortisation charge	-	(48)	(2)	(50)
Net FX differences	-	6	-	6
Balance at 31 December	**3**	**168**	**2**	**173**
Cost	3	399	10	412
Accumulated amortisation and impairment losses	-	(231)	(8)	(239)

E.10. Other assets

Other assets comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Prepaid expenses and advances	120	91
Cash collateral for payment cards	55	51
Other taxes receivable	7	9
Deferred acquisition costs – insurance business	2	7
Assets held for sale	3	2
Inventories	4	1
Other	63	27
Total other assets	**254**	**188**

E.11. Liabilities to non-banks

Liabilities to non-banks comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Current accounts and demand deposits	7,095	6,041
Term deposits	3,201	2,861
Loans	21	23
Loans received under repos	1,778	59
Loans to parent company	-	79
Other	2	3
Total liabilities to non-banks	**12,097**	**9,066**

The table shows the liabilities owed to corporate and individual clients of the Group, the bulk of which relates to the banking business of PPF banka, Home Credit and Finance Bank and Air Bank.

E.12. Liabilities to banks and other financial institutions

Liabilities to banks and other financial institutions comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Repayable on demand	1	15
Loans received under repos	1,568	192
Secured loans (other than repos)	6,881	5,381
Unsecured loans	3,418	575
Other	91	80
Total liabilities to banks	**11,959**	**6,243**

E.13. Debt securities issued

The following table shows details of bonds issued by the Group:

In millions of EUR, as at 31 December

	Interest rate	Maturity	2017	2016
Asset-Backed Security issue 4 (2017-2) in CNY	Fixed	2018	19	-
Asset-Backed Security issue 5 (2017-3) in CNY	Fixed	2018	81	-
Asset-Backed Security issue 6 (2017-4) in CNY	Fixed	2018	93	-
Asset-Backed Security issue 7 (2017-5) in CNY	Fixed	2018	156	-
Secured INR bond issue of MINR 1,535	Fixed	2018	12	-
Unsecured bond issue of MKZT 6,769	Fixed	2019	17	20
Unsecured bond issue MKZT 5,000	Fixed	2019	13	-
Secured INR bond issue of MINR 3,288	Fixed	2019	16	-
Stock exchange RUB bond issue of MRUB 1,500	Fixed	2019	22	8
Secured INR bond issue of MINR 953	Fixed	2020	10	-
Unsecured bond issue of MKZT 10,000	Fixed	2020	25	-
Unsecured CZK bond issue of MCZK 1,998	Fixed	2020	81	-
Deposit certificate of MKZT 315	Fixed	2017	-	1
Long-term registered certificate of deposit; rate (8.7 - 13.5%)	Fixed	2017	-	82
Deposit bill of exchange; rate (0.20 - 0.71%)	Fixed	2017	-	10
Deposit bill of exchange; rate (0% - 0.47%)	Fixed	2018	37	50
Short-term registered certificate of deposit; rate (7.5 - 9.2%)	Fixed	2018	51	-
Long-term registered certificate of deposit; rate (9.5 - 10.5%)	Fixed	2018	91	90
Deposit certificate of MKZT 196	Fixed	2018	2	-
Short-term registered certificate of deposit; rate 10.00%	Fixed	2019	2	-
Long-term registered certificate of deposit; rate (8.8 - 11.25%)	Fixed	2019	58	25
Deposit bill of exchange; rate (0% - 0.85%)	Fixed	2019	2	-
Deposit bill of exchange; zero-coupon rate	Fixed	2020	69	37
Long-term registered certificate of deposit; rate (9.5 - 11.5%)	Fixed	2020	20	-
Deposit bill of exchange	Fixed	2022	14	-
Total debt securities issued			**891**	**323**

As at 31 December 2017, cash loan receivables of MEUR 398 (2016: MEUR nil) and consumer loan receivables of MEUR 640 (2016: MEUR nil) served as collateral for CNY asset-backed securities.

As at 31 December 2017, consumer loan receivables of MEUR 28 (2016: MEUR nil) served as collateral for INR bond issues.

E.14. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of EUR, as at 31 December

	Interest rate	Maturity	2017	2016
Bond issue of MCZK 4,000	Fixed	2027	119	-
Loan participation notes issue 7 of MUSD 500	Fixed	2020	162	95
Loan participation notes issue 8 of MUSD 200	Fixed	2021	140	121
Bond issue of MCZK 1,400	Fixed	2023	57	54
Bond issue of MCZK 2,000	Fixed	2024	54	38
Loan of MRUB 443	Fixed	2017	-	7
Total subordinated liabilities			**532**	**315**

The bond issue of MCZK 4,000 was issued in December 2017. The interest rate is determined as a fixed rate for the first two years; subsequently it is changed to a floating rate. The Group has an early redemption option exercisable on or after 18 December 2022.

Subordinated loan participation notes issue 7 was made in October 2012. The Group has an early redemption option exercisable on 24 April 2018 (the reset date). After the reset date, the interest rate is determined as a variable rate. During 2017, the Group bought back the loan participation notes with a cumulative par value of MUSD 276, (2016: MUSD 272).

Subordinated loan participation notes issue 8 was made in October 2013. The Group has an early redemption option exercisable on 17 April 2019 (the reset date). After the reset date, the interest rate is determined as a variable rate. During 2017, the Group bought back the loan participation notes with a cumulative par value of MUSD 35 (2016: MUSD 35).

The bond issue of MCZK 1,400 was issued in April 2013. The Group has an early redemption option exercisable on 4 July 2018.

The bond issue of MCZK 2,000 was issued in April 2014. The Group has an early redemption option exercisable on 30 April 2019.

E.15. Insurance and other provisions

Provisions comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Provisions for unearned premiums	25	31
Provisions for outstanding claims	1	1
Provision for litigation except for tax-related litigation	-	1
Other provisions	18	11
Total provisions	**44**	**44**

Movements in non-insurance provisions can be analysed as follows:

In millions of EUR, for the year ended 31 December 2017

	Provision for litigation except for tax issues	Other provisions	Total
Balance at 1 January	1	11	12
Provisions created during the year	-	34	34
Provisions used during the year	-	(27)	(27)
Provisions released during the year	(1)	-	(1)
Balance at 31 December	**-**	**18**	**18**
Current (< 1 year)	-	18	18
Total provisions	**-**	**18**	**18**

In millions of EUR, for the year ended 31 December 2016

	Provision for litigation except for tax issues	Other provisions	Total
Balance at 1 January	2	6	8
Provisions created during the year	2	24	26
Provisions used during the year	(1)	(20)	(21)
Provisions released during the year	(2)	-	(2)
Net FX differences	-	1	1
Balance at 31 December	**1**	**11**	**12**
Current (< 1 year)	**1**	**11**	**12**
Total provisions	**1**	**11**	**12**

Movements in provisions for unearned premiums can be analysed as follows:

In millions of EUR

	2017	2016
Balance at 1 January	31	39
Premiums written during the year	30	22
Premiums earned during the year	(34)	(36)
Net FX differences	(2)	6
Balance at 31 December	**25**	**31**

Movements in provisions for outstanding claims were as follows:

In millions of EUR

	2017	2016
Balance at 1 January	1	1
Claims incurred in the current year	1	2
Claims paid during the year	(1)	(2)
Balance at 31 December	**1**	**1**

E.16. Trade and other payables

Other liabilities comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Settlements with suppliers	260	168
Wages and salaries	149	124
Social security and health insurance	13	26
Other taxes payable	35	22
Accrued expenses	77	49
Customer loan overpayments	41	31
Deferred income	-	1
Advance received	3	3
Other	355	107
Total other liabilities	**933**	**531**

The “Other” category includes blocked accounts of PPF banka amounting to MEUR 300 (2016: MEUR 61) consisting chiefly of collateral deposits for derivatives totalling MEUR 223 (2016: MEUR 57) and clearing accounts of PPF banka amounting to MEUR 20 (2016: MEUR 19).

E.17. Capital issued and share premium

Capital issued represents capital in respect of which the shareholders' liability for an entity's obligation towards its creditors is limited. The amount is limited to the current nominal capital approved by a shareholder resolution.

The following table provides details of authorised and issued shares:

	2017	2016
Number of shares authorised	45 000	45 000
Number of shares issued and fully paid	45 000	45 000
Par value per share	EUR 1	EUR 1

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Parent Company.

During 2017 and 2016, the share premium was increased by cash contributions amounting to MEUR 14 (2016: MEUR 344).

E.18. Reserves

E.18.1. Available-for-sale reserve

The AFS reserve represents the changes, net of deferred tax, in the fair value of financial assets available for sale. The AFS reserve is not available for distribution to shareholders.

E.18.2. Legal and statutory reserves

The creation and use of legal and statutory reserves is limited by legislation and the articles of association of each company within the Group. Legal and statutory reserves are not available for distribution to shareholders.

E.18.3. Currency translation reserve

The currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of companies within the Group with a functional currency other than the Group presentation currency, which is the euro. The translation reserve is not available for distribution to shareholders.

E.18.4. Reserve for UCC

The reserve for business combinations under common control was recognised on contribution of shareholdings in Home Credit B.V. and PPF banka a.s. The reserve is not available for distribution to the shareholders.

E.18.5. Hedging reserve

The hedging reserve, i.e. the cash flow hedge reserve represents the effect of the recognition of the effective portion of changes in the fair value of hedging instruments in other comprehensive income in equity. The cash flow hedge reserve is not available for distribution to shareholders.

E.19. Non-controlling interests

The following subsidiaries of the Group have a material non-controlling interest:

Name of subsidiary	Abbr.	Applicable	Country of incorporation
Home Credit B.V. (subgroup)	HC	2016/2015	Netherlands
PPF banka, a.s. (subgroup)	PPFB	2016/2015	Czech Republic
Home Credit Indonesia PT	HCID	2016/2015	Indonesia
Home Credit US, LLC	HCUS	2017/2016	USA

The following table summarises the information relating to these subsidiaries:

In millions of EUR

2017	HC	PPFB	HCID	HCUS	Other	**Total**
NCI percentage (ownership)	**11.38%**	**7.04%**	**24.67%**	**55.6%**		
Total assets	21,526	9,437	187	37		
Total liabilities	(19,498)	(9,026)	(156)	(16)		
Net assets	**2,028**	**411**	**31**	**21**		
Net assets attributable to NCI of the sub-group	(15)	-	-	-		
Net assets attributable to owners of the Parent	**2,013**	**411**	**31**	**21**		
Carrying amount of NCI	229	29	5	10	**1**	**274**
Revenue	4,334	160	77	1		
Profit/(loss)	256	64	(19)	(18)		
Other comprehensive income	(166)	-	-	-		
Total comprehensive income	90	64	(19)	(18)		
Profit/(loss) allocated to NCI	29	5	(3)	(9)		**22**
OCI allocated to NCI	(19)	-	-	-		**(19)**
Dividends paid to NCI	**-**	**-**	**-**	**-**	**-**	**-**

In millions of EUR

2016	HC	PPFB	HCID	HCUS	Other	**Total**
NCI percentage (ownership)	**11.38%**	**7.04%**	**24.67%**	**55.60%**		
Total assets	14,704	5,063	56	31		
Total liabilities	(13,203)	(4,735)	(32)	(26)		
Net assets	**1,501**	**328**	**24**	**5**		
Net assets attributable to NCI of the sub-group	(6)	-	-	-		
Net assets attributable to owners of the Parent	**1,495**	**328**	**24**	**5**		
Carrying amount of NCI	170	23	4	3	**-**	**200**
Revenue	2,733	128	28	-		
Profit/(loss)	213	50	(19)	-		
Other comprehensive income	94	1	-	-		
Total comprehensive income	307	51	(19)	-		
Profit/(loss) allocated to NCI	24	4	(3)			**25**
OCI allocated to NCI	11	-	-	-	**(1)**	**10**
Dividends paid to NCI	**-**	**-**	**-**	**-**		**-**

E.20. Reconciliation of movements of liabilities to cash flows arising from financing activities

Reconciliation of movements of liabilities to cash flows arising from financing activities:

In millions of EUR, for the year 2017

	Debt securities and subordinated liabilities	Due to banks, other financial institution and holding companies	Share premium	Total
Balance as at 1 January	**638**	**6,243**	**2,217**	**9,098**
Changes from financing cash flows:				
Proceeds from share premium increase	-	-	14	14
Proceeds from the issue of debt securities	1,778	-	-	1,778
Proceeds from due to banks, other financial institutions and holding companies	-	13,144	-	13,144
Repayment of debt securities	(930)	-	-	(930)
Repayment of due to banks, other financial institutions and holding companies	-	(6,901)	-	(6,901)
Total changes from financing cash flows	**1,486**	**12,486**	**2,231**	**16,203**
The effect of changes in foreign exchange rates and transfers	(66)	(432)	-	(498)
Interest expense	89	738	-	827
Interest paid	(86)	(833)	-	(919)
Balance as at 31 December	**1,423**	**11,959**	**2,231**	**15,613**

E.21. Net interest income

Interest income comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Financial instruments at FVTPL	6	8
Financial instruments available for sale	57	47
Financial instruments held to maturity	-	2
Due from banks and other financial institutions	48	27
Cash loan receivables	2,438	1,311
Consumer loan receivables	845	672
Revolving loan receivables	130	141
Car loan receivables	18	20
Mortgage loan receivables	4	5
Loans to corporations	75	64
Intercompany loans	-	2
Net investment in finance lease	-	3
Total interest income	**3,621**	**2,302**

Interest expense comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Due to customers	234	220
Due to banks and other financial institutions	738	368
Debt securities issued	62	31
Subordinated liabilities	28	30
Other	5	5
Total interest expenses	**1,067**	**654**
Total net interest income	**2,554**	**1,648**

E.22. Net fee and commission income

Fee and commission income comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Insurance commissions	528	330
Penalty fees	172	107
Customer payment processing and account maintenance	39	37
Cash transactions	21	18
Retailers’ commissions	9	10
Other	28	20
Total fee and commission income	**797**	**522**

Fee and commission expense comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Commissions to retailers	20	24
Cash transactions	18	16
Payment processing and account maintenance	40	28
Payments to deposit insurance agencies	19	16
Credit and other register expense	26	16
Other	8	3
Total fee and commission expense	**131**	**103**
Total net fee and commission income	**666**	**419**

E.23. Net gain/loss on financial assets/liabilities

In millions of EUR, for the year ended 31 December

	2017	2016
Net trading income/(expense)	81	(58)
Debt securities trading	5	8
FX trading	67	(14)
Derivatives	9	(52)
Net gains/(losses) on financial assets/liabilities at FVTPL	(18)	4
Debt securities	-	4
Liabilities	(18)	-
Net realised gains/(losses)	(12)	19
AFS financial assets	(12)	20
Loans and receivables	-	(1)
Dividends	1	-
Other income/(expenses) from financial assets	(2)	(1)
Total net gain/(loss) on financial assets	**50**	**(36)**

E.24. Net impairment losses on financial assets

In millions of EUR, for the year ended 31 December

	2017	2016
Cash loan receivables	704	296
Consumer loan receivables	409	225
Revolving loan receivables	6	43
Car loan receivables	-	2
Mortgage loan receivables	(1)	4
Loans to corporations	8	2
Total net impairment losses on financial assets	**1,126**	**572**

E.25. Insurance income

In millions of EUR, for the year ended 31 December

	2017	2016
Gross earned premiums	34	36
Net insurance benefits and claims	(1)	(2)
Acquisition cost	(8)	(12)
Total insurance income	**25**	**22**

E.26. Other income

In millions of EUR, for the year ended 31 December

	2017	2016
Foreign currency gains	-	32
Provision of services to minority partner	14	20
Other	11	19
Total other income	**25**	**71**

E.27. General administrative expenses

In millions of EUR, for the year ended 31 December

	2017	2016
Employee compensation	887	593
Payroll related taxes (including pension contribution)	201	113
Advertising and marketing	74	43
Rental, maintenance and repair expense	71	55
Professional services	76	53
Telecommunication and postage	66	46
Information technologies	49	34
Collection agency fee	36	31
Taxes other than income tax	32	37
Travel expenses	27	24
Other	49	29
Total general administrative expenses	**1,568**	**1,058**

The average rounded number of employees during the year 2017 was 145,000 (2016: 93,000); four of these employees were employed in the Netherlands (2016: two employees).

E.28. Other operating expenses

In millions of EUR, for the year ended 31 December

	2017	2016
Depreciation of property, plant and equipment	46	34
Amortisation of intangible assets	46	50
Net impairment losses on property, plant and equipment	-	1
Net impairment losses on other assets	4	1
Loss on disposal of property, plant, equipment, and intangible assets	1	1
Foreign currency losses	63	-
Total other operating expenses	**160**	**87**

E.29. Operating leases

As a lessee, the Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of between one and five years, with an option to renew the lease after that date. Rents are adjusted annually to reflect prevailing market rates.

The table below shows future minimum lease payments under non-cancellable operating leases:

In millions of EUR, as at 31 December

	2017	2016
Less than one year	16	14
Between one and five years	31	29
More than five years	8	8
Total payables in respect of non-cancellable operating leases	**55**	**51**

The lease and sublease payments recognised as expenses in the income statement were as follows:

In millions of EUR, as at 31 December

	2017	2016
Minimum lease payments	19	19
Total lease and sublease payments	**19**	**19**

E.30. Repurchase agreements and reverse repurchase agreements

The Group raises funds by selling financial instruments under agreements to repurchase them at future dates at the same price plus interest at a predetermined rate ("repos"). As at 31 December, assets sold under repos were as follows:

In millions of EUR, as at 31 December

	2017 Fair value of underlying assets	2017 Carrying amount of corresponding liabilities	2016 Fair value of underlying assets	2016 Carrying amount of corresponding liabilities
Financial assets at FVTPL	211	174	293	251
Financial assets available for sale	239	233	-	-
Financial assets received in reverse repos	3,020	2,939	-	-
Total	**3,470**	**3,346**	**293**	**251**

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repos"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repos are entered into as a facility to provide funds to customers. As at 31 December, assets purchased subject to agreements to resell them were as follows:

In millions of EUR, as at 31 December

	2017 Fair value of assets received as collateral (total)	2017 of which: Fair value of assets repledged or sold	2017 Carrying amount of receivables	2016 Fair value of assets received as collateral (total)	2016 of which: Fair value of assets repledged or sold	2016 Carrying amount of receivables
Loans and advances to banks	7,301	3,020	7,407	431	-	426
Loans and advances to non-banks	-	-	-	84	-	59
Total loans and advances	**7,301**	**3,020**	**7,407**	**515**	**-**	**485**

E.31. Off-balance sheet items

E.31.1. Commitments and contingent liabilities

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that these amounts have been fully advanced. The amounts set forth in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to meet their contractual obligations.

The Group companies included in the banking segment engage in the provision of open credit facilities to allow customers quick access to funds in order to meet their short-term obligations as well as their long-term financing needs. Such credit facilities can take the form of guarantees, whereby the Group might guarantee repayment of a loan taken out by a client with a third party; stand-by letters of credit which are credit enhancement facilities enabling customers to engage in trade finance at lower cost; documentary letters of credit for obtaining lower cost financing for foreign trade on behalf of a customer; documentary letters of credit reimbursable to a Group company later and debt facilities and revolving underwriting facilities that allow customers to issue short or medium-term debt instruments without engaging in the normal underwriting process on each occasion. Revenue from the guarantees provided is recognised under "Fee and commission income" and is determined by applying the agreed rates to the nominal amount of the guarantees.

In millions of EUR, as at 31 December

	2017	2016
Loan commitments	692	756
Revolving loan commitments	379	528
Consumer loan commitments	80	58
Cash loan commitments	33	18
Undrawn overdraft facilities	66	34
Term loan facilities	134	118
Capital expenditure commitments	22	5
Guarantees provided	68	89
Non-payment guarantees	31	38
Non-revocable letters of credit	1	1
Payment guarantees	36	50
Total commitments and contingent liabilities	**782**	**850**

These commitments and contingent liabilities have an off-balance sheet credit risk because only organisation fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent the expected future cash flows.

The following table shows secured liabilities:

In millions of EUR, as at 31 December

	2017	2016
Secured bank loans	6,881	5,381
Loans received under repos	3,346	251
Debt securities issued	387	-
Total secured liabilities	**10,614**	**5,632**

The assets pledged as security were as follows:

In millions of EUR, as at 31 December

	2017	2016
Cash and cash equivalents	834	985
Financial assets at fair value through profit and loss (repos)	211	293
Financial assets available for sale (repos)	239	-
Financial assets available for sale (other)	-	11
Loans and receivables due from banks and other financial institutions	47	19
Loans and receivables due from customers	8,043	4,363
Financial assets in off balance sheet (repo operations)	3,020	-
Total assets pledged as security	**12,394**	**5,671**

As of 31 December 2017, cash and cash equivalents of MEUR 834 (2016: MEUR 985) were restricted by borrowing agreements with the creditors in Chinese Home Credit either to the disbursement of loans to retail clients or to the repayment of loans received from creditors. If the cash was used to provide loans to retail clients, the loans were pledged as collateral. Thus, the restriction on the cash effectively increases the creditors' security.

E.31.2. Other contingencies

E.31.2.1. Taxation

The taxation systems in the Russian Federation, Belarus, Kazakhstan, Vietnam and China are characterised by frequent changes in legislation that are then subject to varying interpretations by diverse tax authorities. Taxes are subject to review and investigation by a number of authorities that have the power to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities for several subsequent calendar years. Common practice in the Russian Federation, Belarus, Kazakhstan, Vietnam, China, India, Indonesia and Philippines suggests that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

The facts mentioned above may create tax risks in the respective countries that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities and that outstanding tax receivables are recoverable based on its interpretations of applicable tax legislation, official pronouncements and court decisions within each country in question.

In terms of other countries where Group companies operate, several changes in tax legislation have been observed in recent years, especially in Cyprus, the Netherlands, the Czech Republic and Slovakia. However, these changes have had no significant impact on the tax positions of any of the Group companies.

E.31.3. Guarantee received and off-balance sheet assets

Guarantees received and off-balance sheet assets were as follows:

In millions of EUR, as at 31 December

	2017	2016
Guarantees received	146	172
Loan commitments received	96	78
Value of assets received as collateral (including repos)	8,626	1,726
Total contingent assets	**8,868**	**1,976**

E.32. Related parties

E.32.1. Identity of related parties

The Group has a related party relationship with its parent company PPF Group N.V., its subsidiaries, associates and joint ventures and the Group's associates and non-consolidated subsidiaries.

Furthermore, the key management personnel of the Group and the close family members of such personnel; other parties which are controlled, jointly controlled or significantly influenced by such individuals and entities in which such individuals hold significant voting power are also considered related parties.

The key management personnel of the Group comprises members of the Board of Directors and key executive officers.

E.32.2. Transactions with governing bodies and executive officers

Income of the governing bodies and key executive officers received from the Group for the year 2017 was MEUR 23 (2016, full year: MEUR 26).

The income includes financial and non-financial income as follows:

Financial income includes all financial income that has been accepted by a member of a board from the Group during the financial year (especially allowances provided for membership of statutory bodies, salaries, wages, bonuses and benefits, income under other arrangements and group life insurance).

Non-financial income includes all non-monetary income (benefits) that has been accepted by a member of a board from the Group during the financial year.

E.32.3. Transactions with the parent company

During the course of the year the Group had the following significant transactions at arm's length with its parent company:

In millions of EUR, for the year ended 31 December

	2017	2016
Interest income	-	3
Other income	-	2
Total revenue	**-**	**5**
Interest expense	(5)	(3)
Total expenses	**(5)**	**(3)**

At the reporting date the Group had the following balances with its parent company:

In millions of EUR, as at 31 December

	2017	2016
Loans due from customers	-	7
Total assets	**-**	**7**
Due to non-banks	(345)	(122)
Subordinated liabilities	(181)	(7)
Debt securities issued	(6)	-
Current tax liabilities (tax unity with the Parent)	(4)	-
Total liabilities	**(536)**	**(129)**

E.32.4. Transactions with affiliates

During the course of the year the Group had the following significant transactions at arm's length with its affiliates:

In millions of EUR, for the year ended 31 December

	2017	2016
Interest income	9	6
Fee and commission income	1	1
Net gain/(loss) on financial assets	9	-
Other income	1	-
Total revenue	**20**	**7**
Interest expense	(3)	(3)
Net gain/(loss) on financial assets	-	(16)
Net impairment losses on financial assets	-	(1)
Acquisition cost	-	(5)
General administrative expenses	(21)	(14)
Total expenses	**(24)**	**(39)**

At the reporting date the Group had the following balances with its affiliates:

In millions of EUR, as at 31 December

	2017	2016
Loans due from customers	102	12
Trade and other receivables	3	2
Intangible assets	2	1
Financial assets available for sale	24	23
Positive fair value of hedging derivatives	12	1
Other assets	1	8
Total assets	**144**	**47**
Due to non-banks	(218)	(587)
Negative fair value of hedging derivate instruments	-	(12)
Trade and other payables	(18)	(9)
Total liabilities	**(236)**	**(608)**

E.32.5. Other related parties including key management personnel

During the course of the year the Group had the following significant transactions at arm's length with other related parties:

In millions of EUR, for the year ended 31 December

	2017	2016
Interest income	17	15
Total revenue	**17**	**15**
General administrative expenses	(8)	(9)
Total expenses	**(8)**	**(9)**

At the reporting date the Group had the following balances with other related parties:

In millions of EUR, as at 31 December

	2017	2016
Loans due from customers	276	251
Total assets	**276**	**251**
Due to non-banks	-	(1)
Trade and other payables	(2)	(3)
Total liabilities	**(2)**	**(4)**

F. Significant accounting policies

F.1. Significant accounting policies

The accounting policies set out below have been applied consistently by all Group entities to all periods presented in these consolidated financial statements.

F.1.1. Foreign currency

F.1.1.1. Foreign currency transactions

A foreign currency transaction is a transaction that is denominated in or requires settlement in a currency other than the functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. For initial recognition purposes, a foreign currency transaction is translated into the functional currency using the exchange rate effective at the date of the transaction and announced by the bank authority ("BA") for the respective country in which the entity operates. At the reporting date:

- monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the exchange rate at that date (announced by the BA);
- non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated using the exchange rates (announced by the BA) prevailing at the date that the fair value was determined;
- non-monetary items denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate (announced by the BA) at the date of the original transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for the differences arising on the retranslation of available-for-sale equity investments which are recognised in other comprehensive income (except for impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

F.1.1.2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at the exchange rates prevailing at the reporting date and announced by European Central Bank.

The income and expenses of foreign operations are translated to euro at exchange rates approximating the foreign exchange rates prevailing at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly owned subsidiary, the relevant proportion of the translation difference is allocated to the non-controlling interests.

When a foreign operation is disposed of with loss of control, significant influence or joint control, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests.

When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

F.1.2. Cash and cash equivalents

Cash equivalents are short-term (with original maturities of one month or less from the date of acquisition), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Mandatory minimum reserves as the part of balances with central banks are classified under loans and receivables due to banks.

F.1.3. Financial assets

Financial assets include financial assets at fair value through profit or loss, financial assets available for sale, financial assets held to maturity, loans and receivables, cash and cash equivalents.

Financial assets are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Group's policy is to recognise them using settlement date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as if the Group used trade date accounting. Financial instruments, with the exception of financial instruments at fair value through profit or loss, are measured initially at fair value plus transaction costs directly attributable to the acquisition or issue of the financial instrument.

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are exercised, or when the rights expire or are surrendered.

F.1.3.1. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or non-trading financial assets that are designated, upon initial recognition, as financial assets at fair value through profit or loss.

Financial assets held for trading are assets that were acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in their price or the dealer's margin. Financial assets are classified as held for trading if, regardless of the reason they were acquired, they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets held for trading include investments and certain purchased loans and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities at fair value through profit or loss.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value based on the market prices quoted on an active market, except for derivative instruments that are not exchange-traded and financial assets that are not quoted on an active market, which are measured based on generally accepted valuation techniques depending on the product. Gains and losses arising from changes in the fair values of financial assets at fair value through profit or loss are recognised in the income statement.

F.1.3.2. Financial assets available for sale

Available-for-sale financial assets are non-derivative financial assets that are not classified as other categories of financial assets. Available-for-sale investments comprise equity securities and debt securities.

After initial recognition, the Group measures financial assets available for sale at their fair values, with the exception of instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured. The latter are stated at cost, including transaction costs, less impairment losses.

Any revaluation gain or loss on a financial asset available for sale is recognised in other comprehensive income with the exception of impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When available-for-sale assets are derecognised, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement.

F.1.3.3. Financial assets held to maturity

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intent and ability to hold to maturity.

Financial assets held to maturity are stated at amortised cost less any impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees.

The fair value of an individual security within the held-to-maturity portfolio can temporarily fall below its carrying value. However, provided there is no risk that the security may be impaired, the security in question is not written down in such a case.

F.1.3.4. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than those classified as at fair value through profit or loss or classified as available for sale.

Loans and receivables are measured at amortised cost using the effective interest rate method and are reported net of allowances for loan losses to reflect the estimated recoverable amounts.

F.1.3.5. Repurchase agreements

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price (“repos”). Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or non-banks. The receivables are shown as collateralised by the underlying security. Investments sold under repos continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy as either assets held for trading or available for sale, as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or non-banks.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is treated as interest.

F.1.3.6. Lease transactions

Loans and receivables include the Group's net investment in finance leases where the Group is acting as the lessor. The net investment in finance leases is the aggregate of the minimum lease payments and any unguaranteed residual value accruing to the lessor discounted at the interest rate implicit in the lease. Lease payments include repayment of the finance lease principal and interest income. Recognition of the interest is based on a variable interest rate, which is applied to the net investment (principal) outstanding in respect of the finance lease. Income from finance leases is allocated over the lease term on a systematic basis.

Property and equipment used by the Group under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, are not recorded in the Group's statement of financial position. Payments made under operating leases to the lessor are charged to the income statement over the period of the lease.

F.1.4. Derivatives and hedge accounting

At the inception of a financial derivative contract, the Group designates the derivative instrument as either held for trading or hedging.

Hedging derivatives are derivatives that the Group uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- there is compliance with the Group's risk management objective and strategy in undertaking the hedge;
- at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective at inception and throughout the period;
- the effectiveness of the hedge can be reliably measured; and
- changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

- a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or

- a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge).

Changes in the fair value of a derivative that is designated and qualified as a cash flow hedge and that proves to be highly effective in relation to hedged risk are recognised in OCI and they are transferred to the income statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the income statement.

On this basis, the Group hedges the interest rate risk and foreign currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis. If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the hedge accounting is discontinued prospectively.

Financial derivatives representing economic hedges under the Group's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

An embedded derivative is a component of a combined instrument that also includes a non-derivative host contract – with the effect that some of the cash flows or other characteristics of a combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative may be separated from the host contract and accounted for as a separate derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the host instrument is not measured at fair value with changes in fair value recognised in profit or loss or the host instrument is measured at fair value, but changes in fair value are recognised in the statement of financial position.

F.1.5. Impairment

F.1.5.1. Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as default on interest or principal payments;
- the disappearance of an active market for a security; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

The Group considers evidence of impairment for loans, receivables and held-to-maturity securities at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between the loss estimates and the actual loss experience.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Receivables with a short duration are not discounted. Losses are recognised in the income statement and reflected in an allowance account. When the Group determines that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the income statement.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to the income statement. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through other comprehensive income.

An impairment loss in respect of an associate or joint venture is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

F.1.5.2. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, deferred acquisition costs, the present value of future profits on acquired insurance portfolio and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in the income statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

F.1.6. Inventories

Inventories are stated at the lower of cost and net realisable value (being the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale). Where the net realisable value is below cost, inventories are written down to the lower value, and the impairment loss is recorded in the income statement. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties and insurance). The cost of inventory is determined using weighted average cost.

F.1.7. Assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) we would expect to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before being classified as held for sale, the assets (or components of a disposal group) are measured in accordance with the applicable IFRS. Thereafter, the assets (or disposal groups) are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on a pro rata basis, except that no loss is allocated to inventory, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets; these continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

F.1.8. Deferred acquisition costs of insurance contracts

Direct costs arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' shares of deferred acquisition costs are amortised in the same manner as the underlying asset amortisation is recorded.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of comprehensive income.

Deferred acquisition costs are derecognised when the related insurance contracts are either settled or disposed of.

F.1.9. Property, plant and equipment

Property, plant and equipment is stated at purchase price or production cost, less accumulated depreciation (except for freehold land) and any accumulated impairment losses.

Property, plant and equipment include all costs directly attributable to bringing the asset to working condition for its intended use. With respect to the construction of the network, this comprises every expenditure up to the customer premises, including the cost of contractors, material, direct labour costs and interest cost incurred during the course of construction.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognised in other operating income/other operating expenses in profit or loss.

Depreciation is provided on a straight-line basis using the following useful lives:

Buildings and constructions	up to 50 years
Vehicles	3-8 years
Other tangible assets and equipment	up to 10 years

Component parts of an asset which have different useful lives or provide benefits in a different pattern are recognised as separate assets with different depreciation rates.

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time the technical improvement is recognised.

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

F.1.10. Intangible assets

F.1.10.1. Goodwill and gain on a bargain purchase

The Group accounts for all business combinations, except business combinations determined to be reorganisations involving group companies under common control (refer to A.5), as acquisitions.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units at the date of the acquisition and is not amortised but instead tested for impairment, annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gain on a bargain purchase arising on the acquisition is recognised immediately in the income statement.

In respect of associates, the carrying amount of any goodwill is included in the carrying amount of the investment in the associate.

F.1.10.2. Present value of future profits from portfolio acquired

On the acquisition of a portfolio of long-term insurance contracts or investment contracts, either directly or through the acquisition of an enterprise, the net present value of the shareholders' interest in the expected cash flows of the portfolio acquired is capitalised as an asset. This asset, referred to as the present value of future profits ("PVFP"), is calculated on the basis of an actuarial computation taking into account assumptions for future premium income, contributions, mortality, morbidity, lapses and returns on investments. PVFP is recognised separately for insurance segments and for the respective companies.

The PVFP is amortised over the average effective life of the contracts acquired, using an amortisation pattern reflecting the expected future profit recognition. The assumptions used in the development of the PVFP amortisation pattern are consistent with the ones applied in its initial measurement.

F.1.10.3. Other intangible assets

Other intangible assets, including software and licences, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Such categories of assets with finite useful lives are amortised on a straight-line basis. The estimated useful lives are as follows:

Software	up to 10 years
PVFP	5/35 years (non-life/life portfolio)
Other	up to 10 years

The amortisation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time the technical improvement is recognised.

As for the life and non-life portfolio, the recoverable amount of the value of the "in-force business acquired" is determined by conducting the liability adequacy test ("LAT") on the insurance provisions, taking into account the deferred acquisition costs, if any, recognised in the statement of financial position. Any impairment losses are recognised in the income statement.

Where there is any indication that an impairment loss recognised for PVFP in prior years no longer exists, the carrying amount of PVFP is increased to its estimated recoverable amount. The increased carrying amount of PVFP due to reversal of impairment loss may not exceed the carrying amount that would be determined if no impairment loss had been recognised for PVFP in prior years, net of any amortisation accounted for in the meantime.

F.1.11. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

F.1.11.1. Current tax

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

The Group does not offset current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts or intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

F.1.11.2. Deferred tax

A deferred tax position is recognised in cases when temporary differences arise between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for: the initial recognition of goodwill arising from a business combination, the initial recognition of assets or liabilities that affect neither the accounting nor the taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Recognised deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

F.1.11.3. Tax exposure

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these issues is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

F.1.12. Deposits, loans, debt securities issued and subordinated liabilities

Liabilities due to non-banks and due to banks, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

Deposits, loans, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

F.1.13. Other liabilities and provisions

Accounts payable arise when the Group has a contractual obligation to deliver cash or another financial asset. Accounts payable are measured at amortised cost, which is normally equal to their nominal or repayment value.

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

F.1.14. Insurance provisions

F.1.14.1. Provisions for unearned premiums

Provisions for unearned premiums comprise that part of gross premium revenue attributable to subsequent periods, calculated separately for each insurance contract.

F.1.14.2. Provisions for outstanding claims

Provisions for outstanding claims represent the total estimated cost of settling all claims arising from events that occurred up to the reporting date, whether reported or not, less amounts already paid in respect of such claims. These provisions include claims reported by policyholders but not settled (“RBNS”) and claims incurred but not reported (“IBNR”). Provisions for outstanding claims are not discounted for time value of money.

F.1.14.3. Other insurance provisions

Other insurance provisions contain all other insurance technical provisions not mentioned above, such as the provision for unexpired risks (also referred to as the “premium deficiency”) in non-life insurance, the ageing provision in health insurance, the provision for contractual non-discretionary bonuses in non-life business and other similar provisions.

F.1.15. Equity

F.1.15.1. Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

F.1.15.2. Dividends

Dividends on share capital are recognised as a liability provided they are declared before the reporting date. Dividends declared after the reporting date are not recognised as a liability but are disclosed in the notes.

F.1.15.3. Non-controlling interests

Non-controlling interests consist of the minority shareholders' proportion of the subsidiary's recognised net assets at the date of the original combination, plus or minus their share of changes in the subsidiary's equity since that date.

Net profit allocated to non-controlling interests is that part of the net results of the Group attributable to interests which are not owned, either directly or indirectly through subsidiaries, by the equity holders of the Parent Company.

Losses applicable to the non-controlling interests, including negative other comprehensive income, are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

F.1.16. Interest income and interest expense

Interest income and interest expense are recognised in the income statement on an accrual basis, taking into account the effective yield of the asset or liability in question, or the applicable floating rate. Interest income and interest expenses include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated using the effective interest rate method.

F.1.17. Net fee and commission income

Fee and commission income arises from financial services provided by the Group, including cash management services, payment clearing, investment advice and financial planning, investment banking services, and asset management services. Fee and commission expenses arise on financial services provided to the Group including brokerage services, payment clearing, and asset management services. Fee and commission income and expenses are recognised when the corresponding service is provided or received. A penalty fee is recognised when a penalty is charged to a customer, taking into account its collectability.

The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Group's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, and the interest rates for customers with and without the insurance are the same. The Group is not exposed to the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognised in profit or loss when the Group provides the agency service to the insurance company.

F.1.18. Net gain/loss on financial assets

Net gain/loss on financial assets comprises net trading income, net gains on financial assets at fair value through profit or loss that are not held for trading, net realised gains, and dividends.

Net trading income arises from the subsequent measurement of "Trading assets" and "Trading liabilities" at fair value or from their disposal. The amount of trading income to be recorded represents the difference between the latest carrying value and the sale price or between the latest carrying value and the fair value as of the date of the consolidated financial statements.

Net gains on financial assets at fair value through profit or loss that are not held for trading arise from their subsequent measurement at fair value or from their disposal.

A realised gain/loss arises on de-recognition of financial assets other than financial assets at fair value through profit or loss. The amount of the realised gain/loss represents the difference between the carrying value of the financial asset and the sale price adjusted for any cumulative gain or loss that had been recognised directly in equity.

Dividends from financial assets are recorded in the income statement once declared and approved by the shareholders' meeting of the respective company.

F.1.19. Net insurance premium revenue

Net insurance premium revenue includes gross premium revenue from direct insurance business and assumed (inwards) reinsurance business, net of premiums ceded to reinsurers.

F.1.20. Net insurance benefits and claims

Insurance technical charges include claims (benefit) expenses, the change in technical provisions and rebates, and profit sharing. Claims expenses consist of benefits and surrenders, net of reinsurance. Benefits and claims comprise all payments made in respect of the financial year: annuities, surrenders, additions and releases of loss provisions to and from ceding insurance enterprises and reinsurers, and external and internal claims management costs.

F.1.21. Acquisition costs

Acquisition costs are costs arising from the conclusion of insurance or investment contracts and include direct costs, such as acquisition commissions, as well as indirect costs, such as advertising costs and administrative expenses. After initial recognition, the acquisition costs for non-life contracts are amortised over the expected life of the contracts.

F.1.22. Other income and other expenses

F.1.22.1. Income for services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs.

F.1.22.2. Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total lease expense.

F.1.23. General administrative expenses

General administrative expenses include expenses relating to the running of the Group. These include personnel costs, office rental expenses and other operating expenses. Staff costs include employees' salaries and wages, management remuneration and bonuses, and social insurance.

Within banking operations, administrative expenses include the costs of processing payments, maintaining customer accounts and records, and dealing with customers.

F.1.24. Pensions

The governments of the countries the Group operates in are responsible for providing pensions and retirement benefits to the Group's employees. A regular contribution linked to employees' salaries is made by the Group to the governments to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

F.2. Changes in accounting policies and accounting pronouncements adopted since 1 January 2017

The following revised standard and annual improvements to IFRSs effective from 1 January 2017 are mandatory and relevant for the Group and have been applied by the Group since 1 January 2017.

<u>Amendments to IAS 7 Statement of Cash Flows</u> (effective from 1 January 2017)

The amendments are part of the IASB's disclosure initiative project and introduce additional disclosure requirements intended to address investors' concerns that financial statements do not currently enable them to understand the entity's cash flows; particularly in respect to the management of financing activities.

This standard did not have a significant impact on the Group's financial statements.

<u>Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses</u> (effective from 1 January 2017)

In January 2016, IASB issued amendments to IAS 12 *Income Taxes*. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

This standard did not have a significant impact on the Group's financial statements.
<u>Annual Improvements 2014-2016 Cycle</u> (effective from 1 January 2017 and from 1 January 2018)

In November 2015, the IASB published Annual Improvements to IFRSs 2014-2016 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. Out of the amendments contained in the 2014-2016 Cycle, the amendment to IFRS 12 is effective from 1 January 2017.

These amendments are not expected to have a significant impact on the Group's financial statements.

F.3. Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Group's consolidated financial statements

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 December 2017 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group is in the process of analysing the likely impact on its financial statements.

Annual Improvements 2014-2016 Cycle (effective from 1 January 2017 and from 1 Jan. 2018)

In November 2015, the IASB published Annual Improvements to IFRSs 2014-2016 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. Out of the amendments contained in the 2014-2016 Cycle, the amendments to IFRS 1 and IAS 28 are effective from 1 January 2018.

These amendments are not expected to have a significant impact on the Group's financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2018)

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.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Based on assessments undertaken to date, the estimated adjustment of the adoption of IFRS 9 on the opening balance of the Group's equity at 1 January 2018 related to impairment requirements is a reduction in the range of MEUR 262-314. The related deferred tax impact is estimated to result in an increase of retained earnings by approximately MEUR 50-70. A substantial part of this impact would be reflected in the consolidated income statement for the year ended 31 December 2017 should the Standard be adopted retrospectively.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Group is refining and finalising its models for expected credit loss ("ECL") calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

Classification – financial assets
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are held as well as the characteristics of its cash flows.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it has not been designated as at FVTPL and meets both of the following conditions:

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present any subsequent changes in fair value in OCI. This choice is made on an investment-by- investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may also irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See (vii) for the transition requirements relating to the classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset under the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment
The Group assessed the objective of the business model in which a financial 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 that will be considered includes:

- the policies and objectives stated for the portfolio and the operation of those policies in practice, including 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 assets;
- how the performance of the portfolio is evaluated and reported to Group management;
- the risks affecting 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; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activities. However, information about sales activities 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.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are held neither to collect contractual cash flows nor to both collect contractual cash flows and sell financial assets.

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, 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 a profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include 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 will consider:

- 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; and
- features that modify the consideration for the time value of money – e.g. periodic reset of interest rates.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount; the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination); and the fair value of the prepayment feature is insignificant on initial recognition.

Impact assessment
The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9;
- loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9;
- held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9;
- debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances;
- loans and advances to customers and investment securities that are designated as at FVTPL under IAS 39 will in general continue to be measured at FVTPL under IFRS 9;
- equity investment securities that are classified as available-for-sale under IAS 39 will be designated as at FVOCI under IFRS 9 as they are held for long-term strategic purposes.

The Group has estimated that upon the adoption of IFRS 9 as of 1 January 2018, these changes will not have any impact on the Group's equity.

Impairment – financial assets, loan commitments and financial guarantee contracts
IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' model. This model is forward-looking and eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Consequently, more timely information that needs to be provided about expected credit losses.

Under IAS 39, an entity may only consider losses that arise from past events and current conditions. The effects of possible future credit loss events could not be considered, even when they were expected. IFRS 9 broadens the information an entity may consider when determining its ECLs. Specifically, IFRS 9 allows an entity to base its measurement of ECLs on reasonable and supportable information that is available without undue cost or effort, and that includes historical, current and forecast information.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date.

In accordance with IFRS 9, the Group will recognise loss allowances at an amount equal to lifetime ECLs for a financial instrument, if the credit risk on that financial instrument has increased significantly since initial recognition, whether assessed on an individual or collective basis and considering all reasonable and supportable information. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

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

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Definition of default
Under IFRS 9, the Group will consider a financial asset to be in default when there is available information that:

- 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 more than 90 days past due on the respective significant credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

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

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status; and
- based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

Inputs into a financial instrument’s default assessment and their significance may vary over time to reflect changes in circumstances.

Credit risk grades
The Group will allocate each exposure to a credit risk grade based on a variety of data that has been determined to be predictive of the risk of default and applying experienced credit

judgement. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Credit risk grades and client scores will be the primary inputs into the determination of the probability of default ("PD") development for exposures. The Group will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Group will employ statistical models to analyse the data collected and generate estimates on the remaining lifetime PD of exposures and on their expected change over time.

This analysis is planned to include – where reasonable and supportable information is available – the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include variables such as GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly
Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis consisting - based on availability and complexity - of the Group's historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and will include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment – subject to a materiality threshold – has not been received.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining probability of default ("PD") as at the reporting date; with
- the PD that was estimated upon the exposure's initial recognition.

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if since its initial recognition the remaining lifetime PD is determined to have increased more than has been defined for the respective exposure class.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first used may have been a long time ago. The modification of a financial instrument's contractual terms may also affect this assessment.

Using its expert credit judgement and relevant historical experience, the Group in certain instances may determine that an exposure has undergone a significant increase in credit risk if indicated by particular qualitative factors. Such indicators may not be fully captured by an exposure's timely quantitative analysis.

The Group will monitor the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines and settings.

Modified financial assets
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified due to aborrower's financial difficulties and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly should reflect comparison of:

- the remaining PD at the reporting date based on the modified terms; with
- the PD estimated based on data upon the initial recognition and the terms of the original contract.

The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default (referred to as 'forbearance activities'). Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of default and credit impairment. Expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased sufficiently for the loss allowance to revert to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs
The key inputs into the measurement of ECLs are – in general – the following variables:

- PD;
- loss given default ("LGD"); and
- exposure at default ("EAD").

These parameters alone or together will be derived from internally developed statistical models based on own historical data or derived from available market data.

For the retail portfolio, PD and EAD is usually estimated together using statistical models (stochastic Markov chain based model of simple Roll Rate model) based on internally compiled data. Where it is available, market data may also be used to derive the PD for large corporate counterparties where there is not enough internally available data for statistical modelling.

LGD is estimated based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD and models will consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the financial asset.

For retail overdraft and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group will measure ECLs over a period when the Group's ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This period will be estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECLs. These include a reduction in limits and the cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments shall be grouped based on shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information will be used to supplement the internally available data.

Forward-looking information

Under IFRS 9, the Group plans to incorporate forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – as part of the measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

Depending on data availability and the credibility of sources, the Group plans to analyse historical data to estimate relationships between macro-economic variables and credit risk and credit losses. Key drivers may include variables such as interest rates, unemployment rates, GDP forecasts and other.

Impact assessment
The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Group has estimated that upon the adoption of IFRS 9 as of 1 January 2018 the impact of the increase in loss allowances (before tax) will be in the range of MEUR 262-314.

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

However, under IAS 39, all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- the remaining amount of the change in the fair value will be presented in profit or loss.

Derecognition and contract modification
IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate. It will recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Group does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Group expects the adoption of these new requirements to have an immaterial impact.

Hedge accounting
IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group has chosen to apply the new requirements of IFRS 9.

The types of hedge accounting relationships currently designated by the Group meet the requirements of IFRS 9, and are aligned with the entity's risk management strategy and objectives. The Group expects that the application of the IFRS 9 hedge accounting requirements will have no impact on its financial statements.

Disclosures
IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk, and ECLs.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

Based on the facts and circumstances that exist at the date of initial application, the following assessments have to be made:

- the determination of the business model within which a financial asset is held.
- the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- the designation of certain investments in equity instruments not held for trading as at FVOCI.
- for a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018)

In May 2014, IASB and the Financial Accounting Standards Board (FASB), responsible for US Generally Accepted Accounting Principles (US GAAP) jointly issued a converged standard on the recognition of revenue from contracts with customers. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (i.e. payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue-Barter Transactions Involving Advertising Services.

In April 2016 IASB issued amendments to IFRS 15 clarifying some requirements and providing additional transitional relief for companies that are implementing the new Standard.

The Group has reviewed its operations from an IFRS 15 perspective and identified two categories of revenues within the scope of IFRS 15: Fee and commission revenue and Other operating income. The Group has also assessed the new standard's impact on the Group's consolidated financial statements and analysed these categories in detail according to IFRS 15's five-step model. To comply with IFRS 15, it has implemented necessary actions into the affected processes, such as the allocation of the transaction price to every performance obligation. In its assessment, the Group does not expect the application of IFRS 15 to have a significant impact on its consolidated financial statements.

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1st January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

<u>IFRS 16 Leases</u> (effective from 1 January 2019)

In January 2016 IASB issued a new Standard on Leases. The standard requires companies to bring most leases on-balance sheet, recognising new assets and liabilities. IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset (the 'lease asset') at the start of the lease. As most lease payments are made over time, lessee companies also obtain financing. As a result, the new standard requires lessees to account for all of their leases in a manner similar to the treatment of finance leases under IAS 17. IFRS 16 includes two exemptions from recognising assets and liabilities for (a) short-term leases (i.e. leases of 12 months or less) and (b) leases of low-value items (such as personal computers).Applying IFRS 16, a lessee will:

- recognise lease assets (as a separate line item or together with property, plant and equipment) and lease liabilities in the balance sheet;
- recognise depreciation of lease assets and interest on lease liabilities in the income statement; and
- present the amount of cash paid for the principal portion of the lease liability within financing activities, and the amount paid for the interest portion within either operating or financing activities, in the cash flow statement.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. This standard is expected to have an insignificant impact on the Group's financial statements considering the extent of operating leases of the Group (refer to Note E.29).

IFRS 17 Insurance Contracts (effective from 1 January 2021)

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to held reinsurance contracts and issued investment contracts with discretionary participation features. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information provides a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IFRS 17 has not yet been adopted by the EU.

The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective from 1 January 2018)

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement standard that the board is developing for IFRS 4. These concerns include temporary volatility in reported results.

The amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.

The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.

These amendments are not expected to have a significant impact on the Group's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018)

The IFRIC 22 clarifies the transactions date used to determine the exchange rate for foreign currency transactions involving an advance payment or receipt: the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019)

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept an entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases, and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

These interpretations are not expected to have a significant impact on the Group's financial statements.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (effective from 1 January 2019)

In October 2017 IASB issued amendments to IFRS 9 Prepayment Features with Negative Compensation. These amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation.

These amendments are not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective from 1 January 2019)

In February 2018, the IASB issued narrow-scope amendments to pension accounting. The amendments specify how companies determine pension expenses when changes to a defined benefit pension plan occur. The amendments require a company to use the updated assumptions form this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures (effective from 1 January 2019)

The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9.

These amendments have not yet been adopted by the EU.

These amendments are not expected to have a significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle (effective from 1 January 2019)

In February 2018, the IASB published Annual Improvements to IFRSs 2014-2016 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. The new cycle of improvements contains amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

These Annual Improvements have not yet been adopted by the EU.

These amendments are not expected to have a significant impact on the Group's financial statements.

G. Subsequent events

The Group has evaluated the period after the balance sheet date up through 30 April 2018, which is the date that the consolidated financial statements were issued. It has determined that there were no subsequent events or transactions that required recognition or disclosure in the consolidated financial statements.

Date:	the Board of Directors:
30 April 2018	Jan Cornelis Jansen Rudolf Bosveld Paulus Aloysius de Reike Lubomír Král Kateřina Jirásková

PPF Financial Holdings B.V.

Unconsolidated financial statements for the year ended 31 December 2017

Chamber of commerce 61880353
With statutory seat in Amsterdam

Company statement of financial position

As at	Note	31 December 2017 MEUR	31 December 2016 MEUR	1 January 2016 MEUR
ASSETS				
Cash and cash equivalents	5	235	188	118
Loans receivable	6	211	386	99
Financial assets available for sale	7	-	143	123
Investment in subsidiaries and associates	8	1,530	1,126	1,111
Total assets		**1,976**	**1,843**	**1,451**
EQUITY				
Issued capital	9	-	-	-
Share premium	9	2,231	2,217	1,873
Available-for-sale reserve		-	(1)	(3)
Other reserves	9	(434)	(434)	(434)
Retained earnings		55	49	15
Total equity		**1,852**	**1,831**	**1,451**
LIABILITIES				
Subordinated liabilities	10	119	-	-
Financial liabilities at fair value through profit or loss	11	-	11	-
Current income tax	14	4	-	-
Accounts payable		1	1	-
Total liabilities		**124**	**12**	**-**
Total liabilities and equity		**1,976**	**1,843**	**1,451**

Company statement of comprehensive income

	Note	2017 MEUR	2016 MEUR
Interest income	13	37	30
Net interest income		**37**	**30**
Net foreign exchange gain/(loss)		(20)	3
Gain/(loss) on sale of available-for-sale financial assets		(1)	15
Net loss from derivatives		(1)	(12)
Operating expense		(3)	(2)
Profit before tax		**12**	**34**
Income tax expense	14	(6)	-
Net profit for the period		**6**	**34**
Valuation losses on AFS assets		**-**	(1)
AFS revaluation losses transferred to income statement		1	3
Other comprehensive income for the period (net of tax)*		**1**	**2**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**7**	**36**

* Items that are or may be reclassified to the income statement.

Company statement of changes in equity

MEUR	Issued capital*	Share premium	Available-for-sale reserve	Other reserve	Retained earnings	Total
Balance as at 1 January 2017	**-**	**2,217**	**(1)**	**(434)**	**49**	**1,831**
Transactions with the owner:						
Contributions for the year	-	14	-	-	-	14
Total comprehensive income:						
Net profit for the year	-	-	-	-	6	6
AFS revaluation losses transferred to income statement	-	-	1	-	-	1
Balance as at 31 December 2017	**-**	**2,231**	**-**	**(434)**	**55**	**1,852**

* Capital issued is TEUR 45.

MEUR	Issued capital*	Share premium	Available-for-sale reserve	Other reserve	Retained earnings	Total
Balance as at 1 January 2016	**-**	**1,873**	**(3)**	**(434)**	**15**	**1,451**
Transactions with the owner:						
Contributions for the year	-	344	-	-	-	344
Total comprehensive income:						
Net profit for the year	-	-	-	-	34	34
Valuation losses taken to equity for AFS	-	-	(1)	-	-	(1)
AFS revaluation losses transferred to income statement	-	-	3	-	-	3
Balance as at 31 December 2016	**-**	**2,217**	**(1)**	**(434)**	**49**	**1,831**

* Capital issued is TEUR 45.

Company statement of cash flows

For the year ended 31 December

In millions of EUR

	Note	2017 MEUR	2016 MEUR
Profit from operations (before taxation)		**12**	**34**
Net interest income	12	(37)	(30)
Adjustments for:			
Net (gain)/loss on disposal of available-for-sale financial assets		1	(15)
Effects of foreign currency translation on items other than cash and cash equivalents		24	4
Net operating cash flow before changes in working capital		**-**	**(7)**
Change in current liabilities		(1)	1
Change in loans provided and other assets		167	(277)
Change in negative fair value of derivatives		(12)	12
Cash flows from/(used in) operations		**154**	**(271)**
Interest received		36	13
Income tax paid		(2)	-
Cash flows from/(used in) operating activities		**188**	**(258)**
Investments in subsidiaries and associates	5	(404)	(15)
Proceeds from sale of financial assets available for sale	7	130	136
Acquisition of financial assets available for sale	7	-	(137)
Cash flows from/(used in) investing activities		**(274)**	**(16)**
Proceeds from share premium increase	9	14	344
Proceeds from the issue of debt securities	10	119	-
Cash flows from/(used in) financing activities		**133**	**344**
Net increase/(decrease) in cash and cash equivalents		47	70
Cash and cash equivalents as at 1 January		188	118
Cash and cash equivalents as at 31 December		**235**	**188**

NOTES TO THE FINANCIAL STATEMENTS

1 General information

These unconsolidated financial statements of PPF Financial Holdings B.V. (the "Company") should be read in conjunction with the consolidated financial statements.

The Board of Directors authorised the unconsolidated financial statements for issue on 30th April 2018.

The main activity of the Company is to act as a holding and financing company.

For the other description of the Company see Note A of notes to the consolidated financial statemetns for the year ended 31 December 2017.

2 Basis of preparation

2.1 Statement of compliance

These unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU-IFRSs"), including International Accounting Standards ("IASs"), promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, and with the financial reporting requirements included in Part 9 of Book 2, of the Netherlands Civil Code.

For all periods up to and including the year ended 31 December 2016, the Company prepared its financial statements in accordance with Dutch generally accepted accounting principles and guidelines ("Dutch GAAP"). These unconsolidated financial statements for the year ended 31 December 2017 are the first the Company has prepared in accordance with EU-IFRSs. Refer to Note 3.3 for information on how the Company adopted EU-IFRSs.

2.2 Basis of presentation

All amounts are presented in Euros ("EUR") rounded to the nearest million, unless stated otherwise. EUR is the Company's functional currency.

2.3 Going concern

These financial statements have been prepared on the basis of the going concern assumption.

3 Significant accounting policies

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements the Company makes use of the option provided in Section 2:362(8) of the Netherlands Civil Code, which allows that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as the principles for recognition and measurement) are the same as those applied for the consolidated EU-IFRSs financial statements.

3.1 Investments in subsidiaries and associates

The Company initially recognises its investments in subsidiaries at cost. Subsequently, they are measured at cost less impairment losses.

3.2 Income tax

The Company is part of a fiscal unity with PPF Group N.V. (the "Ultimate Parent Company") that files and settles the corporate income tax for their account. For more details please refer to Note 14.

3.3 First-time adoption of IFRS

As described in Note 2.1, these unconsolidated financial statements for the year ended 31 December 2017, are the first the Company has prepared in accordance with EU-IFRSs.

Accordingly, the Company has prepared financial statements which comply with EU-IFRSs applicable for the periods ending on or after 31 December 2017, together with comparative period data as at and for the year ended 31 December 2016. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 January 2016, the Company's date of transition to EU-IFRSs.

Except for several differences in presentation requirements under Dutch GAAP and under EU-IFRSs, such as the requirement for the statement of cash flows to form part of the full set of EU-IFRSs financial statements, contrary to Dutch GAAP, the Company did not identify any other differences in the relevant financial reporting requirements under Dutch GAAP and EU-IFRSs, notably in terms of accounting policies applied, estimates, recognition, derecognition and measurement principles.

The Company did not recognise, exclude or re-measure any previously recognised amount as a result of EU-IFRSs requirements.

Given the reasons in the above paragraphs the Company do not present the reconciliations required by IFRS 1.

Other significant accounting policies are described in Note F of the notes to the consolidated financial statement for the year ended 31 December 2017.

4 Risk management

The following section should be read in conjunction with the consolidated financial statements.

4.1 Credit risk

The credit risk for the Company comprise the receivables from the group companies, for which the credit risk is therefore limited, and the receivables from non-consolidated related parties, for which the credit risk is managed at the Group level.

4.2 Interest rate risk

The Company income and operating cash flows are substantially independent of changes in market interest rates. However, the short term and long term debt as well as cash assets can be maintained on both floating and fixed interest rates. The Company may sometimes use interest rate swaps, forward rate agreements and option based products to manage a desired mix of fixed and variable interest rates.

The Company‘s objective in managing its exposure to interest rate fluctuations is to minimise reported earnings and cash flow volatility associated with interest rate changes.

As at 31 December 2017 the Company is not exposed to interest rate risk arising from debt instruments as all debt instruments (bonds) carry fixed interest rate.

As at 31 December 2017, the Company does not account for any financial assets or financial liabilities at fair value through profit or loss and for any available-for-sale financial assets. Therefore, a change in interest rates at the reporting date would not affect profit or loss or equity of the Company.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates arising from cash investments.

2017 MEUR	Effective interest rate	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing financial assets						
Cash and cash equivalents	0.00%	235	-	-	-	235
Loans receivable	7.50%	50	161	-	-	211
Total interest bearing financial assets		**285**	**161**	**-**	**-**	**446**

2016 MEUR	Effective interest rate	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing financial assets						
Cash and cash equivalents	0.00%	188	-	-	-	188
Loans receivable	7.50%	-	278	108	-	386
Financial assets available for sale	9.69%	-	-	143	-	143
Total interest bearing financial assets		**188**	**278**	**251**	**-**	**717**

As at 1 January 2016 MEUR	Effective interest rate	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing financial assets						
Cash and cash equivalents	0.00%	118	-	-	-	118
Loans receivable	7.50%	-	-	99	-	99
Financial assets available for sale	9.68%	-	-	90	33	123
Total interest bearing financial assets		**118**	**-**	**189**	**33**	**340**

Financial liabilities that bear fixed interest of 4.5% p.a. and maturity in 2027 are presented under subordinated liabilities. For more information refer to Note 10.

The fair values of loan receivables and subordinated liabilities approximate their carrying amounts as presented in these financial statements.

4.3 Liquidity risk

Liquidity risk represents the risk of being unable to fund assets using instruments with appropriate maturities and rates, the risk of being unable to liquidate an asset sufficiently quickly and in the appropriate amount and the risk of being unable to meet obligation as they become due. The Company continually assesses its liquidity risk with the Group's treasury department by identifying and monitoring changes in the funding required to meet the business goals.

2017 MEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Cash and cash equivalents	235	-	-	-	-	235
Loans receivable	50	-	161	-	-	211
Total financial assets	**285**	**-**	**161**	**-**	**-**	**446**
Subordinated liabilities	-	-	-	119	-	119
Accounts payable	1	-	-	-	-	1
Current income tax	-	-	-	-	4	4
Total financial liabilities	**1**	**-**	**-**	**119**	**4**	**124**
Net position	**284**	**-**	**161**	**(119)**	**(4)**	**322**

2016 MEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Cash and cash equivalents	188	-	-	-	-	188
Loans receivable	-	278	108	-	-	386
Financial assets available for sale	-	-	143	-	-	143
Total financial assets	**188**	**278**	**251**	**-**	**-**	**717**
Financial liabilities at fair value through profit or loss	11	-	-	-	-	11
Accounts payable	1	-	-	-	-	1
Total financial liabilities	**12**	**-**	**-**	**-**	**-**	**12**
Net position	**176**	**278**	**251**	**-**	**-**	**705**

As at 1 January 2016 MEUR	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Cash and cash equivalents	118	-	-	-	-	118
Loans receivable	-	-	99	-	-	99
Financial assets available for sale	-	-	123	-	-	123
Total financial assets	**118**	**-**	**222**	**-**	**-**	**340**
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Net position	**118**	**-**	**222**	**-**	**-**	**340**

4.4 Foreign currency risk

Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency. Result of currency translation are directly charged to the income statement.

In the notes to the consolidated financial statements information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. These risks, objectives, policies and processes for measuring and managing risk, and the management of capital apply also to the unconsolidated financial statements of the Company.

2017 MEUR	EUR	CZK	USD	Total
Cash and cash equivalents	181	54	-	235
Loans receivable	173	-	38	211
Total financial assets	**354**	**54**	**38**	**446**
Subordinated liabilities	-	119	-	119
Accounts payable	1	-	-	1
Current income tax	4	-	-	4
Total financial liabilities	**5**	**119**	**-**	**124**
Net position	**349**	**(65)**	**38**	**322**

2016 **MEUR**	**EUR**	**CZK**	**USD**	**Total**
Cash and cash equivalents	62	126	-	188
Financial assets available for sale	-	-	143	143
Loans receivable	346	-	40	386
Total financial assets	**408**	**126**	**183**	**717**
Financial liabilities at fair value through profit or loss	11	-	-	11
Accounts payable	1	-	-	1
Total financial liabilities	**12**	**-**	**-**	**12**
Net position	**396**	**126**	**183**	**705**

As at 1 January 2016 **MEUR**	**EUR**	**CZK**	**USD**	**Total**
Cash and cash equivalents	118	-	-	118
Financial assets available for sale	-	-	123	123
Loans receivable	63	36	-	99
Total financial assets	**181**	**36**	**123**	**340**
Total financial liabilities	**-**	**-**	**-**	**-**
Net position	**181**	**36**	**123**	**340**

5 Cash and cash equivalents

All cash represents cash at banks held by PPF banka a.s. and is freely distributable.

6 Loans receivable

	2017 MEUR	2016 MEUR	1st January 2016 MEUR
Home Credit B.V. (EUR)	50	278	-
Other external loans (EUR)	122	68	63
Other external loans (USD)	39	40	36
	161	108	99
	211	386	99

The loan to Home Credit B.V. is bearing a fixed interest rate of 7.5% p.a. and maturing in May 2018. The other loans are bearing a fixed interest rate of 7.5% p.a. and maturing in June 2019.

7 Financial assets available for sale

	2017 MEUR	2016 MEUR	1st January 2016 MEUR
Home Credit and Finance Bank LLC (*)	-	103	90
Home Credit and Finance Bank LLC (**)	-	40	33
	-	143	123

(*) Subordinated bonds maturing in April 2020 and bearing interest of 9.375% p.a.
(**) Subordinated bonds maturing in April 2021 and bearing interest of 10.5% p.a.

8 Investments in subsidiaries and associates

	Share	2017 MEUR	Share	2016 MEUR	Share	1st January 2016 MEUR
Home Credit B.V.	88.62%	1,435	88.62%	1,051	88.62%	1,051
PPF banka a.s.	92.96%	60	92.96%	60	92.96%	60
ClearBank Ltd.*	36.36%	29	35.00%	15	-	-
Home Credit Group B.V.**	88.62%	6	-	-	-	-
		1,530		1,126		1,111

*acquired in 2016
**established in 2017

9 Equity

Share capital and share premium

Capital issued represents capital in respect of which the shareholders' liability for an entity's obligation towards its creditors is limited. The amount is limited to the current nominal capital approved by a shareholder resolution.

The following table provides details of authorised and issued shares:

	2017	2016
Number of shares authorised	45 000	45 000
Number of shares issued and fully paid	45 000	45 000
Par value per share	EUR 1	EUR 1

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Company.

During 2017 and 2016 the share premium was increased by cash contribution amounting to MEUR 14 (2016: MEUR 344).

Other reserve (under common control)

The other reserve was recognised on contribution of shareholdings in Home Credit B.V. and PPF banka a.s. in 2015. The reserve is not available for distribution to the shareholders.

The difference between the Company's equity and consolidated equity results from the fact that the Company presents its investments in subsidiaries at cost. In the consolidated financial statements the subsidiaries are consolidated and their cumulative result is added to the consolidated equity. The Company's net result for 2017 is lower than the consolidated result by MEUR 301 (2016: MEUR 241).

The reconciliation of equity as per these unconsolidated financial statements and consolidated financial statements is shown below.

In millions of EUR

	Capital issued*	Share premium	Available -for-sale reserve	Legal and statutory reserves	Translatio n reserve	Other reserves	Retained earnings	Total
Individual balance as at 31 December 2017	**-**	**2,231**	**-**	**-**	**-**	**(434)**	**55**	**1,852**
Adjustment for:								
Net result of subsidiaries	-	-	-	-	-	-	1,217	1.217
Reserves related to subsidiaries	-	-	19	81	(383)	(70)	(207)	(560)
Consolidated balance as at 31 December 2017	**-**	**2,231**	**19**	**81**	**(383)**	**(504)**	**1,065**	**2,509**

*Capital issued is TEUR 45.

In millions of EUR

	Capital issued*	Share premium	Available -for-sale reserve	Legal and statutory reserves	Translatio n reserve	Other reserves	Retained earnings	Total
Individual balance as at 31 December 2016	**-**	**2,217**	**(1)**	**-**	**-**	**(434)**	**49**	**1,831**
Adjustment for:								
Net result of subsidiaries	-	-	-	-	-	-	971	971
Reserves related to subsidiaries	-	-	44	57	(283)	(70)	(211)	(463)
Consolidated balance as at 31 December 2016	**-**	**2,217**	**43**	**57**	**(283)**	**(504)**	**809**	**2,339**

* Capital issued is TEUR 45.

10 Subordinated liabilities

	2017 MEUR	2016 MEUR	1st January 2016 MEUR
Bonds issued	119	-	-

Bonds of MCZK 4,000 were issued in December 2017 (MEUR 156). As of 31 December 2017, part of the bond issue amounting to MEUR 37 was still not placed. The interest rate of 4.5% p.a. is determined as a fixed rate with maturity in December 2027. The Company has an early redemption option exercisable in December 2022. As of 31 December 2017, bonds amounting to MEUR 29 are held by PPF Group N.V.

11 Financial liabilities at fair value thourgh profit or loss

In October 2016, the Company concluded a non-deliverable currency forward with a related party (sell USD / buy EUR, notional amount of MEUR 168). The contract terminated in January 2017.

12 Reconciliation of movements of liabilities to cash flows arising from financing activities

In millions of EUR

	Debt securities and subordinated liabilities	**Share premium**	**Total**
Balance as at 1 January 2017	**-**	**2,217**	**2,217**
Changes from financing cash flows			
Proceeds from share premium increase	-	14	14
Proceeds from the issue of debt securities	119	-	119
Total changes from financing cash flows	**119**	**2,231**	**2,350**
Balance as at 31 December 2017	**119**	**2,231**	**2,350**

13 Interest income

	2017 MEUR	2016 MEUR
Interest income – bonds	10	12
Interest income – loans	27	18
	37	30

14 Income tax

The Company is part of a fiscal unity headed by PPF Group N.V., which means that the corporate income tax of the fiscal unity is calculated on a consolidated basis. The Company recognises the portion of corporate income tax that it would owe as an independent tax payer, taking into account the allocation of the advantages of the fiscal unity. The outstanding corporate income tax liability is owed to PPF Group N.V. as the ultimate tax payer and is presented as current income tax liability in the Company's financial statements. The settlement of the liability is presented as Income tax paid in the Statement of cash flows.

The following table reconciles the tax expense:

In millions of EUR

	2017	2016
Tax rate	25.00%	25.00%
Profit before tax	12	34
Computed taxation using applicable tax rate	(3)	(9)
Tax non-deductible expenses	(1)	(1)
Non-taxable income	2	10
Changes in estimates related to prior years	(4)	-
Total income tax expense	**(6)**	**-**

15 Audit expenses

2017	**KPMG Accountants N.V.**	**Other KPMG network**	**Total**
	TEUR	**TEUR**	**TEUR**
Audit of financial statements	392	1,242	**1,634**
Other audit engagements	119	276	**395**
Tax advisory	-	609	**609**
Other non-audit services	-	116	**116**
Total	**511**	**2,243**	**2,754**

2016	**KPMG Accountants N.V.**	**Other KPMG network**	**Total**
	TEUR	**TEUR**	**TEUR**
Audit of financial statements	229	1,203	**1,432**
Other audit engagements	123	131	**254**
Tax advisory	-	139	**139**
Other non-audit services	-	190	**190**
Total	**352**	**1,663**	**2,015**

16 Related parties

The Company has related party relationships with its parent company PPF Group N.V. and its subsidiaries (PPF a.s., PPF banka a.s., Home Credit B.V., Home Credit and Finance bank LLC). Furthermore, the key management personnel of the Company and their close family members as well as other parties that are controlled, jointly controlled or significantly influenced by such individuals and entities in which the individuals hold significant voting power are also considered related parties.
The key management personnel of the Company comprise the members of the Board of Directors. In 2016 and 2017, no remuneration was paid to the members of the Board of Directors.

17 Subsequent events

At the end of March 2018, PPF Group N.V. purchased the remaining part of the bond issue described in Note 10 for MEUR 38 (incl. the accrued interest), thus, this issue has been a wholly placed since then.

No other subsequent events have occurred after the balance sheet date that would have a material impact on the financial statements for the year ended 31 December 2017.

Date: 30 April 2018	the Board of Directors: Jan Cornelis Jansen Rudolf Bosveld Paulus Aloysius de Reike Lubomír Král Kateřina Jirásková

Other Information

Certain information required by Article 392 the Civil Code of the Netherlands, to the extent it is applicable to the Company or the Group, as well as the Auditor’s Report is included in this part of the Consolidated Annual Accounts.

1 Provisions in the Articles of Association governing the appropriation of profit

The general meeting is authorised to appropriate the profits that follow from the adoption of the annual accounts or to determine how a deficit will be accounted for, as well as to resolve upon distributions, provided that the Company's equity exceeds the total amount of the reserves to be maintained pursuant to the law or the articles of association. A resolution on any distribution has no consequences if the management board has not given its approval to such distribution (Articles of Association of the Company, Article 21).

2 Subsidiaries

Refer to the Notes to the Consolidated Financial Statements, Note B.1.

3 Auditor’s report

The auditor’s report with respect to the Annual Report is set out on the next pages.

KPMG

Independent auditor's report

To: the General Meeting of shareholders and the Board of Directors PPF Financial Holdings B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2017 of PPF Financial Holdings B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of PPF Financial Holdings B.V. as at 31 December 2017 and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1 the consolidated and company statement of financial position as at 31 December 2017;

2 the following consolidated and company statements for 2017: the income statement, the statements of comprehensive income, changes in equity and cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of PPF Financial Holdings B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

— Board of Directors' report;

— other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Based on the following procedures performed, we conclude that the other information:

— is consistent with the financial statements and does not contain material misstatements;

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the annual report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The management is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors 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 the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_algemeen_01
This description forms part of our independent auditor's report.

Amstelveen, 30 April 2018

KPMG Accountants N.V.

M. Frikkee RA