Home Credit B.V.

Annual Report
for the year ended 31 December 2017

Document to which the KPMG report (1278787/18X00156255AVN) dated 7 March 2018 also refers.

Contents

Directors' Report

Description of the Company

Home Credit B.V.

Date of incorporation:	28 December 1999
Registered office:	Netherlands, Strawinskylaan 933, 1077XX Amsterdam
Identification number:	34126597
Authorised capital:	EUR 712,500,000
Issued capital:	EUR 659,019,639
Paid up capital:	EUR 659,019,639
Principal business:	Holding company activities and financing thereof

General information

Home Credit B.V. ("HCBV") is the owner of consumer finance providers ("the Group"). There are both fully licensed banks and non-banking entities within the Group. The principal activities of HCBV are: (a) the holding of equity stakes in consumer finance companies in the countries of Central and Eastern Europe (CEE), the United States of America, and Asia, and (b) the securing of the refinancing for these companies from the market and from the ultimate parent company. For detailed description of the Group please refer to Note 1 of the consolidated financial statements.

Companies that are held by HCBV practice a distinctive business model of leveraging advanced technology to provide consumer finance products which are easily accessible even at the lower end of the economic scale. This is a formula which has been successfully rolled out across a number of countries in Central & Eastern Europe and Asia. Companies held by HCBV are market leaders in most markets they operate in, namely in Russia and major Asian countries such as China and Vietnam, and have a promising foothold in India, Indonesia and the Philippines. HCBV also operates in the United States through a joint venture with the leading telecoms provider, Sprint. These companies are keenly focused on offering industry-leading products to customers, including first-time borrowers, putting great effort into educating them in the principles of financial literacy. HCBV is vigilant on companies' risks and costs.

As at 31 December 2017, Companies held by HCBV served 29.9 million active customers (2016: 20.1 million) across its operations: the Czech Republic (operational since 1997), Slovakia (1999), the Russian Federation (2002), Kazakhstan (2005), China (2007), Belarus (2007), Vietnam (2009), India (2012), Indonesia (2013), the Philippines (2013) and the United States of America (2015).

The majority shareholder (88.62% stake) of HCBV is PPF Financial Holdings B.V., a wholly owned subsidiary of PPF Group N.V. (hereinafter "PPF"). PPF invests into multiple market segments such as banking and financial services, telecommunications, biotechnology, real estate, retail, insurance, metal mining and agriculture. PPF Group's reach spans from Europe to Russia, the USA and across Asia. PPF Group owns assets of EUR 34.8 billion (as at 30 June 2017).
For more information on PPF, visit www.ppf.eu.

The remaining 11.38% minority stake in HCBV is held by EMMA OMEGA LTD, an investment holding company ultimately owned by Mr. Jiří Šmejc.

Highlights

2017 was a pivotal year for 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 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 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 Group. The Group has also been recognized as an employer of choice by numerous awards across its markets.

All key 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.

HCBV 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.

Key Results

HCBV put forward another strong result for the year ended 31 December 2017, with a total net profit of EUR 244 million: a modest, but solid increase of 16% over the result for 2016 (EUR 210 million). Each quarter of 2017 was profitable, thus extending the run of profitable quarters to ten. This demonstrates HCBV'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 HCBV 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 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 EUR 20,693 million, representing an increase of 79% compared to 2016, with the 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.

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

Russia is focusing on expanding its online offering, while maintaining its first-placed position in the local POS market. Cash loan cross-selling is yielding strong returns; double-digit growth in this sector is supported by very favourable risk metrics, with impairment costs at an historic low. Moreover, the company is no longer burdened by credit losses coming from the historical loan portfolio. This progress was recognized by Fitch, who upgraded the company's Long-Term Issuer Default Rating to BB- with a stable outlook at the beginning of November 2017.

Meanwhile, Kazakhstan continues to show exceptional sales performance, while also introducing new products. Of particular note is the very positive development of the company's deposit base, which keeps growing.

China continues to expand while diversifying its channels; the share of ALDI points-of-sale (staffed by retailer staff rather than Home Credit employees) keeps growing, as does customer self-service online, underlining the cost-conscious nature of this continuing expansion. The company's online business keeps growing while the value of the company's offline presence is steadfastly preserved. An innovative new revolving loan product is available through the company's mobile app and is seeing enthusiastic uptake. This is against a backdrop of new regulations in the market that serve to bring greater order and accountability to the segment; these regulations will bring welcome and positive effects in the long run, while short-term impacts are accommodated.

Vietnam defends a market share of over 50% in consumer durables financing, while also finding new ways to attract local funding such as through its second club loan from international banks (having been the first-ever foreign-owned company to secure a syndicated loan the previous year).

The mature home markets – the Czech Republic and Slovakia, together with Air Bank, the retail challenger bank in the Czech Republic – are also maintaining a steady profit stream. They continue to also act as laboratories and incubators for innovative new products. One leading example, the Czech peer-to-peer lender Zonky, has so far provided close to CZK 2 billion in loans via 17 thousand investors.

India's development towards becoming another key pillar for the Group's financial standing is continuing apace; the company now boasts over 20,000 points of sale in this market, which is approaching that of its leading established competitor and thus creating the scale needed to profit in this low-margin environment. Cross-selling volumes have increased substantially. The company has prepared loan securitization transactions (executed in January 2018), underlining its ability to attract local funding from the market. The country's improved debt rating reflects these advancements.

The Philippines and Indonesia are also performing as expected. Both have now broken even; Indonesia reported its first profitable month in December, while our core business in the Philippines reported its first profitable year. In both countries, the companies lead in our core POS sector.

Finally, HCBV continues to build on its cooperation with its US joint-venture partner, Sprint. The company has so far underwritten some 4.7 million mobile devices for Sprint of approximately USD 2.5 billion in value. Subsequently, the company launched its credit card business, which is co-branded with Sprint and available throughout their network.

Business Outlook

In moving forward, 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.

Staff development, environmental influence and research and development

The average number of employees during 2017 was 142,650.

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 combined experience and expertise of their members should reflect the best fit for the profile and strategy of the company. This aim for the best fit, in combination with the availability of qualifying candidates, has resulted in HCBV currently having a Board of Directors in which all eight members are male. In order to increase gender diversity on the Board of Directors, in accordance with article 2:276 section 2 of the Dutch Civil Code, HCBV pays close attention to gender diversity in the process of recruiting and appointing new members of the Board of Directors. HCBV will retain an active and open attitude as regards selecting female candidates. For changes in Board of Directors please refer to Note 1 of the consolidated financial statements.

Audit Committee

An audit committee has been established at higher level within the PPF Group (specifically at PPF Group N.V.) in compliance with all conditions of the Dutch transposition of Article 39 (3) (a) of Directive 2006/43/EC, as a result of which Home Credit B.V. as a public interest entity in the meaning of Article 2 (13) (a) of Directive 2006/43/EC and as PPF Group N.V.'s subsidiary is entirely exempt from obligations in respect of an audit committee. Due to the application of the aforementioned exemption, the audit committee of PPF Group N.V. follows all obligatory responsibilities in relation to Home Credit B.V. as the public interest entity.

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 4 of the consolidated financial statements.

7 March 2018

Board of Directors:

Jiří Šmejc
Chairman of the Board of Directors

Jan Cornelis Jansen
Vice-Chairman of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Christoph Glaser
Member of the Board of Directors

Mel Gerard Carvill
Member of the Board of Directors

Marcel Marinus van Santen
Member of the Board of Directors

Paulus Aloysius de Reijke
Member of the Board of Directors

Jean-Pascal Duvieusart
Member of the Board of Directors

Consolidated Financial Statements
for the year ended 31 December 2017

	Note	2017 MEUR	2016 MEUR
ASSETS			
Cash and cash equivalents	7	3,021	2,412
Financial assets at fair value through profit or loss	8	35	204
Financial assets available-for-sale	9	1,495	1,045
Due from banks, other financial institutions and holding companies	10	403	397
Loans to customers	11	15,452	9,866
Assets classified as held for sale	12	3	2
Current income tax receivables		16	7
Investments in associates	13	3	2
Property and equipment	14	190	161
Intangible assets and goodwill	15	242	171
Deferred tax assets	16	330	180
Other assets	17	336	257
Total assets		**21,526**	**14,704**
LIABILITIES			
Financial liabilities at fair value through profit or loss	18	322	28
Current accounts and deposits from customers	19	6,356	5,401
Due to banks, other financial institutions and holding companies	20	10,598	6,428
Debt securities issued	21	998	320
Subordinated liabilities	22	383	416
Current income tax liabilities		197	118
Deferred tax liabilities	16	6	12
Insurance and other provisions	23	37	42
Other liabilities	24	601	438
Total liabilities		**19,498**	**13,203**
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	25	659	659
Share premium	25	913	480
Statutory reserves	25	82	58
Foreign currency translation	25	(649)	(506)
Reserve for business combinations under common control	25	(91)	(91)
Revaluation reserve	25	(1)	22
Other reserves	25	1,100	873
Total equity attributable to equity holders of the Company		**2,013**	**1,495**
Non-controlling interests	26	**15**	**6**
Total equity		**2,028**	**1,501**
Total liabilities and equity		**21,526**	**14,704**

Document to which the KPMG report (1278787/18X00156255AVN) dated 7 March 2018 also refers.

Continuing operations	**Note**	**2017 MEUR**	**2016 MEUR**
Interest income	28	3,519	2,196
Interest expense	28	(1,102)	(665)
Net interest income		**2,417**	**1,531**
Fee and commission income	29	790	514
Fee and commission expense	30	(124)	(96)
Net fee and commission income		**666**	**418**
Insurance income	31	**25**	**22**
Net losses on financial assets and liabilities	32	(11)	(10)
Other operating income	33	26	39
Operating income		**3,123**	**2,000**
Impairment losses on financial assets	34	(1,124)	(562)
General administrative expenses	35	(1,531)	(1,029)
Other operating expenses	36	(95)	(86)
Operating expenses		**(2,750)**	**(1,677)**
Losses on disposals of associates and subsidiaries		(3)	-
Share of earnings in associates		3	2
Profit before tax		**373**	**325**
Income tax expense	37	(129)	(115)
Net profit from continuing operations for the year		**244**	**210**
Profit attributable to:			
Equity holders of the Company		256	213
Non-controlling interests	26	(12)	(3)
		244	**210**
Other comprehensive (loss)/income which will be subsequently reclassified to profit or loss:			
Currency translation		(143)	96
Revaluation (losses)/gains on available-for-sale financial assets		(45)	6
Revaluation of available-for-sale financial assets transferred to profit or loss		17	(7)
Cash flow hedge reserve – effective portion of changes in fair value		-	3
Cash flow hedge reserve – net amount transferred to profit or loss		-	(4)
Income tax relating to components of other comprehensive income		5	-
Other comprehensive (loss)/income for the year		**(166)**	**94**
Total comprehensive income for the year		**78**	**304**
Total comprehensive income attributable to:			
Equity holders of the Company		90	307
Non-controlling interests		(12)	(3)
		78	**304**

	Attributable to equity holders of the Company									
	Share capital	**Share premium**	**Statutory reserves**	**Foreign currency translation**	**Reserve for business combinations under common control**	**Revaluation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**Total equity**
	MEUR	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**
Balance as at 1 January 2017	659	480	58	(506)	(91)	22	873	**1,495**	6	**1,501**
Share premium increase	-	433	-	-	-	-	-	**433**	-	**433**
Changes in non-controlling interests	-	-	-	-	-	-	(5)	**(5)**	21	**16**
Transfers	-	-	24	-	-	-	(24)	-	-	-
Total	**659**	**913**	**82**	**(506)**	**(91)**	**22**	**844**	**1,923**	**27**	**1,950**
Currency translation	-	-	-	(143)	-	-	-	**(143)**	-	**(143)**
Revaluation gains on available-for-sale financial assets, net of tax	-	-	-	-	-	(37)	-	**(37)**	-	**(37)**
Revaluation of available-for-sale financial assets transferred to profit or loss, net of tax	-	-	-	-	-	14	-	**14**	-	**14**
Profit/(loss) for the year	-	-	-	-	-	-	256	**256**	(12)	**244**
Total comprehensive income for the year	**-**	**-**	**-**	**(143)**	**-**	**(23)**	**256**	**90**	**(12)**	**78**
Total changes	**-**	**433**	**24**	**(143)**	**-**	**(23)**	**227**	**518**	**9**	**527**
Balance as at 31 December 2017	**659**	**913**	**82**	**(649)**	**(91)**	**(1)**	**1,100**	**2,013**	**15**	**2,028**

Attributable to equity holders of the Company

	Share capital	Share premium	Statutory reserves	Foreign currency translation	Reserve for business combinations under common control	Revaluation reserve	Cash flow hedge reserve	Other reserves	Total	Non-controlling interests	Total equity
	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR
Balance as at 1 January 2016	659	480	39	(605)	(91)	23	4	682	**1,191**	5	**1,196**
Changes in non-controlling interests	-	-	-	-	-	-	-	(3)	**(3)**	4	**1**
Transfers	-	-	19	-	-	-	-	(19)	-	-	-
Total	**659**	**480**	**58**	**(605)**	**(91)**	**23**	**4**	**660**	**1,188**	**9**	**1,197**
Currency translation	-	-	-	99	-	-	(3)	-	**96**	-	**96**
Revaluation gains on available-for-sale financial assets, net of tax	-	-	-	-	-	5	-	-	**5**	-	**5**
Revaluation of available-for-sale financial assets transferred to profit or loss, net of tax	-	-	-	-	-	(6)	-	-	**(6)**	-	**(6)**
Change in cash flow hedge reserve, net of tax	-	-	-	-	-	-	(1)	-	**(1)**	-	**(1)**
Profit/(loss) for the year	-	-	-	-	-	-	-	213	**213**	(3)	**210**
Total comprehensive income for the year	**-**	**-**	**-**	**99**	**-**	**(1)**	**(4)**	**213**	**307**	**(3)**	**304**
Total changes	**-**	**-**	**19**	**99**	**-**	**(1)**	**(4)**	**191**	**304**	**1**	**305**
Balance as at 31 December 2016	**659**	**480**	**58**	**(506)**	**(91)**	**22**	**-**	**873**	**1,495**	**6**	**1,501**

	Note	2017 MEUR	2016 MEUR
Operating activities			
Profit before tax		373	325
Adjustments for:			
Interest expense	28	1,102	665
Interest income	28	(3,519)	(2,196)
Net loss on disposal of property, equipment and intangible assets	36	1	1
Net loss on disposal of subsidiaries and associates		3	-
Effects of foreign currency translation on items other than cash and cash equivalents		3	283
Impairment losses	34,36	1,128	564
Share of earnings in associates		(3)	(2)
Depreciation and amortization	36	90	83
Net operating cash flow before changes in working capital		**(822)**	**(277)**
Change in due from banks, other financial institutions and holding companies		(19)	(24)
Change in loans to customers		(7,816)	(4,382)
Change in financial assets at fair value through profit or loss		164	80
Change in other assets		(83)	(79)
Change in held for sale assets		(1)	-
Change in current accounts and deposits from customers		985	(24)
Change in financial liabilities at fair value through profit or loss		294	10
Change in other liabilities and insurance and other provisions		167	130
Cash flows used in the operations		**(7,131)**	**(4,566)**
Interest paid		(1,199)	(706)
Interest received		3,960	2,273
Income tax paid		(224)	(93)
Cash flows used in operating activities		**(4,594)**	**(3,092)**
Investing activities			
Proceeds from sale of property, equipment and intangible assets		9	3
Acquisition of property, equipment and intangible assets	14,15	(207)	(129)
Proceeds from sale of subsidiaries and associates		-	-
Dividends from associates		3	2
Proceeds from available-for-sale financial assets		2,190	1,155
Proceeds from held-to-maturity financial assets		-	6
Acquisition of available-for-sale financial assets		(2,669)	(1,005)
Acquisition of investment in associate, net of cash acquired		(2)	-
Cash flows (used in)/from investing activities		**(676)**	**32**
Financing activities			
Share premium increase		433	-
Proceeds from the issue of debt securities		1,749	270
Repayment of debt securities issued		(1,017)	(335)
Proceeds from due to banks, other financial institutions and holding companies		17,277	12,717
Repayment of due to banks, other financial institutions and holding companies		(12,520)	(8,588)
Cash flows from financing activities		**5,922**	**4,064**
Net increase in cash and cash equivalents		652	1,004
Cash and cash equivalents as at 1 January		2,412	1,343
Effects of exchange rate changes on cash and cash equivalents		(43)	65
Cash and cash equivalents as at 31 December	7	**3,021**	**2,412**

1. Description of the Group

Home Credit B.V. (the "Company") was incorporated on 28 December 1999 in the Netherlands.

Registered office
Strawinskylaan 933
1077 XX Amsterdam
The Netherlands

Shareholders	**Country of incorporation**	**Ownership interest (%) 2017**	**2016**
PPF Financial Holdings B.V.	Netherlands	88.62	88.62
EMMA OMEGA LTD	Cyprus	11.38	11.38

PPF Financial Holdings B.V. is a subsidiary of PPF Group N.V. The ultimate controlling party is Mr. Petr Kellner, who exercises control through PPF Group N.V. and PPF Financial Holdings B.V.

Principal activities

The principal activities of the Company and its subsidiaries (together referred to as the "Group") are the provision of consumer financing to private individual customers in the Central Europe, the Commonwealth of Independent States (CIS), Asia and the United States of America as well as deposit taking, saving and current bank account service and maintenance, payments, insurance and other services.

Board of Directors

Jiří Šmejc	Chairman	
Jan Cornelis Jansen	Vice-chairman	
Rudolf Bosveld	Member	
Mel Gerard Carvill	Member	
Marcel Marinus van Santen	Member	
Paulus Aloysius de Reijke	Member	
Lubomír Král	Member	until 7 March 2017
Jean-Pascal Duvieusart	Member	from 7 March 2017
Petr Kohout	Member	until 30 September 2017
Christoph Glaser	Member	from 1 October 2017

1. Description of the Group (continued)

Consolidated subsidiaries	Country of incorporation	Ownership interest (%) 2017	2016
Non-banking Credit and Financial Organization "Home Credit" (OJSC)	Belarus	100.00	100.00
Asnova Insurance (CJSIC) [1)]	Belarus	100.00	100.00
Guangdong Home Credit Number Two Information Consulting Co., Ltd.	China	100.00	100.00
Home Credit Consumer Finance Co., Ltd.	China	100.00	100.00
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd. [2)]	China	100.00	100.00
Shenzhen Home Credit Xinchi Consulting Co., Ltd. [3)]	China	100.00	100.00
Shenzhen Home Credit Number One Consulting Co., Ltd.	China	100.00	100.00
CF Commercial Consulting (Beijing) Co., Ltd. [1)]	China	100.00	100.00
Redlione (LLC)	Cyprus	100.00	100.00
Astavedo Limited	Cyprus	100.00	100.00
Enadoco Limited	Cyprus	100.00	100.00
Rhaskos Finance Limited	Cyprus	100.00	100.00
Septus Holding Limited	Cyprus	100.00	100.00
Sylander Capital Limited	Cyprus	100.00	100.00
Talpa Estero Limited	Cyprus	100.00	100.00
Air Bank (JSC)	Czech Republic	100.00	100.00
Zonky (LLC)	Czech Republic	100.00	100.00
Home Credit (JSC)	Czech Republic	100.00	100.00
Home Credit International (JSC)	Czech Republic	100.00	100.00
HC Broker (LLC)	Czech Republic	100.00	100.00
HC Advisory Services (LLC) [4)]	Czech Republic	100.00	100.00
Autotým (LLC)	Czech Republic	100.00	100.00
My Air (LLC) [5)]	Czech Republic	100.00	-
Home Credit Egypt Trade S.A.E. [1)]	Egypt	100.00	100.00
Favour Ocean Limited	Hong Kong	100.00	100.00
Home Credit Asia Limited	Hong Kong	100.00	100.00
Saint World Limited	Hong Kong	100.00	100.00
Home Credit India Finance Private Limited	India	100.00	100.00
Home Credit India Strategic Advisory Services Private Limited [6)]	India	100.00	-
PT. Home Credit Indonesia	Indonesia	85.00	85.00
Home Credit Kazakhstan (JSC) [7)]	Kazakhstan	-	100.00
Home Credit and Finance Bank (SB JSC)	Kazakhstan	100.00	100.00
Eurasia Capital S.A. [8)]	Luxembourg	0.00	0.00
AB 2 B.V.	Netherlands	100.00	100.00
AB 4 B.V.	Netherlands	100.00	100.00
AB 7 B.V.	Netherlands	100.00	100.00
HC Asia B.V.	Netherlands	100.00	100.00
Home Credit India B.V.	Netherlands	100.00	100.00
Home Credit Indonesia B.V.	Netherlands	100.00	100.00
Home Credit Lab N.V.	Netherlands	100.00	100.00
HC Philippines Holdings B.V.	Netherlands	100.00	100.00
Eurasia Structured Finance No.3 B.V. [8)]	Netherlands	0.00	0.00
Eurasia Structured Finance No.4 B.V. [8)]	Netherlands	0.00	0.00

[1)] subsidiaries in the process of liquidation
[2)] in April 2017 Sichuan Home Credit Financing Guarantee Co., Ltd was renamed to Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd.
[3)] in April 2017 Shenzhen Home Credit Financial Service Co., Ltd was renamed to Shenzhen Home Credit Xinchi Consulting Co., Ltd.
[4)] in December 2017 HC Insurance Services (LLC) was renamed to HC Advisory Services (LLC)
[5)] acquired in June 2017
[6)] subsidiary was incorporated in August 2017
[7)] subsidiary was liquidated
[8)] special purpose entities established to facilitate the Group's issues of debt securities and subordinated liabilities

1. Description of the Group (continued)

Consolidated subsidiaries	Country of incorporation	Ownership interest (%) 2017	2016
HC Consumer Finance Philippines, Inc. [1)]	Philippines	100.00	99.28
HCPH Financing 1, Inc. [2)]	Philippines	100.00	-
Filcommerce Holdings, Inc. [3)]	Philippines	100.00	40.00
Home Credit and Finance Bank (LLC)	Russian Federation	100.00	100.00
Financial Innovations (LLC)	Russian Federation	100.00	100.00
MCC Kupi ne kopi (LLC)	Russian Federation	100.00	100.00
Home Credit Online (LLC)	Russian Federation	100.00	100.00
Bonus Center Operations (LLC) [4)]	Russian Federation	-	100.00
Home Credit Insurance (LLC)	Russian Federation	100.00	100.00
HC Finance (LLC) [5)]	Russian Federation	0.00	0.00
HC Finance No. 2 (LLC) [4) 5)]	Russian Federation	-	0.00
Home Credit Slovakia (JSC)	Slovak Republic	100.00	100.00
Homer Software House (LLC)	Ukraine	100.00	100.00
Home Credit US (LLC)	USA	50.10	50.10
Home Credit US Holding (LLC)	USA	100.00	100.00
Home Credit Vietnam Finance Company Limited	Vietnam	100.00	100.00

[1)] in June 2017 the Group`s share on the voting rights in HC Consumer Finance Philippines, Inc. was increased from 60% to 100%
[2)] subsidiary was incorporated in August 2017
[3)] in June 2017 ownership interest was increased from 40% to 100%
[4)] subsidiary was liquidated
[5)] special purpose entities established to facilitate the Group's issues of debt securities and subordinated liabilities

The special purpose entities were established by the Group with the primary objective of raising finance through the issuance of debt securities and subordinated debt including loan portfolio securitizations. These entities are run according to pre-determined criteria that are part of their initial design. The day-to-day servicing is carried out by the Group under servicing contracts; other key decisions are also made by the Group. In addition, the Group is exposed to a variability of returns from the entities through exposure to tax benefits and cost savings related to the funding activities. As a result, the Group concludes that it controls these entities.

Associates	Country of incorporation	Ownership interest (%) 2017	2016
Společnost pro informační databáze (JSC)	Czech Republic	27.96	27.96
Equifax Credit Services (LLC)	Russian Federation	25.00	25.00
Barion Payment Zrt.	Hungary	20.00	-

Acquisition of My Air (LLC)

The acquisition price of My Air (LLC) was TEUR 76, and the acquisition date was 29 June 2017.

The main reason for acquisition is extension of services provided to Air Bank (JSC)'s clients.

In the period since the acquisition date to 31 December 2017 My Air (LLC)'s contribution to the Group's revenues and profit respectively was immaterial.

If the acquisition date had been as of the beginning of the annual period, My Air (LLC)'s contribution to the Group's revenues and profit for the year ended 31 December 2017 would have been immaterial.

2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group").

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (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 as adopted by the European Union and with Section 2:362(9) of the Netherlands Civil Code.

The Company has also prepared the unconsolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRSs, including IASs, promulgated by the IASB and interpretations issued by the IFRIC of the IASB as adopted by the European Union and with Part 9 of Book 2 of Netherlands Civil Code.

(b) Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial instruments at fair value through profit or loss and financial assets available-for-sale that are measured at fair value. Financial assets and liabilities and non-financial assets and liabilities which are valued at historic cost are stated at amortized cost or historic cost, as appropriate, net of any relevant impairment.

(c) Presentation and functional currency

These financial statements are presented in Euro (EUR), which is the Company's functional currency and Group's presentation currency. Financial information presented in EUR has been rounded to the nearest million (MEUR), unless otherwise indicated.

(d) Changes in comparative numbers

<u>Statement of Cash Flows</u>

The Group changed the presentation of unrealised foreign exchange gains/(losses) related to certain balance sheet items - Due from banks, other financial institutions and holding companies, Loans to customers, Current accounts and deposits from customers, Debt securities issued, Due to banks, other financial institutions and holding companies - previously part of a change in the said category. The net unrealised foreign exchange gains/(losses) are newly presented under a separate line "Effects of foreign currency translation on items other than cash and cash equivalents" within net operating cash flow before changes in working capital.

The Group changed the presentation of interest received. The interest received is newly presented under a separate line "Interest received" within cash flows used in operating activities.

(e) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgments about the carrying values of assets and liabilities that cannot readily be determined from other sources. The actual values may differ from these estimates.

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

The areas where estimates and judgments have the most significant impact are recognition of deferred tax asset and measurement of impairment. In particular, information about significant areas of

2. Basis of preparation (continued)

estimation, uncertainty and critical judgments made by management in preparing these consolidated financial statements is described in Note 3(c)(vii), Note 3(f), Note 3(q), Note 11 and Note 16.

During the year 2017 the Group has enhanced its credit risk predicting model to limit the volatility of the risk costs caused by seasonal and other effects related to the end of month provision calculation cycle. Specifically, the Group has 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 in the amount of MEUR 71. The change was recognized in the statement of comprehensive income for the year ended 31 December 2017.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are enterprises controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the enterprise and has the ability to affect those returns through its power over the enterprise. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control effectively commences until the date on which control effectively ceases.

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

(ii) Associates

Associates are enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date on which significant influence effectively commences until the date on which significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest 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.

(iii) Non-controlling interests

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

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

(iv) Special purpose entities

The Group has established a number of special purpose entities (SPEs) for the purpose of raising 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 rights to obtain the majority of benefits of the SPEs, and retaining the majority of the residual risks related to the SPEs.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the enterprise. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

A foreign currency transaction is a transaction that is denominated 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 foreign currency exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate ruling at the date on which the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are retranslated using the exchange rate ruling at the date of the transaction.

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

(ii) Financial information of foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to EUR at exchange rates ruling at the reporting date. Income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to EUR at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Income and expenses of foreign operations in hyperinflationary economies are translated to EUR at exchange rates ruling at the reporting date. Prior to translation, their financial statements for the current year are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency differences arising on translation are recognized in other comprehensive income, and presented in the foreign currency 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 non-controlling interests.

When a foreign operation is disposed of so that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

(c) Cash and cash equivalents

The Group considers cash on hand, unrestricted balances with central banks and balances with banks and other financial institutions due within one month to be cash and cash equivalents. Minimum reserve deposits with respective central banks are not considered to be cash equivalents if restrictions on their withdrawal are placed.

(d) Financial assets and liabilities

(i) Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, those that the Group upon initial recognition designates as at fair value through profit or loss, or those where its initial investment may not be substantially recovered, other than because of credit deterioration.

3. Significant accounting policies (continued)

Financial assets and liabilities at fair value through profit or loss are financial assets or liabilities that are classified as held for trading or those which are upon initial recognition designated by the entity as at fair value through profit or loss. Trading instruments include those that the Group principally holds for the purpose of short-term profit taking and derivative contracts that are not designated as effective hedging instruments. The Group designates financial assets and liabilities at fair value through profit or loss where either the assets or liabilities are managed, evaluated and reported internally on a fair value basis or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract. Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Financial assets held-to-maturity are those non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than loans and receivables and instruments designated as at fair value through profit or loss or as available-for-sale.

Financial assets available-for-sale are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, financial instruments at fair value through profit or loss or held-to-maturity investments.

(ii) Recognition

Financial assets and liabilities are recognized 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 recognize 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.

(iii) Measurement

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

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for loans and receivables and held-to-maturity investments, which are measured at amortized cost less impairment losses, and investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

(iv) Fair value measurement

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 (such as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

3. Significant accounting policies (continued)

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair 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 is based on their quoted market price. Fair value of derivative contracts that are not exchange traded 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 Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(v) Amortized cost measurement principles

The amortized cost of a financial asset or liability is the amount in which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, net of any relevant impairment.

(vi) Gains and losses on subsequent measurement

Gains and losses on financial instruments classified as at fair value through profit or loss are recognized in profit or loss. Net gains or net losses on items at fair value through profit or loss exclude interest or dividend income.

Gains and losses on available-for-sale financial assets are recognized in other comprehensive income (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

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

(vii) Identification and measurement of impairment

The Group has developed a provisioning policy, which describes in detail the procedures and methodology of the impairment measurement, and a write-off policy. The impairment measurement is dealt with as follows:

The Group assesses on a regular basis whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

3. Significant accounting policies (continued)

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

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

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the financial asset's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows. Financial assets with a short duration are not discounted.

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

Loans and receivables with renegotiated terms are those that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Group makes concessions that it would not otherwise consider. Restructuring is one of indicators of an asset's impairment.

All impairment losses in respect of financial assets are recognized in the statement of comprehensive income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount of the asset that would have been determined, net of amortization, if no impairment loss had been recognized.

The write-off policy of the Group requires that the outstanding amount of a loan shall be written off if there is any installment overdue for 361 or more days. However, the loan shall remain in the company's balance sheet even after 361 days of non-payment if it is probable that the loan will be sold in a near future, or significant recoveries are expected. In such case, the loan outstanding amount shall be derecognized at the moment of the sale or later as soon as no significant recoveries are expected.

(viii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized separately as asset or liability.

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

3. Significant accounting policies (continued)

(ix) Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(x) Securitization

For securitized financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognized in the consolidated statement of financial position.

When the Group has transferred financial assets to another entity, but has retained substantially all of the risks and rewards relating to the transferred assets, the transferred assets are recognized in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognized from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognized if the Group has not retained control over the assets.

(xi) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts due to banks, other financial institutions and holding companies or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognized in the statement of comprehensive income over the terms of the agreement.

Securities purchased under agreements to resell are recorded as due from banks and other financial institutions or from customers as appropriate. The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income.

(xii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from financing activities. However, not all instruments qualify for hedge accounting in accordance with IAS 39. For derivative instruments where hedge accounting is not applied, any gain or loss on derivatives is recognized immediately in the statement of comprehensive income as net gains/losses on financial assets and liabilities.

(xiii) Hedge accounting

The Group applies fair value hedges against interest rate risk associated with the Group's available-for-sale assets. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedging relationship the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

In addition, at the inception of the hedge relationship a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on a monthly basis. A hedge is regarded as highly

3. Significant accounting policies (continued)

effective if the changes in the fair value attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in fair value attributable to a interest rate risk associated with a recognized available-for-sale asset, the effective portion of changes in the fair value of the asset is recognized in profit or loss. Any ineffective portion of changes in the fair value of the asset remains recognized as other comprehensive income in equity. If the hedging relationship no longer meets the criteria for hedge accounting, or the designation is revoked, hedge accounting is discontinued.

(e) Intangible assets

(i) Goodwill and negative goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the Group's interest in the fair value of the net identifiable assets and liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit and loss. Goodwill is stated at cost less accumulated impairment losses (refer to Note 3(g)).

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

(ii) Other intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortization and accumulated impairment losses (refer to Note 3(g)). Expenditure on internally generated goodwill and brands is recognized in the statement of comprehensive income as an expense as incurred.

(iii) Amortization

Amortization is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is not amortized; other intangible assets are amortized from the date the asset is available for use. The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a significant technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time a technical improvement is recognized. The estimated useful lives are as follows:

Software	1 - 10 years
Licenses	1 - 10 years
Other	1 - 10 years

(f) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and accumulated impairment losses (refer to Note 3(g)). Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and accumulated impairment losses (refer to Note 3(g)).

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 statement of comprehensive income over the period of the lease.

3. Significant accounting policies (continued)

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment and its cost can be measured reliably. All other expenditure is recognized in the statement of comprehensive income as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Property and equipment are depreciated from the date the asset is available for use. The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a significant technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time a technical improvement is recognized.

The estimated useful lives of significant items of property and equipment are as follows:

IT equipment	2 - 5 years
Vehicles	3 - 8 years
Furniture	2 - 10 years
Leasehold improvements	2 - 20 years
Buildings	5 - 50 years

(g) Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

For the purpose of impairment testing, goodwill is allocated to cash-generating units. The recoverable amount of goodwill is estimated at each reporting date based on cash flow projections for specific cash generating units. Key assumptions are those regarding the expected business volumes, loss rates, budgeted expenses as well as discount rates for subsequent periods. Management estimates discount rates using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

The recoverable amount of other non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in the statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed. On disposal of a subsidiary, the amount of goodwill that is attributable to the subsidiary is included in the determination of the profit or loss on disposal.

3. Significant accounting policies (continued)

(h) Provisions

A provision is recognized in the statement of financial position if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is significant, 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.

(i) Insurance provisions

(i) Provisions for unearned premiums

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

(ii) Provisions for outstanding claims and other insurance provisions

Provisions for outstanding claims represent the total estimated cost of settling all claims arising from events which have 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).

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"), the provision for contractual non-discretionary bonuses and other similar provisions.

(iii) 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 recognized as an expense when incurred. Subsequent to initial recognition deferred acquisition costs are amortized over the period in which the related revenues are earned. The reinsurers' shares of deferred acquisition costs are amortized in the same manner as the underlying asset amortization 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 recognized in the statement of comprehensive income.

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

(j) Other payables

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

(k) Financial guarantees

A financial guarantee is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Financial guarantee liabilities are included within other liabilities.

(l) Equity

Share capital represents the nominal value of shares issued by the Company. To the extent such shares remain unpaid as of the end of the reporting period a corresponding receivable is presented in other assets.

3. Significant accounting policies (continued)

Share premium decreases and other capital distributions are recognized as a liability provided they are declared before the end of the reporting period. Capital distributions declared after the end of the reporting period are not recognized as a liability but are disclosed in the notes.

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

(m) Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition and is not revised subsequently.

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

(n) Fee and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income and expense relate mainly to transaction and service fees, which are recognized as the services are rendered or received.

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 recognized 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, the interest rates for customers with and without the insurance are the same. The Group does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognized in profit or loss when the Group provides the agency service to the insurance company.

(o) Penalty fees

Penalty income is recognized in the statement of comprehensive income when penalty is charged to a customer, taking into account its collectability.

(p) Operating lease payments

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

(q) Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring.

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

3. Significant accounting policies (continued)

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.

(r) Taxation

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

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period.

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

(s) Net profit allocated to non-controlling interests

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

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment revenues include interest income, fee and commission income and gross insurance premiums earned.

(u) 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.

Amendments to IAS 7 Statement of Cash Flows (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 significant impact on the Group’s financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (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 significant impact on the Group’s financial statements.

3. Significant accounting policies (continued)

Annual Improvements 2014-2016 Cycle (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 significant impact on the Group's financial statements.

(v) Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Group's 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 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 amendments to IFRS 1 and IAS 28 are effective from 1 January 2018.

These amendments are not expected to have 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 (see (ii)) is a reduction in the range of MEUR 250-300. The related deferred tax impact is estimated to result in an increase of retained earnings by approximately MEUR 50-70. Substantial part of this impact would be reflected in the Consolidated Statement of Profit or Loss 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 finalizing 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 finalizes its first financial statements that include the date of initial application.

(i) Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

3. Significant accounting policies (continued)

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 meets both of the following conditions and is not designated as at FVTPL:

- 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 subsequent changes in fair value in OCI. This election 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. In addition, on initial recognition the Group may 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 classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in 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 made an assessment of 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 stated policies and objectives 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 the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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 neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3. Significant accounting policies (continued)

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 the 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 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, on the adoption of IFRS 9 at 1 January 2018, these changes do not have any impact on the Group's equity.

3. Significant accounting policies (continued)

(ii) 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 it 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 is required 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 that 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 the 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 — 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

3. Significant accounting policies (continued)

- 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 the assessment of whether a financial instrument is in default 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 is 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's score will be 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 of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of 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 materiality threshold – has not been received.

3. Significant accounting policies (continued)

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 on initial recognition of the exposure.

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if the remaining lifetime PD is determined to have increased – since initial recognition – more than is 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 firstly used could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

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 a 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 borrowers 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 on initial recognition and terms of the original contract.

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 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 and 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 such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

3. Significant accounting policies (continued)

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

For 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 the 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 and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments shall be grouped on the basis of 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 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.

The Group plans – based on data availability and credibility of sources – using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers may include variables such as interest rates, unemployment rates, GDP forecasts and other.

3. Significant accounting policies (continued)

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, on the adoption of IFRS 9 at 1 January 2018, the impact of the increase in loss allowances (before tax) will be in the range of MEUR 250-300.

(iii) 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.

(iv) 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 the 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 and 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 an immaterial impact from adopting these new requirements.

(v) 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 that the Group currently designates meet the requirements of IFRS 9 and are aligned with the entity's risk management strategy and objective. The Group expects no impact on financial statements as a result of the application of the IFRS 9 hedge accounting requirements.

(vi) Disclosures

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

3. Significant accounting policies (continued)

(vii) 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.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- 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 recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, 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 IFRS 15 perspective and identified two categories of revenues within the scope of IFRS 15: Fee and commission revenue and Other operating income and assessed the new standard's impact on the Group's consolidated financial statements. The Group has also performed a detailed analysis of these categories according to IFRS 15 five-step model and implemented necessary actions into the affected processes, such as allocation of the transaction price to every performance obligation, in order to comply with IFRS 15. Based on 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.

IFRS 16 Leases (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')

3. Significant accounting policies (continued)

at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new Standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying 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 Note 40).

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 reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives 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 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 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 recognizes 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.

3. Significant accounting policies (continued)

This interpretation has not yet been adopted by the EU. It is not expected to have 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 have not yet been adopted by the EU.

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

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 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 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 from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. These Amendments are not expected to have significant impact on the Group's financial statements.

These Amendments have not yet been adopted by the EU.

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

4. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- insurance risk
- operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and the Group Risk Management Department, which are responsible for developing and monitoring risk management policies in their specified areas. Both bodies report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group's parent company PPF Financial Holdings B.V. is subject to the prudential regulation on consolidated basis as required by the legislation of the European Union. To meet the regulatory requirements on management, PPF Financial Holdings B.V. established PPF Financial Holdings Group Management Committee and PPF Financial Holdings Group Risk Management Committee.

(a) 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 majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers, which is the Group's principal business. The Group classifies the loans to individual customers into several classes where the significant ones are POS (point of sale) loans, revolving loans, cash loans, car loans and mortgage loans. As the Group's loan portfolio consists of a large number of loans with relatively low outstanding amounts, the loan portfolio does not include any significant individual exposures. The remaining part of the Group's exposures to credit risk is related to due from banks, other financial institutions and holding companies, financial assets at fair value through profit or loss, financial assets available-for-sale and other assets.

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

- Formulating credit policies in consultation with business units covering credit assessment, underwriting policies, collection policies and risk reporting by business units and loan classes;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit's management, large exposures and new types of exposures require Group approval. The Group uses one central loan administration system to facilitate loan underwriting;
- Continuous monitoring of performance of individual Group's credit exposures by countries, product classes and distribution channels;
- Limiting concentrations of credit exposures by countries, product classes and distribution channels;
- Approving counterparty limits for financial institutions;
- Reviewing compliance of business units with agreed exposure limits;
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

4. Financial risk management (continued)

The Group operates its business in multiple geographies. Some of them suffered economic downturns in recent years. The Group developed tools and rapid response guidelines that are expected to significantly limit major credit losses resulting from the economic downturn. These actions include specific adjustments of the underwriting decision making, pricing and collections strategies.

Credit underwriting process

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. POS 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 risk management prevention

The Group developed a set of tools that aim at fraud prevention, detection and investigation that facilitate low levels of observed fraud risk. The focus is on the tight monitoring of the sales process and proper design of the incentive models. Other tools include cross checks and verification of the application data as provided by the customer, biometrical ID verification tools and a use of the 3rd party data in the underwriting process. The use of specific tools varies based on availability of such tools on the respective market, legal and regulatory framework.

General loan collection

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

Pre-collections

Various forms of communication are used to remind customers how and when to pay, e.g. welcome letters or calls and SMS messages are sent to a customer a short time prior to the date of payment.

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. They are typically applied to payments which are five 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 to 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 can vary). Letters are then followed by a call explaining to the customer the consequences of not repaying the debt.

Late collection

The late collection procedures usually start when a loan becomes 90 days overdue. Usage of external agencies or internal field collector methods is typically considered.

Legal collection, debt sell

Loans with outstanding repayments that have been overdue above 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 sell to collection agencies may be also considered. The approval authority for any debt sale in the Group rests with the ALCO.

4. Financial risk management (continued)

Exposure to credit risk

	As of 31 December 2017				
	Cash loans	**POS loans**	**Revolving loans**	**Other [1]**	**Total**
	MEUR	MEUR	MEUR	MEUR	**MEUR**
Individually impaired					
Gross amount	-	-	-	23	23
Allowance for impairment	-	-	-	(7)	(7)
Carrying amount	**-**	**-**	**-**	**16**	**16**
Not impaired	**-**	**-**	**-**	**141**	**141**
Collectively impaired					
Gross amount	9,960	5,959	524	264	16,707
Not past due	8,810	5,341	427	227	14,805
Past due 1 – 90 days	486	226	37	10	759
Past due 91 – 360 days	587	362	30	4	983
Past due more than 360 days	77	30	30	23	160
Allowance for impairment	(881)	(440)	(64)	(27)	(1,412)
Carrying amount	**9,079**	**5,519**	**460**	**237**	**15,295**
Total carrying amount	**9,079**	**5,519**	**460**	**394**	**15,452**

Exposure to credit risk

	As of 31 December 2016				
	Cash loans	**POS loans**	**Revolving loans**	**Other [1]**	**Total**
	MEUR	MEUR	MEUR	MEUR	**MEUR**
Individually impaired					
Gross amount	-	-	-	16	16
Allowance for impairment	-	-	-	(3)	(3)
Carrying amount	**-**	**-**	**-**	**13**	**13**
Not impaired	**-**	**-**	**-**	**165**	**165**
Collectively impaired					
Gross amount	5,453	4,261	584	228	10,526
Not past due	4,868	3,881	467	185	9,401
Past due 1 – 90 days	262	170	42	11	485
Past due 91 – 360 days	255	185	47	8	495
Past due more than 360 days	68	25	28	24	145
Allowance for impairment	(457)	(264)	(86)	(31)	(838)
Carrying amount	**4,996**	**3,997**	**498**	**197**	**9,688**
Total carrying amount	**4,996**	**3,997**	**498**	**375**	**9,866**

Other classes of financial assets such as cash equivalents, due from banks, other financial institutions and holding companies, financial assets at fair value through profit or loss, financial assets available-for-sale and other financial assets were not impaired as of 31 December 2017 and 2016.

[1] Includes mortgage loans, car loans, loans to corporations and other loans.

4. Financial risk management (continued)

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

	2017		2016	
	Portfolio MEUR	**% of loan portfolio**	**Portfolio MEUR**	**% of loan portfolio**
Cash and cash equivalents	2,913	13.8	2,322	15.8
Financial assets at fair value through profit or loss	35	0.2	204	1.4
Debt securities available-for-sale	1,486	7.0	1,045	7.1
Due from banks, other financial institutions and holding companies	403	1.9	397	2.7
Loans to customers	15,452	73.2	9,866	67.2
Other assets	336	1.6	257	1.7
Loan commitments and guarantees	493	2.3	604	4.1
Total	**21,118**		**14,695**	

Analysis of collateral

The following table provides the analysis of gross loan portfolio by types of collateral as at 31 December:

	2017		2016	
	Portfolio MEUR	**% of loan portfolio**	**Portfolio MEUR**	**% of loan portfolio**
Secured assets	370	2.2	329	3.1
Unsecured (no collateral)	16,501	97.8	10,378	96.9
Total	**16,871**		**10,707**	

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

Mortgage loans are secured by underlying housing real estate. Car loans are secured by underlying cars. Certain POS loans are secured by underlying motorbikes. Loans to corporations are secured by equity securities and deposits with banks. The other loan categories are unsecured.

4. Financial risk management (continued)

Collateral received for loans and advances

	Loans and receivables due from banks		Loans to customers	
	2017 MEUR	2016 MEUR	2017 MEUR	2016 MEUR
Against individually impaired	**-**	**-**	**81**	**-**
Property and equipment	-	-	81	-
Against collectively impaired	**-**	**-**	**520**	**461**
Property and equipment	-	-	502	442
Debt securities	-	-	18	-
Equity securities	-	-	-	19
Against neither past due nor impaired	**134**	**336**	**64**	**59**
Securities received under reverse repo operations (including cash and cash equivalents)	134	120	-	-
Property and equipment	-	-	59	56
Equity securities	135	216	-	-
Deposits with banks	-	-	5	3
Total	**269**	**336**	**665**	**520**

Offsetting financial assets and financial 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 under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example 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 financial position. Therefore, as at 31 December 2017 the reported balances of positive and negative fair values of derivatives of MEUR 21 (31 December 2016: MEUR 3) and MEUR 9 (31 December 2016: MEUR 28) respectively do not include any amounts offset.

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.

Global Master Repurchase Agreements and similar agreements do not meet the criteria for offsetting in the consolidated statement of financial position. Therefore, as at 31 December 2017 the reported balances of loans and advances provided under repo operations of MEUR 130 (31 December 2016: MEUR 109) did not include any amounts offset. The remaining balance of due from banks, other financial institutions and holding companies of MEUR 273 (31 December 2016: MEUR 288) was not subject to any offsetting arrangements.

As at 31 December 2017 the reported balances of loans received under repo operations of MEUR 88 (31 December 2016: nil) did not include any amounts offset. The remaining balance of due to banks, other financial institutions and holding companies of MEUR 10,510 (31 December 2016: MEUR 6,428) was not subject to any offsetting arrangements.

4. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

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 ALCO.

The Group's Treasury collects information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. 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 markets, the nature of related risks and magnitude of their impact on the Group's business, management tools available as well as 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, inter-company loans, subordinated debt and contributions by shareholders (refer to Notes 19, 20, 21, 22 and 25). The shareholder's support enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. Management strives to maintain a balance between continuity of funding and flexibility through use of liabilities with a range of maturities.

4. Financial risk management (continued)

Exposure to liquidity risk

The following table shows assets and liabilities by remaining maturity dates. The table does not include prospective cash flows related to loan commitments. Refer to Note 39 for outstanding loan commitments that may impact liquidity requirements.

	2017						2016					
MEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Cash and cash equivalents	3,021	-	-	-	-	3,021	2,412	-	-	-	-	2,412
Financial assets at fair value through profit or loss	5	7	9	14	-	35	3	1	-	200	-	204
Financial assets available-for-sale	354	197	132	803	9	1,495	76	310	138	521	-	1,045
Due from banks, other financial institutions and holding companies	191	82	104	-	26	403	197	65	105	1	29	397
Loans to customers	3,822	5,430	5,988	208	4	15,452	2,655	3,693	3,392	126	-	9,866
Assets classified as held for sale	-	3	-	-	-	3	-	2	-	-	-	2
Current income tax receivables	2	5	2	-	7	16	3	4	-	-	-	7
Investments in associates	-	-	-	-	3	3	-	-	-	-	2	2
Property and equipment	-	-	-	-	190	190	-	-	-	-	161	161
Intangible assets	-	-	-	-	242	242	-	-	-	-	171	171
Deferred tax assets	1	262	12	7	48	330	-	90	6	1	83	180
Other assets	86	8	-	-	242	336	68	6	-	-	183	257
Total assets	**7,482**	**5,994**	**6,247**	**1,032**	**771**	**21,526**	**5,414**	**4,171**	**3,641**	**849**	**629**	**14,704**
Financial liabilities at fair value through profit or loss	1	4	4	-	313	322	2	7	5	14	-	28
Current accounts and deposits from customers	4,649	1,202	497	8	-	6,356	3,698	1,362	341	-	-	5,401
Due to banks, other financial institutions and holding companies	1,558	5,572	3,457	11	-	10,598	1,237	3,815	1,376	-	-	6,428
Debt securities issued*	231	303	464	-	-	998	1	78	241	-	-	320
Subordinated liabilities*	-	195	137	51	-	383	-	9	370	37	-	416
Current income tax liabilities	193	4	-	-	-	197	114	4	-	-	-	118
Deferred tax liabilities	6	-	-	-	-	6	-	5	-	4	3	12
Insurance and other provisions	-	26	11	-	-	37	-	33	9	-	-	42
Other liabilities	517	66	14	3	1	601	376	43	16	2	1	438
Total liabilities	**7,155**	**7,372**	**4,584**	**73**	**314**	**19,498**	**5,428**	**5,356**	**2,358**	**57**	**4**	**13,203**
Net position	**327**	**(1,378)**	**1,663**	**959**	**457**	**2,028**	**(14)**	**(1,185)**	**1,283**	**792**	**625**	**1,501**

* Debt securities and subordinated liabilities are classified considering early redemption rights (refer to Note 21 and Note 22).

4. Financial risk management (continued)

Exposure to liquidity risk

The following table shows remaining maturities of liabilities on an undiscounted cash flow basis. Only those liability items are shown for which total estimated undiscounted cash flows differ from their book values shown in the consolidated statement of financial position.

	2017					2016				
MEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**No maturity**	**Total**
Current accounts and deposits from customers	4,667	1,290	545	16	6,518	3,713	1,457	385	-	5,555
Due to banks, other financial institutions and holding companies	1,745	6,079	3,770	11	11,605	1,359	4,061	1,514	-	6,934
Debt securities issued*	245	336	512	-	1,093	8	101	270	-	379
Subordinated liabilities*	-	212	157	57	426	-	39	414	44	497
Total	**6,657**	**7,917**	**4,984**	**84**	**19,642**	**5,080**	**5,658**	**2,583**	**44**	**13,365**

* Debt securities and subordinated liabilities are classified considering early redemption rights (refer to Note 21 and Note 22).

4. Financial risk management (continued)

(c) Market risk

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

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.

Exposure to interest rate risk

The principal risk to which the Group is exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits. As part of its management of this position, the Group may use interest rate derivatives.

A summary of the Group's interest rate gap position is provided below.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring 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 case, the net interest income for 2017 would be MEUR 134 higher/lower (2016: MEUR 85) and the revaluation reserve in equity would be MEUR 26 higher/lower (2016: MEUR 13).

Exposure to foreign currency risk

The Group has assets and liabilities denominated in several foreign currencies. 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. Foreign currency risk is managed principally through monitoring foreign currency mismatches in the structure of assets and liabilities in the individual Group's country operations. It is the Group's policy to hedge such mismatches by derivative financial instruments to eliminate the foreign currency exposure (refer to Note 38). The ALCO is the monitoring body for compliance with this rule.

Net investments in foreign operations are not hedged. As a result, the Group's financial position is adequately sensitive on movements of the relevant foreign exchange rates. Impact of such exchange rate changes on the Group's net investment in foreign operations is presented as currency translation in the consolidated statement of changes in equity.

A summary of the Group's foreign currency position is provided below.

4. Financial risk management (continued)

Interest rate gap position based on re-pricing dates

	2017						2016					
MEUR	**Effective interest rate**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Interest bearing financial assets												
Cash and cash equivalents	0.8%	3,021	-	-	-	3,021	0.7%	2,412	-	-	-	2,412
Financial assets at fair value through profit or loss	0.0%	-	-	-	-	-	0.6%	1	-	200	-	201
Financial assets available-for-sale	4.2%	355	652	131	348	1,486	3.3%	77	746	137	85	1,045
Due from banks, other financial institutions and holding companies	3.8%	194	115	71	-	380	3.8%	231	86	53	-	370
Loans to customers, net	32.8%	3,830	5,495	5,995	128	15,448	36.0%	2,662	3,736	3,402	66	9,866
Total interest bearing financial assets	**25.4%**	**7,400**	**6,262**	**6,197**	**476**	**20,335**	**26.0%**	**5,383**	**4,568**	**3,792**	**151**	**13,894**
Interest bearing financial liabilities												
Current accounts and deposits from customers	4.1%	4,649	1,202	497	8	6,356	4.7%	3,698	1,362	341	-	5,401
Due to banks, other financial institutions and holding companies	9.1%	2,205	5,572	2,810	11	10,598	9.9%	1,277	3,775	1,376	-	6,428
Debt securities issued	9.9%	231	303	464	-	998	10.3%	1	78	241	-	320
Subordinated liabilities	9.6%	-	195	137	51	383	9.8%	-	8	371	37	416
Total interest bearing financial liabilities	**7.4%**	**7,085**	**7,272**	**3,908**	**70**	**18,335**	**7.7%**	**4,976**	**5,223**	**2,329**	**37**	**12,565**
Net position		**315**	**(1,010)**	**2,289**	**406**	**2,000**		**407**	**(655)**	**1,463**	**114**	**1,329**

4. Financial risk management (continued)

Foreign currency position

MEUR	2017								
	CNY	**CZK**	**RUB**	**VND**	**EUR**	**KZT**	**USD**	**Other currencies**	**Total**
Cash and cash equivalents	1,222	1,326	162	29	169	24	40	49	3,021
Financial assets at fair value through profit or loss	-	26	-	-	9	-	-	-	35
Financial assets available-for-sale	-	720	512	-	56	-	202	5	1,495
Due from banks, other financial institutions and holding companies	48	99	56	3	84	2	107	4	403
Loans to customers	9,728	1,073	2,489	579	240	472	47	824	15,452
Assets classified as held for sale	-	-	3	-	-	-	-	-	3
Current income tax receivables	-	5	9	-	-	-	-	2	16
Investments in associates	-	2	1	-	-	-	-	-	3
Property and equipment	65	17	57	2	-	8	2	39	190
Intangible assets	18	172	24	2	5	3	3	15	242
Deferred tax assets	260	2	44	4	13	1	-	6	330
Other assets	70	84	16	28	16	8	51	63	336
Total assets	**11,411**	**3,526**	**3,373**	**647**	**592**	**518**	**452**	**1,007**	**21,526**
Financial liabilities at fair value through profit or loss	313	5	-	2	2	-	-	-	322
Current accounts and deposits from customers	-	3,424	2,518	-	93	226	94	1	6,356
Due to banks, other financial institutions and holding companies	9,104	58	77	165	726	62	118	288	10,598
Debt securities issued	349	113	22	223	7	57	-	227	998
Subordinated liabilities	-	53	-	-	-	-	330	-	383
Current income tax liabilities	187	1	-	4	3	2	-	-	197
Deferred tax liabilities	-	3	3	-	-	-	-	-	6
Insurance and other provisions	-	-	36	-	-	-	-	1	37
Other liabilities	283	72	59	33	34	20	9	91	601
Total liabilities	**10,236**	**3,729**	**2,715**	**427**	**865**	**367**	**551**	**608**	**19,498**
Effect of foreign currency derivatives	294	619	17	(91)	(728)	64	38	(213)	-
Net position	**1,469**	**416**	**675**	**129**	**(1,001)**	**215**	**(61)**	**186**	**2,028**

4. Financial risk management (continued)

Foreign currency position

MEUR					**2016**				
	CNY	**CZK**	**RUB**	**VND**	**EUR**	**KZT**	**USD**	**Other currencies**	**Total**
Cash and cash equivalents	1,121	918	175	40	64	38	24	32	2,412
Financial assets at fair value through profit or loss	-	201	-	-	3	-	-	-	204
Financial assets available-for-sale	-	551	178	-	114	-	202	-	1,045
Due from banks, other financial institutions and holding companies	40	87	52	-	13	2	198	5	397
Loans to customers	5,314	849	2,282	430	294	334	54	309	9,866
Assets classified as held for sale	-	-	2	-	-	-	-	-	2
Current income tax receivables	-	4	-	-	2	-	-	1	7
Investments in associates	-	-	2	-	-	-	-	-	2
Property and equipment	41	14	69	4	1	7	2	23	161
Intangible assets	5	115	28	3	4	4	1	11	171
Deferred tax assets	81	2	75	4	17	1	-	-	180
Other assets	47	83	50	24	13	6	9	25	257
Total assets	**6,649**	**2,824**	**2,913**	**505**	**525**	**392**	**490**	**406**	**14,704**
Financial liabilities at fair value through profit or loss	-	25	-	1	1	1	-	-	28
Current accounts and deposits from customers	-	2,855	2,170	-	87	192	95	2	5,401
Due to banks, other financial institutions and holding companies	5,303	50	4	116	693	45	70	147	6,428
Debt securities issued	-	29	8	198	7	21	-	57	320
Subordinated liabilities	-	39	-	-	-	-	377	-	416
Current income tax liabilities	108	-	4	3	1	2	-	-	118
Deferred tax liabilities	5	4	3	-	-	-	-	-	12
Insurance and other provisions	-	-	39	-	-	-	-	3	42
Other liabilities	206	73	58	20	24	14	7	36	438
Total liabilities	**5,622**	**3,075**	**2,286**	**338**	**813**	**275**	**549**	**245**	**13,203**
Effect of foreign currency derivatives	-	541	(12)	(58)	(381)	(19)	4	(75)	-
Net position	**1,027**	**290**	**615**	**109**	**(669)**	**98**	**(55)**	**86**	**1,501**

4. Financial risk management (continued)

Foreign currency risk sensitivity analysis

An analysis of 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 CNY, RUB, USD, KZT, VND and CZK to EUR exchange rates is shown below:

	Total effect 2017 MEUR	Total effect 2016 MEUR
Effect of 5% CNY depreciation against EUR	(59)	(51)
Effect of 5% CNY appreciation against EUR	59	51
Effect of 5% RUB depreciation against EUR	(34)	(31)
Effect of 5% RUB appreciation against EUR	34	31
Effect of 5% USD depreciation against EUR	3	3
Effect of 5% USD appreciation against EUR	(3)	(3)
Effect of 5% KZT depreciation against EUR	(11)	(5)
Effect of 5% KZT appreciation against EUR	11	5
Effect of 5% VND depreciation against EUR	(7)	(5)
Effect of 5% VND appreciation against EUR	7	5
Effect of 5% CZK depreciation against EUR	(36)	(14)
Effect of 5% CZK appreciation against EUR	36	14

(d) Insurance risk

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. Insurance risk on insurance contracts is divided into price risk and the reserve deficiency risk.

Price 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 pricing and underwriting policies of the Group.

Reserve deficiency risk

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 adequacy of loss reserves and loss analysis of insurance products including sensitivity analysis of insurance reserves to changes in expected insurance contract loss rates.

Insurance risks are reduced through diversification of a large portfolio of insurance contracts, as well as the allocation of geographic regions, which is the Group's main criterion when determining insurance risk concentrations.

4. Financial risk management (continued)

(e) 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 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.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to 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 appropriate segregation of duties, including the independent authorization 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 which 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.

(f) Capital management

The Company considers share capital, share premium, statutory reserves and other reserves as part of the capital. The Company's policy is to maintain capital base adequate to its investments in subsidiaries so as to maintain investor, creditor and market confidence, sustain future development of the business and meet the capital requirements related to its funding operations. There are no regulatory capital requirements for the Company and there have been no significant changes in the Company's management of capital during the year. However, the Company is included in a regulated group of its parent company PPF Financial Holdings B.V.

Some of the Company's subsidiaries maintain capital adequacy in compliance with local regulatory requirements which require the respective entities to maintain the ratio of total capital to total risk-weighted assets at or above certain minimum level. The ratios are calculated based on 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 in order to maintain the subsidiaries' full compliance with capital regulations described above.

5. Segment reporting

Business environment

The Group's operations are primarily located in countries which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in these markets.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated financial statements reflect management's assessment of the impact of business environment of these markets on the operations and financial position of the Group. The future business environment may differ from management's assessment.

Segment information

Segment information is presented in respect of the Group's geographical segments based on the Group's management and internal reporting structure. Segment information in respect of the Group's business segments is not presented as the Group's operations are concentrated in one main business segment only, consumer lending products.

The Group operates in nine principal geographical areas, the People's Republic of China, the Czech Republic, the Russian Federation, the Socialist Republic of Vietnam, the Republic of India, the Republic of Kazakhstan, the Slovak Republic, the Republic of the Philippines and the Republic of Indonesia. The Republic of the Philippines and the Republic of Indonesia segments were add as significant for Group operations in current year. The geographical segments are based on the geographical location of assets which corresponds to the geographical location of customers at the same time.

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. The Group's senior management is the chief operating decision maker which reviews the Group's internal reporting on a regular basis to assess performance of individual segments and to allocate the Group's resources accordingly.

Information on individual segments is presented before consolidation eliminations (which are presented in a separate column).

5. Segment reporting (continued)

	China	Czech Republic	Russian Federation	Vietnam	India	Kazakhstan	Slovak Republic	Philippines	Indonesia	Other	Unallocated [1]	Eliminations	Consolidated
	2017 MEUR	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**	**2017 MEUR**
Revenue from external customers [2]	2,639	156	738	249	145	186	55	83	80	8	4	-	4,343
Inter-segment revenue	-	23	6	-	-	-	-	-	-	3	2	(34)	-
Total revenue	**2,639**	**179**	**744**	**249**	**145**	**186**	**55**	**83**	**80**	**11**	**6**	**(34)**	**4,343**
Net interest income from external customers	1,450	114	361	161	107	106	48	68	45	4	(47)	-	2,417
Inter-segment net interest income	-	23	3	-	(12)	-	(8)	(3)	(3)	2	(5)	3	-
Total net interest income	**1,450**	**137**	**364**	**161**	**95**	**106**	**40**	**65**	**42**	**6**	**(52)**	**3**	**2,417**
Income tax expense	(40)	(14)	(41)	(16)	-	(16)	(1)	5	-	-	(6)	-	(129)
Segment result	**123**	**28**	**162**	**64**	**(69)**	**60**	**8**	**(2)**	**(19)**	**(39)**	**(87)**	**15**	**244**
Depreciation and amortization	(23)	(13)	(19)	(4)	(13)	(7)	(1)	(3)	(5)	(23)	-	21	(90)
Other significant non-cash expenses [3]	(965)	4	(37)	(41)	(41)	2	(13)	(19)	(20)	2	-	-	(1,128)
Capital expenditure	(85)	(26)	(13)	(4)	(25)	(8)	(7)	(10)	(15)	20	-	6	(167)
Segment assets [4]	**11,440**	**3,926**	**3,834**	**656**	**572**	**568**	**256**	**249**	**187**	**660**	**249**	**(1,071)**	**21,526**
Investments in associates	-	-	1	-	-	-	-	-	-	2	-	-	3
Segment liabilities [4]	**9,939**	**3,667**	**3,172**	**518**	**458**	**451**	**243**	**194**	**156**	**489**	**1,285**	**(1,074)**	**19,498**
Segment equity [4]	**1,501**	**259**	**662**	**138**	**114**	**117**	**13**	**55**	**31**	**171**	**(1,036)**	**3**	**2,028**

[1] Unallocated items represent items of revenue, operating expense, assets and liabilities which cannot be reasonably allocated to the geographical segments. Unallocated equity represents the difference between unallocated assets and unallocated liabilities and does not represent equity of holding companies included in this segment.

[2] Revenue from external customers comprises interest income, fee and commission income and gross insurance premiums earned.

[3] Other significant non-cash expenses are represented by impairment losses on financial and non-financial assets.

[4] Consolidation adjustments are included in Eliminations.

5. Segment reporting (continued)

	China	Czech Republic	Russian Federation	Vietnam	India	Kazakhstan	Slovak Republic	Philippines	Indonesia	Other	Unallocated [1]	Eliminations	Consolidated
	2016 MEUR	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**	**2016 MEUR**
Revenue from external customers [2]	1,351	151	695	198	58	145	63	27	27	26	5	-	2,746
Inter-segment revenue	-	17	16	-	-	-	-	-	-	1	1	(35)	-
Total revenue	**1,351**	**168**	**711**	**198**	**58**	**145**	**63**	**27**	**27**	**27**	**6**	**(35)**	**2,746**
Net interest income from external customers	783	108	316	129	42	75	54	23	12	14	(25)	-	1,531
Inter-segment net interest income	-	17	13	-	(2)	(7)	(12)	(1)	-	(1)	(9)	2	-
Total net interest income	**783**	**125**	**329**	**129**	**40**	**68**	**42**	**22**	**12**	**13**	**(34)**	**2**	**1,531**
Income tax expense	(58)	(6)	(16)	(12)	-	(12)	-	-	-	(3)	(8)	-	(115)
Segment result	**196**	**33**	**67**	**46**	**(61)**	**46**	**4**	**(16)**	**(19)**	**(35)**	**(47)**	**(4)**	**210**
Depreciation and amortization	(11)	(10)	(22)	(6)	(7)	(5)	(1)	(1)	(3)	(32)	-	15	(83)
Other significant non-cash expenses [3]	(311)	(7)	(151)	(37)	(26)	(3)	(17)	(6)	(5)	(1)	-	-	(564)
Capital expenditure	(33)	(11)	(9)	(5)	(18)	(8)	-	(6)	(7)	(3)	-	8	(92)
Segment assets [4]	**6,641**	**3,275**	**3,338**	**515**	**248**	**410**	**301**	**94**	**56**	**323**	**159**	**(656)**	**14,704**
Investments in associates	-	-	2	-	-	-	-	-	-	-	-	-	2
Segment liabilities [4]	**5,673**	**3,079**	**2,749**	**398**	**203**	**304**	**296**	**65**	**32**	**161**	**879**	**(636)**	**13,203**
Segment equity [4]	**968**	**196**	**589**	**117**	**45**	**106**	**5**	**29**	**24**	**162**	**(720)**	**(20)**	**1,501**

[1] Unallocated items represent items of revenue, operating expense, assets and liabilities which cannot be reasonably allocated to the geographical segments. Unallocated equity represents the difference between unallocated assets and unallocated liabilities and does not represent equity of holding companies included in this segment.

[2] Revenue from external customers comprises interest income, fee and commission income and gross insurance premiums earned.

[3] Other significant non-cash expenses are represented by impairment losses on financial and non-financial assets.

[4] Consolidation adjustments are included in Eliminations.

6. Fair values of financial instruments

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 is based on their quoted market price. Fair value of derivative contracts that are not exchange traded 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.

6. Fair values of financial instruments (continued)

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:

2017	Note	Carrying amount MEUR	Fair Value Level 1 MEUR	Level 2 MEUR	Level 3 MEUR	Total MEUR
Due from banks, other financial institutions and holding companies	10	403	-	403	-	403
Loans to customers	11	15,452	-	-	15,593	15,593
Current accounts and deposits from customers	19	(6,356)	-	(6,367)	-	(6,367)
Due to banks, other financial institutions and holding companies	20	(10,598)	-	(10,600)	-	(10,600)
Debt securities issued	21	(998)	(7)	(997)	-	(1,004)
Subordinated liabilities	22	(383)	(337)	(54)	-	(391)
		(2,480)	**(344)**	**(17,615)**	**15,593**	**(2,366)**

2016	Note	Carrying amount MEUR	Fair Value Level 1 MEUR	Level 2 MEUR	Level 3 MEUR	Total MEUR
Due from banks, other financial institutions and holding companies	10	397	-	397	-	397
Loans to customers	11	9,866	-	-	9,954	9,954
Current accounts and deposits from customers	19	(5,401)	-	(5,410)	-	(5,410)
Due to banks, other financial institutions and holding companies	20	(6,428)	-	(6,430)	-	(6,430)
Debt securities issued	21	(320)	(8)	(311)	-	(319)
Subordinated liabilities	22	(416)	(390)	(38)	-	(428)
		(2,302)	**(398)**	**(11,792)**	**9,954**	**(2,236)**

There were no transfers between Level 1, 2 and 3 in 2017 or 2016.

The Group's estimates of fair values of its other financial assets and liabilities not measured at fair value are not significantly different from their carrying values.

6. Fair values of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value broken down into those whose fair value is based on quoted market prices (Level 1), calculated using valuation techniques where all the model inputs are observable in the market, typically interest rates and foreign exchange rates (Level 2) and calculated using valuation techniques where significant model inputs are not observable in the market (Level 3):

2017	Note	Level 1 MEUR	Level 2 MEUR	Level 3 MEUR	Total MEUR
Financial assets at fair value through profit or loss	8	-	35	-	35
Financial assets available-for-sale	9	1,478	8	9	1,495
Financial liabilities at fair value through profit or loss	18	-	(9)	(313)	(322)
		1,478	**34**	**(304)**	**1,208**

2016	Note	Level 1 MEUR	Level 2 MEUR	Level 3 MEUR	Total MEUR
Financial assets at fair value through profit or loss	8	201	3	-	204
Financial assets available-for-sale	9	945	100	-	1,045
Financial liabilities at fair value through profit or loss	18	-	(28)	-	(28)
		1,146	**75**	**-**	**1,221**

There were no transfers between Level 1, 2 and 3 in 2017 or 2016.

Reconciliation of movements in Level 3:	**Equity securities Available-for-sale MEUR**	**Financial liabilities at fair value through profit or loss MEUR**
Balance at 1 January 2017	-	-
Purchases, sales, issues and settlements during the period	10	(295)
Gains/(losses) recognized in profit or loss	(1)	(18)
Closing balance at 31 December 2017	**9**	**(313)**

No movements were noted in Level 3 financial instruments in 2016.

The Group holds an investment in equity shares of Nymbus, Inc., a business operating in the USA, which is classified as available-for-sale, with a fair value of MEUR 9 at 31 December 2017. The fair value of this investment was categorized as Level 3 at 31 December 2017. This was because the shares are not listed on an exchange and there are no recent observable arm’s length transactions in the shares.

The fair valuation methodology for Level 3 equity instruments is based on comparable market transactions at the valuation date. The fair value of equity securities is sensitive to economic developments at the businesses in question.

6. Fair values of financial instruments (continued)

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 (refer to Note 18). Within this deal, PAG through one of its investment funds has made an investment to the Group, in a form of a long term loan provided to the Group's subsidiary Favour Ocean Limited. The loan is measured at fair value through profit or loss. The fair value was categorized as Level 3 and determined as MEUR 313 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, especially dividend discount model. Majority of inputs to this model are not observable from the market.

7. Cash and cash equivalents

	2017 MEUR	2016 MEUR
Cash on hand	108	90
Current accounts	1,532	1,305
Current accounts with central banks	110	137
Reverse repo operations with central banks	1,249	-
Placements with financial institutions due within one month	22	880
	3,021	**2,412**

As at 31 December 2017 current accounts comprise MEUR 834 (31 December 2016: MEUR 985) which is restricted to its use. The use of the cash is restricted by the borrowing agreements in China with the creditors to i) disbursement of loans to retail clients; or ii) repayment of the loans received from the creditors. If the cash is used to provide loans to retail clients, the loans are pledged as collateral. Thus, the restriction on the cash effectively increases the security of the creditors.

8. Financial assets at fair value through profit or loss

	2017 MEUR	2016 MEUR
Positive fair value of trading derivative instruments	21	3
Positive fair value of hedging derivative instruments	14	-
Debt securities (Government bonds)	-	201
	35	**204**

9. Financial assets available-for-sale

	2017 MEUR	2016 MEUR
Government bonds	1,029	647
Corporate bonds	457	368
Equity securities	9	-
Other debt securities	-	30
	1,495	**1,045**

As at 31 December 2017 financial assets available-for-sale of MEUR 96 (31 December 2016: MEUR 11) served as collateral for bank loan facilities (loans received under repo operations and secured loans) (Note 20).

10. Due from banks, other financial institutions and holding companies

	2017 MEUR	2016 MEUR
Loans and term deposits with banks, other financial institutions and holding companies due in more than one month	144	177
Loans and advances provided under repo operations	130	109
Minimum reserve deposits with central banks	75	76
Cash collateral for derivative instruments	7	32
Other	47	3
	403	**397**

The minimum reserve deposits are mandatory non-interest bearing deposits whose withdrawals are restricted and which are maintained in accordance with regulations issued by central banks in countries in which the Group's banking entities operate.

As at 31 December 2017 term deposit of MEUR 47 (31 December 2016: MEUR 19) served as collateral for secured loans due to banks (Note 20).

As at 31 December 2017 term deposit of MEUR 7 (31 December 2016: MEUR 7) served as cash collateral for syndicated loan interest payments.

As at 31 December 2017 margin deposit of MEUR 4 (31 December 2016: MEUR 4) served as cash collateral for foreign exchange derivative contracts.

11. Loans to customers

	2017 MEUR	2016 MEUR
Gross amount		
Cash loan receivables	9,960	5,452
POS loan receivables	5,959	4,261
Revolving loan receivables	524	585
Mortgage loan receivables	147	111
Car loan receivables	117	117
Loans to corporations	163	178
Other	1	3
	16,871	**10,707**
Collective allowances for impairment		
Cash loan receivables	(881)	(457)
POS loan receivables	(440)	(264)
Revolving loan receivables	(64)	(86)
Mortgage loan receivables	(5)	(8)
Car loan receivables	(22)	(23)
	(1,412)	**(838)**
Specific allowances for impairment		
Loans to corporations	(7)	(3)
	(7)	**(3)**
	15,452	**9,866**

As at 31 December 2017 cash loan receivables of MEUR 398 (31 December 2016: MEUR nil) and POS loan receivables of MEUR 855 (31 December 2016: MEUR 66) served as collateral for debt securities issued (Note 21).

As at 31 December 2017 cash loan receivables of MEUR 4,475 (31 December 2016: MEUR 2,784) and POS loan receivables of MEUR 2,530 (31 December 2016: MEUR 1,580) served as collateral for bank loan facilities (Note 20).

Loan receivables used as collateral as part of these funding activities were pledged under terms that are usual and customary for such activities.

During the year 2017 the Group has enhanced its credit risk predicting model to limit the volatility of the risk costs (refer to Note 2(e)). As a result, the Group released a part of its existing collective impairment allowances in the amount of MEUR 71. The change was recognized in the statement of comprehensive income for the year ended 31 December 2017.

Analysis of movements in allowances for impairment	**Note**	**2017 MEUR**	**2016 MEUR**
Balance as at 1 January		841	768
Translation difference		(54)	54
Impairment losses recognized in the statement of comprehensive income	34	1,124	562
Amount related to loans written off and disposed of		(492)	(543)
Balance as at 31 December		**1,419**	**841**

The Group has estimated the impairment on loans to customers in accordance with the accounting policy described in Note 3(d)(vii). Changes in collection estimates could significantly affect the carrying amount of loans to customers and related impairment losses recognized.

12. Assets classified as held for sale

Assets classified as held for sale represent assets acquired through court decisions on defaulted mortgages.

In the segment analysis (Note 5), all assets classified as held for sale are presented within the Russian Federation segment.

13. Investments in associates

As at 31 December the Group had the following investments in associates:

	Country of incorporation	Ownership interest 2017 (%)	Carrying amount 2017 MEUR	Ownership interest 2016 (%)	Carrying amount 2016 MEUR
Barion Payment Zrt.	Hungary	20.00	2	-	-
Equifax Credit Services (LLC)	Russian Federation	25.00	1	25.00	2
Společnost pro informační databáze (JSC)	Czech Republic	27.96	-	27.96	-
Filcommerce Holdings, Inc.*	Philippines			40.00	-
			3		**2**

* In June 2017 ownership interest in Filcommerce Holdings, Inc. was increased from 40% to 100%.

14. Property and equipment

2017	Buildings	Equipment and other tangible assets	Vehicles	Total
	MEUR	MEUR	MEUR	MEUR
Acquisition cost				
Balance as at 1 January 2017	93	238	6	337
Additions	1	91	1	93
Disposals	(6)	(19)	(1)	(26)
Transfers and other changes	9	(11)	1	(1)
Translation difference	(6)	(17)	-	(23)
Balance as at 31 December 2017	**91**	**282**	**7**	**380**
Accumulated depreciation				
Balance as at 1 January 2017	26	144	4	174
Charge for the year	3	41	1	45
Disposals	(2)	(15)	(1)	(18)
Transfers and other changes	2	(2)	-	-
Translation difference	(2)	(10)	-	(12)
Balance as at 31 December 2017	**27**	**158**	**4**	**189**
Impairment				
Balance as at 1 January 2017	-	2	-	2
Impairment losses recognized	-	-	-	-
Disposals	-	(1)	-	(1)
Translation difference	-	-	-	-
Balance as at 31 December 2017	**-**	**1**	**-**	**1**
Carrying amount				
at 1 January 2017	**67**	**92**	**2**	**161**
at 31 December 2017	**64**	**123**	**3**	**190**

14. Property and equipment (continued)

2016	Buildings	Equipment and other tangible assets	Vehicles	Total
	MEUR	MEUR	MEUR	MEUR
Acquisition cost				
Balance as at 1 January 2016	76	193	6	275
Additions	1	46	1	48
Disposals	-	(17)	(1)	(18)
Transfers and other changes	-	-	-	-
Translation difference	16	16	-	32
Balance as at 31 December 2016	**93**	**238**	**6**	**337**
Accumulated depreciation				
Balance as at 1 January 2016	20	113	4	137
Charge for the year	2	31	1	34
Disposals	-	(13)	(1)	(14)
Transfers and other changes	-	-	-	-
Translation difference	4	13	-	17
Balance as at 31 December 2016	**26**	**144**	**4**	**174**
Impairment				
Balance as at 1 January 2016	-	1	-	1
Impairment losses recognized	-	1	-	1
Translation difference	-	-	-	-
Balance as at 31 December 2016	**-**	**2**	**-**	**2**
Carrying amount				
at 1 January 2016	**56**	**79**	**2**	**137**
at 31 December 2016	**67**	**92**	**2**	**161**

15. Intangible assets

2017	Goodwill	Software	Present value of future profits	Other intangible assets	Total
	MEUR	MEUR	MEUR	MEUR	MEUR
Acquisition cost					
Balance as at 1 January 2017	3	386	7	4	400
Additions	-	113	-	1	114
Disposals	-	(6)	-	-	(6)
Transfers and other changes	-	(1)	-	2	1
Translation difference	-	8	(1)	-	7
Balance as at 31 December 2017	**3**	**500**	**6**	**7**	**516**
Accumulated amortization					
Balance as at 1 January 2017	-	221	6	2	229
Charge for the year	-	43	-	2	45
Disposals	-	(3)	-	-	(3)
Transfers and other changes	-	(1)	-	1	-
Translation difference	-	4	-	(1)	3
Balance as at 31 December 2017	**-**	**264**	**6**	**4**	**274**
Carrying amount					
at 1 January 2017	**3**	**165**	**1**	**2**	**171**
at 31 December 2017	**3**	**236**	**-**	**3**	**242**

Present value of future profits represents the net present value of the expected after-tax cash flows of the portfolio of long-term insurance contracts recognized as an intangible asset in connection with the acquisition of insurance companies in 2013.

15. Intangible assets (continued)

2016	**Goodwill**	**Software**	**Present value of future profits**	**Other intangible assets**	**Total**
	MEUR	**MEUR**	**MEUR**	**MEUR**	**MEUR**
Acquisition cost					
Balance as at 1 January 2016	3	294	6	2	305
Additions	-	80	-	1	81
Disposals	-	(2)	-	-	(2)
Transfers and other changes	-	(1)	-	1	-
Translation difference	-	15	1	-	16
Balance as at 31 December 2016	**3**	**386**	**7**	**4**	**400**
Accumulated amortization					
Balance as at 1 January 2016	-	163	5	1	169
Charge for the year	-	48	-	1	49
Disposals	-	(1)	-	-	(1)
Transfers and other changes	-	2	-	-	2
Translation difference	-	9	1	-	10
Balance as at 31 December 2016	**-**	**221**	**6**	**2**	**229**
Carrying amount					
at 1 January 2016	**3**	**131**	**1**	**1**	**136**
at 31 December 2016	**3**	**165**	**1**	**2**	**171**

Present value of future profits represents the net present value of the expected after-tax cash flows of the portfolio of long-term insurance contracts recognized as an intangible asset in connection with the acquisition of insurance companies in 2013.

16. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items (netted for all jurisdictions):

	Assets		Liabilities		Net	
	2017 MEUR	2016 MEUR	2017 MEUR	2016 MEUR	2017 MEUR	2016 MEUR
Loans to customers	284	160	-	-	284	160
Carrying value of property and equipment	2	2	(10)	(12)	(8)	(10)
Other assets	35	15	(12)	(16)	23	(1)
Tax loss carry forward	4	5	-	-	4	5
Other	24	20	(3)	(6)	21	14
Deferred tax assets/(liabilities)	349	202	(25)	(34)	324	168
Net deferred tax assets					**324**	**168**

As at 31 December 2017 the Group records incurred tax losses from recent years of MEUR 630 (31 December 2016: MEUR 524) available to be carried forward and off-set 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 utilized, the deferred tax assets are not recognized. The unrecognised deferred tax assets amount to MEUR 133 (2016: MEUR 109). The unutilized tax losses expire as follows:

Year of expiration	**2017 MEUR**	**2016 MEUR**
2017	-	10
2018	20	33
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**	**524**

Analysis of movements in net deferred tax assets	**2017 MEUR**	**2016 MEUR**
Net deferred tax asset as at 1 January	168	103
Deferred tax income for the year	165	50
Deferred tax recognized directly in equity	5	-
Net foreign exchange differences	(14)	15
Balance as at 31 December	**324**	**168**

17. Other assets

	2017 MEUR	2016 MEUR
Prepaid expenses	119	90
Trade receivables and settlement with suppliers	91	67
Cash collateral for payment cards	48	51
Other taxes receivable	7	10
Inventories	4	1
Accrued income from insurance fees	3	7
Deferred acquisition costs of insurance contracts	2	7
Other	62	24
	336	**257**

Analysis of movements in allowances for impairment	2017 MEUR	2016 MEUR
Balance as at 1 January	-	-
Net impairment losses recognized in the statement of comprehensive income	4	1
Amounts related to assets sold and written off	(3)	(1)
Translation difference	(1)	-
Balance as at 31 December	**-**	**-**

18. Financial liabilities at fair value through profit or loss

	2017 MEUR	2016 MEUR
Loan	313	-
Negative fair value of trading derivative instruments	9	28
	322	**28**

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, PAG through one of its investment funds has made an investment to the Group, in a form of a long term loan. The Group decided to measure this loan at fair value through profit or loss.

19. Current accounts and deposits from customers

	2017 MEUR	2016 MEUR
Current accounts and demand deposits	4,138	3,391
Term deposits	2,195	1,984
Borrowings	21	23
Other	2	3
	6,356	**5,401**

20. Due to banks, other financial institutions and holding companies

	2017 MEUR	2016 MEUR
Secured loans	6,881	5,361
Unsecured loans	3,555	1,011
Loans received under repo operations	88	-
Other balances	74	56
	10,598	**6,428**

As at 31 December 2017 the balances of loans secured by cash loan receivables, POS loan receivables, term deposits and financial assets available-for-sale were MEUR 3,868 (31 December 2016: MEUR 2,777), MEUR 2,186 (31 December 2016: MEUR 1,558), MEUR 42 (31 December 2016: MEUR 21) and nil (31 December 2016: MEUR 10), respectively.

As at 31 December 2017 the balances of loans secured by cash were MEUR 726 (31 December 2016: MEUR 985) (Note 7).

As at 31 December 2017 the balances of loans secured by guarantees were MEUR 59 (31 December 2016: MEUR 10).

As at 31 December 2017 the balance of loans received under repo operations were secured by financial assets available-for-sale.

These amounts represent the balances of loans, and do not necessarily represent the fair value of the collateral.

21. Debt securities issued

	Interest rate	Final maturity	Amount outstanding 2017 MEUR	2016 MEUR
Long-term registered Certificate of Deposit, VND	Fixed	2017	-	82
Certificates of deposit issue of MKZT 314.6	Fixed	2017	-	1
Asset-Backed Security issue 4 (2017-2) in CNY, tranche B	Fixed	2018	19	-
Asset-Backed Security issue 5 (2017-3) in CNY, tranche A	Fixed	2018	36	-
Asset-Backed Security issue 5 (2017-3) in CNY, tranche B	Fixed	2018	45	-
Asset-Backed Security issue 6 (2017-4) in CNY, tranche A	Fixed	2018	63	-
Asset-Backed Security issue 6 (2017-4) in CNY, tranche B	Fixed	2018	30	-
Asset-Backed Security issue 7 (2017-5) in CNY, tranche A	Fixed	2018	106	-
Asset-Backed Security issue 7 (2017-5) in CNY, tranche B	Fixed	2018	50	-
CZK promissory note issue of MCZK 650	Zero-coupon	2018	25	22
Secured INR bond issue of MINR 1,535	Fixed	2018	12	-
Certificates of deposit issue of MKZT 116.5	Fixed	2018	2	-
Long-term registered Certificate of Deposit, VND	Fixed	2018	92	99
Short-term registered Certificate of Deposit, VND	Fixed	2018	51	-
Long-term registered Certificate of Deposit, VND	Fixed	2019	58	17
Short-term registered Certificate of Deposit, VND	Fixed	2019	2	-
Secured INR bond issue of MINR 2,250	Fixed	2019	30	31
Secured INR bond issue of MINR 1,875	Fixed	2019	25	26
Secured INR bond issue of MINR 1,000	Fixed	2019	13	-
Secured INR bond issue of MINR 413	Fixed	2019	3	-
Stock exchange RUB bonds issue 001P-01 of MRUB 1,500	Fixed	2019	22	8
Unsecured KZT bond issue 1 of MKZT 6,769	Fixed	2019	17	20
Unsecured KZT bond issue 4 of MKZT 5,000	Fixed	2019	13	-
Unsecured CZK bond issue of MCZK 1,998	Fixed	2020	81	-
Secured INR bond issue of MINR 2,500	Fixed	2020	33	-
Secured INR bond issue of MINR 3,750	Fixed	2020	49	-
Secured INR bond issue of MINR 4,000	Fixed	2020	52	-
Secured INR bond issue of MINR 500	Fixed	2020	6	-
Secured INR bond issue of MINR 453	Fixed	2020	4	-
Unsecured KZT bond issue 2 of MKZT 10,000	Fixed	2020	25	-
CZK promissory note issue of MCZK 207	Zero-coupon	2020	7	7
EUR promissory note issue of MEUR 7.96	Zero-coupon	2020	7	7
Long-term registered Certificate of Deposit, VND	Fixed	2020	20	-
			998	**320**

21. Debt securities issued (continued)

As at 31 December 2017 the secured INR bond issues listed above secured by cash loan receivables and POS loan receivables were MEUR 227 (31 December 2016: MEUR 57).

As at 31 December 2017 the asset-backed security in CNY listed above secured by cash loan receivables and POS loan receivables were MEUR 349 (31 December 2016: nil).

22. Subordinated liabilities

	Interest rate	Final maturity	Amount outstanding 2017 MEUR	2016 MEUR
Loan participation notes issue of MUSD 500	Fixed	April 2020	190	218
Loan participation notes issue of MUSD 200	Fixed	April 2021	140	159
Subordinated bonds issue of MCZK 2,000	Fixed	April 2024	53	39
			383	**416**

Subordinated loan participation notes issue of MUSD 500 were issued in October 2012 through Eurasia Capital S.A. (Note 1). 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. As at 31 December 2017 the Group bought back the loan participation notes with a cumulative par value of MUSD 276 (31 December 2016: cumulative par value of MUSD 272).

Subordinated loan participation notes issue of MUSD 200 were issued in October 2013 through Eurasia Capital S.A. (Note 1). 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. As at 31 December 2017 the Group bought back the loan participation notes with a cumulative par value of MUSD 35 (31 December 2016: MUSD 35).

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

23. Insurance and other provisions

	2017 MEUR	2016 MEUR
Provisions for unearned premiums	25	31
Provisions for outstanding claims	1	1
Provision for litigations	-	1
Other provisions	11	9
	37	**42**

Other provisions include restructuring provisions in connection with a business optimisation programme in Russia.

23. Insurance and other provisions (continued)

	2017 MEUR	2016 MEUR
Provisions for unearned premiums		
Balance as at 1 January	31	39
Premiums written during a year	30	22
Premiums earned during the year	(34)	(36)
Translation difference	(2)	6
Balance as at 31 December	**25**	**31**
Provisions for outstanding claims		
Balance as at 1 January	1	1
Claims incurred in the current year	2	2
Adjustments for losses incurred in previous years	-	-
Claims paid during the year	(2)	(2)
Translation difference	-	-
Balance as at 31 December	**1**	**1**

24. Other liabilities

	2017 MEUR	2016 MEUR
Settlement with suppliers	253	161
Accrued employee compensation	161	149
Accrued expenses	75	48
Customer loan overpayments	41	31
Other taxes payable	35	22
Advances received	3	3
Deferred income and prepayments	-	1
Other	33	23
	601	**438**

25. Equity

As at 31 December 2017 the Group's authorized share capital comprised 1,250,000,000 (31 December 2016: 1,250,000,000) ordinary shares at a par value of EUR 0.57 (31 December 2016: EUR 0.57), of which 1,156,174,806 (31 December 2016: 1,156,174,806) shares were issued and fully paid. All issued shares bear equal voting rights. The holders of the shares are entitled to receive distributions of profits and reserves when declared by the general meeting of the Company. No distributions can be made if the total amount of the reserves to be maintained pursuant to the law or the articles of association exceeds the Company's equity and the management board has not given its approval to such distribution.

In August 2017 the Group's shareholders increased the Company's share premium by MEUR 158 (EUR 0.14 per one share).

In November 2017 the Group's shareholders increased the Company's share premium by MEUR 275 (EUR 0.24 per one share).

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

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

The reserve for business combinations under common control was recognized on acquisitions of HC Asia N.V., Home Credit Consumer Finance Co., Ltd., Home Credit Vietnam Finance Company Limited, CF Commercial Consulting (Beijing) Co., Ltd. and Air Bank (JSC) from the Group's shareholders. The reserve for business combinations under common control is not available for distribution to the shareholders.

The revaluation reserve represents the revaluation deficit or surplus, net of deferred tax, recognized on changes in the fair value of financial assets available-for-sale. The revaluation reserve is not available for distribution to the shareholders.

26. Non-controlling interests

As at 31 December 2017 the Group reported the following non-controlling interests (NCI) and net losses allocated to non-controlling interests for the year ended 31 December 2017:

	NCI %	Total assets MEUR	Total liabilities MEUR	Carrying amount of NCI MEUR	Net losses for the period MEUR	Net losses allocated to NCI MEUR
Home Credit US (LLC)	49.90	37	16	10	(18)	(9)
PT. Home Credit Indonesia	15.00	187	156	5	(19)	(3)
HC Consumer Finance Philippines, Inc.	0.69*	-	-	-	(5)	-
				15		**(12)**

In February 2017 the Group's ownership interest in HC Consumer Finance Philippines, Inc. increased from 99.28% to 99.31% and subsequently in June 2017 increased to 100%.

** NCI applicable only for profit or loss*

As at 31 December 2016 the Group reported the following non-controlling interests (NCI) and net losses allocated to non-controlling interests for the year ended 31 December 2016:

	NCI %	Total assets MEUR	Total liabilities MEUR	Carrying amount of NCI MEUR	Net profit/ (losses) for the period MEUR	Net losses allocated to NCI MEUR
Home Credit US (LLC)	49.90	31	26	2	1	-
PT. Home Credit Indonesia	15.00	56	32	4	(19)	(3)
HC Consumer Finance Philippines, Inc.	0.72	94	65	-	(16)	-
				6		**(3)**

In April 2016 the Group's ownership interest in HC Consumer Finance Philippines, Inc. increased from 98.54% to 98.86% and subsequently in November 2016 increased to 99.28%.

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

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

	Liabilities		Equity	
	Debt securities and subordinated liabilities MEUR	**Due to banks, other financial institution and holding companies MEUR**	**Share premium MEUR**	**Total MEUR**
Balance as at 1 January 2017	**736**	**6,428**	**480**	**7,644**
<u>Changes from financing cash flows</u>				
Proceeds from share premium increase	-	-	433	433
Proceeds from the issue of debt securities	1,749	-	-	1,749
Proceeds from due to banks, other financial institutions and holding companies	-	17,277	-	17,277
Repayment of debt securities	(1,017)	-	-	(1,017)
Repayment of due to banks, other financial institutions and holding companies	-	(12,520)	-	(12,520)
Total changes from financing cash flows	**732**	**4,757**	**433**	**5,922**
The effect of changes in foreign exchange rates and transfers	(88)	(490)	-	(578)
Interest expense	110	766	-	876
Interest paid	(109)	(863)	-	(972)
	(87)	**(587)**	**-**	**(674)**
Balance as at 31 December 2017	**1,381**	**10,598**	**913**	**12,892**

28. Interest income and interest expense

	2017 MEUR	2016 MEUR
Interest income		
Cash loan receivables	2,431	1,289
POS loan receivables	844	665
Revolving loan receivables	130	141
Mortgage loan receivables	4	5
Car loan receivables	18	20
Due from banks, other financial institutions and holding companies	42	33
Financial assets available-for-sale	37	31
Financial assets held-to-maturity	-	2
Other	13	10
	3,519	**2,196**
Interest expense		
Current accounts and deposits from customers	226	214
Due to banks, other financial institutions and holding companies	766	381
Debt securities issued	73	32
Subordinated liabilities	37	38
	1,102	**665**

29. Fee and commission income

	2017 MEUR	2016 MEUR
Insurance commissions	528	330
Penalty fees	171	106
Customer payment processing and account maintenance	36	33
Cash transactions	21	18
Retailers commissions	9	10
Other	25	17
	790	**514**

30. Fee and commission expense

	2017 MEUR	2016 MEUR
Payment processing and account maintenance	40	28
Credit and other register expense	26	17
Commissions to retailers	20	24
Cash transactions	18	16
Payments to deposit insurance agencies	13	10
Stamp duties	4	-
Other	3	1
	124	**96**

31. Insurance income

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

32. Net losses on financial assets and liabilities

	2017 MEUR	2016 MEUR
Net foreign currency (losses)/gains	(43)	30
Net trading (losses)/gains on other financial assets and liabilities	(34)	19
Net gains/(losses) on trading derivative instruments	46	(58)
Net gains/(losses) on hedging derivative instruments	19	(1)
Other	1	-
	(11)	**(10)**

33. Other operating income

	2017 MEUR	2016 MEUR
Income from other services provided	17	26
Net gain on early redemption of debt securities issued and subordinated liabilities	-	3
Tax subsidy	-	10
Other	9	-
	26	**39**

34. Impairment losses on financial assets

	2017 MEUR	2016 MEUR
Cash loan receivables	706	289
POS loan receivables	409	222
Revolving loan receivables	6	43
Mortgage loan receivables	(1)	4
Car loan receivables	-	2
Loans to corporations	4	2
	1,124	**562**

35. General administrative expenses

	2017 MEUR	2016 MEUR
Employee compensation	877	582
Payroll related taxes (including pension contributions)	199	110
Advertising and marketing	73	43
Rental, maintenance and repairs	69	53
Professional services	67	48
Telecommunication and postage	66	45
Information technologies	47	32
Collection agency fee	36	32
Taxes other than income tax	32	37
Travel expenses	27	24
Other	38	23
	1,531	**1,029**

36. Other operating expenses

	2017 MEUR	2016 MEUR
Depreciation and amortization	90	83
Loss on disposal of property and equipment and intangible assets	1	1
Impairment losses on property and equipment and intangible assets	-	1
Impairment losses on other non-financial assets	4	1
	95	**86**

37. Income tax expense

	2017 MEUR	2016 MEUR
Current tax expense	294	164
Deferred tax benefit	(165)	(49)
Total income tax expense in the statement of comprehensive income	**129**	**115**

Reconciliation of effective tax rate	2017 MEUR	2016 MEUR
Profit before tax	**373**	**325**
Income tax using the domestic tax rate of 25%	(93)	(81)
Effect of deferred tax assets not recognized	(26)	(46)
Non-deductible costs	(41)	(19)
Withholding tax	(4)	(11)
Non-taxable income	3	18
Effect of tax rates in foreign jurisdictions	29	19
Other	3	5
Total income tax expense	**(129)**	**(115)**

38. Derivative financial instruments

As at 31 December 2017 the following derivative contracts were outstanding:

Contract type	Sell/Buy	Maturity	Notional amount MEUR	Fair value MEUR
Currency derivatives – trading				
Foreign currency forward contracts				
	EUR/CZK	less than 1 month	7	-
	EUR/INR	less than 1 month	4	-
	INR/EUR	less than 1 month	4	-
	EUR/USD	1 month to 3 months	47	(1)
	EUR/CZK	1 month to 3 months	8	-
	IDR/EUR	3 months to 1 year	35	1
	EUR/USD	3 months to 1 year	25	-
	INR/EUR	3 months to 1 year	15	-
	EUR/CZK	3 months to 1 year	4	-
	EUR/INR	3 months to 1 year	4	-
	EUR/RUB	3 months to 1 year	1	-
	USD/CZK	3 months to 1 year	1	-
	INR/EUR	more than 1 year	194	(4)
Foreign currency swap contracts				
	CZK/EUR	less than 1 month	34	-
	VND/USD	less than 1 month	9	-
	EUR/CNY	1 month to 3 months	294	3
	USD/EUR	1 month to 3 months	45	-
	EUR/CZK	1 month to 3 months	39	1
	CZK/EUR	1 month to 3 months	6	-
	EUR/CZK	3 months to 1 year	427	5
	VND/USD	3 months to 1 year	82	(2)
	USD/CZK	3 months to 1 year	42	1
	EUR/KZT	3 months to 1 year	25	-
	USD/KZT	3 months to 1 year	25	-
	EUR/RUB	3 months to 1 year	16	-
	GBP/KZT	3 months to 1 year	15	-
	USD/EUR	3 months to 1 year	13	-
	EUR/GBP	3 months to 1 year	13	-
	CZK/EUR	3 months to 1 year	8	-
	EUR/CZK	more than 1 year	72	4
Interest rate derivatives - trading				
Cross currency interest rate swap contracts				
	fixed (EUR)/fixed (CZK)	more than 1 year	74	2
	fixed (EUR)/floating (USD)	more than 1 year	4	-
Interest rate swap contracts				
	fixed/floating (CZK)	1 month to 3 months	3	-
	fixed/floating (CZK)	3 months to 1 year	15	-
	fixed/floating (CZK)	more than 1 year	102	2
Interest rate options				
	(CZK)	3 months to 1 year	4	-
	(CZK)	more than 1 year	4	-
Interest rate derivatives - hedging				
Interest rate swap contracts				
	fixed/floating (CZK)	more than 1 year	270	14
				26

38. Derivative financial instruments (continued)

As at 31 December 2016 the following derivative contracts were outstanding:

Contract type	Sell/Buy	Maturity	Notional amount MEUR	Fair value MEUR
Currency derivatives – trading				
Foreign currency forward contracts				
	USD/EUR	less than 1 month	68	1
	EUR/CZK	less than 1 month	1	-
	INR/EUR	3 months to 1 year	3	-
	IDR/EUR	3 months to 1 year	2	-
	PHP/USD	3 months to 1 year	5	-
	INR/EUR	more than 1 year	60	(4)
	EUR/CZK	more than 1 year	7	-
Foreign currency swap contracts				
	CZK/EUR	less than 1 month	9	-
	EUR/USD	less than 1 month	74	1
	EUR/CZK	less than 1 month	6	-
	CZK/EUR	less than 1 month	12	-
	VND/USD	less than 1 month	18	-
	EUR/CZK	1 month to 3 months	15	-
	USD/CZK	1 month to 3 months	39	-
	EUR/CZK	1 month to 3 months	7	-
	RUB/EUR	1 month to 3 months	7	(1)
	VND/USD	1 month to 3 months	10	-
	EUR/CZK	3 months to 1 year	327	(3)
	USD/CZK	3 months to 1 year	41	-
	RUB/CZK	3 months to 1 year	4	(1)
	KZT/USD	3 months to 1 year	19	(1)
	USD/EUR	3 months to 1 year	2	-
	VND/USD	3 months to 1 year	29	(1)
	EUR/CZK	more than 1 year	68	(1)
	EUR/CZK	more than 1 year	35	-
Interest rate derivatives				
Interest rate swap contracts				
	fixed/floating (CZK)	more than 1 year	306	(15)
	fixed/floating (RUB)	more than 1 year	62	-
Interest rate options				
	(CZK)	more than 1 year	7	-
				(25)

39. Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved credit limits related to customer revolving loan accounts, POS loan facilities and cash loan facilities.

	2017 MEUR	2016 MEUR
Revolving loan commitments	379	528
POS loan commitments	80	58
Cash loan commitments	34	18
	493	**604**

The total outstanding contractual commitments to extend credit indicated above do not necessarily represent future cash requirements as many of these commitments will expire or terminate without being funded.

As at 31 December 2017 the Group reported contractual commitments for the acquisition of property and equipment and intangible assets of MEUR 22 (31 December 2016: MEUR 5).

40. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 MEUR	2016 MEUR
Less than one year	15	14
Between one and five years	31	29
More than five years	8	8
	54	**51**

The Group leases a number of premises and equipment under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2017 MEUR 19 (2016: MEUR 19) was recognized as an expense in the statement of comprehensive income in respect of operating leases.

41. Contingencies

Taxation

The taxation systems in the Russian Federation, the Republic of India, the Republic of Kazakhstan, the Socialist Republic of Vietnam, the People's Republic of China and some other countries of operations are relatively new and are characterized by frequent changes in legislation which are subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during several subsequent calendar years. Recent events within the Russian Federation, the Republic of India, the Republic of Kazakhstan, the Socialist Republic of Vietnam, the People's Republic of China and some other countries of operations suggest 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 respective countries that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian, Indian, Kazakhstani, Vietnamese, Chinese and other countries' tax legislation, official pronouncements and court decisions.

42. Related party transactions

The Group has a related party relationship with its parent company, which is PPF Financial Holdings B.V., with entities exercising control over the parent company, their subsidiaries, the Group's key management personnel and other related parties. Related party transactions are executed on an arm's length basis. Related party transactions arise primarily from funding and treasury transactions as well as from insurance commissions reported under fee and commission income.

(a) Transactions with the parent company and entities exercising control over the parent company

Balances included in the statement of financial position in relation to transactions with the parent company and entities exercising control over the parent company are as follows:

	2017 MEUR	2016 MEUR
Due from banks, other financial institutions and holding companies	-	7
Due to banks, other financial institutions and holding companies	(50)	(358)
Subordinated liabilities	(122)	(138)
	(172)	**(489)**

Amounts included in the statement of comprehensive income in relation to transactions with the parent company and entities exercising control over the parent company are as follows:

	2017 MEUR	2016 MEUR
Interest income	-	3
Interest expense	(31)	(22)
	(31)	**(19)**

42. Related party transactions (continued)

(b) Transactions with fellow subsidiaries

Balances included in the statement of financial position in relation to transactions with fellow subsidiaries are as follows:

	2017 MEUR	**2016 MEUR**
Cash and cash equivalents	192	55
Financial assets at fair value through profit or loss	28	3
Due from banks, other financial institutions and holding companies	4	26
Loans to customers	44	-
Other assets	4	10
Financial liabilities at fair value through profit or loss	(6)	(20)
Current accounts and deposit from customers	(27)	(25)
Due to banks, other financial institutions and holding companies	(99)	(58)
Debt securities issued	(228)	(94)
Subordinated liabilities	(27)	(24)
Other liabilities	(5)	(2)
	(120)	**(129)**

Amounts included in the statement of comprehensive income in relation to transactions with fellow subsidiaries are as follows:

	2017 MEUR	**2016 MEUR**
Interest income	4	11
Interest expense	(30)	(15)
Fee and commission expense	(1)	(1)
Acquisition costs (insurance income)	-	(6)
Net gains/(losses) on financial assets and liabilities	35	(28)
Other operating income	1	-
General administrative expenses	(14)	(10)
	(5)	**(49)**

Interest income presented in the table above did not include transaction costs integral to the effective interest rate and incurred with fellow subsidiaries. Such transactions had no impact on interest income (2016: MEUR 10).

42. Related party transactions (continued)

(c) Transactions with key management personnel and other related parties

Amounts included in the statement of comprehensive income in relation to transactions with members of key management are long-term benefits of MEUR 4 (2016: MEUR 4) and short-term benefits of MEUR 17 (2016: MEUR 20) comprising salaries, bonuses and non-monetary benefits.

The members of the Board of Directors of the Company and key management of its subsidiaries are considered as the key management of the Group.

The Group pays for consultancy and management services under a consultancy service agreement concluded in 2013 between the Group and an entity controlled by one of the members of its Board of Directors. Consultancy fees incurred by the Group in 2017 in relation to this agreement amounted to MEUR 8 (2016: MEUR 9). Other expenses incurred on behalf of this related party were MEUR 3 (2016: MEUR 2). All these amounts are recorded under general administrative expenses, while the related liability of MEUR 2 as at 31 December 2017 (31 December 2016: MEUR 3) is reported under other liabilities.

As at 31 December 2017 the balances due from holding companies included secured loans of MEUR 72 (31 December 2016: MEUR 83) provided by the Group to a company controlled by one of the members of its Board of Directors. The weighted average interest rate is 5.74% (31 December 2016: 6.95%) and the repayment date of those loans is 30 June 2019.

As at 31 December 2017 the Company had outstanding loan commitments of nil (31 December 2016: MEUR 9) with other related parties.

43. Workforce

In 2017 the average number of the Group’s employees was 142,650 (2016: 90,958 employees), of which four employees were employed in the Netherlands (2016: two employees).

44. Subsequent events

The Group has evaluated the period after the balance sheet date up through March 7, 2018, which is the date that the consolidated financial statements were issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the consolidated financial statements.

Company Financial Statements
for the year ended 31 December 2017

	Note	2017 MEUR	2016 MEUR
ASSETS			
Cash and cash equivalents	5	144	3
Time deposits with banks	6	11	27
Loans provided	7	69	79
Financial assets at fair value through profit or loss	8	9	3
Financial assets available for sale	9	-	12
Investments in subsidiaries	10	2,834	2,108
Other assets	11	4	68
Total assets		**3,071**	**2,300**
LIABILITIES			
Debt securities issued	12	120	36
Financial liabilities at fair value through profit or loss	13	315	1
Loans received and other liabilities	14	744	768
Total liabilities		**1,179**	**805**
EQUITY			
Share capital	15	659	659
Share premium	15	913	480
Other reserves	15	320	356
Total equity		**1,892**	**1,495**
Total liabilities and equity		**3,071**	**2,300**

	Note	2017 MEUR	2016 MEUR
Continuing operations:			
Interest income	17	5	7
Interest expense	17	(54)	(40)
Net interest expense		**(49)**	**(33)**
Dividend income	18	118	148
Fee income	19	7	10
Net foreign exchange result		2	(2)
Operating income		**78**	**123**
Net loss on revaluation of financial liabilities	13	(17)	-
Net loss on sale of subsidiary	10	(77)	-
Impairment losses	20	4	(46)
General administrative expenses	21	(20)	(13)
Operating expenses		**(110)**	**(59)**
(Loss)/profit before tax		**(32)**	**64**
Income tax expense	22	(4)	(2)
Net (loss)/profit for the year		**(36)**	**62**
Other comprehensive income for the year		**-**	**-**
Total comprehensive (expense)/income for the year		**(36)**	**62**

	Share capital MEUR	Share premium MEUR	Other reserves MEUR	Total equity MEUR
Balance as at 1 January 2017	659	480	356	1,495
Share premium increase	-	433	-	433
Loss for the year	-	-	(36)	(36)
Total changes	**-**	**433**	**(36)**	**397**
Balance as at 31 December 2017	**659**	**913**	**320**	**1,892**

	Share capital MEUR	Share premium MEUR	Other reserves MEUR	Total equity MEUR
Balance as at 1 January 2016	659	480	294	1,433
Profit for the year	-	-	62	62
Total changes	**-**	**-**	**62**	**62**
Balance as at 31 December 2016	**659**	**480**	**356**	**1,495**

	Note	2017 MEUR	2016 MEUR
Operating activities			
(Loss)/profit before tax		(32)	64
Adjustments for:			
Interest income and expense	17	49	33
Dividend income	18	(118)	(148)
Impairment losses	20	(4)	46
Net loss on revaluation of financial liabilities		17	-
Net loss on sale of subsidiary		77	-
Income/(expenses) not involving movements of cash		7	(15)
Net operating cash flow before changes in working capital		**(4)**	**(20)**
Change in time deposits with banks		14	(6)
Change in loans provided		2	6
Change in other assets		(7)	-
Change in other liabilities		(1)	3
Cash flows from/(used in) the operations		**4**	**(17)**
Interest paid		(61)	(34)
Interest received		6	7
Income tax paid		(4)	(2)
Cash flows used in operating activities		**(55)**	**(46)**
Investing activities			
Proceeds from available-for-sale assets		12	10
Acquisition of available-for-sale assets		-	(11)
Investments into subsidiaries		(972)	(378)
Proceeds from investments in subsidiaries		173	-
Dividends received		183	83
Cash flows used in investing activities		**(604)**	**(296)**
Financing activities			
Proceeds from the issue of share capital and other capital contributions		433	-
Proceeds from the issue of debt securities		74	14
Repayment of debt securities issued		-	(148)
Proceeds from due to banks and other counterparties		1,449	897
Repayments of due to banks and other counterparties		(1,156)	(420)
Cash flows from financing activities		**800**	**343**
Net increase in cash and cash equivalents		141	1
Cash and cash equivalents at 1 January	5	3	2
Effects of exchange rate changes on cash and cash equivalents		-	-
Cash and cash equivalents at 31 December	5	**144**	**3**

1. Description of the Company

Principal activities

The Company is a direct owner of consumer finance companies ("the Group") operating in the Central Europe, CIS, Asia and United States of America. The principal activities of the Company are the holding of equity stakes in these companies and financing these companies both from the market and from the parent company and related parties.

For other description of the Company see Note 1 of Notes to the Consolidated Financial Statements for the year ended 31 December 2017.

2. Basis of preparation

The financial statements for the year ended 31 December 2017 have been prepared on an unconsolidated basis. Subsidiaries are presented on a cost-less-impairment basis.

The basis of preparation are as described in Note 2 of Notes to Consolidated Financial Statements for the year ended 31 December 2017.

Presentation and functional currency

These financial statements are presented in Euro (EUR), which is the Company's functional currency and reporting currency. Financial information presented in EUR has been rounded to the nearest million (MEUR).

3. Significant accounting policies

Investments in subsidiaries

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

Other significant accounting policies are as described in Note 3 of Notes to Consolidated Financial Statements for the year ended 31 December 2017.

4. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Group Asset and Liability Committee (ALCO) and the Group Risk Department, which are responsible for developing and monitoring risk management policies in their specified areas. Both bodies report regularly to the Board of Directors on their activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment.

(a) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation. The majority of the Company's exposure to credit risk arises in connection with guarantees issued and with the provision of loans to related parties. The remaining part of the Company's exposures to credit risk is related to financial assets available for sale, due from banks and other financial institutions and certain other assets. The loans provided by the Company to controlling entities and to subsidiaries are unsecured, other loans provided are secured.

The carrying amount of financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk by providing loans and guarantees only to related parties, investing to debt securities issued by related parties and placing funds with reputable financial institutions.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities.

The Company'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 without incurring unacceptable losses or risking damage to the Company's reputation. The liquidity position is continuously monitored. All liquidity policies and procedures as well as liquidity position projections are subject to review and approval by the Group ALCO.

The Company's liquidity position as at 31 December 2017 shows liquidity gaps, which the Company will face in 2017. The Company plans refinancing the maturing loans through a diverse funding base to which the Company has access. The Company raises funds both on the market and through related parties. The shareholder's support enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

4. Financial risk management (continued)

Exposure to liquidity risk

The following table shows assets and liabilities by remaining contractual maturity dates. The table does not include prospective cash flows related to loan commitments. Refer to Note 23 for outstanding loan commitments that may impact liquidity requirements.

MEUR	2017 Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total	2016 Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Cash and cash equivalents	144	-	-	-	-	144	3	-	-	-	-	3
Time deposits with banks	-	-	7	-	4	11	9	14	-	-	4	27
Loans provided	12	14	39	-	4	69	7	12	49	11	-	79
Financial assets at fair value through profit or loss	5	1	3	-	-	9	3	-	-	-	-	3
Financial assets available for sale	-	-	-	-	-	-	-	-	-	12	-	12
Investments in subsidiaries	-	-	-	-	2,834	2,834	-	-	-	-	2,108	2,108
Other assets	4	-	-	-	-	4	68	-	-	-	-	68
Total assets	**165**	**15**	**49**	**-**	**2,842**	**3,071**	**90**	**26**	**49**	**23**	**2,112**	**2,300**
Debt securities issued	25	-	95	-	-	120	-	-	36	-	-	36
Financial liabilities at fair value through profit or loss	1	1	-	-	313	315	1	-	-	-	-	1
Loans received and other liabilities	54	-	690	-	-	744	364	299	105	-	-	768
Total liabilities	**80**	**1**	**785**	**-**	**313**	**1,179**	**365**	**299**	**141**	**-**	**-**	**805**
Net position	**85**	**14**	**(736)**	**-**	**2,529**	**1,892**	**(275)**	**(273)**	**(92)**	**23**	**2,112**	**1,495**

4. Financial risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The majority of the Company's exposure to market risk arises in connection with the funding of the Company's operations with liabilities denominated in foreign currencies, and to the extent the term structure of interest bearing assets differs from that of liabilities.

Exposure to interest rate risk
The principal risk to which the Company is exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. Given the structure of the Company's statement of comprehensive income with the main source of income being dividends received, which are considerably more significant than interest expenses, the Company is able to tolerate significant interest rate gaps. The Group ALCO is the monitoring body for compliance with these limits.

Exposure to foreign currency risk
The Company has assets and liabilities denominated in several foreign currencies. 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. Foreign currency risk is managed principally through monitoring foreign currency mismatches in the structure of assets and liabilities and using foreign currency derivatives (refer to Note 4 and Note 13). The Group ALCO is the monitoring body for this risk.

4. Financial risk management (continued)

Interest rate gap position

MEUR				2017			
	Effective interest rate	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Non specified**	**Total**
Interest bearing financial assets							
Cash and cash equivalents	0.1%	144	-	-	-	-	144
Time deposits with banks	(0.3%)	-	-	7	-	4	11
Loans provided	5.5%	12	53	-	-	4	69
Total interest bearing financial assets		**156**	**53**	**7**	**-**	**8**	**224**
Interest bearing financial liabilities							
Debt securities issued	4.4%	25	-	95	-	-	120
Loans received and other liabilities	4.4%	700	-	44	-	-	744
Total interest bearing financial liabilities		**725**	**-**	**139**	**-**	**-**	**864**

4. Financial risk management (continued)

Interest rate gap position

MEUR	2016						
	Effective interest rate	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Non specified**	**Total**
Interest bearing financial assets							
Cash and cash equivalents	0.1%	3	-	-	-	-	3
Time deposits with banks	0.4%	17	6	-	-	4	27
Loans provided	8.1%	7	12	49	11	-	79
Financial assets available for sale	6.0%	-	-	-	12	-	12
Total interest bearing financial assets		**27**	**18**	**49**	**23**	**4**	**121**
Interest bearing financial liabilities							
Debt securities issued	5.7%	-	-	36	-	-	36
Loans received and other liabilities	6.2%	734	-	34	-	-	768
Total interest bearing financial liabilities		**734**	**-**	**70**	**-**	**-**	**804**

4. Financial risk management (continued)

Foreign currency position

MEUR	2017						
	RUB	**CZK**	**EUR**	**USD**	**CNY**	**Other currencies**	**Total**
Cash and cash equivalents	-	-	137	7	-	-	144
Time deposits with banks	-	4	7	-	-	-	11
Loans provided	-	11	58	-	-	-	69
Financial assets at fair value through profit or loss	-	-	9	-	-	-	9
Investments in subsidiaries	-	-	2,834	-	-	-	2,834
Other assets	-	-	4	-	-	-	4
Total assets	**-**	**15**	**3,049**	**7**	**-**	**-**	**3,071**
Debt securities issued	-	113	7	-	-	-	120
Financial liabilities at fair value through profit or loss	-	-	2	-	313	-	315
Loans received and other liabilities	14	30	695	4	-	1	744
Total liabilities	**14**	**143**	**704**	**4**	**313**	**1**	**1,179**
Effect of foreign currency derivatives	15	126	(435)	(2)	296	-	-
Net position	**1**	**(2)**	**1,910**	**1**	**(17)**	**(1)**	**1,892**

4. Financial risk management (continued)

Foreign currency position

MEUR	2016						
	RUB	**CZK**	**EUR**	**USD**	**CNY**	**Other currencies**	**Total**
Cash and cash equivalents	-	-	3	-	-	-	3
Time deposits with banks	-	4	7	16	-	-	27
Loans provided	7	2	18	52	-	-	79
Financial assets at fair value through profit or loss	-	-	3	-	-	-	3
Financial assets available for sale	-	12	-	-	-	-	12
Investments in subsidiaries	-	-	2,108	-	-	-	2,108
Other assets	-	-	68	-	-	-	68
Total assets	**7**	**18**	**2,207**	**68**	**-**	**-**	**2,300**
Debt securities issued	-	29	7	-	-	-	36
Financial liabilities at fair value through profit or loss	-	-	1	-	-	-	1
Loans received and other liabilities	-	34	661	73	-	-	768
Total liabilities	**-**	**63**	**669**	**73**	**-**	**-**	**805**
Effect of foreign currency derivatives	(6)	45	(42)	3	-	-	-
Net position	**1**	**-**	**1,496**	**(2)**	**-**	**-**	**1,495**

4. Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, 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.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company'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 is assigned to senior management of the Company. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization 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.

(e) Capital management

The Company considers share capital, share premium and capital reserves as a part of the capital. The Company's policy is to maintain the capital base adequate to its investments in subsidiaries so as to maintain investor, creditor and market confidence, sustain future development of the business and meet the capital requirements related to its funding operations. There are no regulatory capital requirements for the Company.

4. Financial risk management (continued)

(f) Fair values of financial instruments

The Company has performed an assessment of fair values of its financial instruments, as required by IFRS 7, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Fair values of the following financial instruments differ from their carrying amounts shown in the statement of financial position:

	Note	Carrying amount 2017 MEUR	Fair value 2017 MEUR	Carrying amount 2016 MEUR	Fair value 2016 MEUR
Debt securities issued	12	120	125	36	35

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices (Level 1) or 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):

2017	Level 1 MEUR	Level 2 MEUR	Level 3 MEUR	Total MEUR
Financial assets at fair value through profit or loss	-	9	-	9
Financial liabilities at fair value through profit or loss	-	(2)	(313)	(315)
	-	**7**	**(313)**	**(306)**

2016	Level 1 MEUR	Level 2 MEUR	Level 3 MEUR	Total MEUR
Financial assets available for sale	-	12	-	12
Financial assets at fair value through profit or loss	-	3	-	3
Financial liabilities at fair value through profit or loss	-	(1)	-	(1)
	-	**14**	**-**	**14**

There were no transfers between Level 1, 2 and 3 during 2016 or 2017.

The financial instruments that are classified at Level 2 are interest rate swaps, forwards and cross currency interest rate swaps. The financial instrument classified at Level 3 is a loan from a subsidiary.

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, PAG through one of its investment funds has made an investment to the Group, in a form of a long term loan provided to the Group’s subsidiary Favour Ocean Limited. This subsidiary subsequently granted a loan in the same amount to Home Credit B.V. 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, especially dividend discount model. Majority of inputs to this model are not observable from the market.

5. Cash and cash equivalents

	2017 MEUR	2016 MEUR
Current accounts with related parties	133	3
Other current accounts	11	-
	144	**3**

6. Time deposits with banks

	2017 MEUR	2016 MEUR
Cash collateral for syndicated loan interest payments	7	7
Cash collateral for foreign exchange derivative contracts	4	4
Deposit held with external banks as cash collateral for bank loans provided to a related party	-	16
	11	**27**

7. Loans provided

	2017 MEUR	2016 MEUR
Loans to subsidiaries	26	28
Other loans provided	43	44
Loans to controlling entities	-	7
	69	**79**

The loans provided by the Company are unsecured.

8. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent positive fair values of derivative instruments.

As at 31 December 2017 the following derivative contracts were outstanding:

Contract type	Sell/Buy	Maturity	Notional amount (in million of purchased currency)	Fair value MEUR
Foreign currency forward contracts				
	EUR/CZK	1 to 3 months	8	1
	EUR/CZK	3 months to 1 year	4	-
Foreign currency swap contracts				
	EUR/CZK	1 to 3 months	17	1
	EUR/CNY	1 to 3 months	294	3
	CZK/EUR	1 to 3 months	5	-
	USD/EUR	1 to 3 months	45	-
	USD/EUR	3 months to 1 year	<1	-
	EUR/CZK	3 months to 1 year	25	1
Cross currency interest rate swap				
	EUR/CZK	more than 1 year	74	3
				9

As at 31 December 2016 the following derivative contracts were outstanding:

Contract type	Sell/Buy	Maturity	Notional amount (in thousands of purchased currency)	Fair value MEUR
Foreign currency forward contracts				
	USD/EUR	less than 1 month	69	1
	EUR/CZK	more than 1 year	4	-
Foreign currency swap contracts				
	EUR/USD	less than 1 month	72	2
	USD/EUR	3 months to 1 year	2	-
	EUR/CZK	more than 1 year	33	-
				3

9. Financial assets available-for-sale

	2017 MEUR	2016 MEUR
Debt securities issued by a related party	-	12
	-	**12**

10. Investments in subsidiaries

Subsidiary	Country of incorporation	Share in issued capital 2017 %	Share in issued capital 2016 %	Net cost of investment 2017 MEUR	Net cost of investment 2016 MEUR
Redlione (LLC)	Cyprus	100.00	100.00	18	18
Enadoco Limited	Cyprus	100.00	100.00	1	1
Rhaskos Finance Limited	Cyprus	100.00	100.00	1	1
Septus Holding Limited	Cyprus	100.00	100.00	1	1
Sylander Capital Limited	Cyprus	100.00	100.00	1	1
Talpa Estero Limited	Cyprus	100.00	100.00	1	1
Astavedo Limited	Cyprus	100.00	100.00	<1	<1
Home Credit (JSC) [1)]	Czech Republic	-	100.00	-	233
Home Credit International (JSC)	Czech Republic	100.00	100.00	182	10
HC Insurance Services (LLC)	Czech Republic	100.00	100.00	1	1
Air Bank (JSC)	Czech Republic	100.00	100.00	212	183
Home Credit Consumer Finance Co., Ltd.	China	100.00	100.00	977	490
CF Commercial Consulting (Beijing) Co., Ltd.	China	100.00	100.00	1	1
Favour Ocean Limited [2)]	Hong Kong	100.00	-	128	-
HC Asia B.V. [3)]	Netherlands	100.00	100.00	683	577
Home Credit Lab N.V.	Netherlands	100.00	100.00	14	7
Non-banking Credit and Financial Organization “Home Credit” (OJSC)	Republic of Belarus	99.59	99.59	7	3
Home Credit and Finance Bank (LLC)	Russian Federation	99.99	99.99	454	454
Home Credit Insurance (LLC)	Russian Federation	100.00	100.00	10	10
MCC Kupi ne kopi (LLC)	Russian Federation	100.00	100.00	2	2
Home Credit Slovakia (JSC)	Slovak Republic	100.00	100.00	21	21
LLC Homer Software House [4)]	Ukraine	2.78	2.78	-	-
HOME CREDIT US Holding, LLC	USA	100.00	100.00	49	23
Home Credit Vietnam Finance Company Limited	Vietnam	100.00	100.00	70	70
				2,834	**2,108**

[1)] the company was sold in December 2017
[2)] the company became a subsidiary of Home Credit B.V. in August 2017
[3)] previously HC Asia N.V., the legal form of the company has changed in July 2017
[4)] presented as a subsidiary because of the Company’s indirect share of 97.22% through Redlione (LLC)

In 2017 the Company sold its subsidiary Home Credit (JSC) to its other subsidiary for MEUR 156. This transaction resulted in net loss recorded in amount of MEUR 77.

10. Investments in subsidiaries (continued)

2017	**Cost of investment**	**Impairment**	**Carrying amount**
	MEUR	**MEUR**	**MEUR**
Balance as at 1 January	**2,244**	**(136)**	**2,108**
Investments	972	-	972
Divestments	(250)	-	(250)
Impairment changes	-	4	4
Balance as at 31 December	**2,966**	**(132)**	**2,834**

2016	**Cost of investment**	**Impairment**	**Carrying amount**
	MEUR	**MEUR**	**MEUR**
Balance as at 1 January	**1,867**	**(90)**	**1,777**
Investments	377	-	377
Impairment changes	-	(46)	(46)
Balance as at 31 December	**2,244**	**(136)**	**2,108**

In 2017 the Company released impairment in amount of MEUR 4 on its investment in Non-banking Credit and Financial Organization “Home Credit” (OJSC) as to bring the carrying value of the investment to the subsidiary net asset value translated to EUR.

In 2016 the Company recognised an impairment loss of MEUR 35 on its investment in Home Credit Slovakia (JSC) as a response to declining profitability of the Slovak subsidiary due to changes in the legislation in 2016. The impairment charge was determined so as to bring the carrying value of the investment to the subsidiary to the fair value based on an independent appraisal.

In addition in 2016 the Company recognised an impairment loss of MEUR 11 on its investment in Non-banking Credit and Financial Organization “Home Credit” (OJSC) as a response to declining profitability of the Belarusian subsidiary. The impairment charge was determined so as to bring the carrying value of the investment to the subsidiary net asset value translated to EUR.

11. Other assets

	2017 MEUR	2016 MEUR
Trade receivables	4	3
Dividend receivable	-	65
	4	**68**

Trade receivables balances represent receivables for services provided to related parties.

Dividend receivable represented receivable from HC Asia N.V. for dividend declared in December 2016. The Company received this amount in January 2017.

12. Debt securities issued

	Interest rate	Final maturity	Amount outstanding 2017 MEUR	Amount outstanding 2016 MEUR
CZK promissory note issue of MCZK 650	Zero-coupon	March 2018	25	22
Unsecured CZK bond issue of MCZK 1,998	3.75%	March 2020	81	-
CZK promissory note issue of MCZK 207	Zero-coupon	April 2020	7	7
EUR promissory note issue of MEUR 7.96	Zero-coupon	April 2020	7	7
			120	**36**

All the bonds and promissory notes issued are unsecured.

13. Financial liabilities at fair value through profit or loss

	2017 MEUR	2016 MEUR
Loan from subsidiary	313	-
Negative fair value of trading derivative instruments	2	1
	315	**1**

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, PAG through one of its investment funds has made an investment to the Group, in a form of a long term loan provided to the Group's subsidiary Favour Ocean Limited. This subsidiary subsequently granted a loan in the same amount to Home Credit B.V. The Company decided to measure this loan at fair value through profit or loss.

The fair value of this loan increased in 2017 resulting in recorded loss in amount of MEUR 17.

As at 31 December 2017 the following derivative contracts were outstanding:

Contract type	Sell/Buy	Maturity	Notional amount (in thousands of purchased currency)	Fair value MEUR
Foreign currency forward contracts				
	EUR/RUB	3 months to 1 year	1	-
	EUR/USD	1 to 3 months	39	1
	EUR/CZK	less than 1 month	1	-
Foreign currency swap contracts				
	CZK/EUR	1 to 3 months	<1	-
	CZK/EUR	1 to 3 months	1	-
	EUR/RUB	3 months to 1 year	16	1
	CZK/EUR	3 months to 1 year	4	-
Cross currency interest rate swap				
	EUR/CZK	more than 1 year	4	-
				2

As at 31 December 2016 the following derivative contracts were outstanding:

Contract type	Sell/Buy	Maturity	Notional amount (in thousands of purchased currency)	Fair value MEUR
Foreign currency forward contracts				
	EUR/CZK	less than 1 month	1	-
	EUR/CZK	more than 1 year	3	-
Foreign currency swap contracts				
	CZK/EUR	less than 1 month	12	-
	EUR/CZK	less than 1 month	6	-
	EUR/CZK	1 to 3 months	7	-
	RUB/EUR	1 to 3 months	6	1
	EUR/CZK	more than 1 year	2	-
				1

14. Loans received and other liabilities

	2017 MEUR	2016 MEUR
Loans received	740	762
Settlement with suppliers	4	4
Other accounts payable	-	2
	744	**768**

Loans received

	Interest Rate	Currency	Maturity	Amount outstanding 2017 MEUR	2016 MEUR
Loan from controlling party	Fixed	EUR	January 2017	-	79
Loan from parent company	Variable	EUR	January 2017	-	279
Syndicated loan	Variable	EUR	September 2017	-	299
Loan from subsidiary	Fixed	CZK	January 2017	-	7
Loan from subsidiary	Variable	USD	June 2017	-	72
Loan from parent company	Variable	EUR	February 2018	50	-
Loan from subsidiary	Fixed	RUB	September 2018	15	-
Syndicated loan	Variable	EUR	June 2019	646	-
Loan from other related party	Fixed	CZK	January 2020	29	26
				740	**762**

All loans are unsecured. There were no breaches of loan covenants in 2016 and 2017.

15. Equity

Share capital

As at 31 December 2017 the Company's share capital comprised 1,250,000,000 (2016: 1,250,000,000) ordinary shares at a par value of EUR 0.57 (2016: EUR 0.57), of which 1,156,174,806 (2016: 1,156,174,806) shares were issued and fully paid. All issued shares bear equal voting rights. The holders of the shares are entitled to receive distributions of profits and reserves when declared by the general meeting of the Company. No distributions can be made if the total amount of the reserves to be maintained pursuant to the law or the articles of association exceeds the Company's equity and the management board has not given its approval to such distribution.

Share premium

In August and November 2017 the Company's shareholders contributed to the Company's share premium in total amount of MEUR 433.

15. Equity (continued)

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 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 280 (2016: MEUR 148).

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

	Share capital MEUR	Share premium MEUR	Statutory reserve fund MEUR	Foreign currency translation MEUR	Revaluation reserve MEUR	Reserve for business combinations under common control MEUR	Other reserves MEUR	Total equity attributable to equity holders of the Company MEUR
Individual balance as at 31 December 2017	**659**	**913**	**-**	**-**	**-**	**-**	**320**	**1,892**
Adjustment for:								
Impairment of subsidiaries, current year	-	-	-	-	-	-	(4)	(4)
Impairment of subsidiaries, prior years	-	-	-	-	-	-	136	136
Dividend income	-	-	-	-	-	-	(118)	(118)
Net result of subsidiaries in 2017	-	-	-	-	-	-	398	398
Reserves related to subsidiaries	-	-	82	(649)	(1)	(91)	368	(291)
Consolidated balance as at 31 December 2017	**659**	**913**	**82**	**(649)**	**(1)**	**(91)**	**1,100**	**2,013**

15. Equity (continued)

	Share capital MEUR	Share premium MEUR	Statutory reserve fund MEUR	Foreign currency translation MEUR	Revaluation reserve MEUR	Reserve for business combinations under common control MEUR	Other reserves MEUR	Total equity attributable to equity holders of the Company MEUR
Individual balance as at 31 December 2016	**659**	**480**	**-**	**-**	**-**	**-**	**356**	**1,495**
Adjustment for:								
Impairment of subsidiaries, current year	-	-	-	-	-	-	46	46
Impairment of subsidiaries, prior years	-	-	-	-	-	-	90	90
Dividend income	-	-	-	-	-	-	(148)	(148)
Net result of subsidiaries in 2016	-	-	-	-	-	-	296	296
Reserves related to subsidiaries	-	-	58	(506)	22	(91)	233	(284)
Consolidated balance as at 31 December 2016	**659**	**480**	**58**	**(506)**	**22**	**(91)**	**873**	**1,495**

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

	Liabilities			Equity		Total
	Debt securities issued	FVTPL [1]	Loans received [2]	Share capital	Share premium	
	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR
Balance as at 1 January 2017	36	1	768	659	480	1,944
Changes from financing cash flows						
Proceeds from share premium increase	-	-	-	-	433	433
Proceeds from the issue of debt securities	74	-	-	-	-	74
Proceeds from due to banks and other counterparties	-	295	1,154	-	-	1,449
Repayment of debt securities	-	-	-	-	-	-
Repayment of due to banks and other counterparties	-	-	(1,156)	-	-	(1,156)
Total changes from financing cash flows	74	295	(2)	-	433	800
The effect of changes in fair value	-	17	-	-	-	17
Other changes						
Interest expense	4	-	50	-	-	54
Interest paid	-	-	(61)	-	-	(61)
Change in Other liabilities	-	-	(1)	-	-	(1)
Effect of changes in FX rates	6	2	(10)	-	-	(2)
Total Other changes	10	2	(22)	-	-	(10)
Balance as at 31 December 2017	**120**	**315**	**744**	**659**	**913**	**2,751**

[1] Financial liabilities at fair value through profit or loss
[2] Loans received and other liabilities

17. Interest income and interest expense

	2017 MEUR	2016 MEUR
Interest income		
Other related parties	3	3
Subsidiaries	2	1
Controlling entities	-	3
	5	**7**
Interest expense		
Loans received	50	34
Debt securities issued	4	6
	54	**40**

18. Dividend income

Subsidiary	2017 MEUR	2016 MEUR
Home Credit and Finance Bank (LLC)	79	34
Home Credit Vietnam Finance Company Limited	25	15
Home Credit (JSC)	7	18
Home Credit Insurance (LLC)	6	8
Other entities	1	4
HC Asia B.V.	-	65
Home Credit Slovakia (JSC)	-	4
	118	**148**

19. Fee income

	2017 MEUR	2016 MEUR
Fees for services provided	5	8
Guarantee fees	2	2
	7	**10**

20. Impairment losses

In 2017 the Company released impairment of MEUR 4 recognized on its equity investment in Non-banking Credit and Financial Organization "Home Credit" (OJSC) (previously Home Credit Bank (OJSC).

In 2016 the Company recognized impairment losses of MEUR 35 on its equity investment in Home Credit Slovakia (JSC). In the same period the Company recognized impairment losses of MEUR 11 on its equity investment in Non-banking Credit and Financial Organization "Home Credit" (OJSC) (previously Home Credit Bank (OJSC).

21. General administrative expenses

	2017 MEUR	2016 MEUR
Professional services	17	11
Travel expenses	3	2
	20	**13**

22. Taxation

Income tax expense of MEUR 4 (2016: MEUR 2) represented withholding tax from dividends received which was paid in the subsidiary's jurisdiction and withholding tax from interest received.

As at 31 December 2017 the Company incurred accumulated tax losses of MEUR 211 (31 December 2016: MEUR 157) available to be carried forward and off-set against future taxable income. The unutilized tax losses expire in the period from 2018 to 2026.

There is no expectation of sufficient taxable income, as dividends received are tax exempt in the Netherlands. Therefore, no income tax is accounted for in the profit and loss account apart from withholding taxes, and no deferred tax asset is recorded. The amount of unrecognized deferred tax asset as at 31 December 2017 is MEUR 53 (31 December 2016: MEUR 39)

	2017	**2016**
Year of expiration	**MEUR**	**MEUR**
2017	-	-
2018	15	15
2019	11	11
2020	21	21
2021	18	18
2022	14	14
2023	15	15
2024	26	26
2025	37	37
2026	54	-
Total	**211**	**157**

Reconciliation of effective tax rate	**2017 MEUR**	**2016 MEUR**
Profit/(loss) before tax	**(32)**	**64**
Income tax using the domestic tax rate of 25%	8	(16)
Non-deductible costs	(25)	(12)
Withholding tax	(4)	(2)
Non-taxable income	30	37
Tax losses not recognized	(13)	(9)
Total income tax expense	**(4)**	**(2)**

23. Commitments and guarantees

As at 31 December 2017 the Company had outstanding commitments to extend credit of MEUR 8 (31 December 2016: MEUR 19).

As at 31 December 2017 the Company had outstanding guarantees of MEUR 451 (31 December 2016: MEUR 127) issued by the Company in favour of financing entities for loans drawn by related parties.

24. Related party transactions

The Company has a related party relationship with its parent company PPF Financial Holdings B.V., with entities exercising control over the parent company, their subsidiaries, the Company's key management personnel and other related parties. Related party transactions are executed on an arm's length basis. Related party transactions arise primarily from funding and treasury transactions.

(a) Transactions with the parent company and entities exercising control over the parent company

Balances included in the statement of financial position in relation to transactions with the parent company and entities exercising control over the parent company are as follows:

	2017 **MEUR**	**2016** **MEUR**
Loans provided	-	7
Loans received and other liabilities	(50)	(358)
	(50)	**(351)**

Amounts included in the statement of comprehensive income in relation to transactions with the parent company and entities exercising control over the parent company are as follows:

	2017 **MEUR**	**2016** **MEUR**
Interest income	-	3
Interest expense	(18)	(10)
	(18)	**(7)**

24. Related party transactions (continued)

(b) Transactions with subsidiaries and fellow subsidiaries

Balances included in the statement of financial position in relation to transactions with subsidiaries and fellow subsidiaries are as follows:

	2017 MEUR	2016 MEUR
Cash and cash equivalents	133	3
Time deposits with banks	4	4
Loans provided	31	28
Financial assets at fair value through profit or loss	9	3
Financial assets available for sale	-	12
Other assets	2	68
Debt securities issued	(40)	(36)
Financial liabilities at fair value through profit or loss	(315)	(1)
Loans received and other liabilities	(44)	(134)
	(220)	**(53)**

Amounts included in the statement of comprehensive income in relation to transactions with subsidiaries and fellow subsidiaries are as follows:

	2017 MEUR	2016 MEUR
Interest income	2	1
Interest expense	(10)	(14)
Dividend income	118	148
Fee income	7	10
Net foreign exchange result	7	(2)
Net loss on revaluation of financial liabilities	(17)	-
Net loss on sale of subsidiary (see Note 10)	(77)	-
General administrative expenses	(1)	(1)
	29	**142**

As at 31 December 2017 the Company had outstanding guarantees of MEUR 451 (31 December 2016: MEUR 127) issued by the Company in favour of financing entities for loans drawn by related parties.

As at 31 December 2017 the Company had outstanding loan commitments of MEUR 8 (31 December 2016: MEUR 9) with its subsidiaries.

24. Related party transactions (continued)

(c) Transactions with other related parties

As at 31 December 2017 the balance of Loans provided included unsecured loan of MEUR 38 (31 December 2016: secured loan of MEUR 44) provided by the Company to a company controlled by one of the members of its Board of Directors. The interest rate is 5.74% (31 December 2016: 6.94%) and the repayment date of this loan is 30 June 2019.

As at 31 December 2017 the Company had no outstanding loan commitments (31 December 2016: MEUR 9) with other related parties.

(d) Transactions with key management personnel

The members of the Board of Directors of the Company are considered to be the Company's key management.

Salaries and bonuses of the key management are included in the Company statement of comprehensive income, the amounts for years 2017 and 2016 were lower than MEUR 1.

Total remuneration paid to members of the Company's Board of Directors by the Company and all its subsidiaries was MEUR 3 (2016: MEUR 1).

The Company pays for consultancy and management services under a consultancy service agreement concluded in 2013 between the Company and an entity controlled by one of the members of its Board of Directors. Consultancy fees incurred by the Company in 2017 in relation to this agreement amounted to MEUR 8 (2016: MEUR 9). Other expenses incurred on behalf of this related party were MEUR 3 (2016: MEUR 2). All these amounts are recorded under general administrative expenses, while the related liability of MEUR 2 as at 31 December 2017 (31 December 2016: MEUR 3) is reported under loans received and other liabilities.

25. Audit expenses

The Company and its subsidiaries incurred expenses for the following services provided by KPMG Accountants N.V. and its affiliates:

2017	**KPMG Accountants N.V.**	**Other KPMG network**	**Total**
	TEUR	**TEUR**	**TEUR**
Audit of financial statements	239	1,023	**1,262**
Other audit engagements	119	251	**370**
Tax advisory	-	606	**606**
Other non-audit services	-	14	**14**
Total	**358**	**1,894**	**2,252**

2016	**KPMG Accountants N.V.**	**Other KPMG network**	**Total**
	TEUR	**TEUR**	**TEUR**
Audit of financial statements	229	953	**1,182**
Other audit engagements	123	131	**254**
Tax advisory	-	139	**139**
Other non-audit services	-	108	**108**
Total	**352**	**1,331**	**1,683**

The other audit engagements represent half-year review of financial statements and agreed upon procedures engagements regarding Group companies' financial information.

26. Segment information

The Company represents one reportable segment that has central management and follows a common business strategy. All the revenues are attributed to the Company's country of domicile.

27. Subsequent events

In January, February and March 2018 the Company increased share premium in HC Asia B.V. by MEUR 8.

In January and February 2018 the Company increased share capital in Home Credit Lab N.V. by MEUR 4 equivalent.

In January 2018 the Company subscribed a new share in Air Bank (JSC) in amount of MEUR 12 equivalent.

In January 2018 the Company contributed to equity in Home Credit International (JSC) in amount of MEUR 5 equivalent.

The Consolidated Financial Statements as set out on pages 8 to 84 and the Company Financial Statements as set out on pages 86 to 116 were approved by the Board of Directors on 7 March 2018.

Jiří Šmejc
Chairman of the Board of Directors

Jan Cornelis Jansen
Vice-Chairman of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Christoph Glaser
Member of the Board of Directors

Mel Gerard Carvill
Member of the Board of Directors

Marcel Marinus van Santen
Member of the Board of Directors

Paulus Aloysius de Reijke
Member of the Board of Directors

Jean-Pascal Duvieusart
Member of the Board of Directors

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 1.

3. Auditor's report

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

Independent auditor's report

To: the General Meeting of shareholders and the Board of Directors of Home Credit B.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Home Credit B.V. as at 31 December 2017 and of its result and its cash flows for the year then ended 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.

What we have audited

We have audited the financial statements 2017 of Home Credit B.V. (the Company) based in Amsterdam, the Netherlands.

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 Statements of Comprehensive income, the Statement of Changes in equity and the Statement of 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 Home Credit B.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

MATERIALITY
- Materiality of EUR 45 million
- 3 % of equity

GROUP AUDIT - coverage of our audit procedures
- 99% of Group assets
- 100% of Group net revenues

KEY AUDIT MATTERS
- Valuation of loan portfolio

UNQUALIFIED OPINION

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 45 million (2016: EUR 40 million). The materiality is determined with reference to equity of the Group (3%; in 2016 the materiality was determined based on total assets – the percentage applied was 0.3%). We consider Group Equity as the most appropriate benchmark as Group equity better matches with the limited number of involved shareholders and various funding stakeholders, and is also a key metric applied in the (regulated) banking industry. Due to the significant growth of the loan business, we considered the total assets not as an appropriate benchmark anymore, as it results in an inappropriately high materiality. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee and Board of Directors that misstatements in excess of EUR 2.5 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds**.**

Scope of the group audit

Home Credit B.V. is at the head of a group of components. The financial information of this group is included in the consolidated financial statements of Home Credit B.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group components. We have selected group components with meaningful operating activities for which an audit had to be carried out on the complete set of financial information or specific items. This resulted in coverage of (almost) 100% of total Group net revenues and approximately 99% of total Group assets. The Chinese and Russian operations of the Group contribute almost 80% of the interest revenues of the total Group.

We have:

- performed audit procedures ourselves at group entity Home Credit B.V.;
- made use of the work of other auditors for the audit of the in scope components;
- performed review procedures or specific audit procedures at the remaining other components.

The group audit team provided instructions to component auditors, covering the significant audit areas, including the relevant risk of material misstatement and set out the information required to be reported back to the group audit team.

The group audit team has also organised conference calls with auditors of all significant and selected non-significant components and has visited auditors and management of selected significant and non-significant components. During those calls and visits the findings and observations as reported by component auditors were discussed in more detail. Furthermore we have also performed reviews of audit files of Home Credit China, Home Credit Russia and Air Bank a.s.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the Audit Committee and Board of Directors. The key audit matter is not a comprehensive reflection of all matters discussed.

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of loan portfolio

Description

Home Credit provides loans to retail customers through the use of various distribution channels, among other things, point of sales spread out in the countries where it operates. The loan approval process works with score cards and extensive credit risk statistics based on previous experiences. The credit risk models are extensively tested before they are used at a wider scale. Next to automatic, model based, loan approvals also a portion of the loan applications are approved by senior loan officers.

The identification and measurement of loan loss impairments is an important procedure for the determination of the value of the loan portfolio. A number of aspects of the accounting for loan loss impairments require judgment, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment and the assessment of the recoverable amount. The use of different estimates and assumptions, such as probability of default rates, collection estimates, and changes of the economic conditions could significantly affect the carrying amount of loans and receivables and the related impairment losses recognised.

The loan loss impairment is almost exclusively based on a collective approach, where the main trigger for the calculation is the number of days of overdue (interest or principal) receivables.

Our response

For our audit of loan loss impairments, we have validated the sufficiency of the credit risk models for its purpose, challenged and tested the assumptions (for example use of historical data) made and the data used by the group components to measure loan loss impairments. We have tested controls for securing the correct overdue dates of loans in the systems. We rely on certain tested IT application controls which secure proper credit loss statistics and resulting calculations needed to substantiate the main provision parameters. The main assumption tested were the probability of default and recovery rates. For that purpose, we have involved information risk and financial risk management specialists in our audit team.

Our observation

Based on our procedures performed we assessed the retail loan portfolio to be fairly valued in the context of our audit of the consolidated financial statements as a whole.

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:

- the Directors’ report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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 substantially less than the scope of those performed in our audit of the financial statements.

Board of Directors of the Home Credit B.V. is responsible for the preparation of the other information, including the Director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Board of Directors as auditor of Home Credit B.V. as of the audit for the year 2005 and have operated as statutory auditor since that financial year. The EU requirements for mandatory audit firm rotation are applicable to Home Credit B.V. from 1 January 2017.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest components.

Description of responsibilities regarding the financial statements

Responsibilities of Board of Directors of Home Credit B.V. for the financial statements

The Board of Directors of Home Credit B.V. 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 of Home Credit B.V. 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 fraud or error.

As part of the preparation of the financial statements, the Board of Directors of Home Credit B.V. 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 of the Home Credit B.V. should prepare the financial statements using the going concern basis of accounting unless the Board of Directors of the Home Credit B.V. either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors of Home Credit B.V. 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 Audit Committee 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 engagement 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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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_oob_01. This description forms part of our independent auditor's report.

Amstelveen, 7 March 2018

KPMG Accountants N.V.

M. Frikkee RA