PPF Financial Holdings B.V.

Consolidated special purpose financial statements for the year ended 31 December 2016

Independent auditor's report

To: the Board of Directors of PPF Financial Holding B.V.

Report on the accompanying consolidated special purpose financial statements

Our opinion

We have audited the consolidated special purpose financial statements as at 31 December 2016 of PPF Financial Holding B.V., based in Amsterdam.

In our opinion the accompanying consolidated special purpose financial statements give a true and fair view of the financial position of PPF Financial Holding B.V. as at 31 December 2016, and of its result and its cash flows for the year ended 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS).

The consolidated special purpose financial statements comprise:

1 the statement of financial position as at 31 December 2016;

2 the following statements for the year ended 31 December 2016: the income statement, the statements of comprehensive income, changes in equity and cash flows; and

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

Basis for our opinion

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

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

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

Emphasis of the basis of accounting

We draw attention to note A.3., which describes the special purpose of the consolidated special purpose financial statements and the notes, including the basis of accounting. Our opinion is not modified for this matter.

Description of the responsibilities for the consolidated special purpose financial statements

Responsibilities of management for the consolidated special purpose financial statements

Management is responsible for the preparation and fair presentation of the consolidated special purpose financial statements in accordance with EU-IFRS. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the consolidated special purpose financial statements that are free from material misstatement, whether due to errors or fraud.

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

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

Our responsibilities for the audit of the consolidated special purpose financial statements

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

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

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated special purpose 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.

For a further description of our responsibilities in respect of an audit of financial statements, we refer to the website of the professional body for accountants in the Netherlands (NBA): www.nba.nl/Engels_nietoob_2016

Amstelveen, 18 January 2018

KPMG Accountants N.V.

M. Frikkee, RA

Table of contents

TABLE OF CONTENTS **1**

GLOSSARY OF ABBREVIATIONS **2**

NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL STATEMENTS **9**

A. GENERAL **9**

B. CONSOLIDATED GROUP AND MAIN CHANGES FOR THE PERIOD **12**

C. RISK EXPOSURES, RISK MANAGEMENT OBJECTIVES AND PROCEDURES **15**

D. SEGMENT REPORTING **35**

E. NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL STATEMENTS ... **38**

F. SIGNIFICANT ACCOUNTING POLICIES **60**

G. SUBSEQUENT EVENTS **78**

Glossary of abbreviations

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

Consolidated statement of financial position

As at 31 December*

In millions of EUR

	Note	2016	2015
ASSETS			
Cash and cash equivalents	E1	4,531	2,451
Investment securities	E2	2,685	2,866
Loans and receivables due from banks and other financial institutions	E3	537	482
Loans due from customers	E4	11,047	6,980
Trade and other receivables	E5	82	95
Current tax assets		7	6
Investments in associates	E7	11	2
Property, plant and equipment	E8	162	139
Intangible assets	E9	173	138
Deferred tax assets	E6.2	182	130
Other assets	E10	188	90
TOTAL ASSETS		**19,605**	**13,379**
LIABILITIES			
Financial liabilities at fair value through profit or loss	E2.2	407	290
Due to non-banks	E11	9,066	6,904
Due to banks and other financial institutions	E12	6,243	2,350
Debt securities issued	E13	323	1,038
Subordinated liabilities	E14	315	348
Current tax liabilities		119	49
Trade and other payables	E16	531	506
Provisions	E15	44	48
Deferred tax liabilities	E6.2	18	27
TOTAL LIABILITIES		**17,066**	**11,560**
CONSOLIDATED EQUITY			
Capital issued	E17	-	-
Share premium	E17	2,217	1,873
Other reserves	E18	(687)	(794)
Retained earnings		809	581
Total equity attributable to owners of the Parent		2,339	1,660
Non-controlling interests	E19	200	159
Total consolidated equity		**2,539**	**1,819**
TOTAL LIABILITIES AND EQUITY		**19,605**	**13,379**

* The opening statement of financial position, prepared as at 13 November 2014; the date of transition to IFRS, was not presented due to zero balances as the contribution of businesses to the Group was done in the second half of 2015.

Consolidated income statement

For the year ended 31 December

In millions of EUR

	Note	2016	2015*
Interest income		2,302	1,010
Interest expense		(654)	(313)
Net interest income	E20	**1,648**	**697**
Fee and commission income		522	224
Fee and commission expense		(103)	(52)
Net fee and commission income	E21	**419**	**172**
Net gain on financial assets	E22	(36)	51
Net impairment losses on financial assets	E23	(572)	(287)
Other banking result		**(608)**	**(236)**
NET BANKING INCOME		**1,459**	**633**
Net earned premiums		36	24
Net insurance benefits and claims		(2)	-
Acquisition costs		(12)	(8)
NET INSURANCE INCOME	E24	**22**	**16**
Other income	E25	71	-
OTHER OPERATING INCOME		**71**	**-**
General administrative expenses	E26	(1,058)	(441)
Other operating expenses	E27	(87)	(87)
OPERATING EXPENSES		**(1,145)**	**(528)**
Share of earnings of associates	E7	(4)	1
PROFIT BEFORE TAX		**403**	**122**
Income tax expense	E6.1	(128)	(51)
NET PROFIT FOR THE PERIOD		**275**	**71**
Net profit attributable to non-controlling interests	E19	25	7
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		**250**	**64**

* For the period from 13 November 2014 until 31 December 2015 (refer to A.1).

Consolidated statement of comprehensive income

For the year ended 31 December

In millions of EUR

	2016	2015*
NET PROFIT FOR THE PERIOD	**275**	**71**
Other comprehensive income**		
Valuation gains/(losses) on available-for-sale financial assets	19	3
AFS revaluation (gains)/losses transferred to income statement	(13)	11
Currency translation differences	94	(177)
Cash flow hedge - effective portion of changes in fair value	-	(29)
Cash flow hedge - net amount transferred to profit or loss	(1)	25
Income tax relating to components of other comprehensive income	(1)	(2)
Other comprehensive income/(loss) for the period (net of tax)	**98**	**(169)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**373**	**(98)**
Total comprehensive income attributable to non-controlling interests	35	(15)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT	**338**	**(83)**

* For the period from 13 November 2014 until 31 December 2015 (refer to A.1).
** Items that are or may be reclassified to the income statement.

The consolidated special purpose financial statements were approved by the Board of Directors on 18 January 2018.

Consolidated statement of changes in equity

In millions of EUR, for the year ended 31 December

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

* Capital issued is TEUR 45.

Consolidated statement of changes in equity

In millions of EUR, for the period ended 31 December

	Capital issued*	Share premium	Available-for-sale reserve	Legal and statutory reserves	Translation reserve	Reserve for UCC	Hedging reserve	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
Balance at 13 November 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the period	-	-	-	-	-	-	-	64	64	7	71
Currency translation differences	-	-	-	-	(154)	-	-	-	(154)	(23)	(177)
Valuation gains taken to equity for AFS	-	-	2	-	-	-	-	-	2	1	3
AFS revaluation losses transferred to income statement	-	-	11	-	-	-	-	-	11	-	11
Effect of hedge accounting	-	-	-	-	-	-	(4)	-	(4)	-	(4)
Tax on items taken directly to or transferred from equity	-	-	(3)	-	-	-	1	-	(2)	-	(2)
Total comprehensive income	**-**	**-**	**10**	**-**	**(154)**	**-**	**(3)**	**64**	**(83)**	**(15)**	**(98)**
Net allocation to legal and statutory reserves	-	-	-	7	-	-	-	(7)	-	-	-
Contribution of Home Credit and PPF banka (refer to B.2.2)	-	1,545	28	31	(216)	(504)	7	523	1,414	173	1,587
Share premium increase	-	328	-	-	-	-	-	-	328	-	328
Other changes in NCI	-	-	-	-	-	-	-	1	1	1	2
Total transactions with owners of the Company	**-**	**1,873**	**28**	**38**	**(216)**	**(504)**	**7**	**517**	**1,743**	**174**	**1,917**
Balance at 31 December 2015	**-**	**1,873**	**38**	**38**	**(370)**	**(504)**	**4**	**581**	**1,660**	**159**	**1,819**

* Capital issued is TEUR 45.

Consolidated statement of cash flows

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

In millions of EUR

	2016	2015*
Cash flows from operating activities		
Profit before tax (including discontinued operations)	403	122
Adjustments for:		
Depreciation and amortisation	84	39
Impairment and reversal of impairment of current and non-current assets	572	287
Profit/loss on disposal of PPE, intangible assets and investment property	1	1
Profit/loss on sale of investment securities	73	(3)
Interest expense	654	313
Interest income	(2,302)	(1,010)
Other income/expenses not involving movements of cash	342	1,232
Interest received	2,366	978
Change in loans and receivables due from banks and other financial institutions	(106)	29
Change in loans due from customers	(4,700)	-
Change in trade and other receivables	12	(41)
Change in other assets	(100)	37
Change in liabilities due to non-banks	1,711	(807)
Change in trade and other payables	21	158
Income tax paid	(106)	(27)
Net cash from/(used in) operating activities	**(1,075)**	**1,308**
Cash flows from investing activities		
Purchase of tangible assets and intangible assets	(129)	(52)
Purchase of financial assets at FVTPL	(439)	(10,955)
Proceeds from financial assets at FVTPL	597	10,880
Proceeds from sale of financial assets at FVTPL not held for trading	-	22
Purchase of financial assets at FVTPL not held for trading	(22)	-
Purchase of financial assets held to maturity	(5)	-
Purchase of financial assets available for sale	(1,451)	(915)
Acquisition of subsidiaries and associates, net of cash acquired	(15)	-
Proceeds from disposals of PPE and intangible assets	3	-
Proceeds from financial assets held to maturity	9	-
Proceeds from sale of financial assets available for sale	1,478	946
Net cash from/(used in) investing activities	**26**	**(74)**
Cash flows from financing activities		
Proceeds from the issue of capital	344	328
Proceeds from the issue of debt securities	237	802
Proceeds from loans due to banks and other financial institutions	12,222	9,881
Repayment of debt securities	(979)	(715)
Repayment of loans due to banks and other financial institutions	(8,234)	(8,628)
Interest paid	(695)	(350)
Cash flow from/(used in) financing activities	**2,895**	**1,318**
Net increase in cash and cash equivalents	**1,846**	**2,552**
Cash and cash equivalents as at 1 January	**2,451**	**-**
Effect of exchange rate movements on cash and cash equivalents	234	(101)
Cash and cash equivalents as at 31 December	**4,531**	**2,451**

* For the period from 13 November 2014 until 31 December 2015 (refer to A.1).

NOTES TO THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

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

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

The consolidated special purpose financial statements of the Parent Company for the year ended 31 December 2016 comprise the Parent Company and its subsidiaries (together referred to as “PPF Financial Holdings Group” or the “Group”) and the Group’s interests in associates and affiliated entities. Comparative consolidated income statement covers period from 13 November 2014 until 31 December 2015 however it includes only performance of contributed businesses for the second half of 2015. There were no significant transactions of the Parent until the contribution. Refer to Section B of these financial statements for a listing of significant Group entities in 2016 and 2015.

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

As at 31 December 2016, the shareholder structure was as follows:

PPF Group N.V. - 100%

A.2. Statement of compliance

These consolidated special purpose financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union, including International Accounting Standards (“IASs”), promulgated by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB.

A.3. Basis of preparation

Dutch accounting legislation enables the Group to prepare these consolidated special purpose financial statements in accordance with IFRS (as adopted by the EU). These consolidated special purpose financial statements were not prepared for statutory purposes. The Group did not prepare its consolidated financial statements for the period ended 31 December 2015. These consolidated special purpose financial statements for the year ended 31 December 2016 are the first the Group has prepared in accordance with IFRS-EU. Accordingly, the Group has prepared financial statements that comply with IFRS-EU applicable as at 31 December 2016, together with the comparative period data for the period ended 31 December 2015, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 13 November 2014, the Group's date of transition to IFRS.

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

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

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

A.4. Use of judgements and estimates

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

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

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

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

A.5. Basis of consolidation

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

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

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

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

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

B. Consolidated group and main changes for the period

B.1. Group entities

The following list shows only significant holding and operating entities that are subsidiaries or associates of the Parent Company as of 31 December 2016 and 2015.

Company	Domicile	Effective proportion of ownership interest 2016	Effective proportion of ownership interest 2015
PPF Financial Holdings B.V.	Netherlands	Parent Company	Parent Company
Home Credit subgroup -subsidiaries			
Home Credit B.V.	Netherlands	88.62%	88.62%
AB 2 B.V.	Netherlands	88.62%	88.62%
AB 4 B.V.	Netherlands	88.62%	88.62%
AB 7 B.V.	Netherlands	88.62%	88.62%
Air Bank a.s.	Czech Republic	88.62%	88.62%
Asnova Insurance CJSIC *(renamed)*	Belarus	88.62%	88.62%
Bank Home Credit SB JSC	Kazakhstan	88.62%	88.62%
CF Commercial Consulting (Beijing) Co., Ltd.	China	88.62%	88.62%
Favour Ocean Ltd.	Hong Kong	88.62%	88.62%
Guangdong Home Credit Number Two Information Consulting Co., Ltd. *(renamed)*	China	88.62%	88.62%
HC Consumer Finance Philippines, Inc.	Philippines	87.99%	87.32%
Home Credit a.s.	Czech Republic	88.62%	88.62%
Home Credit and Finance Bank LLC	Russia	88.62%	88.62%
Home Credit Asia B.V.	Netherlands	88.62%	88.62%
Home Credit Asia Ltd.	Hong Kong	88.62%	88.62%
Home Credit Consumer Finance China Ltd.	China	88.62%	88.62%
Home Credit India B.V.	Netherlands	88.62%	88.62%
Home Credit India Finance Private Ltd.	India	88.62%	88.62%
Home Credit Indonesia B.V.	Netherlands	88.62%	88.62%
Home Credit Indonesia PT	Indonesia	75.33%	75.33%
Home Credit Insurance LLC	Russia	88.62%	88.62%
Home Credit International a.s.	Czech Republic	88.62%	88.62%
Home Credit Philippines Holdings B.V.	Netherlands	88.62%	88.62%
Home Credit Slovakia, a.s.	Slovakia	88.62%	88.62%
Home Credit US Holding, LLC	USA	88.62%	88.62%
Home Credit US, LLC	USA	44.40%	44.40%
Home Credit Vietnam Finance Company Ltd.	Vietnam	88.62%	88.62%
Homer Software House LLC	Ukraine	88.62%	88.62%
Non-banking Credit and Financial Organization Home Credit OJSC	Belarus	88.62%	88.62%
Shenzen Home Credit Financial Service Co., Ltd.	China	88.62%	88.62%
Shenzen Home Credit Number One Consulting Co., Ltd.	China	88.62%	88.62%
Sichuan Home Credit Financing Guarantee Co. Ltd.	China	88.62%	88.62%
Zonky s.r.o.	Czech Republic	88.62%	88.62%
AB 1 B.V. *(merged with AB 2 B.V.)*	Netherlands	-	88.62%
AB 3 B.V. *(merged with AB 2 B.V.)*	Netherlands	-	88.62%
AB 5 B.V. *(merged with AB 4 B.V.)*	Netherlands	-	88.62%
AB 6 B.V. *(merged with AB 4 B.V.)*	Netherlands	-	88.62%
PPF banka subgroup - subsidiaries			
PPF banka a.s.	Czech Republic	92.96%	92.96%
Ruconfin B.V.	Netherlands	92.96%	92.96%
PPF Co3 B.V.	Netherlands	92.96%	-
Associates			
ClearBank Ltd.	United Kingdom	35.00%	-

B.2. Acquisitions and disposals 2016/2015

B.2.1. Acquisition of minority stake in ClearBank

Throughout 2016, the Group invested into a newly incorporated company in the UK, which was authorised to operate as a credit institution in December 2016 by the competent domestic authorities. The bank is jointly regulated by the Prudential Regulation Authority and the Financial Conduct Authority, and plans to focus on providing clearing and settlement services to non-retail customers as part of its core business model. As of 31 December 2016, the Group holds a 35% share, entailing an investment of MEUR 15.

B.2.2. Contribution of Home Credit Group and PPF banka in 2015

In June 2015 the Parent Company executed an agreement with its shareholder whereby the shareholder contributed to the Parent Company's share premium its shareholdings in Home Credit B.V. (88.62%) and PPF banka a.s. (92.96%), both representing a group of entities. Home Credit Group is a leading multi-channel provider of consumer finance in Europe and Asia. It also comprises Air Bank, the Czech retail bank. PPF banka provides all banking and financial services, primarily for companies and municipalities. It also serves as the PPF Group's treasury bank.

The main reason for the Group restructuring was the consolidation of consumer finance and other banking activities controlled by PPF Group N.V. under one holding company. The Group became a financial holding company and as such became subject to consolidated prudential requirements based on Regulation No 575/2013 of the European Parliament and of the Council.

The contribution date was 30 June 2015. The share premium increase totalled MEUR 1,545.

The transaction was treated as under-common-control reorganisation, no adjustment was made to carrying amounts of assets acquired and liabilities assumed and no goodwill arose.

The following table summarises the acquisition date net book values of identifiable assets acquired and liabilities assumed in the acquisition:

In millions of EUR, as at 30 June 2015

ASSETS	**13,134**
Cash and cash equivalents	1,992
Investment securities	2,915
Loans and receivables due from banks and other financial institutions	495
Loans due from customers	7,107
Trade and other receivables	53
Current tax assets	14
Investments in associates and joint ventures	1
Property, plant and equipment	164
Intangible assets	138
Deferred tax assets	127
Other assets	128

In millions of EUR, as at 30 June 2015

LIABILITIES	**11,547**
Financial liabilities at fair value through profit or loss	254
Due to non-banks	8,345
Due to banks and other financial institutions	1,163
Debt securities issued	884
Subordinated liabilities	467
Current tax liabilities	30
Trade and other payables	321
Provisions	75
Deferred tax liabilities	8
Total net assets	**1,587**

C. Risk exposures, risk management objectives and procedures

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

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

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

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

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

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

C.1. Derivative financial instruments

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

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

C.1.1. Swaps

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

C.1.2. Futures and forwards

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

C.1.3. Options

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

C.2. Credit risk

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

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

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

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

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

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

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

Fraud prevention

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

General loan collection

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

Pre-collection measures

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

Early collection

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

Administrative and personal collection

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

Late collection

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

Legal collection, debt sale

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

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

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

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

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

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

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

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.

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

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

Concentration of credit risks

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

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

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

In millions of EUR, as at 31 December

	2016	2016	2015	2015
Economic concentration				
Households/individuals	10,327	67.97%	6,463	57.22%
Financial services	1,345	8.85%	1,412	12.50%
Public sector	2,056	13.53%	2,052	18.17%
Corporate sector	1,198	7.88%	988	8.75%
Construction and real estate	238	1.57%	268	2.37%
Other	30	0.20%	112	0.99%
Total	**15,194**	**100.00%**	**11,295**	**100.00%**
Geographic concentration				
China	5,371	35.35%	2,320	20.54%
Czech Republic	3,648	24.00%	3,635	32.19%
Russia	3,230	21.26%	2,989	26.46%
Slovak Republic	472	3.11%	546	4.83%
Kazakhstan	372	2.45%	279	2.47%
Cyprus	288	1.90%	241	2.13%
Vietnam	475	3.12%	286	2.53%
Netherlands	171	1.13%	91	0.81%
Other EU countries	533	3.64%	555	4.91%
Other	614	4.04%	353	3.13%
Total	**15,194**	**100.00%**	**11,295**	**100,00%**
Of which:				
Investment securities (except for equity securities)	2,683	17.66%	2,853	25.25%
Loans and receivables due from banks and other financial institutions	537	3.53%	482	4.27%
Loans due from customers	11,047	72.71%	6,980	61.80%
Trade and other receivables	82	0.54%	95	0.84%
Loan commitments and guarantees	845	5.56%	885	7.84%

The amounts in the tables represent the maximum accounting loss that would be recognised at the reporting date if the counterparts failed completely to meet their obligations and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses that are included in the allowance for uncollectibility. The table comprises off-balance sheet items (refer to E.30.1) and financial assets, except equity securities.

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

In millions of EUR, as at 31 December

	Loans due from customers		Trade and other receivables	
	2016	2015	2016	2015
Individually impaired				
Gross amount	175	255	-	-
Allowance for impairment	(42)	(39)	-	-
Carrying amount	133	216	-	-
Collectively impaired				
Current	9,427	5,600	-	-
1-90 days past due	487	389	-	-
91-365 past due	505	555	-	-
>365 past due	145	128	-	-
Gross amount	10,564	6,672	-	-
Allowance for impairment	(847)	(789)	-	-
Carrying amount	9,717	5,883	-	-
Unimpaired				
Current	1,184	881	82	93
1-90 days past due	13	-	-	1
91-365 past due	-	-	-	1
Carrying amount	1,197	881	82	95
Total carrying amount	**11,047**	**6,980**	**82**	**95**

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

All these transactions are conducted at arm's length.

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

In millions of EUR, as at 31 December

	Loans and receivables due from banks		Loans and receivables due from customers	
	2016	2015	2016	2015
Against individually impaired	-	-	13	93
Property	-	-	10	81
Debt securities	-	-	-	5
Deposits with banks	-	-	2	2
Other	-	-	1	5
Against collectively impaired	-	-	461	314
Property	-	-	442	314
Equity securities	-	-	19	-
Against neither past due nor impaired	431	161	734	446
Securities received under reverse repo	431	161	84	38
Property	-	-	283	108
Debt securities	-	-	22	21
Equity securities	-	-	313	262
Deposits with banks	-	-	14	6
Other	-	-	18	11
Total collateral received	**431**	**161**	**1,208**	**853**

The total value of assets held as collateral is MEUR 1,726 (2015: MEUR 1,011; refer to E.30.3) and consists of the collateral stated above (2016: MEUR 1,639; 2015: MEUR 1,014) less securities received under reverse repos that were repledged or sold (2016: nil; 2015: MEUR 68), plus collateral received for the guarantees provided (2016: MEUR 87; 2015: MEUR 65).

No collateral is held for trade and other receivables.

C.3. Liquidity risk

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

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

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

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

The following tables show exposure to liquidity risk:

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2016

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

Net liquidity position 2016	**(243)**	**(1,613)**	**2,269**	**1,525**	**59**	**1,997**

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

In millions of EUR, as at 31 December 2015

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Cash and cash equivalents	2,451	-	-	-	-	2,451
Investment securities	239	401	780	1,432	14	2,866
Financial assets at FVTPL	118	78	292	264	12	764
Financial assets AFS	115	323	488	1,168	2	2,096
Financial assets HTM	6	-	-	-	-	6
Loans and receivables due from banks and other financial institutions	305	108	-	12	57	482
Loans due from customers	3,044	1,729	1,904	303	-	6,980
Trade and other receivables	71	7	-	-	17	95
Total financial assets	**6,110**	**2,245**	**2,684**	**1,747**	**88**	**12,874**

In millions of EUR, as at 31 December 2015

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities at FVTPL	7	6	17	260	-	290
Due to non-banks	5,399	1,098	407	-	-	6,904
Due to banks and other financial institutions	772	952	626	-	-	2,350
Debt securities issued	240	711	87	-	-	1,038
Subordinated liabilities	1	29	266	52	-	348
Trade and other payables	471	16	12	-	7	506
Total financial liabilities	**6,890**	**2,812**	**1,415**	**312**	**7**	**11,436**

Net liquidity position 2015	**(780)**	**(567)**	**1,269**	**1,435**	**81**	**1,438**

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

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2015

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Due to non-banks	5,410	1,152	476	-	-	7,038
Due to banks and other financial institutions	845	1,052	669	-	-	2,566
Debt securities issued	243	727	119	-	-	1,089
Subordinated liabilities	2	51	326	65	-	444
Trade and other payables	471	16	12	-	7	506
Loan commitments	352	18	174	15	211	770
Payment guarantees provided	6	-	21	36	-	63
Total	**7,329**	**3,016**	**1,797**	**116**	**218**	**12,476**

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

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2015

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Outflows					
Interest rate derivatives held for trading	(3)	(98)	(159)	(68)	(328)
Currency derivatives held for trading	(1,928)	(519)	(2,040)	-	(4,487)
Hedging derivatives	(89)	-	-	-	(89)
Inflows					
Interest rate derivatives held for trading	3	95	153	79	330
Currency derivatives held for trading	1,935	519	2,042	-	4,496
Hedging derivatives	183	-	-	-	183
Net position	**101**	**(3)**	**(4)**	**11**	**105**

C.4. Market risk

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

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

C.4.1. Interest rate risk

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

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

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring of the sensitivity of the Group’s financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100-basis-point parallel fall or rise in all yield curves worldwide. In such a case, the net interest income for the year ended 31 December 2016 would be approximately MEUR 76 higher/lower (2015: MEUR 35).

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

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

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2015

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Cash and cash equivalents	0.5%	2,451	-	-	-	-	2,451
Investment securities	1.6%	267	1,473	619	351	156	2,866
Financial assets at FVTPL	0.3%	22	69	262	257	154	764
Financial assets AFS	1.9%	239	1,404	357	94	2	2,096
Financial assets HTM	8.1%	6		-	-	-	6
Loans and receivables due from banks and other financial institutions	3.9%	320	108	-	1	53	482
Loans due from customers	31.4%	3,488	1,853	1,532	69	38	6,980
Trade and other receivables	-	71	7	-	-	17	95
Total financial assets	**-**	**6,597**	**3,441**	**2,151**	**421**	**264**	**12,874**

In millions of EUR, as at 31 December 2015

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities at FVTPL	-	2	1	6	244	37	290
Due to non-banks	4.9%	5,400	1,098	406	-	-	6,904
Due to banks and other financial institutions	10.0%	968	927	455	-	-	2,350
Debt securities issued	2.9%	240	711	87	-	-	1,038
Subordinated liabilities	9.9%	1	29	266	52	-	348
Trade and other payables	-	471	16	12	-	7	506
Total financial liabilities	**-**	**7,082**	**2,782**	**1,232**	**296**	**44**	**11,436**
Net position 2015		**(485)**	**659**	**919**	**125**	**220**	**1,438**

C.4.2. Equity price risk

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

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

C.4.3. Currency risk

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

The Group’s main foreign exposures are to European and Asian countries in which the Group operates. Its exposures are measured mainly in Czech crowns, Chinese yuan, Russian roubles and US dollars. As the currency in which the Group presents its consolidated special purpose financial statements is the euro, movements in the exchange rates between these currencies and the euro affect the Group’s consolidated special purpose financial statements.

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

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

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2015

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Cash and cash equivalents	74	1,676	309	259	59	6	68	2,451
Investment securities	232	2,050	-	279	305	-	-	2,866
Loans and receivables due from banks and other financial institutions	48	175	92	113	48	1	5	482
Loans due from customers	744	975	2,219	2,072	287	260	423	6,980
Trade and other receivables	20	21	7	6	29	2	10	95
Total financial assets	**1,118**	**4,897**	**2,627**	**2,729**	**728**	**269**	**506**	**12,874**

In millions of EUR, as at 31 December 2015

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Financial liabilities at FVTPL	-	289	-	-	-	-	1	290
Due to non-banks	621	3,649	-	2,071	419	62	82	6,904
Due to banks and other financial institutions	194	44	1,848	1	88	4	171	2,350
Debt securities issued	9	836	-	100	4	37	52	1,038
Subordinated liabilities	-	83	-	22	243	-	-	348
Trade and other payables	22	282	132	30	2	8	30	506
Total financial liabilities	**846**	**5,183**	**1,980**	**2,224**	**756**	**111**	**336**	**11,436**
Effect of foreign currency derivatives	**(532)**	**680**	**71**	**(229)**	**151**	**(59)**	**(61)**	**21**
Net foreign currency position	**(260)**	**394**	**718**	**276**	**123**	**99**	**109**	**1,459**

The following tables present an analysis of the sensitivity of the Group's equity to changes in currency exchange rates based on positions existing as at 31 December 2016 and 2015 and a simplified scenario of a 5% change in CZK, CNY, RUB, USD and KZT to EUR exchange rates:

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2015

	CZK	CNY	RUB	USD	KZT
Effect of 5% currency depreciation against EUR	(26)	(36)	(21)	(6)	(6)
Effect of 5% currency appreciation against EUR	26	36	21	6	6

C.4.4. Hedging

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

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

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

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

C.5. Insurance risk

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

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

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

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

C.6. Fair value of financial assets and liabilities

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments measured using: market prices quoted in active markets for similar instruments; prices quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

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

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

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

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

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

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2015

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets held to maturity	6	6	-	6	-
Loans and receivables due from banks and other financial institutions	482	482	-	482	-
Loans due from customers	6,980	6,958	-	617	6,341
Trade and other receivables	95	95	-	-	95
Due to non-banks	(6,904)	(6,922)	-	(6,922)	-
Due to banks and other financial institutions	(2,350)	(2,350)	-	(2,350)	-
Debt securities issued	(1,038)	(1,034)	(99)	(935)	-
Subordinated liabilities	(348)	(351)	(243)	(108)	-
Trade and other payables	(506)	(506)	-	-	(506)

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

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

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	558	206	-	764
Financial assets AFS	1,952	144	-	2,096
Financial liabilities at FVTPL	(254)	(36)	-	(290)
Total	**2,256**	**314**	**-**	**2,570**

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

C.7. Offsetting financial assets and liabilities

The Group’s derivative transactions are predominantly entered into under International Derivative Swaps and Dealers Association Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency are aggregated into a single net amount payable by one party to the other. In certain circumstances, 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 the financial position. Therefore, as at 31 December 2016 the reported balances of positive and negative fair values of derivatives 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.

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

C.8. Capital management

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

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

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

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

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

In millions of EUR, as at 31 December 2016

	2016	2015
Issued capital	0.05	0.05
Share premium	2,217	1,873
Retained earnings	(200)	(179)
Interim profit included into capital	96	-
Accumulated other comprehensive income	(30)	(103)
Other reserves	116	50
Minority interests on CET 1	7	8
(-) Additional valuation adjustment	(3)	(3)
(-) Intangible assets	(166)	(126)
(-) Deferred tax assets carry loss forward	(4)	(43)
Total Tier 1 capital	**2,033**	**1,477**
Total Tier 2 capital	**49**	**48**
Total capital	**2,081**	**1,525**
Total capital adequacy ratio	**11.55%**	**11.36%**

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

Tier 2 capital consists of the eligible portion of Tier 2 instruments issued by PPF banka and Air Bank.

Some of the Group’s subsidiaries operating in the banking, consumer finance and insurance sectors maintain capital adequacy in compliance with local regulatory requirements which require the respective entities to maintain a ratio of total capital to total risk-weighted assets at or above a certain minimum level. The ratios are calculated based on 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 the relevant requirements.

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

D. Segment reporting

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

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

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

The consumer finance business ("HC") is divided into segments based on geographical regions corresponding to the geographical location of customers. The Group operates in the following principal geographical areas: China, the Russian Federation, the Czech Republic, Vietnam, Kazakhstan, the Slovak Republic, India, Indonesia, and the Philippines. The countries not presented in a separate segment column are included in the "Other" segment.

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

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

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

In millions of EUR, for the year ended 31 December

	2016	2015
Interest income	2,302	1,010
Fee and commission income	522	224
Net earned premiums	36	24
Total revenue from external customers	**2,860**	**1,258**

The following table shows the main items from the financial statements broken down according to reportable segments for 2016 and 2015:

In millions of EUR

2016	Corporate banking	Retail banking	Consumer finance								Unallocated	Eliminations	**Consolidated**
	PPF banka	Air Bank	HC China	HC Russian Federation	HC Czech Republic	HC Vietnam	HC Kazakhstan	HC Slovak Republic	HC India	Other			
Revenue from customers	74	50	1,351	724	103	198	145	63	58	80	14	-	2,860
Inter-segment revenue	19	36	-	16	2	-	-	-	-	1	13	(87)	-
Total revenue	**93**	**86**	**1,351**	**740**	**105**	**198**	**145**	**63**	**58**	**81**	**27**	**(32)**	**2,860**
Net interest income from external customers	49	24	783	358	86	129	75	54	44	49	(3)	-	1,648
Inter-segment net interest income	18	35	-	(10)	(20)	-	(7)	(12)	(4)	(2)	(1)	4	1
Total net interest income	**67**	**59**	**783**	**348**	**66**	**129**	**68**	**42**	**40**	**47**	**(4)**	**4**	**1,649**
Income tax expense	(10)	(3)	(58)	(17)	(3)	(12)	(12)	-	-	(3)	(10)	-	(128)
Net profit from continuing operations	**46**	**11**	**196**	**74**	**22**	**46**	**46**	**4**	**(61)**	**(44)**	**(43)**	**(22)**	**275**
Capital expenditure	(1)	(9)	(33)	(10)	(2)	(5)	(8)	-	(18)	(24)	(21)	-	(131)
Depreciation and amortisation	(3)	(8)	(11)	(24)	(1)	(5)	(5)	-	(7)	(9)	(30)	19	(84)
Other significant non-cash expenses	-	(9)	(311)	(161)	2	(37)	(3)	(18)	(26)	(12)	-	-	(575)
Segment assets (incl. associates)	5,055	3,201	6,641	3,373	520	515	410	301	248	287	776	(1,722)	19,605
Segment liabilities	4,732	3,012	5,673	2,776	514	398	304	296	203	149	705	(1,696)	17,066
Segment equity	**323**	**189**	**968**	**597**	**6**	**117**	**106**	**5**	**45**	**138**	**71**	**(26)**	**2,539**

In millions of EUR

2015	Corporate banking	Retail banking	Consumer finance								Unallocated	Eliminations	**Consolidated**
	PPF banka	Air Bank	HC China	HC Russian Federation	HC Czech Republic	HC Vietnam	HC Kazakhstan	HC Slovak Republic	HC India	Other			
Revenue from customers	35	23	430	462	55	76	83	33	15	38	8	-	1,258
Inter-segment revenue	14	21	-	6	-	-	-	-	-	1	7	(49)	-
Total revenue	**49**	**44**	**430**	**468**	**55**	**76**	**83**	**33**	**15**	**39**	**15**	**(49)**	**1,258**
Net interest income from external customers	21	7	285	184	45	51	45	28	9	22	-	-	697
Inter-segment net interest income	13	21	-	(15)	(11)	-	(3)	(6)	-	(1)	-	2	-
Total net interest income	**34**	**28**	**285**	**169**	**34**	**51**	**42**	**22**	**9**	**21**	**-**	**2**	**697**
Income tax expense	(5)	(1)	(35)	(1)	(2)	(5)	(6)	-	-	(2)	6	-	(51)
Net profit from continuing operations	**13**	**4**	**52**	**(1)**	**(1)**	**16**	**17**	**2**	**(16)**	**(12)**	**(3)**	**-**	**71**
Capital expenditure	(6)	(2)	(8)	(3)	(1)	(1)	(4)	-	(7)	(12)	(27)	12	(59)
Depreciation and amortisation	-	(4)	(5)	(14)	-	(3)	(2)	-	(1)	(3)	(15)	7	(40)
Other significant non-cash expenses	(4)	(5)	(84)	(150)	(4)	(13)	(9)	(9)	(5)	(3)	-	-	(286)
Segment assets (incl. associates)	3,813	2,815	2,699	3,289	485	305	319	288	93	240	569	(1,536)	13,379
Segment liabilities	3,542	2,634	2,040	2,875	485	222	230	283	61	135	584	(1,531)	11,560
Segment equity	**271**	**181**	**659**	**414**	**-**	**83**	**89**	**5**	**32**	**105**	**(15)**	**(5)**	**1,819**

E. Notes to the consolidated special purpose financial statements

E.1. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR, as at 31 December

	2016	2015
Cash on hand	92	134
Current accounts	1,268	465
Balances with central banks	2,007	1,252
Placements with financial institutions due within one month	879	600
Reverse repo operations with central banks	285	-
Total cash and cash equivalents	**4,531**	**2,451**

As of 31 December 2016, cash and cash equivalents amounting to MEUR 985 are restricted by the borrowing agreements contracted by Chinese Home Credit with the creditors either to disbursement of loans to retail clients or 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.

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

E.2. Investment securities

Investment securities comprise the following:

In millions of EUR, as at 31 December

	2016	2015
Financial assets at fair value through profit or loss	545	764
Financial assets available for sale	2,140	2,096
Financial assets held to maturity	-	6
Total investment securities	**2,685**	**2,866**

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

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

In millions of EUR, as at 31 December

	2016	2015
Government and other public-sector bonds	479	585
Corporate bonds	17	25
Shares	-	2
Mutual fund investments	-	9
Positive fair values of trading derivatives	49	47
Interest rate derivatives	25	15
Currency derivatives	24	32
Positive fair values of hedging derivatives	-	96
Total financial assets at FVTPL	**545**	**764**

In 2016, the government bonds include non-trading 10-year fixed-interest bonds amounting to MEUR 201 (2015: MEUR 177). The fixed interest income from these bonds is economically hedged by interest rate swaps.

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

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

In millions of EUR, as at 31 December

	2016	2015
Negative fair values of trading derivatives	85	37
Interest rate derivatives	35	23
Currency derivatives	50	14
Liabilities from short sales of securities	322	253
Total financial liabilities at FVTPL	**407**	**290**

Details of derivatives are provided in the following tables:

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2015

Interest rate derivatives	Notional amount	Positive fair values	Negative fair values
OTC products:			
Interest rate swaps	2,085	12	(23)
Other interest rate contracts	72	3	-
Total	**2,157**	**15**	**(23)**
Currency derivatives			
OTC products:			
Forward exchange contracts	1,087	13	-
Currency/cross currency swaps	3,460	19	(14)
Total	**4,547**	**32**	**(14)**
Hedging derivatives			
OTC products:			
Foreign currency swap contracts (Sell RUB / Buy USD)	174	91	-
Cross currency interest rate swaps	9	5	-
Total	**183**	**96**	**-**

Cash flows from the hedging derivative instruments were realised in the first quarter of 2016.

E.2.3. Financial assets available for sale

Financial assets available for sale comprise the following:

In millions of EUR, as at 31 December 2016

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

In millions of EUR, as at 31 December 2015

	Carrying amount	Amortised cost
Debt securities	2,094	2,044
Government bonds	1,439	1,384
Corporate bonds	581	586
Other debt securities	74	74
Equity securities	2	3
Shares	2	2
Mutual fund investments	-	1
Total AFS assets	**2,096**	**2,047**

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

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

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

In millions of EUR, as at 31 December

	2016	2015
Term deposits at banks	119	91
Minimum reserve deposits with central banks	141	124
Loans to banks	9	11
Loans and advances provided under repos	141	149
Cash collateral for derivative instruments	88	-
Other	39	107
Total loans and receivables due from banks and other financial institutions	**537**	**482**

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

E.4. Loans due from customers

Loans due from customers comprise the following:

In millions of EUR, as at 31 December

	2016	2015
Gross amount		
Cash loan receivables	5,488	3,363
Consumer loan receivables	4,265	2,443
Revolving loan receivables	584	678
Car loan receivables	117	113
Mortgage loan receivables	111	74
Loans to corporations	1,309	1,099
Loans and advances provided under repos	59	25
Other	3	13
Total gross amount	**11,936**	**7,808**
Collective allowances for impairment		
Cash loan receivables	(465)	(461)
Consumer loans receivables	(265)	(175)
Revolving loan receivables	(86)	(124)
Car loan receivables	(23)	(22)
Mortgage loan receivables	(8)	(6)
Loans to corporations	-	(1)
Total collective impairment	**(847)**	**(789)**
Individual allowances for impairment		
Loans to corporations	(42)	(39)
Total individual impairment	**(42)**	**(39)**
Total carrying amount	**11,047**	**6,980**

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

In millions of EUR, for the year ended 31 December

	2016	2015
Balance as at 1 January	828	-
Additions resulting from UCC business combination	-	1,101
Impairment losses recognised in the income statement	572	287
Amount related to loans written off and disposed of	(566)	(410)
Translation difference	55	(150)
Balance as at 31 December	**889**	**828**

E.5. Trade and other receivables

Trade and other receivables comprise the following:

In millions of EUR, for the year ended 31 December

	2016	2015
Trade receivables	75	94
Accrued income	7	1
Balance as at 31 December	**82**	**95**

There were no impaired receivables as at 31 December 2016 nor 2015.

E.6. Income taxes

E.6.1. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the year ended 31 December

	2016	2015
Current tax expense	(175)	(54)
Deferred tax benefit	47	3
Total income tax expense	**(128)**	**(51)**

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2016	2015
Tax rate	25.00%	25.00%
Profit from continuing operations (before taxation)	403	122
Computed taxation using applicable tax rate	(101)	(31)
Tax non-deductible expenses	(21)	n/a*
Non-taxable income	19	n/a
Tax rate differences on foreign results	12	n/a
Tax loss carry forward not recognised	(45)	n/a
Other	8	n/a
Total income tax expense	**(128)**	**(51)**

*The Home Credit and PPF banka businesses contributed on 30 June 2015.

E.6.2. Deferred tax

Deferred tax assets and liabilities comprise the following:

In millions of EUR, as at 31 December

	2016 Deferred tax liabilities	2016 Deferred tax assets	2015 Deferred tax liabilities	2015 Deferred tax assets
Investment securities	(11)	2	(34)	1
Loans	(1)	160	(17)	95
Property, plant and equipment	(12)	2	(13)	-
Intangible assets	(6)	-	(1)	-
Other assets	(5)	6	(6)	6
Other liabilities	-	14	-	7
Provisions	(3)	5	(2)	6
Other temporary differences	(4)	11	(3)	20
Value of loss carry-forwards recognised	-	5	-	44
Value of tax credits	-	1	-	-
Deferred tax assets/(liabilities)	**(42)**	**206**	**(76)**	**179**
Net deferred tax assets/(liabilities)	**(18)**	**182**	**(27)**	**130**

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

In millions of EUR, for the year ended 31 December

	2016	2015
Net deferred tax assets/(liabilities) at 1 January	103	-
Additions resulting from UCC business combination	-	119
Deferred tax (expense)/income for the period	47	3
Deferred tax recognised directly in equity	(1)	(1)
Net exchange differences	15	(18)
Net deferred tax assets/(liabilities) at 31 December	**164**	**103**

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

E.6.3. Tax losses

As at 31 December 2016 the Group incurred tax losses from recent years of MEUR 523 (2015: MEUR 621) 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 utilised, the deferred tax assets are not recognised. The unrecognised deferred tax assets amount to MEUR 109 (2015: MEUR 94). The unutilised tax losses can be claimed in the period from 2016 to 2024 in the Netherlands (2017 to 2021 in the Czech Republic and Cyprus, and for an indefinite time in Hong Kong and newly in the Russian Federation) and they expire as follows:

In millions of EUR, as at 31 December 2016

	2016	2015
2016	-	24
2017	10	8
2018	32	34
2019	26	35
2020	33	33
2021	40	21
2022	22	22
2023	35	171
2024	50	108
2025	83	-
Tax losses that can be carried forward indefinitely	192	165
Total	**523**	**621**

E.7. Investments in associates

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

In millions of EUR

	2016	2015
ClearBank	9	-
Equifax Credit Services LLC	2	2
Total investments in associates	**11**	**2**

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

In millions of EUR

	2016	2015
ClearBank	(6)	-
Equifax Credit Services LLC	2	1
Total share of earnings in associates	**(4)**	**1**

The ClearBank

ClearBank is a newly established UK bank that plans to provide clearing and settlement services from 2017. The following table shows the bank's performance since its acquisition:

In millions of EUR, as at 31 December 2016

Non-current assets	2
Current assets	22
Current liabilities	(3)
Net assets (100%)	21
Group's share of net assets (35%)	7
Goodwill included in carrying amount	2
Carrying amount of investment in associate	**9**
Total net loss for the period (100%)	(6)
Group's share of the net loss (35%)	(2)
Dilution loss	(4)
Total share in profit/(loss)	**(6)**

E.8. Property, plant and equipment

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

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

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

In millions of EUR, for the year ended 31 December 2015

	Land and buildings	Other tangible assets and equipment	Total
Carrying amount			
Additions resulting from UCC business combination	72	92	164
Additions	-	25	25
Disposals	-	(5)	(5)
Other movements	-	(1)	(1)
Depreciation charge	(1)	(16)	(17)
Impairment charge	-	(1)	(1)
Impairment reversal	-	1	1
Net FX differences	(14)	(13)	(27)
Total	**57**	**82**	**139**
Cost	77	204	281
Accumulated depreciation and impairment	(20)	(122)	(142)

E.9. Intangible assets

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

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

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

In millions of EUR, for the year ended 31 December 2015

	Goodwill	Software	Other intangible assets	Total
Carrying amount				
Additions resulting from UCC business combination	3	133	1	137
Additions	-	31	-	31
Amortisation charge	-	(22)	-	(22)
Net FX differences	-	(8)	-	(8)
Balance at 31 December	**3**	**134**	**1**	**138**
Cost	3	307	6	316
Accumulated amortisation and impairment losses	-	(173)	(5)	(178)

E.10. Other assets

Other assets comprise the following:

In millions of EUR, as at 31 December

	2016	2015
Prepaid expenses and advances	91	47
Cash collateral for payment cards	51	-
Other taxes receivable	9	6
Deferred acquisition costs – insurance business	7	15
Assets held for sale	2	2
Inventories	1	1
Other	27	19
Total other assets	**188**	**90**

E.10.1. Deferred acquisition costs – insurance business

The following table shows the roll-forward of the “Deferred acquisition costs” related to the insurance business:

In millions of EUR, for the year ended 31 December

	2016	2015
Balance at 1 January	15	-
Additions resulting from UCC business combination	-	28
Acquisition costs incurred during the period	2	1
Amortisation (charged in the income statement)	(12)	(8)
Net FX differences	2	(6)
Balance at 31 December	**7**	**15**

E.11. Liabilities to non-banks

Liabilities to non-banks comprise the following:

In millions of EUR, as at 31 December

	2016	2015
Current accounts and demand deposits	6,041	4,302
Term deposits	2,861	2,376
Loans	23	8
Loans received under repos	59	215
Loans to parent company	79	-
Other	3	3
Total liabilities to non-banks	**9,066**	**6,904**

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

E.12. Liabilities to banks and other financial institutions

Liabilities to banks and other financial institutions comprise the following:

In millions of EUR, as at 31 December

	2016	2015
Repayable on demand	15	3
Loans received under repos	192	20
Secured loans (other than repos)	5,381	1,827
Unsecured loans	575	468
Other	80	32
Total liabilities to banks	**6,243**	**2,350**

E.13. Debt securities issued

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

In millions of EUR, as at 31 December

	Interest rate	Maturity	2016	2015
Unsecured bond issue of MKZT 6,769	Fixed	2019	20	19
Stock exchange RUB bond issue of MRUB 1,500	Fixed	2019	8	-
Unsecured RUB bond issue 2 of MRUB 3,000	Fixed	2016	-	38
Unsecured CZK bond issue 5 of MCZK 3,750	Fixed	2016	-	125
Cash loan receivables backed note issue of MRUB 5,000	Variable	2016	-	62
Unsecured bond issue of MKZT 7,000	Fixed	2016	-	19
Deposit certificate of MKZT 315	Fixed	2017	1	-
Long-term registered certificate of deposit; rate (8.7 - 13.5%)	Fixed	2017	82	20
Deposit bill of exchange; rate (0.20 - 0.71%)	Fixed	2017	10	4
Long-term registered certificate of deposit; rate (9.7 - 10.5%)	Fixed	2018	90	-
Deposit bill of exchange; rate (0% - 0.47%)	Fixed	2018	50	22
Long-term registered certificate of deposit; rate (10.5 - 11.25%)	Fixed	2019	25	-
Deposit bill of exchange; zero-coupon rate	Fixed	2020	37	-
Deposit bills of exchange: rate (0%-1.00%)	Fixed	2016	-	697
Long term registered certificate of deposit_ rate 14%	Fixed	2016	-	32
Total debt securities issued			**323**	**1,038**

As at 31 December 2016, cash loan receivables of MEUR nil (2015: MEUR 79) served as collateral for RUB denominated cash loans receivables backed notes.

E.14. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of EUR, as at 31 December

	Interest rate	Maturity	2016	2015
Loan of MRUB 443	Fixed	2017	7	22
Loan participation notes issue 7 of MUSD 500	Fixed	2020	95	94
Loan participation notes issue 8 of MUSD 200	Fixed	2021	121	149
Bond issue of MCZK 1,400	Fixed	2023	54	54
Bond issue of MCZK 1,300	Fixed	2024	38	29
Total subordinated liabilities			**315**	**348**

Subordinated loan participation notes issue 7 was made in October 2012. The Group has an early redemption option exercisable on 24 April 2018 (the reset date). After the reset date the interest rate is determined as a variable rate. During 2015 the Group bought back the loan participation notes with a cumulative par value of MUSD 272, which did not change in 2016.

Subordinated loan participation notes issue 8 was made in October 2013. The Group has an early redemption option exercisable on 17 April 2019 (the reset date). After the reset date the interest rate is determined as a variable rate. During 2016, the Group bought back the loan participation notes with a cumulative par value of MUSD 35 (2015: nil).

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

The bond issue of MCZK 1,300 was issued in April 2014. The Group has an early redemption option exercisable on 30 April 2019.

E.15. Insurance and other provisions

Provisions comprise the following:

In millions of EUR, as at 31 December

	2016	2015
Provisions for unearned premiums	31	39
Provisions for outstanding claims	1	1
Provision for litigation except for tax-related litigation	1	2
Other provisions	11	6
Total provisions	**44**	**48**

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

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

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

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

In millions of EUR, for the year ended 31 December 2015

	Provision for litigation except for tax issues	Other provisions	Total
Additions resulting from UCC business combination	3	3	6
Provisions created during the year	3	12	15
Provisions used during the year	(1)	(8)	(9)
Provisions released during the year	(3)	(1)	(4)
Net FX differences	-	-	-
Balance at 31 December	**2**	**6**	**8**
Non-current (> 1 year)	-	2	2
Current (< 1 year)	2	4	6
Total provisions	**2**	**6**	**8**

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

In millions of EUR

	2016	2015
Balance at 1 January	39	-
Additions resulting from UCC business combination	-	68
Premiums written during the year	22	9
Premiums earned during the year	(36)	(25)
Net FX differences	6	(13)
Balance at 31 December	**31**	**39**

Movements in provisions for outstanding claims were as follows:

In millions of EUR

	2016	2015
Balance at 1 January	1	-
Additions resulting from UCC business combination	-	2
Claims incurred in the current year	2	2
Adjustments for losses incurred in previous years	-	(1)
Claims paid during the year	(2)	(2)
Balance at 31 December	**1**	**1**

E.16. Trade and other payables

Other liabilities comprise the following:

In millions of EUR, as at 31 December

	2016	2015
Settlements with suppliers	168	88
Wages and salaries	124	73
Social security and health insurance	26	15
Other taxes payable	22	35
Accrued expenses	49	42
Customer loan overpayments	31	30
Deferred income	1	3
Advance received	3	2
Other	107	218
Total other liabilities	**531**	**506**

The “Other” category includes clearing accounts of PPF banka in an amount of MEUR 80 (2015: MEUR 110).

E.17. Capital issued and share premium

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

The following table provides details of authorised and issued shares:

	2016	2015
Number of shares authorised	45 000	45 000
Number of shares issued and fully paid	45 000	45 000
Par value per share	EUR 1	EUR 1

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

During 2015 and 2016 the share premium was increased by cash contribution amounting to MEUR 344 (2015: MEUR 328).

E.18. Reserves

E.18.1. Available-for-sale reserve

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

E.18.2. Legal and statutory reserves

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

E.18.3. Currency translation reserve

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

E.18.4. Reserve for UCC

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

E.18.5. Cash flow hedge reserve

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

E.19. Non-controlling interests

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

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

The following table summarises the information relating to these subsidiaries:

In millions of EUR

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

In millions of EUR

2015	HC	PPFB	HCID	Other	**Total**
NCI percentage (ownership)	**11.38%**	**7.04%**	**24.67%**		
Total assets	9,656	3,813	30		
Total liabilities	(8,460)	(3,542)	(13)		
Net assets	**1,196**	**271**	**17**		
Net assets attributable to NCI of the sub-group	(5)	-	-		
Net assets attributable to owners of the Parent	**1,191**	**271**	**17**		
Carrying amount of NCI	136	19	4	-	**159**
Revenue	1,181	69	6		
Profit/(loss)	48	15	(8)		
Other comprehensive income	(194)	3	-		
Total comprehensive income	(145)	18	(8)		
Profit/(loss) allocated to NCI	6	1	(2)	2	**7**
OCI allocated to NCI	(22)	-	-	-	**(22)**
Dividends paid to NCI	**-**	**-**	**-**	**-**	**-**

E.20. Net interest income

Interest income comprises the following:

In millions of EUR, for the year ended 31 December

	2016	2015
Financial instruments at FVTPL	8	7
Financial instruments available for sale	47	32
Financial instruments held to maturity	2	-
Due from banks and other financial institutions	27	21
Cash loan receivables	1,311	547
Consumer loan receivables	672	270
Revolving loan receivables	141	90
Car loan receivables	20	11
Mortgage loan receivables	5	4
Loans to corporations	64	24
Intercompany loans	2	2
Net investment in finance lease	3	2
Total interest income	**2,302**	**1,010**

Interest expense comprises the following:

In millions of EUR, for the year ended 31 December

	2016	2015
Due to customers	220	188
Due to banks and other financial institutions	368	87
Debt securities issued	31	18
Subordinated liabilities	30	16
Other	5	4
Total interest expenses	**654**	**313**
Total net interest income	**1,648**	**697**

E.21. Net fee and commission income

Fee and commission income comprises the following:

In millions of EUR, for the year ended 31 December

	2016	2015
Insurance commissions	330	121
Penalty fees	107	50
Cash transactions	18	11
Customer payment processing and account maintenance	37	22
Retailers’ commissions	10	13
Other	20	7
Total fee and commission income	**522**	**224**

Fee and commission expense comprises the following:

In millions of EUR, for the year ended 31 December

	2016	2015
Commissions to retailers	24	18
Cash transactions	16	8
Payment processing and account maintenance	28	10
Payments to deposit insurance agencies	16	9
Credit and other register expense	16	5
Other	3	2
Total fee and commission expense	**103**	**52**
Total net fee and commission income	**419**	**172**

E.22. Net gain/loss on financial assets

In millions of EUR, for the year ended 31 December

	2016	2015
Net trading income	(58)	34
Debt securities trading	8	(1)
FX trading	(14)	3
Derivatives	(52)	32
Net gains on financial assets at FVTPL – Debt securities	4	14
Net realised gains/(losses)	19	4
AFS financial assets	20	4
Loans and receivables	(1)	-
Other income/(expenses) from financial assets	(1)	(1)
Total net gain/(loss) on financial assets	**(36)**	**51**

E.23. Net impairment losses on financial assets

In millions of EUR, for the year ended 31 December

	2016	2015
Cash loan receivables	296	152
Consumer loan receivables	225	81
Revolving loan receivables	43	47
Car loan receivables	2	1
Mortgage loan receivables	4	2
Loans to corporations	2	4
Total net impairment losses on financial assets	**572**	**287**

E.24. Insurance income

In millions of EUR, for the year ended 31 December

	2016	2015
Gross earned premiums	36	24
Net insurance benefits and claims	(2)	-
Acquisition cost	(12)	(8)
Total insurance income	**22**	**16**

E.25. Other income

In millions of EUR, for the year ended 31 December

	2016	2015
Foreign currency gains	32	-
Provision of services to minority partner	20	-
Other	19	-
Total other income	**71**	**-**

E.26. General administrative expenses

In millions of EUR, for the year ended 31 December

	2016	2015
Employee compensation	593	222
Payroll related taxes (including pension contribution)	113	50
Rental, maintenance and repair expense	55	28
Information technologies	34	12
Advertising and marketing	43	15
Professional services	53	24
Telecommunication and postage	46	20
Travel expenses	24	10
Taxes other than income tax	37	33
Collection agency fee	31	14
Other	29	13
Total general administrative expenses	**1,058**	**441**

The average rounded number of employees during the year 2016 was 93,000 (2015: 65,000) and two of these employees were employed in the Netherlands (2015: two employees).

E.27. Other operating expenses

In millions of EUR, for the year ended 31 December

	2016	2015
Depreciation of property, plant and equipment	34	17
Amortisation of intangible assets	50	22
Net impairment losses on property, plant and equipment	1	-
Net impairment losses on other assets	1	-
Loss on disposal of property, plant, equipment, and intangible assets	1	1
Foreign currency losses	-	47
Total other operating expenses	**87**	**87**

E.28. Operating leases

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

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

In millions of EUR, as at 31 December

	2016	2015
Less than one year	14	14
Between one and five years	29	21
More than five years	8	3
Total payables in respect of non-cancellable operating leases	**51**	**38**

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

In millions of EUR, as at 31 December

	2016	2015
Minimum lease payments	19	25
Total lease and sublease payments	**19**	**25**

E.29. Repurchase agreements and reverse repurchase agreements

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

In millions of EUR, as at 31 December

	2016 Fair value of underlying assets	2016 Carrying amount of corresponding liabilities	2015 Fair value of underlying assets	2015 Carrying amount of corresponding liabilities
Financial assets at FVTPL	293	251	224	223
Financial assets available for sale	-	-	10	10
Financial assets held to maturity	-	-	2	2
Total	**293**	**251**	**236**	**235**

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

In millions of EUR, as at 31 December

	2016 Fair value of assets received as collateral (total)	2016 of which: Fair value of assets repledged or sold	2016 Carrying amount of receivable s	2015 Fair value of assets received as collateral (total)	2015 of which: Fair value of assets repledged or sold	2015 Carrying amount of receivable s
Loans and advances to banks	431	-	426	161	68	149
Loans and advances to non-banks	84	-	59	38	-	26
Total loans and advances	**515**	**-**	**485**	**199**	**68**	**175**

E.30. Off-balance sheet items

E.30.1. Commitments and contingent liabilities

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

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

In millions of EUR, as at 31 December

	2016	2015
Loan commitments	756	770
Revolving loan commitments	528	525
Consumer loan commitments	58	42
Cash loan commitments	18	10
Undrawn overdraft facilities	34	60
Term loan facilities	118	133
Capital expenditure commitments	5	-
Guarantees provided	89	116
Non-payment guarantees	38	52
Non-revocable letters of credit	1	1
Payment guarantees	50	63
Total commitments and contingent liabilities	**850**	**886**

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

The following table shows secured liabilities:

In millions of EUR, as at 31 December

	2016	2015
Secured bank loans	5,381	1,827
Debt securities issued	-	62
Total secured liabilities	**5,381**	**1,889**

The assets pledged as security were as follows:

In millions of EUR, as at 31 December

	2016	2015
Cash and cash equivalents	985	-
Financial assets at fair value through profit and loss (repos)	293	224
Financial assets available for sale (repos)	-	10
Financial assets available for sale (other)	11	-
Financial assets held to maturity (repos)	-	2
Loans and receivables due from banks and other financial institutions	19	12
Loans and receivables due from customers	4,363	1,075
Total assets pledged as security	**5,671**	**1,323**

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

E.30.2. Other contingencies

E.30.2.1. Taxation

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

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

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

E.30.3. Guarantee received and off-balance sheet assets

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

In millions of EUR, as at 31 December

	2016	2015
Guarantees received	172	204
Loan commitments received	78	8
Value of assets received as collateral (including repos)	1,726	1,011
Total contingent assets	**1,976**	**1,223**

E.31. Related parties

E.31.1. Identity of related parties

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

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

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

E.31.2. Transactions with governing bodies and executive officers

Income of the governing bodies and key executive officers received from the Group for the year 2016 was MEUR 26 (2015, full year: MEUR 18).

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

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

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

E.31.3. Transactions with the parent company

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

In millions of EUR, for the year ended 31 December

	2016	2015
Interest income	3	2
Other income	2	1
Total revenue	**5**	**3**
Interest expense	(3)	(4)
Total expenses	**(3)**	**(4)**

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

In millions of EUR, as at 31 December

	2016	2015
Loans due from customers	7	21
Total assets	**7**	**21**
Due to non-banks	(122)	(77)
Subordinated liabilities	(7)	(22)
Total liabilities	**(129)**	**(99)**

E.31.4. Transactions with affiliates

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

In millions of EUR, for the year ended 31 December

	2016	2015
Interest income	6	8
Fee and commission income	1	-
Net gain/(loss) on financial assets	-	4
Total revenue	**7**	**12**
Interest expense	(3)	(1)
Net gain/(loss) on financial assets	(16)	-
Net impairment losses on financial assets	(1)	(1)
Acquisition cost	(5)	(1)
General administrative expenses	(14)	(6)
Total expenses	**(39)**	**(9)**

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

In millions of EUR, as at 31 December

	2016	2015
Loans due from customers	12	18
Trade and other receivables	2	1
Intangible assets	1	-
Positive fair value of hedging derivatives	23	-
Financial assets at fair value through profit or loss	1	4
Other assets	8	1
Total assets	**47**	**24**
Due to non-banks	(587)	(87)
Negative fair value of hedging derivate instruments	(12)	-
Debt securities issued	-	(13)
Trade and other payables	(9)	(105)
Total liabilities	**(608)**	**(205)**

E.31.5. Other related parties including key management personnel

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

In millions of EUR, for the year ended 31 December

	2016	2015
Interest income	15	7
Total revenue	**15**	**7**
General administrative expenses	(9)	-
Total expenses	**(9)**	**-**

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

In millions of EUR, as at 31 December

	2016	2015
Loans due from customers	251	244
Total assets	**251**	**244**
Due to non-banks	(1)	-
Trade and other payables	(3)	(1)
Total liabilities	**(4)**	**(1)**

F. Significant accounting policies

F.1. Significant accounting policies

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

F.1.1. Foreign currency

F.1.1.1. Foreign currency transactions

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

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

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

F.1.1.2. Foreign operations

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

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

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

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

F.1.2. Cash and cash equivalents

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

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

F.1.3. Financial assets

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

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

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

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

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

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

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

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

F.1.3.2. Financial assets available for sale

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

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

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

F.1.3.3. Financial assets held to maturity

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

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

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

F.1.3.4. Loans and receivables

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

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

F.1.3.5. Repurchase agreements

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

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

F.1.3.6. Lease transactions

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

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

F.1.4. Derivatives and hedge accounting

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

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

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

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

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

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

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

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

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

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

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

F.1.5. Impairment

F.1.5.1. Non-derivative financial assets

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

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

F.1.5.2. Non-financial assets

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

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

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

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

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

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

F.1.6. Inventories

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

F.1.7. Assets held for sale

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

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

F.1.8. Deferred acquisition costs of insurance contracts

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

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

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

F.1.9. Property, plant and equipment

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

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

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

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

Buildings and constructions	up to 50 years
Ducts and cables	up to 40 years
Telecommunication technology and equipment	up to 20 years
Vehicles	5-10 years
Other tangible assets and equipment	up to 10 years

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

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

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

F.1.10. Intangible assets

F.1.10.1. Goodwill and gain on a bargain purchase

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

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

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

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

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

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

F.1.10.3. Other intangible assets

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

Software	up to 8 years
Trademark	indefinite/4 years
PVFP	5/35 years (non-life/life portfolio)
Other	up to 20 years

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

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

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

F.1.11. Income tax

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

F.1.11.1. Current tax

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

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

F.1.11.2. Deferred tax

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

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

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

F.1.11.3. Tax exposure

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

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

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

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

F.1.13. Other liabilities and provisions

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

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

F.1.14. Insurance provisions

F.1.14.1. Provisions for unearned premiums

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

F.1.14.2. Provisions for outstanding claims

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

F.1.14.3. Other insurance provisions

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

F.1.15. Equity

F.1.15.1. Repurchase of share capital

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

F.1.15.2. Dividends

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

F.1.15.3. Non-controlling interests

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

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

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

F.1.16. Interest income and interest expense

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

F.1.17. Net fee and commission income

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

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

F.1.18. Net gain/loss on financial assets

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

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

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

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

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

F.1.19. Net insurance premium revenue

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

F.1.20. Net insurance benefits and claims

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

F.1.21. Acquisition costs

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

F.1.22. Other income and other expenses

F.1.22.1. Income for services rendered

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

F.1.22.2. Operating lease payments

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

F.1.23. General administrative expenses

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

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

F.1.24. Pensions

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

F.2. Changes in accounting policies and accounting pronouncements adopted since 1 January 2016

The following published Standards, Amendments and Interpretations of existing standards are mandatory and relevant for the Group's accounting periods and have been applied by the Group since 1 January 2016:

Amendments to IAS 1 Disclosure Initiative (effective from 1 January 2016)

Amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard.

The guidance on materiality in IAS 1 has been amended to clarify that immaterial information can detract from useful information; materiality applies to the whole of the financial statements as well as to each disclosure requirement in IFRS.

The guidance on the order of the notes (including the accounting policies) has been amended to remove from IAS 1 language that has been interpreted as prescribing the order of notes to the financial statements and to clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

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

Annual Improvements 2012-2014 Cycle (effective from 1 January 2016)

In September 2014 the IASB published Annual Improvements to IFRSs 2012-2014 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 5, IFRS 7, IAS 19 and IAS 34.

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

A number of new Standards, amendments to Standards and Interpretations are not yet effective as of 31 December 2016, and have not been applied in preparing these consolidated special purpose 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 consolidated special purpose financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2018)
IFRS 9 Financial Instruments, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement, and includes requirements for the classification and measurement of financial instruments, the impairment of financial assets and hedge accounting.

Classification and measurement
IFRS 9 contains 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). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9, fair value changes are generally presented as follows:

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

Impairment
IFRS 9 replaces the "incurred loss" model in IAS 39 with an expected credit loss model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ("12-month ECL") or expected credit losses resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). The initial amount of expected credit losses recognised for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognised are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

The measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available without undue cost or effort. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

The calculation of expected credit losses is likely to be based on the approach (at least for some portfolios), depending on the type of the exposure, the stage at which the exposure is classified under IFRS 9, collective or individual assessments, etc.

Hedge accounting
The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

Transition
The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Group does not intend to adopt the standard earlier.

Based on its preliminary assessment, the Group, as a significant consumer and corporate financing provider, expects that substantially all of financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9. This is relevant mainly for the consumer finance and banking segments.

It is expected that most of the Group’s debt securities will be measured at FVOCI, but the final determination will depend on the outcome of the business model test.

It is expected that deposits from customers will be continued to be measured at amortised cost under IFRS 9.

The Group is assessing the potential impact on its consolidated special purpose financial statements resulting from the application of IFRS 9. Given the nature of the Group’s operations, it is expected that the new expected credit loss model under IFRS 9 will accelerate the recognition of impairment losses and lead to higher impairment allowances at the date of initial application. The Group has not yet finalised the impairment methodologies that it will apply under IFRS 9 and is, therefore not yet able to quantify the expected impact that the initial application of IFRS 9 will have on its financial statements.

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

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

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

In April 2016 IASB issued amendments to IFRS 15 clarifying some requirements and providing additional transitional relief for companies that are implementing the new standard. IFRS 15 has been adopted by the EU.

Given the nature of the Group’s operations, this standard is not expected to have significant impact on the Group’s financial statements.

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 the fact that leases result in a company obtaining the right to use an asset (the “lease asset”) 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 the way finance leases were treated under IAS 17. IFRS 16 includes two exemptions from recognising assets and liabilities: for (a) short-term leases (i.e. leases of 12 months or less); and (b) leases of low-value items (such as personal computers).

Applying IFRS 16, a lessee will:

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

The Group is assessing the potential impact on its consolidated special purpose financial statements resulting from the application of IFRS 16. This standard is expected to have an impact on the Group’s financial statements.

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 with respect to the management of financing activities.

This standard is not expected to 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 is not expected to have significant impact on the Group's financial statements.

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

In November 2015 the IASB published annual improvements to the IFRS 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 1, IFRS 12 and IAS 28.

These annual improvements have not yet been adopted by the EU.

G. Subsequent events

G.1. Partnership with PAG Asia Capital

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 has made an investment to the Group, in a form of a long term loan provided to the Group's subsidiary Favour Ocean Ltd. and amounting to BRMB 2.162 (MEUR 279), with a view of becoming a minority shareholder of the Group's Chinese operations in the horizon of three to five years. The Group and PAG envision a long-term strategic partnership with a goal to eventually list the Group's Chinese operations on an internationally recognised stock exchange, subject to all necessary regulatory approvals.

Date:	Signature of the Board of Directors:
18 January 2018	