PPF Financial Holdings B.V.

Annual accounts 2018

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Directors' Report

Description of the Company

PPF Financial Holdings B.V.
Date of inception: 13.11.2014
Seat: Netherlands, Strawinskylaan 933, 1077XX Amsterdam
Telephone: + 31 (0) 208 812 120
Identification number: 61880353
LEI: 31570014BNQ1Q99CNQ35
Authorised capital: EUR 45,000
Issued capital: EUR 45,000
Paid up capital: EUR 45,000
Principal business: Holding company activities and financing thereof

Management Board of PPF Financial Holdings B.V. (the "Company"), is pleased to present to you the Directors' report as part of the financial statements for the year 2018. This Directors' report aims to provide a comprehensive overview of significant events within the Company as well as within the group of companies with which it forms a group.

Board of Directors

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

General information

The Company is the parent holding company of the group of companies (the "Group") that operates in the field of financial services. The Group is composed of three main investments: Home Credit Group B.V., PPF banka a.s. and ClearBank Ltd. The Company is a 100% subsidiary of PPF Group N.V. ("PPF Group").

Home Credit Group B.V. and its subsidiaries (referred to hereafter as "Home Credit" or "HC Group"), is an international consumer finance provider with operations in 10 countries in Central and Eastern Europe, the C.I.S., Asia and the USA. HC Group focuses on responsible lending primarily to people with little or no credit history. There are both licensed banks and non-banking entities within HC Group. HC Group is majority owned by PPF Financial Holdings B.V. (a 91.12% economic share as at 31 December 2018).

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

As at 31 December 2018, companies held by Home Credit Group B.V. served 28.0 million active customers across its operations: the Czech Republic (operational since 1997), Slovakia (1999), the Russian Federation (2002), Kazakhstan (2005), China (2007), Vietnam (2009), India (2012), Indonesia (2013), the Philippines (2013) and the United States of America (2015).

PPF banka a.s. (the "Bank") is an integral part of PPF Group from 2002 and it significantly participates in its domestic and foreign activities. The Bank acts as PPF Group's central treasury bank, conducting international payment operations for companies within PPF Group as well as underwriting and other investment services such as brokering finance in the capital markets.

Besides the activities for PPF Group, the Bank's services are primarily tailored to Czech clients in the municipal and corporate segments. It also operates in premium private banking sector. The Bank's principal activities comprise all types of banking transactions, and the provision of banking and financial services, both in domestic and international markets. The Bank does not compete with large universal banks or operate in the mass market and standard products.

The Bank is the market maker for Czech government bonds, it is very active in the field of corporate bonds, foreign exchange markets and interest rate financial derivatives.

ClearBank Ltd. is a start-up bank licensed in the United Kingdom in 2016 which is focused on providing clearing services. The Company holds a minority interest in ClearBank Ltd.

For more information, visit www.ppffinancialholdings.eu

Highlights

PPF Financial Holdings – holding level

In June 2018, the Company signed an agreement for the acquisition of a 100% stake in Telenor Banka a.g. Beograd, a Serbian bank providing consumer loans to the customers of Telenor Serbia, a telecommunication operator that PPF Group acquired in July 2017. The transaction was subject to regulatory approvals and closed in February 2019. The transaction has no impact on 2018 financial results.

On 31 December 2018, the Company entered into agreement for acquisition of a 2.5% stake in Home Credit Group B.V. from minority shareholder. The Group increased its shareholding in Home Credit from 88.62% to 91.12%. Although the transfer of share was legally effective on 31 January 2019, economically the Group acquired the stake on 31 December 2018. Therefore, the transaction is reflected in 2018 financial statements.

The Home Credit Group

In 2018, the HC Group performed strongly across all its markets. The headwinds in China, which stemmed from regulatory and market challenges in late 2017 and caused the HC Group to have a poor first quarter of 2018, have been successfully addressed. As expected, the HC Group has ultimately benefited from the changes; with its country business is back on track with excellent sales results, lowered fixed costs delivered by technology-driven innovations, and a sustainable risk profile. The HC Group's businesses around the world continued rapidly expanding their scale and delivered profitability, which grew with even faster pace. The HC Group posted MEUR 422 in net profit. Home Credit's businesses are widely regarded as innovative and high-tech. Technology not only provides for operating costs savings but, even more importantly, through implementation of data science and biometrics, it enables the HC Group to deepen its inclusive financial services supported by leading-edge risk management. At the same time, technology also delivers a substantially enhanced customer experience, starting from a fully digitized sales process and more convenient KYC procedure, to much-shortened

“time-to-yes”, an offline offer merged with online, and even faster customer service provided by chat-bots.

2018’s key themes revolve around the HC Group’s profitability growing faster than its operations’ scale. The very strong performance the HC Group delivered in 2018 is based on “smart growth”, a triangle of scale, diversification and productivity. The diversified assets and income base that the HC Group has built throughout South-East Asia and China, together with its continually-expanding scale, and its operational efficiency heavily supported by technology and data science, are all the key drivers behind the HC Group’s long-term success. In 2018, the initiatives that were gradually introduced earlier, such as alternative distribution, online-to-offline sales models, AI-driven automation and fully digitized in-store sales, brought their sought-after benefits: a major, sustainable move of the HC Group’s cost base towards variable costs. As a consequence, the HC Group’s cost-to-income ratio fell by 8% y-o-y from 52% to 44% as productivity increased. As the HC Group also succeeded in further diversified its funding base, the cost of funds grew at a much slower pace than our pricing which, in combination with the HC Group’s growing scale, brought the net interest margin up by 1% y-o-y from 15% to 16%.

At the same time, the HC Group’s profit has diversified geographically and is now more evenly balanced among the HC Group’s geographical clusters: China; Commonwealth of Independent States (“CIS”); Central and Eastern Europe (“CEE”) and South East Asian including India (“SEA”).

This tells the best of the HC Group’s sustainable growth story: pleasing performance and strong profit delivery based on investments in business development over the last five years. The HC Group thus boasts a wide portfolio of successful businesses across its footprint, sustaining market-leading positions, while staying able to quickly adapt to seize new opportunities.

PPF banka

2018 was the most successful year in the Bank’s history. PPF banka made its biggest profit ever, was again the most active dealer on the primary market in Czech government bonds, and successfully completed its core system upgrade.

In 2018, the net profit was MEUR 85, up by almost 45% on 2017. The main growth driver was the increase in net interest income, reflecting the rising interest rates on the Czech market. In tandem with this, PPF banka remained highly efficient in its financial management and reduced the cost-to-income ratio to 30.5%, down from 35.2% in 2017. PPF banka’s high profitability in 2018 gave it the opportunity to redeem subordinated bonds of CZK 1.4 billion early and still achieve growth in its total capital ratio to 16.3%.

In 2018, as in the year before, PPF banka was the most active dealer on the primary and secondary market in Czech government bonds. The Czech Ministry of Finance ranked the Bank top in its overall assessment of primary dealers.

The Bank is making progress in the implementation of an IT strategy that aims to simplify, digitise and speed up customer processes. In 2018, the Bank successfully completed our project to upgrade our core MIDAS system and launched a project of new PPF banka internet banking, which focuses on increasing value for clients and honing the customer experience.

ClearBank

Since 2016, the Group started to invest 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 digital bank is jointly regulated by the Prudential Regulation Authority and the Financial Conduct Authority, and since 2017 it started to provide clearing and settlement services to non-retail customers as part of its core business model. During 2018, the business continued to build capability and volume

and won a number of significant customer mandates. As of 31 December 2018, the Group holds a 37.7% share, entailing an investment of MEUR 46.

Key business and financial results

Consolidated financial highlights

	2018	2017
Total assets (BEUR)	32.3	30.3
Gross loans (BEUR)	20.6	18.1
Deposits (BEUR)	11.7	12.1
Total equity (BEUR)*	3.0	2.8
Net profit (MEUR)	511	307

* Impact, net of tax, of the introduction of IFRS 9 amounts to a reduction in equity of MEUR 213 at 1 January 2018.

At of 31 December 2018, the total consolidated equity of PPF Financial Holdings B.V. amounted to MEUR 2,970 (2017: MEUR 2,783). Total assets increased from MEUR 30,251 to MEUR 32,316 which is attributable mainly to the growth of loan portfolio in Home Credit.

The consolidated net profit of the Group for 2018 reached MEUR 511 (2017: MEUR 307). The main driver of this increase is improved performance of Home Credit and the highest positive result of PPF banka in its history.

The Home Credit Group

Consolidated financial highlights

	2018	2017
Total assets (BEUR)	23.6	21.5
Gross loans (BEUR)	19.6	16.9
Deposits (BEUR)	6.8	6.4
Total equity (BEUR)*	2.15	2.04
Net profit (MEUR)	422	244
Net interest margin	15.5%	14.7%
Cost of risk	10.6%	8.9%
Cost-to-income ratio	44.3%	52.0%
Return on average equity (RoAE)	21.7%	14.5%
Number of distribution points (ths.)	437	399
Number of active customers (mil.)	28.0	29.9

* Impact, net of tax, of the introduction of IFRS 9 amounts to a reduction in equity of MEUR 203 at 1 January 2018.

Home Credit's net profit for the year ended 31 December 2018 was MEUR 422, nearly double the amount the preceding year (2017: MEUR 244).

The HC Group's rapid recovery from a modest loss in the first quarter, which was primarily caused by market turbulence in China, demonstrated the HC Group's resilience and its solid financial footing. Moreover, as expected, the momentary tightening of regulatory conditions in this market eventually led to a more stable and well-regulated space, where customers of former unlicensed players have gravitated towards more established companies, both of which have benefited Home Credit.

The HC Group's net interest margin has increased from 14.7% in 2017 to 15.5% in 2018 thanks to portfolio growth and thanks to the cost of funds increasing at a slower rate compared to pricing.

Risk performance remains strong, with the risk-based pricing adopted in 2017 underpinning it. The cost-of-risk ratio increased slightly overall from 8.9% to 10.6%, although this is largely attributable to the

growth in the HC Group's portfolio, particularly in China; since the first quarter of 2018, the cost-of-risk ratio in China has been improving gradually every quarter and is now back to the levels seen before the regulatory tightening at the end of 2017.

The HC Group's funding has diversified further thanks to a number of new financial instruments issued throughout the year, such as the first-ever financial bond issued by a consumer finance lender in China, certificates of deposit in India, asset-backed securities, syndicated loans and bonds.

In terms of assets, the HC Group saw a 13% increase in loans to customers, with BEUR 7.5 of loans on the HC Group's books; the HC Group's operations in SEA, that were until recently in the investment stage, this represents while still managing operational expenses and achieving profit On the liabilities side, deposits increased by 7%. RoAE rose to 21.7% in 2018 vs. 14.5% a year earlier.

Operationally, the HC Group continued to expand its reach through points of sale, with 437,417 locations as at 31 December 2018 compared to 399,276 one year prior, while simultaneously expanding its online channels. The number of employees has at the same time been streamlined from 157.7 thousand at the end of 2017 to 125.4 thousand at the end of 2018.

HC Group's individual geographical clusters are all performing strongly.

In China – where Home Credit's business was one of the first four consumer finance companies in China to gain a nationwide consumer finance license - regulatory changes at the end of 2017 brought short-term market challenges, as well as a temporary increase in risk cost in early 2018. As expected, however, corrective actions taken during the last quarter of 2017 remedied the cost of risk increase later in 2018 (13.9% at the end of 2018 compared to 12.8% at the same period of 2017). Loans to customers amounted to MEUR 10,919, an 12% y-o-y increase from MEUR 9,727 a year earlier. The company has maintained the scale of its POS network with a net increase of 16 thousand points of sales, while also transitioning to an alternative distribution (ALDI) model in many locations; ALDI points of sale have grown to 87 thousand in 2018 from just under 6 thousand the preceding year.

The headline in CIS geographical cluster would read "the business volumes grew while credit risk metrics remained at historical lows". Overall macroeconomic environment stabilised although an adverse effect of low prices of crude oil, a major export commodity, and the foreign investments outflow continued being a clear burden. As shallow retail demand gradually recovered, the HC Group successfully refocused on customer segments which enabled it to grow. Loans to customers reached MEUR 3,083, up from MEUR 3,004 a year ago. The implementation of high technologies in combination with data science had a two-fold impact: it positioned the HC Group as a true leader in predictive risk modelling and, at the same time, the business had been given a powerful tool to be quick on the market with a tailor-made offer to the best customers. The cost of risk stood at 1.9% as at end of 2018. Simultaneously, the HC Group's business in CIS cluster saw a strong increase in number of customers who exclusively use online services, including online underwriting of loans. The online lending was substantially eased by the Government-run, nation-wide program of biometrics database in Russia which the HC Group joined from the early stage. The mobile app proved to be a strong acquisition tool which brought young, tech-savvy generation to the customer base.

The major highlights for SEA geographical cluster which includes India, Indonesia, the Philippines and Vietnam, was substantially extended scale and growing reach to customers which, in combination, brought an increased market share, improved profitability and better brand recognition in every local market. Overall, the HC Group has served altogether over 19 million customers in SEA in last five years, while the number of customers who have an outstanding loan ("active customers") amounted to MEUR 8,877 as at the end of 2018, an increase of one million people y-o-y. The Group's geographic presence across SEA expanded by 17.205 stores up to 62.500 in just one year. Half of the points of sales were located within India, one in ten stores is operated in the Philippines, one in five in Indonesia. The SEA loans to customers significantly grew and at the end of the year reached MEUR 1.915, a 37% increase from the previous year.

The CEE is currently represented by two mature "home markets" – the Czech Republic and Slovakia – which are the oldest and, given the markets' size, also the smallest in the Group's portfolio. Highlights here are "an increased cost efficiency and outstanding risk performance". The CEE geographical cluster delivered improvements in underwriting based on the changes in decision system logic. Better usage of alternative data sources, together with upgrades in scorecards, contributed to more accurate risk prediction. This allowed the company to increase the approval rate by 8% (Czech business) compared to 2017, without a negative impact on risk costs. The loans to customers increased by 14% y-o-y and amounted to MEUR 1,494 at the end of 2018 compared to MEUR 1,309 a year ago. The cost of risk dropped to 0.2% at the end of 2018 from 0.7% at the end of previous year.

PPF banka

Unconsolidated financial highlights

	2018	2017
Total assets (BEUR)	9.1	9.1
Gross loans (BEUR)	1.3	1.3
Deposits (BEUR)	5.2	6.2
Total equity (MEUR)	452	397
Net profit (MEUR)	85	58
Adjusted NPL ratio	7.7%	6.8%
Unadjusted NPL ratio	12.9%	13.8%
Cost-to-income ratio	30.5%	35.2%
RoAE	20.4%	15.8%

PPF banka recorded its best ever result in 2018, reporting a profit after tax of MEUR 85. This was MEUR 27 better than in 2017, which itself was a highly successful year.

Equity increased by almost 15% to MEUR 452. The volume of receivables from customers rose by 4% to BEUR 1.34. Total assets nudged up from BEUR 9.1 at the end of 2017 to BEUR 9.14 at year-end 2018.

Net interest income increased 41% year on year, climbing from MEUR 96 in 2017 to MEUR 135 in 2018. This enormous rise in net interest income can mainly be attributed to interest income, which grew by MEUR 55, far above the MEUR 16 hike in interest expense. The CNB's repo rate increases made the most significant contribution to the higher interest income. Net fee and commission income remained at the same level in 2018 as in 2017. The net profit on financial operations came to MEUR 14 in 2018. As in the previous year, the securities trading results were excellent.

At the end of 2018, assets stood at BEUR 9.1. Deposits at the central bank amounted to BEUR 6.4, a year-on-year rise by almost 4%. Receivables from customers were BEUR 1.3, up by nearly 4% on 2017. Financial assets measured at fair value through profit or loss rose slightly, financial assets measured at fair value through other comprehensive income decreased to BEUR 0.7. This fall is linked to the fact that the Bank was capitalising on the bond market situation.

Compared to the balance at the beginning of 2018, when the new rules under IFRS9 were applied for the first time, value adjustments to performing exposures rose by a modest MEUR 1.

The gross value of non-performing loans and advances to customers, adjusted for volumes covered by EGAP insurance, came to BEUR 0.1 at the end of the year. The current adjusted NPL ratio, factoring in this consideration, is 7.7%. The unadjusted NPL ratio of non-performing loans slipped by 1% compared to the end of 2017 to 12.9%

The main source of financing remains liabilities due to customers, which totalled BEUR 5.2 in 2018. At the end of 2018, the Bank was drawing on total credit facilities of BEUR 8.7, the same as in 2017.

PPF banka operates as PPF Group's hub for access to financial markets. The same investment services are also provided to a wide range of our other customers.

Securities

As in previous years, PPF banka was very actively involved as a market maker for Czech government bonds, topping the Czech Ministry of Finance's ranking of primary dealers for 2018 as a whole. This methodology takes into account comprehensive criteria in the initial subscription of government bonds (the primary market) and quoting activity on the secondary market (the MTS Czech Republic electronic trading platform). The total volume of securities trading rose year-on-year from BEUR 5.9 to BEUR 6.1, especially in the domestic bond segment (2018: BEUR 5.5; 2017: BEUR 4.9). By contrast, the decline in the volume of domestic equities traded on the Prague Stock Exchange (2018: MEUR nil; 2017: MEUR 97) can be attributed to much lower customer activity and a shift to foreign stock exchanges.

PPF banka organised several bond issues of PPF Group companies that aggregated approximately BEUR 0.3. PPF banka acts as the manager and administrator for these issues.

Foreign exchange and derivative markets

On the foreign exchange market, the Bank maintained high numbers of transactions and a broad product portfolio. There was a slight decline in volume of foreign exchange market transactions compared to 2017 (2018: BEUR 20.1; 2017: BEUR 27.7). We ascribe these fluctuations to the base effect, i.e. the exceptionally active market in 2017, which was prompted by the CNB's foreign currency interventions and the termination thereof. As far as interest-rate derivatives are concerned, PPF banka significantly increased its activity on FRA markets and provided liquidity for the market in CZK interest-rate swaps.

As in the past, in 2018 the Bank again focused on our role as PPF Group's central treasury bank and, in various tasks, engaged in the hedging of risks for Group companies. With these transactions, the Bank acts as a counterparty and as the hedge provider or auction organiser (i.e. the hedge coordinator).

Corporate banking and the public sector

In 2018, the Bank's corporate banking continued to focus on developing, enhancing and cultivating business relationships with key clients in segments in which the Bank has long specialised. These primarily include manufacturing, energy (both in the Czech Republic and abroad), and wholesale and retail, as well as engineering, food processing, and logging and wood processing. Looking at these segments, in 2018 the Bank made successful acquisitions in wholesale and energy (with links to the agricultural sector in both cases). The Bank also developed activities in the segment of financial institutions, loan providers and leasing companies. The Bank successfully continued to seek out and promote new attractive real estate projects, the share of which has supported our portfolio's growth and stability.

In 2018, PPF banka's export and structured financing activities continued to focus on providing services to clients in the Czech Republic, the Commonwealth of Independent States (CIS), and Central and Eastern Europe. The Bank also provides services to Czech exporters and investors expanding abroad, and helps Czech and foreign investors to finance projects and acquisitions. In 2018, the Bank continued to finance a range of major structured financing transactions in Europe and Asia in support of its clients' development and acquisition activities. In 2018, PPF banka gave significant backing to the expansion of the Home Credit group in Asia and America.

Staff development

The Company has no employees and therefore no organisational structure. All Group employees are employed by the subsidiaries of PPF Financial Holdings B.V.

The average number of employees during 2018 was 136,000 (2017: 145,000).

Social aspects of operating the business (relevant predominantly to the HC Group)

The Company has no operations. Operations are conducted by its subsidiaries operating in each of the Group's countries. The subsidiaries have their own social policies that are reflective of specific local regulatory requirements and of specific local challenges and opportunities to contribute to society more broadly.

In general, the Group's business model of making financial services accessible to people with lower incomes is a major part of the Group's understanding of sustainability and social benefit. Financial inclusion is a key pillar of Group companies' work in each market where they operate. Those who are excluded from the formal financial system are still producers and consumers who need access to finance; having this access can help them build assets, create and sustain livelihoods, manage risks, overcome liquidity constraints and smooth consumption. Without access to the formal financial system, informal systems that are often unreliable and very expensive can hinder societal development and block individual potential.

Globally, it is estimated that there are some 2.5 billion "unbanked" individuals – people without a credit or savings account at a formal financial institution, and no regular contact with such. This does not, however, imply that they cannot pay back a loan or benefit from one. Consumer finance – the Group's core business – closes this gap. The Group's businesses include these communities from the outset. Group Companies' pre-contractual lending offers and their written loan contracts are designed to give a transparent and easy-to-understand description of the cost and obligations of a loan, thereby giving potential customers all the information they need to make qualified decisions about borrowing. The Group has thus been able to provide loans to over 100 million customers, many of them first-time borrowers.

The Group also works hard to advance financial literacy in the countries and communities where it operates. Financial literacy refers to the set of skills and knowledge that allows an individual to make informed and effective decisions about their financial resources. The connection between financial inclusion and financial literacy is fundamental, but is often overlooked. Studies have shown that consumers around the world display limited knowledge and understanding of financial products and concepts, which presents them with difficulty when trying to make long-term informed financial decisions. This can affect not only the future financial well-being of individuals and households, but also the long-term stability of financial and economic systems. The Group answers this challenge through its wide-ranging programme of financial literacy education, which includes competitions, media and online campaigns, as well as roadshows, theatre, workshops and seminars, and public teach-ins at points of sale. The Group also works with young people, teaching them how to use money responsibly through school classes and educational material designed in concert with local and national education authorities. These programmes accompany Group Companies in every market where they operate.

The Group also recognises the value of formalised corporate social responsibility programmes that provide direct benefits to communities in which Group Companies operate. The aims of the Group's CSR are closely linked to the Group's overall objectives of broadening financial inclusion, increasing financial literacy levels and promoting responsible lending. They include initiatives like university scholarships for children from disadvantaged backgrounds, contributions to local emergency relief efforts and other pressing local causes, and employee volunteering.

Environmental influence, research and development

The Group is aware of the importance of maintaining a healthy and undamaged environment for the current generation and future generations. Although the nature of its core activities do not have a major impact on the environment, the Group nevertheless strives to limit negative environmental impacts in its everyday activities through moving the majority of its loan contracts onto paperless or online carriers, as well as common sense energy-saving work done in its offices.

The Group dedicates ample resources to research and development activities, primarily in the area of the development of new credit scoring techniques using advanced data enrichment ("Big Data"), feature engineering, and advanced tooling (which uses non-structured data analytical tools). The Group also invests into anti-fraud processes, and more general research into the consumer finance sector, including collaborative projects with major universities in Group companies' markets.

Information supply and computerisation

The HC Group's IT applications and systems are decentralised by segments. Back office systems in use are mostly industry standard applications, mainly desktop office applications. In addition to this, the HC Group uses a proprietary credit analytics and scoring system, HOMER, that is developed by the HC Group's in-house IT team, known as EmbedIT. The HC Group also uses both off-the-shelf and customised solutions for CRM and sales management, including advanced machine-learning and AI solutions, which also interface with customers through, for example, voicebots and chatbots. All systems are backed up appropriately, and regular security testing and audits are carried out in line with both regulations and industry best practice.

In PPF banka, 2018 was primarily a year in which there was the successful implementation of regulatory requirements, the completion of an upgrade for the main banking system, intensive work on projects linked to customer service, and the reinforcement of security mechanisms within the Bank's infrastructure.

Corporate governance

The Company has a two-tier management structure consisting of its management board (bestuur) (the "Management Board"). The Management Board represents the Company in all matters and is charged with its day-to-day business management. The Company has no administrative, management or supervisory body other than the Management Board despite being established as two-tier under Dutch law as all members of the Management Board are executive.

Shareholders meeting

The Company's supreme governing body is the shareholders' meeting. During each financial year, at least one shareholders' meeting must be held or at least once a resolution must be adopted without a meeting in accordance with the provisions in the Articles of Association (statuten) of the Company ("Articles of Association") for resolutions outside of the shareholders' meetings.

Convocation of shareholders' meeting

The shareholders' meeting shall be convened in writing by the Management Board no later than on the eighth day prior to the date of the meeting. Shareholders and other persons entitled to attend a shareholders' meeting, representing in the aggregate at least 1% of the issued share capital, may request the Management Board to convene a shareholders' meeting.

The notice of convocation shall specify the subjects to be discussed as well as the date and time of the meeting. The agenda for the annual shareholders' meeting contain inter alia the following points for discussion:

- the annual report;
- adoption of the annual accounts;
- discharge of the members of the Management Board of their management during the financial year concerned;
- appropriation of the profits or determination how a deficit will be accounted;
- filling of any vacancies.

Attendance at the shareholders' meeting

The shareholders' meeting may be attended by any person that is registered as a shareholder in the register of shareholders, which is kept by the Management Board. Each person entitled to attend general meetings may be represented at the meeting by a proxy authorised in writing.

Each member of the Management Board has the right to attend the shareholders' meeting.

Procedures at the shareholders' meeting

The shareholders' meeting shall itself appoint a chairman. Until the appointment, a member of the Management Board shall act as chairman.

Each person entitled to attend shareholders' meetings is entitled to address the meeting and – if the voting rights accrue to him – to exercise his voting rights.

With respect to subjects which have not been included in the notice of convocation, no resolutions may be adopted, unless all persons entitled to attend general meetings have consented that the decision-making with respect to these subjects will take place and the members of the Management Board have been given opportunity to advise prior to the adoption of the resolution.

Minutes shall be kept of the proceedings at every shareholders' meeting by a secretary designated by the chairman.

Decision making at the shareholders' meeting

Each share confers the right to cast one vote. All resolutions in respect of which no greater majority is required by law or by the Articles of Association shall be passed by an absolute majority. Pursue the Articles of Association, a higher quorum is not required for any decision.

If there is a tie in voting at the election of persons, a drawing of lots shall determine the issue. If there is a tie in voting on other matters, the proposal shall be considered rejected.

The members of the Management Board may decide that votes cast prior to the general meeting by electronic means of communication shall be valid as those cast at the time of the meeting.

The chairman's decision at the meeting on the result of a vote shall be final and binding.

No vote may be cast at the shareholders' meeting with respect to a share belonging to the Company or to a subsidiary thereof.

Management Board

The Management Board is the Company's statutory body, which directs its operations and acts on its behalf. The shareholders' meeting elects the members of the Management Board for a term of office determined by the shareholders' meeting in its sole discretion. Re-election of the members of the Management Board is permitted. Pursuant to the Articles of Association, the Management Board has at least one member.

The Management Board shall meet whenever a member of the Management Board requires so.

The Management Board adopts its resolution by an absolute majority of votes cast. In a tie vote, the shareholders' meeting shall decide.

A member of the Management Board shall not take part in the deliberation and decision-making of the Management Board if he personally has a direct or indirect conflict of interest that contradicts the interest of the Company and its connected enterprises.

The Management Board may also adopt resolutions without holding a meeting, provided that all members of the Management Board entitled to vote have consented to this manner of adopting resolutions.

All members of the Management Board are obliged to perform their tasks and duties further to the office in the best corporate interest of the Company and the undertaking attached to it, as required under Dutch law. Pursuant to the Articles of Association, the members of the Management Board are authorised to solely and independently represent the Parent Company.

In line with the article 3(1) (25) of the Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse, the Company identified the members of the Management Board as the persons discharging managerial responsibilities.

In 2018, the Management Board had five members. All five members of the Management Board were executive. All directors have been members of the Management Board since November 13, 2014, i.e. there has not been any changes in the composition of the Management Board since the establishment of the Company.

The Articles of Association do not differentiate between the roles of the individual members of the Management Board. In particular, there are no such roles as the chairman of the Management Board or the chief executive officer. There is no differentiation between executive and non-executive members, or independent and non-independent members of the Management Board.

The directors focus on the following areas of the management of the Company:

- the management of the group and of the risks related to group structures;
- the management of investments in subsidiaries;
- the legal and regulatory environment of the Company;
- the legal and regulatory environment of the Group;
- financial accounting, tax, and reporting;
- the risk management, compliance and internal audit;
- the capital and funding management.

The directors of the Company also serve as the members of the statutory bodies of the parent company PPF Group N.V. or have managerial roles in the parent company group. As of 31 December, 2018:

- Mr. Jansen served as a director of PPF Group N.V.,
- Mr. Bosveld served as a director of PPF Group N.V.,
- Mr. Král served as a member of the supervisory board or PPF Group N.V. and as general counsel, PPF Group,
- Mrs. Jirásková served as Chief Financial Officer, PPF Group.

Beside the above listed activities, the members of the Management Board do not perform any activities outside the Company that are significant to the Company.

<u>Audit committee</u>

An audit committee has been established at higher level within the PPF Group (specifically as a committee of supervisory board of PPF Group N.V.) in compliance with all conditions of the Dutch transposition of Article 39 (3) (a) of Directive 2006/43/EC, as a result of which the Company as PPF Group N.V.'s subsidiary is entirely exempt from obligations in respect of an audit committee. Due to the application of the aforementioned exemption, the audit committee follows all obligatory responsibilities in relation to PPF Financial Holdings B.V. starting from 27 August 2018.

The responsibilities of the audit committee include:

- supervising and monitoring the financial reporting process and contributing to ensuring its integrity;
- developing and ensuring compliance with the procedure for the selection process of the external auditor;
- monitoring the statutory audit of the financial statements;
- maintaining frequent contact and supervising the relationship with the external auditor, including in particular:
    - assessing the external auditor's independence and non-audit work for the Group;
    - determining the involvement of the external auditor in respect of the contents and publication of financial reporting by the Group other than the annual accounts; and
    - taking note of irregularities in respect of the content of the financial reporting as may be reported by the external auditor.
- supervising, monitoring of, and advising the Management Board on the effectiveness of the internal control and risk management systems, as well as of the internal audit.

The audit committee was composed of three members:

- František Dostálek, Chairman
- Kamil Ziegler, Member
- Lubomír Král, Member

There has been no changes in the composition of the audit committee since its establishment.

The audit committee adopts its resolution by a majority of the votes cast at a meeting at which at least half of the members of audit committee are present or represented.

Principles of remuneration

The Company implemented a remuneration framework (applicable for the Group). The remuneration framework includes principles of the remuneration which apply to the remuneration of all staff and to the remuneration of the persons discharging managerial responsibilities as well key principles applicable to the remuneration of the persons discharging managerial responsibilities including:

- compliance with the regulatory requirements on remuneration in financial holding companies.
- limit on the ratio between the variable and fix component of the remuneration (current applicable limit is 100% between the variable and the fix component);
- deferral of a portion of the variable remuneration. The deferral period is at least 3 year. At least 40 % of variable remuneration is deferred;
- variable remuneration in instruments (i.e. non-cash). The equity instruments issued by the Company are not traded, therefore, a virtual (shadow) equity certificate for remuneration was created.

The shareholders' meeting determines the absolute remuneration and further conditions of employment for each member of the Management Board. The members of the Management Board have not received any cash or in-kind remuneration from the Company or its subsidiaries in 2018.

The members of the Management Board do not own any share of the Company nor have any option rights on the shares of the Company.

Code of conduct

PPF Group N.V. as the parent of the Company implemented a corporate compliance programme, which sets out the fundamental principles and rules of conduct for employees in the Group and enables compliance checks and putting remedies in place when shortcomings are discovered or objectionable or illegal conduct identified. An important part of the programme is The PPF Group Code of Ethics that deals among other topics with protection of human rights and the prevention of corrupt conduct in all Group activities. Internal PPF Group policy on corporate compliance internal investigation further regulate how workers, managers and the governing and inspection bodies of the Group should proceed in case of suspicion, investigation and discovery of action which is unethical or improper and/or action which is contrary to legal regulations or the Code of Ethics of PPF Group.

The Management Board of the Company implemented PPF Group Code of Ethics and PPF Group policy on corporate compliance internal investigation.

Conflict of interest

The Company is not aware of any conflict of interest of persons discharging managerial responsibilities in the Company in connection with their roles in the Company.

Diversity policy

The Company does not yet pursue a diversity policy applicable to the members of the Management Board. The size and composition of the Management Board and the combined experience and expertise of their members should reflect the best fit for the profile and strategy of the Company. This aim for the best fit, in combination with the availability of qualifying candidates, has resulted in Company currently having a Management Board in which four members are male and one member is female. The directors have a mix of economic and legal education.

In order to increase gender diversity on the Management Board, in accordance with article 2:276 section 2 of the Dutch Civil Code, the Company pays close attention to gender diversity in the process of recruiting and appointing new members of the Management Board. The Company will retain an active and open attitude as regards selection of underrepresented gender candidates in the Management Board.

Corporate governance code

The Company is not required by the applicable law to follow any particular corporate governance code. Additionally, the Prague Stock Exchange, where the financial instruments issued by the Company are listed, does not require the Company to implement any particular corporate governance code.

The Company, as a financial holding company, is subject to prudential supervision on consolidated basis by the Czech National Bank as stipulated in the Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and its transposition in the Czech law. Significant portion of the prudential regulation relates to the corporate governance of the Company. The Management Board is of the view that because of the high standard of the prudential regulation it is not necessary to follow any additional corporate governance code.

Approach to risks associated with the financial reporting

Pursuant to the Dutch legislation, the Company keeps its books in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. All subsidiaries, regardless

of the accounting standard they use to prepare their individual financial statements, report data for PPF Financial Holdings consolidation purposes according to IFRS.

Unified accounting policies followed by the subsidiaries are defined in the PPF Group accounting manual in full compliance with generally applicable accounting standards. The standards are further supplemented with a set of auxiliary guidelines detailing specific technical and methodical areas of the accounting process.

On the Group level there is a strict division between accounting and reporting functions followed by appropriate segregation of duties within the internal review system.

Only users with appropriate rights have access to the individual accounting systems. Access rights for the system are granted by means of a software application and subject to approval by a superior and a system administrator. Access privileges are granted according to each employee's position. Only employees of the relevant accounting department have privileges for active operations in the accounting system. The accounting system allows identifying the user that created, changed, or reversed any accounting record.

Reporting data for the purposes of preparation of the consolidated accounts are stored in the Group consolidation system. Only users from the consolidation department with appropriate rights have access to the group consolidation system. Access rights for the system are granted by means of a software application and subject to approval by a superior and a system administrator. The Group uses an on-line application for monitoring and reconciliation of intercompany transactions that are eliminated within the consolidation process. Only users with appropriate rights have access to the intercompany application. Consolidation system enables to monitor and track all source data used within the consolidation process – source individual data, intercompany eliminations, consolidation accounting and manual adjustments.

These annual financial statements are subject to external audit that implies that financial data used for consolidation are also subject to component audits. The Group also prepares an interim consolidated financial statements that are reviewed by the auditor.

The effectiveness of the Group's system of internal controls, the process of compiling PPF Financial Holdings' individual financial statements and consolidated financial statements, and the process of auditing financial statements are also reviewed by the Audit Committee, which conducts these activities as the Company governance body without prejudice to the responsibilities of members of the Management Board.

Information on regulated markets and rating of the Company

Neither the Company nor any financial instruments issued by the Company have been assigned a rating by a credit rating agency.

The company issued two debt instruments. One of the debt instruments was admitted to trading on Prague Stock Exchange.

Name of the Issue	ISIN	Date of the Issue	Due Date	First Trading Date	Regulated Market
PPF FIN.H. VAR/27	CZ0000001011	18 December 2017	18 December 2027	27 August 2018	Prague Stock Exchange
PPF FIN.H. 3,60/28	CZ0000001078	21 September 2018	21 September 2028	N/A	N/A

Financial instruments and risk management

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

The Group's primary exposure to credit risk arises from the provision of consumer financing to private customers, which is the Group's principal business in its Home Credit Group subsidiaries, and from the provision of corporate loans and from financial market transactions in its PPF banka subsidiary. The credit risk is managed both at the level of individual subsidiaries and at the Group level.

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

All financial instruments and positions are subject to market risk: the risk that future changes in market conditions may change the value of the instrument. The majority of the Group's exposure to market risk arises in connection with the funding of the Group's operations with liabilities denominated in foreign currencies, and to the extent the term structure of interest-bearing assets differs from that of liabilities. In PPF banka, the Group may actively assume market risk exposure to profit from the financial market development. Such exposures are subject to strict limits and daily monitoring.

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

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

Outlook for 2019

Macroeconomic development in countries where the Group operates

The Group anticipates continuing economic growth and increasing private consumption in most of the countries where the` Group operates. The fundamentals for the consumer finance business in Asia remain solid and are based on the convergence of consumption with more developed markets. The Group closely monitors the fluctuation of emerging market currencies and interest rates trends as well as inflationary trends.

The regulatory framework for consumer finance across the various operating markets continues to evolve largely in favour of regulated businesses such as Home Credit. This trend is likely to continue in 2019.

Commercial and financial outlook

The Home Credit Group will continue to grow its portfolio especially in the SEA region; loans to customers are expected to grow while building on economies of scale and customer retention. Demand for the Home Credit Group's loan products is anticipated to remain stable in the mature markets in Europe and Russia whereas the rate of growth in Asian markets will continue to progress at a rapid pace.

As in the previous periods the Home Credit Group will remain focused on profitability and efficiency of operations to further enhance the sustainability of the business.

The HC Group will continue to develop its distribution network and direct the multichannel distribution network towards more flexible, lower fixed cost channels.

The HC Group aims to further improve the cost income ratio of the entire business compared to 2018. It is hoped that the increased use of advanced technologies throughout the processes in the Group (such as voicebots and chatbots in call centres as well as advanced risk assessment techniques in underwriting) will help to further optimise operating and risk costs respectively.

PPF Banka expects that the positive momentum seen in 2019 and the very strong performance across all its divisions will continue.

In Amsterdam on 30 April 2019,

Directors of PPF Financial Holdings B.V.

Annex:

Alternative performance measures

In this report, the Company uses financial measures defined or specified in the applicable financial reporting framework, which relate to the performance of the subsidiaries. Those financial measures may be reconciled with the respective consolidated or individual financial statements of the subsidiaries but not with the financial statements of the Company.

Additionally, the Company uses in this report alternative performance measures. An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The definitions or references to the definitions of the alternative performance measures used in this report are provided below. For each alternative performance measure, it is indicated if the alternative performance measure may be reconciled with the financial measures in the financial statements.

Performance Measure	**Purpose and Definition**
Adjusted NPL ratio	**Purpose:** The NPL ratio is a measure of the portfolio credit quality. Usually, a higher NPL ratio is associated with lower portfolio quality. **Definition:** Gross non-performing loans and advances to customers less Guarantee provided by EGAP to these loans / Gross performing loans and advances to customers **Reconciliation with financial statements:** This measure is used for the description of the performance of PPF banka a.s. It cannot be reconciled with the financial statements of the Company or with the financial statements of PPF banka a.s.
Cost-of-risk ratio	**Purpose:** Cost-of-risk ratio is a measure of credit risk of a loan portfolio. A lower cost-of-risk ratio is associated with lower credit risk of a loan portfolio. **Definition:** Impairment losses on financial assets / Average loans to customers The Average loans to customers for a given year are calculated as the average of loans to customers at the end of Q4 of the previous year and Q1, Q2, Q3, and Q4 of the respective year. **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. It cannot be reconciled with the financial

	statements of the Company. However, it may be reconciled with the financial statements of Home Credit Group B.V.
Cost-to-income ratio	**Purpose:** Cost-to-income ratio is a measure of operational effectiveness of a company. A lower cost-to-income ratio is associated with better company performance. **Definition:** When used for Home Credit Group B.V.: (General administrative expenses + Other operating expenses) / Operating income When used for PPF banka a.s.: Operating expenses (including donations and excluding impairment (loss)/reversal) / Operating income **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. and of PPF banka. It cannot be reconciled with the financial statements of the Company. However, it may be reconciled with the financial statements of Home Credit Group B.V. and with the financial statements of PPF banka.
Deposits	**Definition:** The term is used as a synonym for due to non-banks as used in the financial statements of the Company, as a synonym for current accounts and deposits from customers as used in the financial statements of Home Credit Group B.V., and as a synonym for deposits due to customers as used in the financial statements of PPF banka a.s.
Gross loans	**Purpose:** Gross loans is a volume measure which is used to provide information on the amount of loans disbursed in the past and still outstanding at the reporting date before the deduction of the allowance for impairment. **Definition:** When used for the Company in 2018: Gross amount of Loans due from customers – retail + Gross amounts of Loans due from corporations – non-retail as these terms are used in financial statements of the Company, Notes E.4.1.1 and E.4.1.2.

	When used for the Company in 2017, the value is a synonym for total gross amount as used in the financial statements of the Company, Note E.4.1.2. When used for Home Credit Group B.V.: It means the gross amount of loans as used in the financial statements of Home Credit Group B.V. Note 11.
Interest earning assets	**Purpose:** The interest earning assets is a volume measure used in the calculation of the net interest margin. **Definition:** The Interest earning assets are defined as assets for which interest is charged such as loans due from customers or loans and receivables due from banks and other financial institutions. **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. It cannot be reconciled with the financial statements of the Company or with the financial statements of Home Credit Group B.V.
Net interest margin	**Purpose:** The net interest margin is a profitability measure. Although the net interest margin of various loan portfolios is not directly comparable (for example due to the credit risk or administrative costs), a higher net interest margin is usually associated with higher profit. **Definition:** Net interest income / Average interest earning assets The average interest earning assets for a given year are calculated as an average of the interest earning assets at the end of Q4 of the previous year and Q1, Q2, Q3, and Q4 of the respective year. The interest earning assets are defined as assets for which interest is charged such as loans due from customers or loans and receivables due from banks and other financial institutions. **Reconciliation with financial statements:** This measure is used for the description of performance of Home Credit Group B.V. It cannot be reconciled with the financial statements of the Company or with the financial statements of Home Credit Group B.V.
Unadjusted NPL ratio	**Purpose:**

	The NPL ratio is a measure of the portfolio credit quality. Usually, a higher NPL ratio is associated with lower portfolio quality. **Definition:** Gross non-performing loans and advances to customers / Gross performing loans and advances to customers **Reconciliation with financial statements:** This measure is used for the description of the performance of PPF banka a.s. It cannot be reconciled with the financial statements of the Company. However, it may be reconciled with the financial statements of PPF banka a.s.
Return on average equity (RoAE)	**Purpose:** The return on average equity is a performance measure. It measures how effectively a company uses its equity. Usually, a higher return on average performance is associated with better company performance. **Definition:** Net profit from continuing operations for the period/ Average equity. The average equity for a given year is calculated as the average of total equity at the end of Q4 of the previous year and Q1, Q2, Q3, and Q4 of the respective year. **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. on consolidate basis. It cannot be reconciled with the financial statements of the Company. However, it may be reconciled with the financial statements of Home Credit Group B.V.
Total volume of securities trading	**Purpose:** The total volume of securities trading is a measure which expresses the total amount of securities bought/sold as part of proprietary bank´s business and for customers. **Definition:** Total notional amount of securities bought/sold as part of proprietary bank´s business and for customers. **Reconciliation with financial statements:** This measure is used for the description of the performance of PPF banka a.s. It cannot be reconciled with the financial statements of the Company or with the financial statements of PPF banka a.s.

Volume of foreign exchange market transactions	**Purpose:** The total volume of foreign exchange market transactions is a measure which expresses the total amount of foreign exchange market transactions traded as part of proprietary bank´s business and for customers. **Definition:** Total notional amount of foreign exchange market transactions traded as part of proprietary bank´s business and for customers. **Reconciliation with financial statements:** This measure is used for the description of the performance of PPF banka a.s. It cannot be reconciled with the financial statements of the Company or with the financial statements of PPF banka a.s.

PPF Financial Holdings

PPF Financial Holdings B.V.

Consolidated financial statements for the year ended 31 December 2018

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Glossary of abbreviations

OCI	- other comprehensive income
NCI	- non-controlling interests
UCC	- business combinations under common control
AFS	- available for sale
FVTPL	- fair value through profit or loss
FVOCI	- fair value through other comprehensive income
HTM	- held to maturity
OTC	- over the counter
PPE	- property, plant and equipment
FX	- foreign exchange
FV	- fair value
CGU	- cash generating unit
AC	- amortised cost
ECL	- expected credit losses
PD	- probability of default
LGD	- loss given default
EAD	- exposure at default
POCI	- purchased or originated credit impaired

Consolidated statement of financial position

As at 31 December

In millions of EUR

	Note	2018	2017
ASSETS			
Cash and cash equivalents	E1	9,738	8,982
Investment securities	E2	2,421	2,913
Loans and receivables due from banks and other financial institutions	E3	338	539
Loans due from customers	E4	18,513	16,663
Trade and other receivables	E5	66	95
Current tax assets		8	16
Equity-accounted investees	E6	44	17
Property, plant and equipment	E7	182	191
Intangible assets and goodwill	E8	292	246
Deferred tax assets	E31.2	429	335
Other assets	E9	285	254
TOTAL ASSETS		**32,316**	**30,251**
LIABILITIES			
Financial liabilities at fair value through profit or loss	E10	622	794
Due to non-banks	E11	11,696	12,097
Due to banks and other financial institutions	E12	13,849	11,959
Debt securities issued	E13	1,700	891
Subordinated liabilities	E14	447	532
Current tax liabilities		95	207
Trade and other payables	E15	877	933
Provisions	E16	51	44
Deferred tax liabilities	E31.2	9	11
TOTAL LIABILITIES		**29,346**	**27,468**
EQUITY			
Issued capital*	E17	-	-
Share premium	E17	2,324	2,231
Additional paid-in capital	E18	80	-
Other reserves	E19	(894)	(787)
Retained earnings		1,221	1,065
Total equity attributable to owners of the Parent		2,731	2,509
Non-controlling interests	E20	239	274
Total equity		**2,970**	**2,783**
TOTAL LIABILITIES AND EQUITY		**32,316**	**30,251**

*Issued capital is TEUR 45.

Consolidated income statement

For the year ended 31 December

In millions of EUR

	Note	2018	2017
Interest income		4,745	3,621
Interest expense		(1,374)	(1,067)
Net interest income	E22	**3,371**	**2,554**
Fee and commission income		843	797
Fee and commission expense		(165)	(131)
Net fee and commission income	E23	**678**	**666**
Net earned premiums		22	34
Net insurance benefits and claims		-	(1)
Acquisition costs		(5)	(8)
Net insurance income		**17**	**25**
Net gains/(losses) on financial assets/liabilities	E24	16	50
Other income	E25	40	25
TOTAL OPERATING INCOME		**4,122**	**3,320**
Net impairment losses on financial assets	E26	(1,725)	(1,126)
Personnel expenses	E27	(1,144)	(1,088)
Depreciation and amortisation	E28	(116)	(92)
Other operating expenses	E27	(534)	(548)
Net loss on disposals/liquidations of subsidiaries and equity accounted investees		(4)	(3)
Share of earnings of equity accounted investees, net of tax	E6	(13)	(7)
PROFIT BEFORE TAX		**586**	**456**
Income tax expense	E31.1	(75)	(149)
NET PROFIT FOR THE PERIOD		**511**	**307**
Profit attributable to:			
Owners of the Parent		477	285
Non-controlling interests	E20	34	22

Consolidated statement of comprehensive income

For the year ended 31 December

In millions of EUR

	2018	2017
NET PROFIT FOR THE PERIOD	**511**	**307**
Other comprehensive income		
Valuation gains/(losses) on FVOCI/AFS*	(39)	(45)
Valuation gains/(losses) on FVOCI debt securities	6	-
FVOCI/AFS revaluation (gains)/losses transferred to income statement*	7	12
Foreign operations - currency translation differences*	(138)	(116)
Disposal of subsidiaries*	14	-
Income tax relating to components of other comprehensive income*	5	6
Other comprehensive income/(expense) for the period (net of tax)	**(145)**	**(143)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**366**	**164**
Total comprehensive income attributable to:		
Owners of the Parent	347	161
Non-controlling interests	19	3

* Items that will be reclassified to the income statement.

Consolidated statement of changes in equity

In millions of EUR, for the year ended 31 December

	Issued capital*	Share premium	Additional paid-in capital	Revaluation reserve	Legal and statutory reserves	Translation reserve	Reserve for UCC	Retained earnings	Attributable to owners of the Parent	Attributable to NCI	Total
Balance as at 31 December 2017	**-**	**2,231**	**-**	**19**	**81**	**(383)**	**(504)**	**1,065**	**2,509**	**274**	**2,783**
Adjustment upon initial application of IFRS 9 (net of tax; refer to F.2)	-	-	-	2	-	-	-	(191)	(189)	(24)	(213)
Balance as at 1 January 2018	**-**	**2,231**	**-**	**21**	**81**	**(383)**	**(504)**	**874**	**2,320**	**250**	**2,570**
Profit for the period	-	-	-	-	-	-	-	477	477	34	511
Currency translation differences	-	-	-	-	-	(124)	-	-	(124)	(14)	(138)
FVOCI revaluation gains/(losses) taken to equity	-	-	-	(32)	-	-	-	-	(32)	(1)	(33)
FVOCI revaluation (gains)/losses transferred to income statement	-	-	-	7	-	-	-	-	7	-	7
Disposals and deconsolidation of subsidiaries	-	-	-	-	(2)	16	(14)	14	14	-	14
Tax on items taken directly to or transferred from equity	-	-	-	5	-	-	-	-	5	-	5
Total comprehensive income	**-**	**-**	**-**	**(20)**	**(2)**	**(108)**	**(14)**	**491**	**347**	**19**	**366**
Net allocation to legal and statutory reserves	-	-	-	-	35	-	-	(35)	-	-	-
Contributions for the year	-	93	80	-	-	-	-	-	173	-	173
Acquisition of NCI	-	-	-	-	-	-	-	(109)	(109)	(54)	(163)
Contributions by NCI	-	-	-	-	-	-	-	-	-	24	24
Total transactions with owners of the Company	**-**	**93**	**80**	**-**	**35**	**-**	**-**	**(144)**	**64**	**(30)**	**34**
Balance as at 31 December 2018	**-**	**2,324**	**80**	**1**	**114**	**(491)**	**(518)**	**1,221**	**2,731**	**239**	**2,970**

* Capital issued is TEUR 45.

Consolidated statement of changes in equity

In millions of EUR, for the period ended 31 December

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

* Capital issued is TEUR 45.

Consolidated statement of cash flows

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

In millions of EUR

	Notes	2018	2017
Cash flows from operating activities			
Profit before tax		586	456
Adjustments for:			
Depreciation and amortisation		116	91
Impairment/(reversal of impairment) of current and non-current assets	E.26	1,729	1,126
(Profit)/loss on disposal of PPE, intangible assets, and goodwill		1	1
(Profit)/loss on sale of investment securities		(25)	25
(Gains)/losses on disposal of subsidiaries		3	3
Interest expense		1,374	1,067
Interest income		(4,745)	(3,621)
Other (income)/expenses not involving movements of cash		(988)	503
Interest received		5,008	4,056
Change in loans and receivables due from banks and other financial institutions		232	(12)
Change in loans due from customers		(3,697)	(7,727)
Change in trade and other receivables		29	(13)
Change in other assets		(37)	(69)
Change in financial liabilities at FVTPL		(155)	-
Change in liabilities due to non-banks		36	2,795
Change in trade and other payables		(141)	402
Income tax paid		(217)	(238)
Net cash used in operating activities		**(891)**	**(1,155)**
Cash flows from investing activities			
Purchase of PPE, intangible assets, and goodwill	E.7, E.8	(197)	(211)
Dividends received from equity accounted investees		-	3
Purchase of financial assets at FVTPL		(228)	(299)
Proceeds from financial assets at FVTPL		216	320
Proceeds from sale of financial assets at FVTPL not held for trading		-	205
Purchase of financial assets at amortised cost/held to maturity		(17)	(27)
Purchase of financial assets FVOCI/AFS		(3,124)	(3,117)
Acquisition of subsidiaries and equity accounted investees, net of cash acquired		(38)	-
(Contributions)/distributions of capital inequity accounted investees		-	(16)
Proceeds from disposals of PPE and intangible assets		28	9
Proceeds from financial assets at amortized cost/held to maturity		-	27
Proceeds from sale of financial assets FVOCI/AFS		3,526	2,671
Proceeds from disposal of subsidiaries and equity accounted investees, net of cash disposed		3	-
Net cash from/(used in) investing activities		**169**	**(435)**

	Notes	2018	2017
Cash flows from financing activities			
Proceeds from the issue of share premium and other capital		173	14
Proceeds from the issue of debt securities		2,031	1,778
Proceeds from loans due to banks and other financial institutions		14,018	13,144
Payment of debt securities		(1,290)	(930)
Repayment of loans due to banks and other financial institutions		(11,685)	(6,901)
Interest paid		(1,679)	(1,145)
Cash flow from financing activities	**E.21**	**1,568**	**5,960**
Net increase (decrease) in cash and cash equivalents		**846**	**4,370**
Cash and cash equivalents as at 1 January		**8,982**	**4,531**
Effect of exchange rate movements on cash and cash equivalents		(90)	81
Cash and cash equivalents as at 31 December		**9,738**	**8,982**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

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

The Parent Company was incorporated on 13 November 2014 as a 100% subsidiary of PPF Group N.V. On 30 June 2015, PPF Group contributed its share in Home Credit B.V. and PPF banka, a.s. to the Parent Company. On 8 May 2018, Home Credit B.V. was contributed to Home Credit Group B.V., a new holding company for the Home Credit business.

The consolidated financial statements of the Parent Company for the year ended 31 December 2018 comprise the Parent Company and its subsidiaries (together the "PPF Financial Holdings Group" or the "Group") and the Group's interests in associates, joint ventures and affiliated entities. For a listing of significant Group entities and changes to the Group in 2018 and 2017, please refer to Section B of these consolidated financial statements.

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

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

A.2. Statement of compliance

The consolidated financial statements were authorised for issue by the Board of Directors on 30 April 2019.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") including the International Accounting Standards ("IAS"), promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB and with Section 2:362(9) of the Dutch Civil Code.

The Company has also prepared the separate financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRSs, including IASs, promulgated by the IASB and interpretations issued by the IFRIC of the IASB as adopted by the European Union and with Section 2:362(9) of the Dutch Civil Code.

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This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note F.2.

A.3. Basis of measurement

The Group decided to present a consolidated statement of its financial position showing assets and liabilities in their broad order of liquidity because this presentation provides reliable and more relevant information than a presentation of current and non-current classifications.

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

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

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (refer to A.5). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognised in profit or loss immediately (refer to F.1.11.1). Transaction costs are expensed as incurred, expect if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay a contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent considerations are re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent considerations are recognised in profit or loss.

A.4. Use of judgements and estimates

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

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

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

- provisions recognised under liabilities (refer to E.16);
- the fair value of financial instruments (refer to C.6);
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits (refer to E.31.2); and
- impairment of investment securities, loans provided and other financial assets (refer to E.2, E.3, E.4 and E.5).

A.5. Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Associates are entities in which the Group has significant influence but not control over financial and operating policies. Jointly controlled entities are entities over whose activities the Group has joint control established by a contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates and jointly controlled entities on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate or jointly controlled entity, the carrying amount is reduced to nil and the 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 the Group companies under common control are accounted for using consolidated net book values. Consequently, no adjustment is made to carrying amounts in the consolidated accounts and no goodwill arises on such transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

A.6. Presentation and functional currency

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

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 equity accounted investees of the Parent Company as of 31 December 2018 and 2017.

Company	Domicile	Effective proportion of ownership interest December 2018	Effective proportion of ownership interest December 2017
PPF Financial Holdings B.V.	Netherlands	Parent Company	Parent Company
Home Credit subgroup -subsidiaries			
Home Credit Group B.V.	Netherlands	91.12%	100.00%
AB 2 B.V.	Netherlands	91.12%	88.62%
AB 4 B.V.	Netherlands	91.12%	88.62%
AB 7 B.V.	Netherlands	91.12%	88.62%
AB Structured Funding 1 DAC	Ireland	91.12%	-
Air Bank a.s.	Czech Republic	91.12%	88.62%
Bank Home Credit SB JSC	Kazakhstan	91.12%	88.62%
Favour Ocean Ltd.	Hong Kong	91.12%	88.62%
Guangdong Home Credit Number Two Information Consulting Co., Ltd.	China	91.12%	88.62%
HC Consumer Finance Philippines, Inc.	Philippines	91.12%	88.62%
HCPH Financing 1, Inc.	Philippines	91.12%	88.62%
Home Credit a.s.	Czech Republic	91.12%	88.62%
Home Credit and Finance Bank LLC	Russia	91.12%	88.62%
Home Credit Asia Ltd.	Hong Kong	91.12%	88.62%
Home Credit B.V.	Netherlands	91.12%	88.62%
Home Credit Consumer Finance China Ltd.	China	91.12%	88.62%
Home Credit India Finance Private Ltd.	India	91.12%	88.62%
Home Credit Indonesia PT	Indonesia	77.45%	75.33%
Home Credit Insurance LLC	Russia	91.12%	88.62%
Home Credit International a.s.	Czech Republic	91.12%	88.62%
Home Credit Lab N.V.	Netherlands	91.12%	88.62%
Home Credit Slovakia, a.s.	Slovakia	91.12%	88.62%
Home Credit US, LLC	USA	45.65%	44.40%
Home Credit Vietnam Finance Company Ltd.	Vietnam	91.12%	88.62%
Shenzhen Home Credit Number One Consulting Co., Ltd.	China	91.12%	88.62%
Shenzhen Home Credit Xinchi Consulting Co., Ltd.	China	91.12%	88.62%
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd	China	91.12%	88.62%
Zonky, s.r.o.	Czech Republic	91.12%	88.62%
Asnova Insurance CJSIC	Belarus	-	88.62%
Homer Software House LLC	Ukraine	-	88.62%
Non-banking Credit and Financial Organization Home Credit OJSC	Belarus	-	88.62%
PPF banka subgroup - subsidiaries			
PPF banka, a.s.	Czech Republic	92.96%	92.96%
PPF Co3 B.V.	Netherlands	92.96%	92.96%
Ruconfin B.V.	Netherlands	92.96%	92.96%
Usconfin 1 DAC	Ireland	92.96%	-
Equity accounted investees			
ClearBank Ltd.	United Kingdom	37.70%	36.36%

B.2. Changes through business combinations in 2018/2017

B.2.1. Acquisition of a 2.5% share in Home Credit Group

On 31 December 2018, the Group acquired a 2.5% stake in Home Credit Group B.V. from a minority shareholder. The Group increased its shareholding in Home Credit from 88.62% to 91.12%. The difference between the purchase price and the net asset value attributable to non-controlling interests acquired was recognised directly in equity.

The following tables summarise the financial aspect of the transaction:

In millions of EUR

Consideration	163
Effective ownership acquired	2.5%
Net asset attributable to non-controlling interests acquired	54
Effect recorded in retained earnings (decrease)	(109)

The purchase price of a 2.5% stake in Home Credit Group B.V. was payable in three instalments; the first part of the consideration (MEUR 83) was paid on 31 December 2018; the second part (MEUR 80) was initially due in June 2019. The third instalment was defined as an earn-out being equal to 50% of the difference between the current purchase price (the first two instalments) and the market value reached at a possible partial future exit. The earn-out could be in both directions, i.e. either positive or negative.

In April, both shareholders of Home Credit Group B.V. signed an addendum substituting the initially agreed third instalment with an increase in the second instalment by MEUR 50. Therefore, the total consideration for the stake amounts to MEUR 213. The maturity of the second instalment amounting to MEUR 130 has been changed to May 2019. As the addendum was agreed in 2019, the respective increase in purchase price is to be recorded in the 2019 accounts. The increased price will be reflected as a direct decrease in equity.

B.2.2. Disposal of Home Credit Belarus

On 15 June 2018, the Group disposed its investment in Non-banking Credit and Financial Organization Home Credit (OJSC).

The following table summarises the financial aspect of the transaction:

In millions of EUR

Consideration	4
Net asset value disposed	(7)
Negative currency translation reserve (reclassified to income statement)	(5)
Net loss on sale	(8)

C. Risk exposures, risk management objectives and procedures

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

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

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

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

PPF banka a.s. and Air Bank a.s. established the function of Chief Risk Officer who heads an independent risk management function in the respective 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 offered products and services. Through training and management standards and procedures, the Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

C.1. Derivative financial instruments

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

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

C.1.1. Swaps

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

C.1.2. Futures and forwards

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

C.1.3. Options

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

C.2. Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers (Home Credit), including 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 the responsibility for the management of credit risk to the Credit Committee. A separate Credit Risk Management Department, reporting to the Credit

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

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

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

Loans with renegotiated terms and the Group's forbearance policy

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

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

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

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 exceeding 10% of the Group's eligible capital as a large exposure and applies a limit of the higher of MEUR 150 and 25% of the Group's eligible capital to such exposures. As at the balance sheet date, the Group did not have any significant concentration of credit risk with respect to any individual debtor and the limits were not exceeded in relation to individual debtors and to related parties.

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

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

In millions of EUR, as at 31 December

	2018	2018	2017	2017
Economic concentration				
Households/Individuals	17,090	53.50%	15,217	50.92%
Financial services	11,967	37.46%	11,470	38.38%
Public sector	1,248	3.91%	1,660	5.55%
Corporate sector	711	2.23%	876	2.93%
Construction and real estate	508	1.59%	627	2.10%
Other	418	1.31%	35	0.12%
Total	**31,942**	**100.0%**	**29,885**	**100.0%**
Geographic concentration				
China	12,192	38.17%	11,016	36.86%
Czech Republic	11,322	35.45%	11,237	37.60%
Russia	3,702	11.59%	3,710	12.41%
Kazakhstan	829	2.60%	586	1.96%
Vietnam	731	2.29%	660	2.21%
Slovak Republic	356	1.11%	336	1.12%
Cyprus	231	0.72%	264	0.88%
Netherlands	90	0.28%	69	0.23%
Other EU countries	567	1.78%	743	2.49%
Other	1,922	6.02%	1,264	4.23%
Total	**31,942**	**100.0%**	**29,885**	**100.0%**
Of which:				
Loans due from customers	18,513	57.96%	16,663	55.76%
Cash and cash equivalents (excl. cash on hand)	9,587	30.01%	8,872	29.69%
Investment securities (except for equity securities)	2,391	7.48%	2,897	9.69%
Loan commitments and guarantees (off-balance sheet)	990	3.10%	760	2.54%
Loans and receivables due from banks and other financial institutions	338	1.06%	539	1.80%
Trade and other receivables*	123	0.39%	150	0.50%
Hedging derivatives	4	0.01%	5	0.02%

* incl. cash collateral for payment cards and other financial assets

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, if any, that are included in the allowance for uncollectibility. The table comprises off-balance sheet items (refer to E.32.1) and financial assets, except for equity securities.

Credit quality and collateral received under IFRS 9

The following table summarises information about the credit quality of the Group's loan exposure as at 31 December 2018:

In millions of EUR, as at 31 December 2018

Loan exposure	Loans due from customers*	Loans and receivables due from banks and other financial institutions
Gross amount	20,654	338
Stage 1	17,145	338
Stage 2	1,679	-
Stage 3	1,830	-
Purchased or originated credit impaired	-	-
Allowance for impairment	(2,157)	-
Carrying amount	**18,497**	**338**

* Loans due from customers excluding loans and advances provided under repo operations and others (applies hereinafter in this section)

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.

In millions of EUR, as at 31 December 2018

Fair value of collateral received	Loans due from customers		Loans and receivables due from banks and other financial institutions	
	Stage 1-2	Stage 3	Stage 1-2	Stage 3
Secured by:				
Property	1,017	112	-	-
Deposits with banks	25	-	-	-
Securities received under reverse repo*	27	-	7,816	-
Equity securities	192	-	172	-
Other	12	-	-	-
Total collateral received	**1,273**	**112**	**7,988**	**-**

* incl. cash and cash equivalents with central banks

The total value of assets held as collateral is MEUR 9,458 (2017: MEUR 8,772; refer to E.32.3) and consists of the collateral stated above (2018: MEUR 9,373; 2017: MEUR 8,626) plus collateral in the form of guarantees received (2018: MEUR 85; 2017: MEUR 146).

No collateral was held for trade and other receivables in 2018 and in 2017.

Credit quality and collateral received under IAS 39

The following tables provide information about the credit quality of the Group's loans exposure and the fair value of collateral received in respect of loans and receivables:

In millions of EUR, as at 31 December 2017

Loan exposure	Loans due from customers	Loans and receivables due from banks and other financial institutions
Individually impaired		
Gross amount	162	-
Allowance for impairment	(49)	-
Carrying amount	113	-
Collectively impaired		
Gross amount	16,713	-
Allowance for impairment	(1,414)	-
Carrying amount	15,299	-
Unimpaired		
Carrying amount	1,251	539
Total carrying amount	**16,663**	**539**

In millions of EUR, as at 31 December 2017

Fair value of collateral received	Loans due from customers	Loans and receivables due from banks
Against individually impaired	84	-
Property	82	-
Deposits with banks	2	-
Other	-	-
Against collectively impaired	520	-
Property	502	-
Equity securities	18	-
Against neither past due nor impaired	721	7,301
Securities received under reverse repo*	-	7,301
Property	358	-
Debt securities	-	-
Equity securities	329	-
Deposits with banks	23	-
Other	11	-
Total collateral received	**1,325**	**7,301**

* incl. cash and cash equivalents with central banks

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 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	9,738	-	-	-	9,738
Investment securities	461	193	1,00	728	2,391
Financial assets at FVTPL	18	35	73	239	365
Financial assets at FVOCI*	397	67	515	183	1,162
Financial assets at amortised costs	47	91	421	306	865
Loans and receivables due from banks and other financial institutions	253	69	16	-	338
Loans due from customers	4,647	5,548	8,058	260	18,513
Trade and other receivables**	98	2	-	23	123
Total financial assets	**15,197**	**5,812**	**9,083**	**1,011**	**31,103**

* excluding equity instruments
** incl. cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	15	215	54	338	622
Due to non-banks	9,786	1,500	410	-	11,696
Due to banks and other financial institutions	4,692	6,701	2,452	4	13,849
Debt securities issued	176	972	552	-	1,700
Subordinated liabilities	2	143	6	296	447
Trade and other payables*	548	121	3	-	672
Total financial liabilities	**15,219**	**9,652**	**3,477**	**638**	**28,986**

* excl. tax and other non-financial liabilities

Net liquidity position 2018	**(22)**	**(3,840)**	**5,606**	**373**	**2,117**

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

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	8,982	-	-	-	8,982
Investment securities	490	306	584	1,522	2,902
Financial assets at FVTPL	31	16	48	248	343
Financial assets AFS*	458	290	536	1,274	2,558
Loans and receivables due from banks and other financial institutions	331	67	141	-	539
Loans due from customers	3,923	5,582	6,801	357	16,663
Trade and other receivables**	87	8	-	54	149
Total financial assets	**13,812**	**5,963**	**7,526**	**1,933**	**29,234**

* excl. equity instruments
** incl. cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	16	326	149	303	794
Due to non-banks	9,539	1,820	652	86	12,097
Due to banks and other financial institutions	3,000	5,528	3,427	4	11,959
Debt securities issued	237	301	353	-	891
Subordinated liabilities	-	181	126	225	532
Trade and other payables*	644	66	14	3	727
Total financial liabilities	**13,436**	**8,222**	**4,721**	**621**	**27,000**

* excl. tax and other non-financial liabilities

Net liquidity position 2017	**376**	**(2,259)**	**2,805**	**1,312**	**2,234**

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 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to non-banks	9,799	1,551	427	-	11,777
Due to banks and other financial institutions	4,940	7,186	2,620	4	14,750
Debt securities issued	200	1,050	623	-	1,873
Subordinated liabilities	3	156	59	340	558
Trade and other payables*	573	124	3	-	700
Loan commitments (off-balance sheet)	447	97	12	371	927
Payment guarantees provided (off-balance sheet)	2	25	13	-	40
Total	**15,964**	**10,189**	**3,757**	**715**	**30,625**

* excl. tax and other non-financial liabilities

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to non-banks	9,557	1,908	701	95	12,261
Due to banks and other financial institutions	3,186	6,035	3,738	4	12,963
Debt securities issued	245	316	368	-	929
Subordinated liabilities	2	204	187	270	663
Trade and other payables*	644	66	14	3	727
Loan commitments (off-balance sheet)	373	77	240	2	692
Payment guarantees provided (off-balance sheet)	15	3	10	8	36
Total	**14,022**	**8,609**	**5,258**	**382**	**28,271**

* excl. tax and other non-financial liabilities

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

In millions of EUR, as at 31 December 2018

	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	(191)	(805)	(2,395)	(3,909)	(7,300)
Currency derivatives held for trading	(3,250)	(5,729)	(2,507)	-	(11,486)
Hedging derivatives	-	(2)	(7)	(17)	(26)
Inflows					
Interest rate derivatives held for trading	191	807	2,398	3,906	7,302
Currency derivatives held for trading	3,247	5,733	2,500	-	11,480
Hedging derivatives	-	2	8	19	29
Net position	**(3)**	**6**	**(3)**	**(1)**	**(1)**

In millions of EUR, as at 31 December 2017

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

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.2.1 and E.10) 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 2018 would be approximately MEUR 149 higher/lower (2017: MEUR 118).

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 (excl. derivatives):

In millions of EUR, as at 31 December 2018

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	1.7%	9,738	-	-	-	9,738
Investment securities	3.3%	504	846	400	497	2,247
Financial assets at FVTPL	3.3%	-	7	38	176	221
Financial assets at FVOCI*	5.1%	458	314	336	54	1,162
Financial assets at AC	0.8%	46	525	26	267	864
Loans and receivables due from banks and other financial institutions	3.2%	279	46	13	-	338
Loans due from customers	29.6%	5,207	5,527	7,714	65	18,513
Trade and other receivables**	-	121	2	-	-	123
Total financial assets		**15,849**	**6,421**	**8,127**	**562**	**30,959**

* excl. equity instruments
** incl. cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2018

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	1.6%	-	184	26	276	486
Due to non-banks	1.8%	9,786	1,500	410	-	11,696
Due to banks and other financial institutions	7.7%	5,346	6,051	2,452	-	13,849
Debt securities issued	11.7%	176	971	553	-	1,700
Subordinated liabilities	6.4%	-	142	255	50	447
Trade and other payables*	-	548	121	3	-	672
Total financial liabilities		**15,856**	**8,969**	**3,699**	**326**	**28,850**

* excl. tax and other non-financial liabilities

Net position 2018		**(7)**	**(2,548)**	**4,428**	**236**	**2,109**

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	0.6%	8,982	-	-	-	8,982
Investment securities	3,3%	534	1,191	435	595	2,755
Financial assets at FVTPL	1.2%	7	55	(10)	144	196
Financial assets AFS*	3.5%	527	1,136	445	451	2,559
Loans and receivables due from banks and other financial institutions	2.1%	340	63	136	-	539
Loans due from customers	30.8%	4,385	5,955	6,190	133	16,663
Trade and other receivables**	-	141	8	-	-	149
Total financial assets	**-**	**14,382**	**7,217**	**6,761**	**728**	**29,088**

* excl. equity instruments
** incl. cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	1.8%	-	494	84	107	685
Due to non-banks	1.6%	9,539	1,820	652	86	12,097
Due to banks and other financial institutions	7.9%	3,647	5,528	2,780	4	11,959
Debt securities issued	8.3%	237	301	353	-	891
Subordinated liabilities	8.1%	-	181	245	106	532
Trade and other payables*	-	644	66	14	3	727
Total financial liabilities		**14,067**	**8,390**	**4,128**	**306**	**26,891**

* excl. tax and other non-financial liabilities

Net position 2017		**315**	**(1,173)**	**2,633**	**422**	**2,197**

C.4.2. Equity price risk

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

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

C.4.3. Currency risk

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

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

The following table summarises the Group's exposure in individual countries and respective local functional currencies. Any exposure in the individual country in other than the local currency is excluded.

In millions of EUR, as at 31 December 2018

	EUR	CZK	CNY	RUB	VND	KZT	USD	Other	Total
Net investment in foreign operation	139	1,288	1,432	240	310	277	-	770	4,456

In millions of EUR, as at 31 December 2017

	EUR	CZK	CNY	RUB	VND	KZT	USD	Other	Total
Net investment in foreign operation	(245)	884	1,489	718	221	155	11	129	3,362

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 entity. 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 entities' largest foreign currency exposures are for financial assets and financial liabilities, i.e. exposures in currencies different from the entities' functional currencies (gross position as net financial assets and financial liabilities):

In millions of EUR, as at 31 December 2018

	EUR	CZK	CNY	RUB	VND	KZT	USD	Other	Total
Financial assets	800	-	1	-	-	-	666	539	2,006
Financial liabilities	2,218	233	1	48	-	-	691	302	3,492
Effect of FX derivatives	1,277	-	-	45	-	(152)	(341)	(521)	308
Net FX position	(141)	(233)	-	(3)	-	(152)	(366)	(284)	(1,178)

In millions of EUR, as at 31 December 2017

	EUR	CZK	CNY	RUB	VND	KZT	USD	Other	Total
Financial assets	734	151	-	-	-	-	908	916	2,709
Financial liabilities	1,114	201	19	11	-	65	1,009	869	3,288
Effect of FX derivatives	(58)	-	295	40	(544)	(65)	107	-	(225)
Net FX position	(438)	(50)	276	29	(544)	(130)	6	47	(804)

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 2018 and 2017 and a simplified scenario of a 5% change in CZK, USD, RUB, KZT and CNY to EUR exchange rates:

In millions of EUR, as at 31 December 2018

	CZK	USD	RUB	KZT	CNY
Effect of 5% currency depreciation against EUR	(53)	18	(12)	(6)	(72)
Effect of 5% currency appreciation against EUR	53	(18)	12	6	72

In millions of EUR, as at 31 December 2017

	CZK	USD	RUB	KZT	CNY
Effect of 5% currency depreciation against EUR	(42)	(1)	(37)	(1)	(88)
Effect of 5% currency appreciation against EUR	42	1	37	1	88

C.4.4. Hedging

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

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

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

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

C.5. Insurance risk

The main risk faced by the Group under insurance contracts is that the actual claims and benefit payments, or the timing thereof, will differ from expectations. This is influenced by the frequency of claims, severity of claims, claims settlement period, etc. Therefore, the objective

of the Group is to ensure that sufficient reserves are available to cover current and future liabilities under insurance contracts. The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

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

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

Reserve deficiency risk arises from uncertainty regarding the future development of loss reserves and takes into account the likelihood that insurance reserves are insufficient to meet the Group's obligations to policyholders. This risk is managed by regularly checking the adequacy of loss reserves and conducting loss analyses of insurance products, including the analysis of the sensitivity of insurance reserves to changes in expected insurance contract loss rates. The Group analyses its assumptions against publicly available market data. The uncertainty associated with the analysis of incurred but not reported (IBNR) provisions is greater than that of the reported but not settled (RBNS) analysis. The identification of claims generated by the Group's insurance portfolio is of a short-term nature. Therefore, most claims are settled within one year of the loss incident. Refer to section E.16 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 2018

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and receivables due from banks and other financial institutions	338	338	-	338	-
Loans due from customers	18,513	18,724	-	-	18,724
Investment securities at amortised cost	864	851	749	-	103
Trade and other receivables*	123	123	-	13	110
Due to non-banks	(11,696)	(11,704)	-	(7,716)	(3,988)
Due to banks and other financial institutions	(13,849)	(13,851)	-	(2,858)	(10,993)
Debt securities issued	(1,700)	(1,704)	(1,050)	(353)	(301)
Subordinated liabilities	(447)	(448)	(141)	-	(307)
Trade and other payables**	(672)	(672)	-	(50)	(622)

* incl. cash collateral for payment cards and other financial assets
** excl. tax and other non-financial liabilities

In millions of EUR, as at 31 December 2017

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and receivables due from banks and other financial institutions	539	539	-	539	-
Loans due from customers	16,663	16,801	-	-	16,801
Trade and other receivables*	149	149	-	-	149
Due to non-banks	(12,097)	(12,108)	-	(12,108)	-
Due to banks and other financial institutions	(11,959)	(11,961)	-	(11,961)	-
Debt securities issued	(891)	(889)	(7)	(882)	-
Subordinated liabilities	(532)	(540)	(309)	(231)	-
Trade and other payables	(933)	(933)	-	-	(933)

* incl. cash collateral for payment cards and other financial assets

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 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	225	140	-	365
Financial assets at FVOCI	1,026	166	-	1,192
Financial liabilities at FVTPL	(312)	(310)	-	(622)
Total	**939**	**(4)**	**-**	**935**

In millions of EUR, as at 31 December 2017

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

* Refer to E10 for more details on the liabilities in Level 3 bucket.

There were no transfers between Level 1, 2 and 3 in 2017 and 2018.

The following table shows the reconciliation of movements in Level 3:

In millions of EUR, for the year ended 31 December 2018

	Financial assets FVOCI	Financial liabilities FVTPL	Total
Balance as at 1 January (IFRS 9)	11	(313)	(302)
Net gains/(losses) recorded in profit or loss (included in net gain/(loss) on financial assets)	-	20	20
Settlements	-	293	293
transfers into/(out of) Level 3	(11)	-	(11)
Balance as at 31 December 2018	-	-	-

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

	Financial assets AFS	Financial liabilities FVTPL	Total
Balance as at 1 January	2	-	2
Net gains/(losses) recorded in profit or loss (included in net gain/(loss) on financial assets)	-	(18)	(18)
Purchases of financial assets	9	-	9
Additions of financial liabilities	-	(295)	(295)
Balance as at 31 December 2017 (IAS 39)	**11**	**(313)**	**(302)**

C.7. Offsetting financial assets and liabilities

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

International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2018 and 31 December 2017 the reported balances of positive and negative fair values of derivatives do not include any offset amounts.

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

Such agreements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2018 and 31 December 2017 the reported balances of loans and advances provided under repo operations do not include any offset amounts. The remaining balances of liabilities due from banks and non-banks are not subject to any offsetting arrangements.

C.8. Operational risk

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

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

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

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

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

C.9. Capital management

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

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

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

In a November 2015 decision of the Czech National Bank, the Group was identified as an Other Systemically Important Institution (O-SII). This classification was confirmed in 2016, 2017 and 2018. No additional capital requirement was imposed due to this classification.

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

In millions of EUR, as at 31 December

	2018	2017
Issued capital	0.05	0.05
Share premium	2,324	2,231
Retained earnings and other reserves	(142)	(5)
Interim profit included into capital	229	280
Minority interests on CET 1	12	10
Adjustment to CET 1 due to IFRS 9	305	-
(-) Additional valuation adjustment	(2)	(3)
(-) Intangible assets	(276)	(232)
(-) Deferred tax assets (deductible part)	(226)	(118)
Total Tier 1 capital	**2,225**	**2,163**
Total Tier 2 capital	**300**	**268**
Total capital	**2,525**	**2,431**
Total capital adequacy ratio	**11.18%**	**11.08%**

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

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

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

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

D. Segment reporting

The Group recognises reportable segments that are defined in 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 two reportable segments.

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
Consumer lending	Home Credit	Lending to private individual customers, deposit-taking	Czech Republic, Slovakia, Russia, Asia
	Air Bank	Deposits, loans and other transactions and balances with retail customers	Czech Republic
	subsidiaries of PPF banka and Air Bank	Lending to private individual customers	Czech Republic, Slovakia, Russia
	ClearBank *(associate)*	Clearing and settlement services	United Kingdom

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

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

In millions of EUR, for the year ended 31 December

	2018	2017
Interest income	4,745	3,621
Fee and commission income	843	797
Net earned premiums	22	34
Total revenue from external customers	**5,610**	**4,452**

In 2018, the Group decided to change the presentation of segments from a mixture of sector and geographical views to the sector view. The comparative figures has been amended accordingly.

The Home Credit Group newly reports on one global consumer lending segment where all information about similar products, services and customers is presented. This approach suits the global business strategy of having a similar approach to customers, a unique and unified product portfolio, as well as centralised processes that drive operational excellence. The Group also presents additional information for revenue and net interest income based on the division of the countries into four geographic clusters. The Home Credit Group operates in the following principal geographical areas: China, the Russian Federation, the Czech Republic, Vietnam, Kazakhstan, Slovakia, India, Indonesia, the Philippines, and the USA. The Russian and Kazakh Home Credit businesses and Air Bank operate under banking licences allowing for the collection of deposits.

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

The following table shows the main items from the financial statements broken down according to reportable segments for 2018 and 2017:

In millions of EUR

2018	Corporate banking	Consumer lending						Unallocated	Eliminations	**Consolidated**
			China	*CIS**	*SEA*	*CEE*	*Other*			
Revenue from customers	135	5,460	3,483	903	834	230	10	15	-	5,610
Inter-segment revenue	40	(1)	-	-	-	(1)	-	10	(49)	-
Total revenue	**175**	**5,459**	**3,483**	**903**	**834**	**229**	**10**	**25**	**(49)**	**5,610**
Net interest income from external customers	97	3,267	2,076	492	594	173	(68)	7	-	3,371
Inter-segment net interest income	38	(51)	-	(3)	(34)	(1)	(13)	10	3	-
Total net interest income	**135**	**3,216**	**2,076**	**489**	**560**	**172**	**(81)**	**17**	**3**	**3,371**
Income tax expense	(21)	(84)						30	-	(75)
Net profit from continuing operations	**89**	**393**						**31**	**(2)**	**511**
Capital expenditure	(3)	(151)						-	-	(154)
Depreciation and amortisation	(2)	(115)						-	1	(116)
Other significant non-cash expenses	(1)	(1,732)						5	-	(1,728)
Segment assets (incl. equity accounted investees)	9,144	23,593						734	(1,155)	32,316
Segment liabilities	8,675	21,492						335	(1,156)	29,346
Segment equity	**469**	**2,101**						**399**	**1**	**2,970**

*CIS – Commonwealth of Independent States, SEA – South East Asia, CEE – Central and Eastern Europe

In millions of EUR

2017	Corporate banking	Consumer lending						Other	Eliminations	**Consolidated**
			China	*CIS**	*SEA*	*CEE*	*Other*			
Revenue from customers	90	4,346	2,639	923	557	216	11	16	-	4,452
Inter-segment revenue	26	(2)	-	-	-	(2)	-	27	(51)	-
Total revenue	**116**	**4,344**	**2,639**	**923**	**557**	**214**	**11**	**43**	**(51)**	**4,452**
Net interest income from external customers	67	2,472	1,450	479	398	166	(21)	15	-	2,554
Inter-segment net interest income	24	(56)	-	(14)	(18)	(2)	(22)	27	5	-
Total net interest income	**91**	**2,416**	**1,450**	**465**	**380**	**164**	**(43)**	**42)**	**5**	**2,554**
Income tax expense	(15)	(127)						(7)	-	(149)
Net profit from continuing operations	**56**	**248**						**3**	**-**	**307**
Capital expenditure	(4)	(166)						-	-	(170)
Depreciation and amortisation	(1)	(90)						(1)	-	(92)
Other significant non-cash expenses	(5)	(1,127)						1	-	(1,131)
Segment assets (incl. equity accounted investees)	9,122	21,519						483	(873)	30,251
Segment liabilities	8,719	19,499						124	(874)	27,468
Segment equity	**403**	**2,020**						**359**	**1**	**2,783**

*CIS – Commonwealth of Independent States, SEA – South East Asia, CEE – Central and Eastern Europe

E. Notes to the consolidated financial statements

E.1. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR

	2018	2017
Cash on hand	151	110
Current accounts	1,533	1,385
Balances with central banks	204	189
Placements with financial institutions due within one month	50	21
Reverse repo operations with central banks	7,800	7,277
Total cash and cash equivalents	**9,738**	**8,982**

As of 31 December 2018, cash and cash equivalents amounting to MEUR 792 (2017: MEUR 834) are restricted by borrowing agreements contracted by Chinese Home Credit with the creditors either to the disbursement of loans to retail clients or repayment of loans received from the creditors. If the cash is used to provide loans to retail clients, the loans are pledged as collateral.

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

E.2. Investment securities

Investment securities comprise the following:

In millions of EUR

	2018	2017
Financial assets at fair value through profit or loss	365	343
Financial assets at amortised cost/held to maturity	864	-
Financial assets FVOCI/available for sale	1,192	2,570
Total investment securities	**2,421**	**2,913**

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

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

In millions of EUR

	2018	2017
Government and other public-sector bonds	169	183
Corporate bonds	52	13
Positive fair values of trading derivatives (refer to E.10)	140	143
Interest rate derivatives	98	67
Currency derivatives	42	76
Positive fair values of hedging derivatives	4	4
Total financial assets at FVTPL	**365**	**343**

E.2.2. Financial assets at amortised cost

In millions of EUR, as at 31 December 2018

	Gross amount	Amortised cost
Government bonds	761	761
Corporate bonds	103	103
Total financial assets at amortised cost	**864**	**864**

Financial assets at amortised cost is a new category of investment securities resulting notably from the adoption of IFRS 9, where the financial instruments in this category were previously classified as available-for-sale financial assets (refer to F.2.2).

Credit quality analysis

No impairment losses on financial assets at amortised cost were recognised during the year ended 31 December 2018 and 2017.

The following table shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stages classification. The amounts presented are gross carrying amounts unless otherwise stated. Details of the Group's internal grading system are set out in Note F.1.7. ECL allowances for financial assets at amortised cost as investment securities are calculated on an individual basis.

In millions of EUR, as at 31 December 2018

	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	761	-	-	-	761
Low risk	-	-	-	-	-
Medium risk	103	-	-	-	103
High risk	-	-	-	-	-
Default	-	-	-	-	-
Gross amount	**864**	**-**	**-**	**-**	**864**
Loss allowance	-	-	-	-	-
Total carrying amount	**864**	**-**	**-**	**-**	**864**

E.2.3. Financial assets FVOCI/available for sale

Financial assets at FVOCI/available for sale comprise the following:

In millions of EUR

	2018	2017
Debt securities	1,162	2,558
Government bonds	658	1,480
Corporate bonds	504	991
Other debt securities	-	87
Equity securities	30	12
Shares	9	12
Mutual fund investments	21	-
Total financial assets at FVOCI/AFS assets	**1,192**	**2,570**

Credit quality analysis

The following table shows the fair value of the Group's debt instruments (debt securities and loans) at FVOCI split by credit risk, based on the Group's internal rating system and year-end

stage classification. Details of the Group's internal grading system are set out in Note F.1.7. ECL allowances for debt instruments at FVOCI are calculated on an individual basis.

In millions of EUR, as at 31 December 2018

Debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	246	-	-	-	246
Low risk	692	-	-	-	692
Medium risk	199	21	-	-	220
High risk	-	4	-	-	4
Default	-	-	-	-	-
Total carrying amount (fair value)	**1,137**	**25**	**-**	**-**	**1,162**

An analysis of the changes in the corresponding ECL allowances in relation to debt instruments at FVOCI as investment securities is, as follows:

In millions of EUR, for the year ended 2018

Loss allowance – debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	(2)	-	-	-	(2)
New originated or purchased	-	(1)	-	-	(1)
Loss allowance as at 31 December	**(2)**	**(1)**	**-**	**-**	**(3)**

Credit quality analysis as at 31 December 2017 (IAS 39)

The following table shows gross balances under IAS 39 as at 31 December 2017 based on the Group's internal credit rating system described in Note F.1.7:

In millions of EUR, as at 31 December 2017

	Very low risk	Low risk	Medium risk	High risk	Default	**Total**
Debt securities	811	1,206	541	-	-	2,558
Financial assets AFS	**811**	**1,206**	**541**	**-**	**-**	**2,558**

No impairment allowance was recognised for investment securities available for sale under IAS 39 as at 31 December 2017.

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

	2018	2017
Gross amount	338	539
Allowance for impairment	-	-
Total carrying amount	**338**	**539**
Term deposits at banks	14	25
Minimum reserve deposits with central banks	133	153
Loans to banks	54	7
Loans and advances provided under repos	64	130
Cash collateral for derivative instruments	73	65
Other	-	159

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

Credit quality analysis

The following table shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stages classification. The amounts presented are gross carrying amounts unless stated otherwise. Details of the Group's internal grading system are set out in Note F.1.7. ECL allowances for loans to banks and other financial institutions are calculated on an individual basis.

In millions of EUR

					2018	2017
Loans to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Very low risk	110	-	-	-	110	66
Low risk	197	-	-	-	197	260
Medium risk	31	-	-	-	31	213
High risk	-	-	-	-	-	-
Default	-	-	-	-	-	-
Gross amount	**338**	**-**	**-**	**-**	**338**	**539**
Loss allowance	-	-	-	-	-	-
Total carrying amount	**338**	**-**	**-**	**-**	**338**	**539**

An analysis of the changes in the corresponding ECL allowances in relation to loans to banks and other financial institutions is, as follows:

In millions of EUR, for the year ended 31 December 2018

Loss allowance - Loans to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	(2)	-	-	-	(2)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	1	-	-	-	1
Financial assets derecognised	1	-	-	-	1
Loss allowance as at 31 December	-	-	-	-	-

E.4. Loans due from customers

Loans due from customers comprise the following:

In millions of EUR

	2018	2017
Cash loans	11,938	9,084
Consumer loans	4,559	5,519
Revolving loans	529	461
Car loans	110	93
Mortgage loans	208	142
Loans due from customers – retail (carrying amounts)	**17,344**	**15,299**
Loans to corporations	1,043	1,305
Loans to equity accounted investees	110	57
Loans and advances provided under repo operations	15	-
Other	1	2
Loans due from customers – non-retail (carrying amounts)	**1,169**	**1,364**
Total loans due from customers (carrying amounts)	**18,513**	**16,663**

E.4.1.1. Loans due from customers - retail

Loans due from customers – retail comprise the following:

In millions of EUR, as at 31 December 2018

	Cash loans	Consumer loans	Revolving loans	Other*	Total
Gross amount	**13,499**	**5,000**	**595**	**341**	**19,435**
Stage 1	11,020	4,391	463	284	16,158
Stage 2	1,312	220	75	34	1,641
Stage 3	1,167	389	57	23	1,636
POCI	-	-	-	-	-
Allowance for impairment	**(1,561)**	**(441)**	**(66)**	**(23)**	**(2,091)**
Stage 1	(393)	(98)	(11)	(2)	(504)
Stage 2	(303)	(53)	(5)	(1)	(362)
Stage 3	(865)	(290)	(50)	(20)	(1,225)
POCI	-	-	-	-	-
Total carrying amount	**11,938**	**4,559**	**529**	**318**	**17,344**

* comprises of mortgage loans and car loans

Upon the adoption of IFRS 9 on 1 January 2018, the impact of the increase in loss allowances to retail loans due from customers (before tax) was MEUR 264 (refer to F.2.2).

Credit quality analysis

The Group's maximum exposure to credit risk and the year-end stage classification are shown in the above table. The Group does not apply its internal credit rating system for retail portfolios as other more appropriate measures are applied. Details of these measures are set out in Note F.1.7. ECL allowances for retail loans to customers (consumer lending) are calculated on a collective basis.

An analysis of the changes in the corresponding ECL allowances in relation to loans to customers – retail is, as follows:

In millions of EUR, for the year ended 31 December 2018

Loss allowance – Loans to customers - retail	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January (under IFRS 9)	**(562)**	**(261)**	**(854)**	**-**	**(1,677)**
Changes in the loss allowance	82	(85)	(865)		(868)
Transfer to Stage 1	(1)	2	1		2
Transfer to Stage 2	25	(149)	1		(123)
Transfer to Stage 3	58	62	(867)		(747)
New originated or purchased	(489)	(186)	(230)	-	(905)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	217	(102)	(226)	-	(111)
Financial assets derecognised	5	1	-		6
Write-offs	234	264	930	-	1,428
Changes to model assumptions	236	63	80		379
FX and other movements	9	8	20	-	37
Net change during the period	**58**	**(100)**	**(371)**	**-**	**(413)**
Loss allowance as at 31 December	**(504)**	**(362)**	**(1,225)**	**-**	**(2,091)**

E.4.1.2. Loans due from corporations – non-retail

Loans to corporations comprise the following:

In millions of EUR

	2018	2017
Gross amount	**1,219**	**1,411**
Loans to corporations	1,109	1,354
Loans to equity accounted investees	110	57
Allowances for impairment	**(66)**	**(49)**
Total carrying amount	**1,153**	**1,362**

Credit quality analysis

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stages classification. The amounts presented are gross of impairment allowances. Details of the Group's internal grading system are set out in Note F.1.7. ECL allowances for non-retail loans to customers, which represent loans to corporations, are calculated on an individual basis.

In millions of EUR

					2018	2017
Loans to customers – non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Very low risk	124	-	-	-	124	166
Low risk	13	-	-	-	13	7
Medium risk	829	38	-	-	867	993
High risk	22	-	-	-	22	60
Default	-	-	194	-	194	185
Total gross amount	**988**	**38**	**194**	**-**	**1,219**	**1,411**
Loss allowance	(6)	-	(60)	-	(66)	(49)
Carrying amount	**982**	**38**	**134**	**-**	**1,153**	**1,362**

An analysis of the changes in the corresponding ECL allowances in relation to loans to non-retail customers is, as follows:

In millions of EUR, for the year ended 31 December 2018

Loss allowance - Loans to customers - non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January (under IFRS 9)	(6)	-	(48)	-	(54)
New originated or purchased	(3)	-	-	-	(3)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	3	-	(12)	-	(9)
Loss allowance as at 31 December	**(6)**	**-**	**(60)**	**-**	**(66)**

Credit quality analysis as at 31 December 2017 (IAS 39)

The table below shows the credit quality and the Group's maximum exposure to credit risk analysed in line with IAS 39.

Loans due from customers comprise the following:

In millions of EUR, as at 31 December 2017

Gross amount	
Cash loan receivables	9,967
Consumer loan receivables	5,959
Revolving loan receivables	524
Car loan receivables	117
Mortgage loan receivables	147
Loans to corporations	1,411
Other	1
Total gross amount	**18,126**
Collective allowances for impairment	
Cash loan receivables	(882)
Consumer loans receivables	(441)
Revolving loan receivables	(64)
Car loan receivables	(22)
Mortgage loan receivables	(5)
Total collective impairment	**(1,414)**
Individual allowances for impairment	
Loans to corporations	(49)
Total individual impairment	**(49)**
Total carrying amount	**16,663**

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

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

	Loans due from customers – retail and non-retail
Balance as at 1 January	889
Impairment losses recognised in the income statement	1,126
Amount related to loans written off and disposed of	(499)
Effect of movements in exchange rates	(53)
Balance as at 31 December	**1,463**

E.5. Trade and other receivables

Trade and other receivables comprise the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Trade receivables	59	92
Accrued income	8	3
Individual impairment	(1)	-
Total trade and other receivables	**66**	**95**

E.6. Equity-accounted investees

The following table shows the breakdown of individual equity-accounted investees:

In millions of EUR

	2018	2017
ClearBank Ltd.	17	14
Other	27	3
Total equity-accounted investees	**44**	**17**

Other equity-accounted investees comprise of several start-ups dealing with business related to consumer finance.

The following table shows the breakdown of the share of earnings of equity-accounted investees, net of tax:

In millions of EUR

	2018	2017
ClearBank Ltd.	(16)	(10)
Other	3	3
Total share of earnings in equity-accounted investees	**(13)**	**(7)**

ClearBank Ltd. (associate)

ClearBank is a newly established UK bank that, since 2017, has been providing clearing and settlement services. The following table shows the bank's performance:

In millions of EUR

	2018	2017
Non-current assets	16	8
Current assets	82	32
Current liabilities	(57)	(7)
Net assets (100%)	41	33
Group's share of net assets (37.70%; 2017: 36.36%)	16	12
Goodwill included in carrying amount	1	1
Carrying amount of investment in associate	**17**	**13**
	2018	2017
Total net loss for the period (100%)	(23)	(19)
Group's share on the net loss (37.70%; 2017: 36.36%)	(9)	(7)
Dilution loss	(7)	(3)
Total share in profit/(loss) (37.70%; 2017: 36.36%)	**(16)**	**(10)**

E.7. 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 2018

	Buildings	Other tangible assets and equipment	Total
Carrying amount			
Balance as at 1 January	64	127	191
Additions	9	66	75
Disposals	-	(20)	(20)
Depreciation charge	(4)	(51)	(55)
Other movements	(8)	7	(1)
Impairment reversal	-	1	1
Net FX differences	(6)	(3)	(9)
Balance as at 31 December	**55**	**127**	**182**
Cost	81	309	390
Accumulated depreciation and impairment	(26)	(182)	(208)

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

	Buildings	Other tangible assets and equipment	Total
Carrying amount			
Balance as at 1 January	66	96	162
Additions	1	94	95
Disposals	(4)	(3)	(7)
Depreciation charge	(3)	(43)	(46)
Impairment (charge)/reversal	8	(9)	(1)
Net FX differences	(4)	(8)	(12)
Balance as at 31 December	**64**	**127**	**191**
Cost	92	294	386
Accumulated depreciation and impairment	(28)	(167)	(195)

E.8. Intangible assets and goodwill

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

In millions of EUR, for the year ended 31 December 2018

	Goodwill	Software	Other intangible assets	Total
Carrying amount				
Balance as at 1 January	3	240	3	246
Additions	-	62	16	78
Additions from internal development	-	43	-	43
Disposal	-	(7)	-	(7)
Other changes	-	(6)	4	(2)
Amortisation charge	-	(59)	(2)	(61)
Net FX differences	-	(4)	(1)	(5)
Balance as at 31 December	**3**	**269**	**20**	**292**
Cost	3	570	31	604
Accumulated amortisation and impairment losses	-	(301)	(11)	(312)

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

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

E.9. Other assets

Other assets comprise the following:

In millions of EUR

	2018	2017
Prepaid expenses and advances	113	120
Cash collateral for payment cards	57	55
Other settlement accounts	44	16
Insurance deposits	24	15
Other taxes receivable	6	7
Deferred acquisition costs – insurance business	2	2
Assets held for sale	3	3
Inventories	2	4
Other	34	32
Total other assets	**285**	**254**

E.10. 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

	2018	2017
Negative fair values of trading derivatives	136	109
Interest rate derivatives	77	49
Currency derivatives	59	60
Liabilities from short sales of securities	486	372
Other	-	313
Total financial liabilities at FVTPL	**622**	**794**

In July 2017, the Group signed a strategic partnership agreement with PAG Asia Capital (“PAG”), one of Asia’s largest private equity firms, with the aim of supporting the long-term development of the Group’s business in China. Within this deal, through one of its investment funds PAG made an investment to the Group in form of an interest bearing long-term loan provided to the Group’s subsidiary. The loan was measured at fair value through profit or loss. The fair value was categorised as Level 3 and determined as MEUR 313 as at 31 December 2017. In accordance with the partnership agreement, the value of the loan was derived from the fair value of the Chinese business. In August 2018, the Group and PAG agreed to discontinue their partnership and the Group repaid PAG’s loan.

Details of derivatives are provided in the following tables:

In millions of EUR, as at 31 December 2018

Interest rate derivatives	Notional amount	Positive fair values	Negative fair values
OTC products:			
Interest rate swaps	6,703	94	(77)
Interest rate options (purchase)	4	-	-
Exchange-traded products:			
Interest rate futures	53	4	0
Total	**6,760**	**98**	**(77)**
Currency derivatives			
OTC products:			
Forward exchange contracts	1,389	6	(33)
Currency/cross currency swaps	8,573	36	(26)
Total	**9,962**	**42**	**(59)**
Hedging derivatives			
OTC products:			
Interest rate swap contracts	58	4	-
Total	**58**	**4**	**-**

In millions of EUR, as at 31 December 2017

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

E.11. Liabilities due to non-banks

Liabilities to non-banks comprise the following:

In millions of EUR

	2018	2017
Current accounts and demand deposits	6,560	7,095
Term deposits	3,372	3,201
Loans received under repos	1,743	1,778
Loans	19	21
Other	2	2

Total liabilities to non-banks	**11,696**	**12,097**

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, Air Bank and Home Credit and Finance Bank.

E.12. Liabilities due to banks and other financial institutions

Liabilities to banks and other financial institutions comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Repayable on demand	3	1
Loans received under repos	2,580	1,568
Secured loans (other than repos)	6,967	6,881
Unsecured loans	4,223	3,418
Other	76	91
Total liabilities to banks	**13,849**	**11,959**

As at 31 December 2018 and 2017, the Group was in compliance with the financial covenants imposed by its loan facilities.

E.13. Debt securities issued

The maturities of the debt securities are as follows:

In millions of EUR, 31 December

	2018	2017
Fixed rate debt securities		
Within 1 year	1,114	542
1-2 years	239	130
2-3 years	237	205
3-4 years	14	-
4-5 years	-	14
Variable rate debt securities		
1-2 years	62	-
2-3 years	28	-
3-4 years	7	-
Total debt securities issued	**1,700**	**891**

As at 31 December 2018, debt securities issued of MEUR 896 (2017: MEUR 387) were secured by cash loan receivables amounting to MEUR nil (2017: MEUR 95), consumer loan receivables of MEUR 555 (2017: MEUR 185), and cash and cash equivalents amounting to MEUR 341 (2017: MEUR 108).

E.14. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of EUR

	Interest rate	Maturity	2018	2017
Bond issue of MCZK 4,000	Fixed	2027	155	119
Bond issue of MEUR 92	Fixed	2028	93	-
Loan participation notes issue 7 of MUSD 500	Fixed	2020	-	162
Loan participation notes issue 8 of MUSD 200	Fixed	2021	139	140
Bond issue of MCZK 1,400	Fixed	2023	-	57
Bond issue of MCZK 2,000	Fixed	2024	53	54
Loan (Sprint eBusiness) MUSD 7	Variable	2023	7	-
Total subordinated liabilities			**447**	**532**

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

Subordinated loan participation notes issue 7 was made in October 2012. The Group has an early redemption option exercisable on 24 April 2018 (the reset date). After the reset date, the interest rate is determined as a variable rate. During 2018, the Group bought back the loan participation notes with a cumulative par value of MUSD 221 (2017: MUSD 276).

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 2018, the Group bought back the loan participation notes with a cumulative par value of MUSD 43 (2017: MUSD 35).

The bond issue of MCZK 1,400 was issued in April 2013. The Group used an early redemption option during 2018.

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

Bonds of MEUR 92 were issued in September 2018. The interest rate of 3.6% p.a. is determined as a fixed rate with maturity in September 2028. The Company has an early redemption option exercisable in September 2023.

E.15. Trade and other payables

Other liabilities comprise the following:

In millions of EUR

	2018	2017
Settlements with suppliers	261	260
Wages and salaries	126	149
Social security and health insurance	13	13
Other taxes payable	85	35
Accrued expenses	86	77
Customer loan overpayments	53	41
Deferred income	4	-
Advance received	18	3
Other liabilities	231	355
Total other liabilities	**877**	**933**

The other category includes blocked accounts of PPF banka amounting to MEUR 193 (2017: MEUR 300) consisting chiefly of collateral deposits for derivatives totalling MEUR 154 (2017: MEUR 223).

E.16. Insurance and other provisions

Provisions comprise the following:

In millions of EUR, as at 31 December

	2018	2017
Provisions for unearned premiums	30	25
Provisions for outstanding claims	-	1
Provisions for insurance commissions return	8	9
Provisions for expected credit losses from loan commitments and financial guarantees*	2	2
Provision for litigation except for tax-related litigation	7	5
Other provisions	4	2
Total provisions	**51**	**44**

* 2017: only for financial guarantees

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

In millions of EUR, for the year ended 31 December 2018

	Provision for litigation except for tax issues	Provisions for insurance commissions return	Provision for expected credit losses from loan commitments and financial guarantees	Other provisions	Total
Balance as at 1 January	5	9	2	2	18
Restated opening balance (IFRS 9 impact)	-	-	1	-	**1**
Provisions created during the year	3	29	2	7	**41**
Provisions used during the year	-	(28)	-	-	**(28)**
Provisions released during the year	-	-	(4)	(5)	**(9)**
Net FX difference	(1)	(2)	1	-	**(2)**
Balance as at 31 December	**7**	**8**	**2**	**4**	**21**
Non-current (> 1 year)	4	-	1	1	**6**
Current (< 1 year)	3	8	1	3	**15**
Total provisions	**7**	**8**	**2**	**4**	**21**

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

	Provision for litigation except for tax issues	Provisions for insurance commissions return	Provisions for provided guarantees	Other provisions	Total
Balance as at 1 January	3	7	-	2	12
Provisions created during the year	3	29	2	-	34
Provisions used during the year	-	(27)	-	-	(27)
Net FX difference	(1)	-	-	-	(1)
Balance as at 31 December	**5**	**9**	**2**	**2**	**18**
Current (< 1 year)	5	9	2	2	18
Total provisions	**5**	**9**	**2**	**2**	**18**

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

In millions of EUR

	2018	2017
Balance as at 1 January	25	31
Premiums written during the year	31	30
Premiums earned during the year	(22)	(34)
Net FX differences	(4)	(2)
Balance as at 31 December	**30**	**25**

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:

	2018	2017
Number of shares authorised	45 000	45 000
Number of shares issued and fully paid	45 000	45 000
Par value per share	EUR 1	EUR 1

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

During 2018 and 2017, the share premium was increased by cash contributions amounting to MEUR 93 (2017: MEUR 14).

E.18. Additional paid-in capital

In June 2018, PPF Financial Holdings B.V. issued additional tier 1 capital (AT1 Notes) in euros with a total nominal value of MEUR 80 that is held by PPF Group N.V. These bonds are classified as equity instruments as, beside other characteristics, payments of interest to the investors and the redemption of the original principal amount is at the issuer's discretion. The bonds include non-cumulative coupon payments of 6%. The interest payment on the bonds is carried out once a year on 29 June. These interest payments are presented as dividends in these consolidated financial statements.

E.19. Reserves

E.19.1. Revaluation reserve

The revaluation reserve represents the changes, net of deferred tax, in the fair value of financial assets at fair value through other comprehensive income. The revaluation reserve is not available for distribution to shareholders.

E.19.2. Legal and statutory reserves

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

E.19.3. Currency translation reserve

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

E.19.4. 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.19.5. Hedging reserve

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

E.20. Non-controlling interests

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

Name of subsidiary	Abbr.	Applicable	Country of incorporation
Home Credit Group B.V. (subgroup)*	HC	2018	Netherlands
Home Credit B.V. (subgroup)	HC	2017	Netherlands
PPF banka, a.s. (subgroup)	PPFB	2018/2017	Czech Republic
Home Credit Indonesia PT	HCID	2018/2017	Indonesia
Home Credit US, LLC	HCUS	2018/2017	USA

*Home Credit B.V. was contributed to Home Credit Group B.V. in May 2018

The following table summarises the information relating to these subsidiaries:

In millions of EUR

2018	HC	PPFB	HCID	HCUS	Total
NCI percentage (effective ownership)	**8.88%**	**7.04%**	**22.55%**	**54.35%**	
Total assets	23,647	9,622	276	91	
Total liabilities	(21,49)	(9,14)	(227)	(72)	
Net assets	**2,155**	**473**	**49**	**19**	
Net assets attributable to NCI of the sub-group	(17)	-	-	-	
Net assets attributable to owners of the Parent	**2,138**	**473**	**49**	**19**	
Carrying amount of NCI	190	33	7	9	**239**
NCI percentage during the period	**11.38%**	**7.04%**	**24.67%**	**55.60%**	
Revenue	5,454	191	142	7	
Profit/(loss)	445	94	5	(47)	
Other comprehensive income	(137)	(26)			
Total comprehensive income	308	68	5	(47)	
Profit/(loss) allocated to NCI	51	6	-	(23)	**34**
OCI allocated to NCI	(14)	(1)	-	-	**(15)**
Dividends paid to NCI	-	-	-	-	

In millions of EUR

2017	HC	PPFB	HCID	HCUS	Total
NCI percentage (effective ownership)	**11.38%**	**7.04%**	**24.67%**	**55.60%**	
Total assets	21,526	9,437	187	37	
Total liabilities	(19,498)	(9,026)	(156)	(16)	
Net assets	**2,028**	**411**	**31**	**21**	
Net assets attributable to NCI of the sub-group	(15)	-	-	-	
Net assets attributable to owners of the Parent	**2,013**	**411**	**31**	**21**	
Carrying amount of NCI	229	29	5	11	**274**
NCI percentage during the period	**11.38%**	**7.04%**	**24.67%**	**55.60%**	
Revenue	4,334	160	77	1	
Profit/(loss)	256	64	(19)	(18)	
Other comprehensive income	(166)	-	-	-	
Total comprehensive income	90	64	(19)	(18)	
Profit/(loss) allocated to NCI	29	5	(3)	(9)	**22**
OCI allocated to NCI	(19)	-	-	-	**(19)**
Dividends paid to NCI	-	-	-	-	**-**

E.21. Reconciliation of movements of liabilities to cash flows arising from financing activities

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

In millions of EUR, for the year 2018

	Debt securities and subordinated liabilities	Due to banks, other financial institution and holding companies	Share premium	Additional paid-in capital	Total
Balance as at 1 January	**1,423**	**11,959**	**2,231**	**-**	**15,612**
Changes from financing cash flows:					
Proceeds from capital contribution	-	-	93	80	173
Proceeds from the issue of debt securities	2,031	-	-	-	2,031
Proceeds from due to banks and other financial institutions	-	14,018	-	-	14,018
Repayment of debt securities	(1,290)	-	-	-	(1,290)
Repayment of due to banks and other financial institutions	-	(11,685)	-	-	(11,685)
Total changes from financing cash flows	**741**	**2,333**	**93**	**80**	**3,247**
The effect of changes in FX rates and transfers	(15)	(112)	-	-	(127)
Interest expense	114	1,006	-	-	1,120
Interest paid	(116)	(1,337)	-	-	(1,453)
Balance as at 31 December	**2,147**	**13,849**	**2,324**	**80**	**18,399**

In millions of EUR, for the year 2017

	Debt securities and subordinated liabilities	Due to banks, other financial institution and holding companies	Share premium	Total
Balance as at 1 January	**638**	**6,243**	**2,217**	**9,098**
Changes from financing cash flows:				
Proceeds from share premium increase	-	-	14	14
Proceeds from the issue of debt securities	1,778	-	-	1,778
Proceeds from due to banks and other financial institutions	-	13,144	-	13,144
Repayment of debt securities	(930)	-	-	(930)
Repayment of due to banks and other financial institutions	-	(6,901)	-	(6,901)
Total changes from financing cash flows	**848**	**6,243**	**14**	**7,105**
The effect of changes in FX rates and transfers	(66)	(432)	-	(498)
Interest expense	89	738	-	827
Interest paid	(86)	(833)	-	(919)
Balance as at 31 December	**1,423**	**11,959**	**2,231**	**15,613**

E.22. Net interest income

Interest income comprises the following:

In millions of EUR

	2018	2017
Financial instruments at FVTPL	7	6
Financial instruments at FVOCI/AFS	53	57
Financial instruments at AC	10	-
Due from banks and other financial institutions	104	48
Cash loan receivables	3,465	2,438
Consumer loan receivables	908	845
Revolving loan receivables	106	130
Car loan receivables	19	18
Mortgage loan receivables	5	4
Loans to corporations	68	75
Total interest income	**4,745**	**3,621**

Interest expense comprises the following:

In millions of EUR

	2018	2017
Due to customers	242	234
Due to banks and other financial institutions	1,006	738
Debt securities issued	82	62
Subordinated liabilities	31	28
Other	13	5
Total interest expenses	**1,374**	**1,067**
Total net interest income	**3,371**	**2,554**

E.23. Net fee and commission income

Fee and commission income comprises the following:

In millions of EUR

	2018	2017
Insurance commissions	551	528
Penalty fees	163	172
Customer payment processing and account maintenance	44	39
Cash transactions	27	21
Retailers' commissions	17	9
Other	41	28
Total fee and commission income	**843**	**797**

Fee and commission expense comprises the following:

In millions of EUR

	2018	2017
Commissions to retailers	21	20
Cash transactions	24	18
Payment processing and account maintenance	43	40
Payments to deposit insurance agencies	27	19
Credit and other register expense	41	26
Other	9	8
Total fee and commission expense	**165**	**131**

Total net fee and commission income	**678**	**666**

E.24. Net gain/loss on financial assets/liabilities

In millions of EUR, for the year ended 31 December

	2018	2017
Net trading income/(expense)	(3)	81
Debt securities trading	16	5
FX trading	2	67
Derivatives	(21)	9
Net gains/(losses) on financial assets/liabilities at FVTPL	17	(18)
Liabilities	17	(18)
Net realised gains/(losses)	2	(12)
Financial assets at amortised costs	6	-
Financial assets at FVOCI/AFS	(3)	(12)
Financial liabilities measured at amortized cost	(1)	-
Dividends	-	1
Other income/(expenses) from financial assets	-	(2)
Total net gain/(loss) on financial assets	**16**	**50**

E.25. Other income

In millions of EUR, for the six months ended 30 June

	2018	2017
Foreign currency gains	3	-
Provision of services to minority partner	20	14
Other	17	11
Total other income	**40**	**25**

E.26. Net impairment losses on financial assets

In millions of EUR

	2018	2017
Financial assets at FVOCI/available for sale	1	-
Cash loan receivables	1,333	704
Consumer loan receivables	365	409
Revolving loan receivables	18	6
Mortgage loan receivables	(2)	(1)
Loans to corporations	11	8
Due from banks and other financial institutions	(2)	-
Other financial assets*	1	-
Total net impairment losses on financial assets	**1,725**	**1,126**

* incl. impairment losses on undrawn credit limit

E.27. Personnel expenses and other operating expenses

In millions of EUR

	2018	2017
Employee compensation	921	887
Payroll related taxes (including pension contribution)	223	201
Total personnel expenses	**1,144**	**1,088**
Rental, maintenance and repair expense	80	71
Telecommunication and postage	77	66
Professional services	71	76
Information technologies	67	49
Advertising and marketing	61	74
Collection agency fee	56	36
Taxes other than income tax	43	32
Travel expenses	26	27
Net impairment losses on other assets	3	4
Loss on disposal of property, plant, equipment, and intangible assets	-	1
Foreign currency losses	-	63
Other	50	49
Total general administrative expenses	**534**	**548**

The average rounded number of employees during the year 2018 was 136,000 (2017: 145,000); three of these employees were employed in the Netherlands (2017: four employees).

E.28. Depreciation and amortisation

In millions of EUR

	2018	2017
Depreciation of property, plant and equipment	55	46
Amortisation of intangible assets	61	46
Total depreciation and amortisation	**116**	**92**

E.29. Operating leases

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

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

In millions of EUR, as at 31 December

	2018	2017
Less than one year	13	16
Between one and five years	29	31
More than five years	3	8
Total payables in respect of non-cancellable operating leases	**45**	**55**

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

In millions of EUR, as at 31 December

	2018	2017
Minimum lease payments	15	19
Total lease and sublease payments	**15**	**19**

E.30. Repurchase agreements and reverse repurchase agreements

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

In millions of EUR, as at 31 December

	2018 Fair value of underlying assets	2018 Carrying amount of corresponding liabilities	2017 Fair value of underlying assets	2017 Carrying amount of corresponding liabilities
Financial assets at FVTPL	172	145	211	174
Financial assets at FVOCI/available for sale	403	395	239	233
Financial assets received in reverse repos	3,933	3,783	3,020	2,939
Total	**4,508**	**4,323**	**3,470**	**3,346**

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

	2018 Fair value of assets received as collateral (total)	2018 of which: Fair value of assets repledged or sold	2018 Carrying amount of receivables	2017 Fair value of assets received as collateral (total)	2017 of which: Fair value of assets repledged or sold	2017 Carrying amount of receivables
Loans and advances to banks	7,816	3,933	7,864	7,301	3,020	7,407
Loans and advances to non-banks	27	-	15	-	-	-
Total loans and advances	**7,843**	**3,933**	**7,879**	**7,301**	**3,020**	**7,407**

E.31. Income taxes

E.31.1. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Current tax expense	(112)	(317)
Deferred tax benefit	37	168
Total income tax expense	**(75)**	**(149)**

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2018	2017
Tax rate	25%	25%
Profit from continuing operations (before taxation)	586	456
Computed taxation using applicable tax rate	(147)	(114)
Tax non-deductible expenses	(42)	(44)
Non-taxable income	9	4
Withholding tax on dividends	(5)	(4)
Tax rate differences on foreign results	15	33
Tax loss carry forward not recognised	(7)	(26)
Utilised tax loss not previously recognised	41	7
Deferred tax not previously recognised	61	-
Other	-	(5)
Total income tax expense	**(75)**	**(149)**

Utilised tax loss and deferred tax previously not recognised in the amount of MEUR 102 substantially decreased the effective tax rate of the Group during 2018 as it become likely that the Group generates sufficient taxable profits to utilise tax losses from previous periods.

E.31.2. Deferred tax

Deferred tax assets and liabilities comprise the following:

In millions of EUR, as at 31 December

	2018 Deferred tax liabilities	2018 Deferred tax assets	2017 Deferred tax liabilities	2017 Deferred tax assets
Investment securities	-	-	(5)	4
Loans	(27)	358	(1)	285
Property, plant and equipment	(8)	1	(10)	2
Intangible assets	(16)	-	(8)	-
Other assets	(6)	5	(4)	27
Due to banks and other financial institutions	-	18	-	-
Other liabilities	(1)	28	-	18
Provisions	(2)	12	(3)	5
Other temporary differences	(2)	49	(3)	12
Value of loss carry-forwards recognised	-	11	-	4
Value of tax credits	-	-	-	1
Deferred tax assets/(liabilities)	**(62)**	**482**	**(34)**	**358**
Net deferred tax assets/(liabilities)	**(9)**	**429**	**(11)**	**335**

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

In millions of EUR, for the year ended 31 December

	2018	2017
Net deferred tax assets/(liabilities) as at 1 January	324	164
Deferred tax (expense)/income for the period	37	168
Deferred tax recognised directly in equity	64	6
Net exchange differences	(5)	(14)
Net deferred tax assets/(liabilities) as at 31 December	**420**	**324**

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

E.31.3. Tax losses

As at 31 December 2018 the Group incurred tax losses from recent years of MEUR 454 (2017: MEUR 630) available to be carried forward and offset against future taxable income. To the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilised, the deferred tax assets are not recognised. The unrecognised deferred tax assets amount to MEUR 80 (2017: MEUR 133). The unutilised tax losses can be claimed in the period from 2019 to 2027 in the Netherlands (2019 to 2023 in the Czech Republic and Cyprus, and for an indefinite time in Hong Kong and in the Russian Federation) and expire as follows:

In millions of EUR, as at 31 December

	2018	2017
2018	-	20
2019	8	26
2020	11	37
2021	15	44
2022	12	27
2023	13	23
2024	5	53
2025	17	80
2026	85	56
2027	1	-
Tax losses that can be carried forward indefinitely	287	264
Total	**454**	**630**

E.32. Off-balance sheet items

E.32.1. 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

	2018	2017
Loan commitments	927	692
Revolving loan commitments	699	379
Consumer loan commitments	68	80
Cash loan commitments	37	33
Undrawn overdraft facilities	51	66
Term loan facilities	72	134
Capital expenditure commitments	7	22
Guarantees provided	63	68
Non-payment guarantees	22	31
Non-revocable letters of credit	1	1
Payment guarantees	40	36
Total commitments and contingent liabilities	**997**	**782**

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

	2018	2017
Secured bank loans	6,967	6,881
Loans received under repos	4,323	3,346
Debt securities issued	896	387
Total secured liabilities	**12,186**	**10,614**

The assets pledged as security were as follows:

In millions of EUR, as at 31 December

	2018	2017
Cash and cash equivalents	792	834
Financial assets at FVTPL (repos)	172	211
Financial assets at FVOCI/AFS (repos)	403	239
Loans and receivables due from banks and other financial institutions	-	47
Loans and receivables due from customers	9,791	8,043
Financial assets in off balance sheet (repo operations)	3,933	3,020
Total assets pledged as security	**15,091**	**12,394**

As of 31 December 2018, cash and cash equivalents of MEUR 792 (2017: MEUR 834) were restricted by borrowing agreements with the creditors in Chinese Home Credit either to the disbursement of loans to retail clients or to the repayment of loans received from creditors. If

the cash was used to provide loans to retail clients, the loans were pledged as collateral. Thus, the restriction on the cash effectively increases the creditors' security.

E.32.2. Other contingencies

E.32.2.1. Taxation

The taxation systems in the Russian Federation, India, Kazakhstan, Vietnam, China and some other countries of operations are relatively new and are characterised by frequent changes in legislation which are subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during several subsequent calendar years. Recent events within the Russian Federation, India, Kazakhstan, Vietnam, China and some other countries of operations suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

The facts mentioned above may create tax risks in respective countries that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian, Indian, Kazakhstani, Vietnamese, Chinese and other countries' tax legislation, official pronouncements and court decisions.

E.32.3. 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

	2018	2017
Guarantees received	85	146
Loan commitments received	11	96
Value of assets received as collateral (including repos)	9,373	8,626
Total contingent assets	**9,469**	**8,868**

E.33. Related parties

E.33.1. Identity of related parties

The Group has a related party relationship with its parent company PPF Group N.V., its subsidiaries, the Group's equity accounted investees 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.33.2. Transactions with governing bodies and executive officers

Income of the governing bodies and key executive officers received from the Group for the year 2018 was MEUR 23 (2017: MEUR 23).

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.33.3. 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

	2018	2017
Interest income	1	-
Total revenue	**1**	**-**
Interest expense	(10)	(5)
General administrative expenses	(1)	-
Total expenses	**(11)**	**(5)**

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

In millions of EUR, as at 31 December

	2018	2017
Loans due from customers	27	-
Total assets	**27**	**-**
Due to non-banks	(201)	(345)
Subordinated liabilities	(51)	(181)
Debt securities issued	-	(6)
Current tax liabilities (tax unity with the Parent)	-	(4)
Total liabilities	**(251)**	**(536)**

E.33.4. 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

	2018	2017
Interest income	9	9
Fee and commission income	2	1
Net gain/(loss) on financial assets	(9)	9
Other income	1	1
Total revenue	**3**	**20**
Interest expense	(3)	(3)
General administrative expenses	(24)	(21)
Total expenses	**(27)**	**(24)**

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

In millions of EUR, as at 31 December

	2018	2017
Loans due from customers	111	102
Trade and other receivables	2	3
Intangible assets	2	2
Financial assets at FVOCI/AFS	36	24
Positive fair value of hedging derivatives	-	12
Other assets	1	1
Total assets	**152**	**144**
Due to non-banks	(139)	(218)
Financial liabilities at fair value through profit or loss	(2)	-
Trade and other payables	(9)	(18)
Total liabilities	**(150)**	**(236)**

E.33.5. 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

	2018	2017
Interest income	19	17
Total revenue	**19**	**17**
General administrative expenses	(7)	(8)
Total expenses	**(7)**	**(8)**

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

In millions of EUR, as at 31 December

	2018	2017
Loans due from customers	208	276
Total assets	**208**	**276**
Due to non-banks	(2)	-
Trade and other payables	(81)	(2)
Total liabilities	**(83)**	**(2)**

On 31 December 2018, the Group acquired a 2.5% stake in Home Credit Group B.V. from a minority shareholder controlled by key management personnel of the Group (refer to B.2.1).

F. Significant accounting policies

F.1. Significant accounting policies

If not stated otherwise, the accounting policies set out below have been applied consistently by all Group entities to all periods presented in these consolidated financial statements and by all Group entities.

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 equity investments which are recognised in other comprehensive income.

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. Financial assets and liabilities

Policy applied after 1 January 2018

The Group applies IFRS 9 since 1 January 2018. Information about the Group's accounting policies in relation to financial instruments is provided below. The effect of the initial application of IFRS 9 is described in Note F.2.

Financial assets include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

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 the settlement 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.

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.

F.1.2.1. Business model assessment

The Group assesses the objective of the business model in which a financial asset is held either at the portfolio level, as this best reflects the way the business is managed and information is provided to management, or individually in specific cases. Apart from the portfolio's cash-flow characteristics, the information that is considered for portfolio assets includes the portfolio objectives, management strategies and operations, compensation of the managers, risks affecting the business model and evaluation of the portfolio performance. The same information is considered in the specific individual cases.

In line with IFRS 9, the Group differentiates between the following basic business models:

- held-to-collect business model;
- both held-to-collect and for-sale business model;
- other business models (incl. trading, managing assets on a fair value basis, maximising cash-flows through sale and other models).

F.1.2.2. Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time

and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

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

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents any unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

F.1.2.3. Financial assets at fair value through profit or loss

Financial assets that are at initial recognition mandatorily at fair value through profit or loss are financial assets held for trading, those that are managed and whose performance is evaluated on a fair value basis, equity securities for which the irrevocable option to measure them at FVOCI was not applied, and debt securities that did not meet the SPPI criterion. Non-trading financial assets are financial assets at initial recognition designated 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.1.2.4. Financial assets at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents, loans and receivables due from banks and other financial institutions, loans due from customers, trade receivables and accrued income, and certain investment debt securities.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL (held-to-collect business model):

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

After initial recognition, the Group measures these financial assets at amortised cost less any relevant impairment. Interest revenue determined using the effective interest method, expected credit losses and reversals, and foreign exchange gains and losses related to financial assets at amortised cost are recognised in the income statement.

When the financial assets at amortised cost are derecognised, the gains or losses are recognised in the income statement.

F.1.2.5. Financial assets at fair value through other comprehensive income (FVOCI)

Financial assets at fair value through other comprehensive income comprise equity and debt securities. Both equity and debt securities are initially measured at fair value plus eligible transaction costs.

For equity securities that are not held for trading the Group on initial recognition may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

After initial recognition, the Group measures equity securities at fair value, where any revaluation gain or loss is recognised in other comprehensive income. No expected credit losses (impairment) are recognised for equity securities. Dividends from equity securities at FVOCI are recognised in the income statement.

When equity securities at FVOCI are derecognised, under no circumstances is the cumulative gain or loss previously recognised in equity reclassified to the income statement. Instead, it is directly reclassified to retained earnings. The transaction costs incurred on disposal of equity securities at FVOCI are recognised in the income statement.

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

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

After initial recognition, the Group measures the above debt securities at fair value. Interest revenue, determined using the effective interest rate method, expected credit losses (impairment) and foreign exchange gain or loss are recognised in the income statement, whereas any other revaluation gain or loss is recognised in other comprehensive income.

When the debt securities at FVOCI are derecognised, the cumulative gain or loss previously recognised in equity is reclassified to the income statement.

For debt securities that are not held for trading, the Group on initial recognition may irrevocably elect to present subsequent change in fair value in FVTPL if, and only if, such designation eliminates or significantly reduces a measurement or recognition inconsistency. This election is made on an investment-by-investment basis.

F.1.2.6. Trade receivables

Trade 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 at fair value through other comprehensive income.

Trade receivables (unless those without a significant financing component that are initially measured at the transaction price) are initially measured at fair value plus eligible transaction costs. The Group subsequently measures the trade receivables at amortised cost less any relevant impairment.

F.1.2.7. 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 less any relevant impairment.

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

F.1.2.8. 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.

Policy applied before 1 January 2018

F.1.2.9. 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.1.2.10. 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 to generate 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, as these 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.1.2.11. 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.1.2.12. 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. Derecognition of financial assets and liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire or when its terms are modified and the cash flows of the modified liability are substantially different. In that case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

F.1.4. Derivatives and hedge accounting

The Group has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations, as follows:

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. 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 relevant for the appropriate business model. 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.1.6. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and the intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

F.1.7. Impairment

<u>Policy applied after 1 January 2018</u>

F.1.7.1. Non-derivative financial assets

The Group's entities recognise the loss allowance for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and receivables due from banks and other financial institutions;
- loans due from customers;
- trade receivables and accrued income;
- cash and cash equivalents;
- debt instruments at FVOCI;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

No impairment loss is recognised on equity investments.

The Group measures loss allowances on either of the following bases:

- *12-month ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

The Group has elected to measure loss allowances for trade and lease receivables and accrued income at an amount equal to lifetime ECLs.

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets are credit-impaired (referred to as Stage 3 financial assets). The Group classifies financial asset as 'credit-impaired' when it exceeds 90 days past due.

The Group also considers other events that have a detrimental effect on the estimated future cash flows of the financial asset resulting in credit-impaired classification. Examples of these events are:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default; or
- probability that the borrower will enter bankruptcy or other financial reorganisation.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and is measured as follows:

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

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

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are – in general – probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived – alone or together – from internally developed statistical models based on own historical data or derived from available market data.

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

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

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

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

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

The grouping is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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

Forward-looking information

Under IFRS 9, the Group incorporates forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and – where possible – as part of the measurement of ECLs. External information used include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for

Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

Based on data availability and the credibility of sources, the Group uses an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers include variables such as interest rates, unemployment rates, gross-domestic-product forecasts and other.

As at 31 December 2018, the Group has estimated the overall impact of forward-looking-information macro model incorporation into ECL calculation process, and the calculated result is reflected in the financial statements.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses these grades to identify significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

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

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

The Group employs statistical models to analyse the collected data and generate estimates of the remaining lifetime PD of exposures and how these are expected to change over time.

Group's internal credit risk grades

The Group uses internal credit risk grades for provided debt instruments and loans. The table below indicates how the Group's internal credit risk grades relate to the external long-term rating used by Moody's rating agency:

Internal rating	**External rating**
Very low risk	Aaa-Aa
Low risk	A-Baa
Medium risk	Ba-B
High risk	Caa-Ca
Default	C and lower

Determining whether credit risk has significantly increased

The Group considers historical experience, expert credit assessment, forward-looking information, and other relevant reasonable and supportable information.

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

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

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of the initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date of their first use could have been a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

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

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

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on the respective significant credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

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

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

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

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of the customer.

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

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

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

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

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

When a financial asset is modified, the Group assess whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers both qualitative (such as SPPI criterion, change in currency, change in counterparty, maturity, covenants) and quantitative (such as comparison of present values of the remaining contractual cash flows under the original terms with the contractual cash flows under the modified terms) factors.

Write-offs

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (in neither its entirety nor a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may also apply enforcement activities to financial assets being written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Presentation of allowances for ECL in the financial statements

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;

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

F.1.7.2. 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 portfolios, 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 generating cash inflows from continuing use 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 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, impairment losses are reversed only to the extent that the assets' carrying amount do not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

F.1.7.3. 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 its weighted average cost.

Policy applied before 1 January 2018

F.1.7.4. 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 the 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.1.8. Assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) expected 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.1.9. 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.1.10. Property, plant and equipment

Property, plant and equipment is stated at the 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 an asset to the working condition for its intended use. With respect to the construction of a 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 the 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
Other tangible assets and equipment	up to 10 years

Component parts of an asset that 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.1.11. Intangible assets and goodwill

F.1.11.1. Goodwill and gain on a bargain purchase

The Group accounts for all business combinations except those determined to be reorganisations involving group companies under common control 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 equity accounted investees, the carrying amount of any goodwill is included in the carrying amount of the investment in the associate.

F.1.11.2. Present value of future profits from acquired portfolio

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 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.1.11.3. Other intangible assets

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

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

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

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

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

F.1.12. 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.1.12.1. 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.1.12.2. 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.1.12.3. 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 initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

F.1.13. 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.1.14. 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.1.15. Insurance provisions

F.1.15.1. Provisions for unearned premiums

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

F.1.15.2. 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.1.15.3. Other insurance provisions

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

F.1.16. Equity

F.1.16.1. 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.1.16.2. 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.1.16.3. 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 the part of the net results of the Group attributable to interests not owned, either directly or indirectly through subsidiaries, by the equity holders of the Parent Company.

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

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

F.1.17. 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.1.18. 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.1.19. Net gain/loss on financial assets

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

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

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

A realised gain/loss arises on the derecognition 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 directly recognised in equity.

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

F.1.20. Net insurance premium revenue

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

F.1.21. 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.1.22. 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.1.23. Other income and other expenses

F.1.23.1. 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 the recovery of the consideration due or associated costs.

F.1.23.2. 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.1.24. 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.1.25. 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 2018

The following revised standards and annual improvements to IFRSs effective from 1 January 2018 are mandatory and relevant for the Group, and have been applied by the Group since 1 January 2018:

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

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

These amendments did not have any significant impact on the Group's financial statements.

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

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

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

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

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

These amendments did not have any significant impact on the Group's financial statements.

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

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

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

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

IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaced IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations.

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

On the adoption of IFRS 15 at 1 January 2018, the impact on the Group's equity was insignificant.

IFRS 9 Financial Instruments (effective from 1 January 2018)

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not choose to early adopt any of IFRS 9 versions in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures, and continues with application of IAS 39 requirements for hedge accounting.

Consequently, for notes disclosures, the IFRS 9 relevant amendments to IFRS 7 Financial Instruments: Disclosures are applied to disclosures for 2018, but are not applied to the comparative information. The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below and in Note F.1.

The adoption of IFRS 9 has brought changes to the Group's accounting policies for the recognition, classification and measurement of financial assets and financial liabilities, and impairment of financial assets.

The following table summarizes the impact, net of tax, of the transition to IFRS 9 on the opening balance of reserves, retained earnings and non-controlling interests.

In millions of EUR, as at 1 January 2018

Revaluation reserve *(AFS/FVOCI reserve)*	
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	2
Related tax	-
Net impact	2
Retained earnings	
Recognition of expected credit losses under IFRS 9	(252)
Remeasurement due to change in measurement model	2
Related tax	62
Net impact	(191)
Non-controlling interests	
Recognition of expected credit losses under IFRS 9	(24)
Related tax	-
Net impact	(24)

F.2.1. /Classification and measurement of financial assets and financial liabilities

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

In millions of EUR, as at 1 January 2018

	Measurement category under IAS 39	Carrying amount	Measurement category under IFRS 9	Carrying amount
Financial assets				
Cash and cash equivalents	Amortised cost (L&R)	8,982	Amortised cost	8,982
Loans and receivables due from banks and other financial institutions	Amortised cost (L&R)	539	Amortised cost	537
Loans to customers	Amortised cost (L&R)	16,663	Amortised cost	16,392
Trade receivables and other receivables	Amortised cost (L&R)	95	Amortised cost	95
Investment securities (Held for trading)	FVTPL (held for trading)	343	FVTPL (mandatory)	343
Investment securities (Debt securities)	FVOCI (AFS)	2,559	FVOCI (debt instruments)	1,699
			FVTPL (mandatory)	6
			Amortised cost	856
Investment securities (Equity securities)	FVOCI (AFS)	11	FVOCI (equity instruments)	11

Neither the classification nor the measurement of financial liabilities have been affected by the adoption of IFRS 9 in the same manner as they were under IAS 39.

F.2.2. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics, as described above in this section.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

MEUR	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement: change of classification	Remeasurement: change of ECL	IFRS 9 carrying amount at 1 January 2018
Financial assets					
Amortised cost					
Cash and cash equivalents:					
Opening balance under IAS 39	8,982	-	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	8,982
Investment securities at amortised cost:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "available-for-sale" (IAS 39)	-	854	-	-	-
Remeasurement	-	-	2	-	-
Closing balance under IFRS 9	-	-	-	-	856
Loans and receivables due from banks and other financial institutions					
Opening balance under IAS 39	539	-	-	-	-
Remeasurement	-	-	-	(2)	-
Closing balance under IFRS 9	-	-	-	-	537
Loans to customers:					
Opening balance under IAS 39	16,663	-	-	-	-
Remeasurement	-	-	-	(271)	-
Closing balance under IFRS 9	-	-	-	-	16,391
Trade and other receivables:					
Opening balance under IAS 39	95	-	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	95
Total financial assets measured at amortised cost	**26,279**	**854**	**2**	**(273)**	**26,861**

MEUR	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement: change of classification	Remeasurement: change of ECL	IFRS 9 carrying amount at 1 January 2018
Fair value through other comprehensive income (FVOCI)					
Available-for-sale					
Opening balance under IAS 39	2,570	-	-	-	-
Subtraction: to FVOCI (IFRS 9)	-	(1,710)	-	-	-
Subtraction: to FVTPL mandatorily (IFRS 9)	-	(6)	-	-	-
Subtraction: To "Investment securities at amortised cost" category (IFRS 9)	-	(854)	-	-	-
Closing balance under IFRS 9	-	-	-	-	-
FVOCI (debt instruments)					
Bonds and other debt securities:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "Financial assets available-for-sale (IAS 39)	-	1,699	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	1,699
FVOCI (equity instruments)					
Equity securities:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "Financial assets available-for-sale (IAS 39)	-	11	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	11
Total financial assets measured at FVOCI	**2,570**	**(860)**	**-**	**-**	**1,710**
FVTPL (trading)					
Opening balance under IAS 39	343	-	-	-	-
Addition: From “Financial assets available-for-sale (IAS 39)”	-	6	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	349
Total financial assets measured at FVTPL	**343**	**6**	**-**	**-**	**349**

The following table shows the effects of the reclassification of financial assets from IAS 39 categories into the amortised cost category under IFRS 9.

From available-for-sale financial assets under IAS 39	MEUR
Fair value at 31 December 2018	749
Fair value gain that would have been recognised during the year ended 31 December 2018 in OCI if the financial assets had not been reclassified	(12)

F.2.3. Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	**Loss allowance under IAS 39/Provision under IAS 37**	**Reclassification**	**Remeasurement**	**Loss allowance under IFRS 9**
	MEUR	**MEUR**	**MEUR**	**MEUR**
L&R (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Loans and receivables due from banks, other financial institutions and holding companies	-	-	(2)	(2)
Loans to customers - collective impairment	(1,414)	-	(264)	(1,678)
Loans to customers - individual impairment	(49)	-	(7)	(56)
Subtotal	**(1,463)**	**-**	**(273)**	**(1,736)**
AFS (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Bonds and other debt securities	-	-	(2)	(2)
Subtotal	**-**	**-**	**(2)**	**(2)**
Loan commitments and financial guarantee contracts				
Loan commitments	-	-	(1)	(1)
Provisions (financial guarantees)	(2)	-	-	(2)
Subtotal	**(2)**	**-**	**(1)**	**(3)**
Total	**(1,465)**	**-**	**(276)**	**(1,741)**

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

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 December 2018 and have not been applied in the preparation of the consolidated financial statements. Of these pronouncements, the following will have a potential impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

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

In January 2016, IASB issued a new Standard on leases. The standard requires companies to bring most leases on-balance sheet, recognising new assets and liabilities. IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset (the 'lease asset') at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new Standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying IAS 17. IFRS 16 includes two exemptions from recognising assets and liabilities for

(a) short-term leases (i.e. leases of 12 months or less) and (b) leases of low-value items (such as personal computers).

Applying IFRS 16, a lessee will:

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

The Group assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 16. Based on the information currently available, the Group estimates that it will recognise additional lease liabilities and right-of-use assets in the range of MEUR 110-160 in the Group's financial statements as at 1 January 2019.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 16 on 1 January 2019 may change because the Group needs to update the policies and governance impacted by IFRS 16 and internal controls, to test readiness of the system, and these implementations are not yet complete. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. Furthermore the standard provides some practical expedients and exemptions. The Group has opted to apply for periods starting from 1 January 2019 the modified retrospective approach and will make use of several of these practical expedients and exemptions permitted under the standard. The Group will use the exemption relating to the short-term leases and has decided not to capitalise leases with lease term of 12 month or shorter. Regarding the leases with a low-value underlying asset the Group has decided to use this practical expedient as well. Low value tangible assets like copy machines (below TEUR 5) are not required to capitalise. The Group will also outscope the leased intangible assets to be capitalised, as allowed by IFRS 16. The Group will separate non-lease components (like cleaning and maintenance) and will not capitalise them as lease payments. Lessor accounting remains substantially unchanged.

Based on the current results of the Group's analyses of the actual lease contracts, the Group evaluated that the impact on the income statement and the statement of cash flow is very limited. The Group also analysed the impact of IFRS 16 to covenant calculation and expects a very limited impact, so that the covenants are expected to be met on and after the adoption of IFRS 16.

IFRS 17 Insurance Contracts (effective from 1 January 2021)

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

IFRS 17 has not yet been adopted by the EU.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and

unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Group currently analyses the possible impact on its consolidated financial statements.

Amendments to References to Conceptual Framework (effective from 1 January 2020)

The IASB decided to revise the Conceptual Framework because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes a new chapter on measurement; guidance on reporting financial performance; improved definitions of assets and liabilities, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support the transition to the revised conceptual framework for companies that develop accounting policies using the conceptual framework when no IFRS Standard applies to a particular transaction.

These amendments have not yet been adopted by the EU.

The Group does not expect these amendments to have a significant impact on its consolidated financial statements.

Amendments to IFRS 3 Definition of a Business (effective from 1 January 2020)

The IASB has issued narrow scope amendments to IFRS 3 aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments, beside other changes, narrow the definition of a business in the Standard.

These amendments have not yet been adopted by the EU and are not expected to have significant impact on the Group’s financial statements.

Amendments to IAS 1 and IAS 8: Definition of material (effective from 1 January 2020)

The amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors, and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the conceptual framework for financial reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

These amendments have not yet been adopted by the Group.

G. Subsequent events

The Group has evaluated the period after the balance sheet date up through 30 April 2019, which is the date that the consolidated financial statements were issued. It has been determined that no subsequent events or transactions have occurred that would require recognition or disclosure in the consolidated financial statements other than the following:

G.1. Acquisition of a Serbian bank

In June 2018, the Parent signed an agreement for the acquisition of a 100% stake in Telenor Banka a.g. Beograd, a Serbian bank providing consumer loans to the customers of Telenor Serbia, a telecommunication operator that PPF Group acquired in July 2017. The transaction was subject to regulatory approvals and closed in February 2019. The acquisition price amounted to 0.1 MEUR.

From the Group's perspective, the acquisition of Telenor Banka is considered a long-term investment on the PPF Group level, combining the telecommunications business with financial services provided to customers.

In accordance with IFRS 3, the Group will initiated a purchase price allocation ("PPA") exercise to identify the fair value of involve assets and liabilities. The ultimate results are expected to be presented in the 2018 interim consolidated financial statements.

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition based on the unaudited preliminary financial results.

In millions of EUR, as at 20 February 2019

Carrying value of assets	**167**
Cash and cash equivalents	68
Investment securities	27
Loans and receivables due from banks and other financial institutions	11
Loans due from customers	54
Property, plant and equipment, intangible assets	7
Carrying value of liabilities	**128**
Due to banks and other financial institutions	2
Due to non-banks	117
Subordinated liabilities	5
Other liabilities	5
Carrying value of identifiable net assets	**38**

G.2. Addendum to the agreement for acquisition of a 2.5% stake in Home Credit

In April, the Company signed an addendum to the agreement transferring a 2.5% stake in Home Credit Group B.V. (refer to B.2.1). It substitutes the initially agreed third instalment with an increase in the second instalment by MEUR 50. Therefore, the total consideration for the acquired stake in Home Credit Group B.V. amounts to MEUR 213. The maturity of the second instalment amounting to MEUR 130 has been changed to May 2019. As the addendum was agreed in 2019, the respective increase in purchase price is to be recorded in the 2019 accounts. The increased price will be reflected as a direct decrease in equity.

30 April 2019

Board of Directors:

Jan Cornelis Jansen
Member of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Paulus Aloysius de Reijke
Member of the Board of Directors

Kateřina Jirásková
Member of the Board of Directors

Lubomír Král
Member of the Board of Directors

PPF Financial Holdings

PPF Financial Holdings B.V.

Separate financial statements for the year ended 31 December 2018

Chamber of commerce 61880353
With statutory seat in Amsterdam

Company statement of financial position

	Note	31 December 2018 MEUR	31 December 2017 MEUR
ASSETS			
Cash and cash equivalents	5	174	235
Loans receivable	6	484	211
Investment in subsidiaries and associates	7	1,711	1,530
Total assets		**2,369**	**1,976**
EQUITY			
Issued capital*	8	-	-
Share premium	8	2,324	2,231
Additional paid-in capital	8	80	-
Other reserves	8	(434)	(434)
Retained earnings		66	55
Total equity		**2,036**	**1,852**
LIABILITIES			
Subordinated liabilities	9	249	119
Current income tax	12	4	4
Accounts payable		80	1
Total liabilities		**333**	**124**
Total liabilities and equity		**2,369**	**1,976**

* Issued capital is TEUR 45

Company income statement

	Note	2018 MEUR	2017 MEUR
Interest income	11	24	37
Interest expense	11	(8)	-
Net interest income		**16**	**37**
Net foreign exchange gain/(loss)		3	(20)
Loss on sale of available-for-sale financial assets		-	(1)
Net gain from sale of associates		3	-
Net loss from derivatives		-	(1)
Net impairment gains on financial assets		1	-
Operating expense		(5)	(3)
Profit before tax		**18**	**12**
Income tax expense	12	(6)	(6)
Net profit for the period		**12**	**6**

Company statement of comprehensive income

	2018 MEUR	2017 MEUR
Net profit for the period	**12**	**6**
AFS revaluation losses transferred to income statement	-	1
Other comprehensive income for the period (net of tax)*	**-**	**1**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**12**	**7**

* Items that will be reclassified to the income statement.

Company statement of changes in equity

MEUR	Issued capital*	Share premium	Additional paid-in capital	Other reserve	Retained earnings	Total
Balance as at 31 December 2017	**-**	**2,231**	**-**	**(434)**	**55**	**1,852**
Adjustment on initial application of IFRS 9, net of tax					(1)	(1)
Balance as at 1 January 2018	**-**	**2,231**	**-**	**(434)**	**54**	**1,851**
Transactions with the owner:						
Contributions for the year	-	93	80	-	-	173
Total comprehensive income:						
Net profit for the year	-	-	-	-	12	12
Balance as at 31 December 2018	**-**	**2,324**	**80**	**(434)**	**66**	**2,036**

* Issued capital is TEUR 45.

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

* Issued capital is TEUR 45.

Company statement of cash flows

	Note	2018 MEUR	2017 MEUR
Profit from operations (before taxation)		**18**	**12**
Net interest income	11	(16)	(37)
Adjustments for:			
Net (gain)/loss on disposal of available-for-sale financial assets		-	1
Net (gain)/loss from sale of associates		(3)	-
Effects of foreign currency translation on items other than cash and cash equivalents		(3)	24
Impairment on financial assets		(1)	-
Change in current liabilities		1	(1)
Change in loans provided and other assets		(334)	167
Change in negative fair value of derivatives		-	(12)
Interest received		5	36
Interest paid		(7)	-
Income tax paid		(6)	(2)
Cash flows from/(used in) operating activities		**(346)**	**188**
Investments in subsidiaries and associates	7	(17)	(404)
Proceeds from sale of financial assets available for sale		-	130
Cash flows from/(used in) investing activities		**(17)**	**(274)**
Proceeds from share premium increase	8	93	14
Proceeds from other capital contributions	8	80	-
Proceeds from the issue of debt securities	9	129	119
Cash flows from/(used in) financing activities		**302**	**133**
Net increase/(decrease) in cash and cash equivalents		(61)	47
Cash and cash equivalents as at 1 January		235	188
Cash and cash equivalents as at 31 December		**174**	**235**

NOTES TO THE FINANCIAL STATEMENTS

1 General information

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

The Board of Directors authorised the separate financial statements for issue on 30 April 2019.

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

For the other description of the Company see Note A of notes to the consolidated financial statements for the year ended 31 December 2018.

2 Basis of preparation

2.1 Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU-IFRSs"), including International Accounting Standards ("IASs"), promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, and with the financial reporting requirements included with Section 2:362(9) of the Dutch Civil Code.

2.2 Basis of presentation

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

2.3 Going concern

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

3 Significant accounting policies

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

3.1 Investments in subsidiaries and associates

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

3.2 Income tax

The Company is part of a fiscal unity with PPF Group N.V. (the "Ultimate Parent Company") that files and settles the corporate income tax for their account. For more details please refer to Note 13.

3.3 Changes in accounting policies since 1 January 2018

The Company initially adopted IFRS 9 Financial Instruments from 1 January 2018. Net of tax, the impact of the transition to IFRS 9 on the opening balance of reserves and retained earnings was insignificant (MEUR 1).

4 Risk management

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

The Notes to the consolidated financial statements include information about the Group's exposure to each of the below described risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's approach to the management of its capital. These risks, objectives, policies, and processes for measuring and managing risk, and the management of the capital also apply to the separate financial statements of the Company.

4.1 Credit risk

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

4.2 Interest rate risk

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

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

As at 31 December 2018 the Company is not exposed to interest rate risk arising from debt instruments as all debt instruments (bonds) carry fixed interest rate.

As at 31 December 2018, the Company does not classify and measures any of its financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss or equity of the Company.

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

2018 **MEUR**	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Interest bearing financial assets						
Cash and cash equivalents	0.00%	174	-	-	-	174
Loans receivable	7.28%	391	93	-	-	484
Total interest bearing financial assets		**565**	**93**	**-**	**-**	**658**

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

Financial liabilities bearing a fixed interest rate of 4.5% p.a. and maturing in 2027 as well as those with a fixed interest rate of 3.6% p.a. and maturity in 2028 are presented under subordinated liabilities. For more information, please refer to Note 9.

4.3 Liquidity risk

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

2018 **MEUR**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Cash and cash equivalents	174	-	-	-	174
Loans receivable	391	-	-	93	484
Total financial assets	**565**	**-**	**-**	**93**	**658**
Subordinated liabilities	1	-	-	248	249
Accounts payable	-	80	-	-	80
Total financial liabilities	**1**	**80**	**-**	**248**	**329**
Net position	**564**	**(80)**	**-**	**(155)**	**329**

2017 **MEUR**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Cash and cash equivalents	235	-	-	-	235
Loans receivable	50	-	161	-	211
Total financial assets	**285**	**-**	**161**	**-**	**446**
Subordinated liabilities	-	-	-	119	119
Accounts payable	1	-	-	-	1
Total financial liabilities	**1**	**-**	**-**	**119**	**120**
Net position	**284**	**-**	**161**	**(119)**	**326**

4.4 Foreign currency risk

Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency. Result of currency translation are directly charged to the income statement. The Company's foreign currency risk exposure was as follows:

2018 **MEUR**	**EUR**	**CZK**	**USD**	**Total**
Cash and cash equivalents	174	-	-	174
Loans receivable	451	-	33	484
Total financial assets	**625**	**-**	**33**	**658**
Subordinated liabilities	93	156	-	249
Accounts payable	79	1	-	80
Total financial liabilities	**172**	**157**	**-**	**329**
Net position	**453**	**(157)**	**33**	**329**

2017 **MEUR**	**EUR**	**CZK**	**USD**	**Total**
Cash and cash equivalents	181	54	-	235
Loans receivable	173	-	38	211
Total financial assets	**354**	**54**	**38**	**446**
Subordinated liabilities	-	119	-	119
Accounts payable	1	-	-	1
Total financial liabilities	**1**	**119**	**-**	**120**
Net position	**353**	**(65)**	**38**	**326**

4.5 Fair values of financial instruments

The Company has performed an assessment of the fair values of its financial instruments. Fair values have been estimated either by reference to market values at the end of the reporting period date or by discounting the relevant cash flows using the current interest rates for similar instruments.

The Company believes that the carrying amounts of its financial assets and liabilities reasonably approximate their fair values. All of the Company's financial assets and liabilities are classified as Level 2 in the fair value hierarchy and no transfers from Level 2 to other levels occurred in 2018.

5 Cash and cash equivalents

All cash represents cash deposits with PPF banka a.s. and is freely distributable.

6 Loans receivable

	2018 MEUR	2017 MEUR
Home Credit B.V. (EUR)	-	50
Home Credit Group B.V. (EUR)	365	-
PPF Group N.V. (EUR)	26	-
Other external loans (EUR)	60	122
Other external loans (USD)	33	39
	484	211

The loan to Home Credit Group B.V. bears a fixed interest rate of 7.5% p.a. and matures in March 2019. The loan to PPF Group N.V. bears a fixed interest rate of 3M Euribor +150 bps p.a. and matures in December 2019. In March 2019, the maturity of the loan owed by Home Credit Group B.V. was prolonged to December 2019.

All other loans bear a fixed interest rate of 7.5% p.a. and were initially to mature in June 2019. The year-on-year decrease in other loans relates to the acquisition of Home Credit Group B.V. (refer to Note 7). In December 2018, the maturity of the loans was extended to June 2024.

All loans receivables are at Stage 1 with very low risk.

7 Investments in subsidiaries and associates

	Share	2018 MEUR	Share	2017 MEUR
Home Credit Group B.V.	91.12%	1,605	88.62%	6
Home Credit B.V.	-	-	88.62%	1,435
PPF banka a.s.	92.96%	60	92.96%	60
ClearBank Ltd.	37.70%	46	36.36%	29
		1,711		1,530

Home Credit B.V. was contributed to Home Credit Group B.V. in May 2018. The investment in Home Credit Group B.V. after this transaction was MEUR 1,442. On 31 December 2018, the Group acquired a 2.5% stake in Home Credit Group B.V. from a minority shareholder. The Group increased its shareholding in Home Credit from 88.62% to 91.12%.

The purchase price of a 2.5% stake in Home Credit Group B.V. was payable in three instalments; the first part of the consideration (MEUR 83) was paid on 31 December 2018; the second part (MEUR 80) was initially due in June 2019. The third instalment was defined as an earn-out being equal to 50% of

the difference between the current purchase price (the first two instalments) and the market value reached at a possible partial future exit. The earn-out could be in both directions, i.e. either positive or negative.

In April, both shareholders of Home Credit Group B.V. signed an addendum substituting the initially agreed third instalment with an increase in the second instalment by MEUR 50. Therefore, the total consideration for the stake amounts to MEUR 213. The maturity of the second instalment amounting to MEUR 130 has been changed to May 2019. As the addendum was agreed in 2019, the respective increase in purchase price is to be recorded in the 2019 accounts.

Part of the consideration amounting to MEUR 69 was settled against the repayment of existing loans.

8 Equity

Share capital

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:

	2018	2017
Number of shares authorised	45,000	45,000
Number of shares issued and fully paid	45,000	45,000
Par value per share	EUR 1	EUR 1

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

Share premium

The share premium is the amount by which the amount received by the Company exceeds the par value of its shares. The share premium is freely distributable.

During 2018 and 2017 the share premium was increased by a cash contribution amounting to MEUR 93 (2017: MEUR 14).

Additional paid-in capital

In June 2018, PPF Financial Holdings B.V. issued additional Tier 1 capital held in EUR by PPF Group N.V. with a total nominal value of MEUR 80. Apart from other characteristics, these bonds are classified as equity instruments and payments of interest to the investors. The redemption of the original principal amount is at the issuer's discretion. The bonds include non-cumulative coupon payments of 6%. The interest payment on the bonds is carried out once a year on 29 June. These interest payments are presented as dividends in these consolidated financial statements.

Other reserve (under common control)

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

The difference between the Company's equity and consolidated equity results from the fact that the Company presents its investments in subsidiaries at cost. In the consolidated financial statements the subsidiaries are consolidated and their cumulative result is added to the consolidated equity. The Company's net result for 2018 is lower than the consolidated result by MEUR 499 (2017: MEUR 301).

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

MEUR	Issued capital*	Share premium	Additional paid-in capital	Revaluation reserve	Legal and statutory reserves	Translation reserve	Other reserves	Retained earnings	Total
Individual balance as at 31 December 2018	**-**	**2,324**	**80**	**-**	**-**	**-**	**(434)**	**66**	**2,036**
Adjustment for:									
Net result of subsidiaries	-	-	-	-	-	-	-	1,155	1,155
Reserves related to subsidiaries	-	-	-	1	114	(491)	(84)	-	(460)
Consolidated balance as at 31 December 2018	**-**	**2,324**	**80**	**1**	**114**	**(491)**	**(518)**	**1,221**	**2,731**

*Issued capital is TEUR 45.

MEUR	Issued capital*	Share premium	Additional paid-in capital	Revaluation reserve	Legal and statutory reserves	Translation reserve	Other reserves	Retained earnings	Total
Individual balance as at 31 December 2017	**-**	**2,231**	**-**	**-**	**-**	**-**	**(434)**	**55**	**1,852**
Adjustment for:									
Net result of subsidiaries	-	-	-	-	-	-	-	1,217	1,217
Reserves related to subsidiaries	-	-	-	19	81	(383)	(70)	(207)	(560)
Consolidated balance as at 31 December 2017	**-**	**2,231**	**-**	**19**	**81**	**(383)**	**(504)**	**1,065**	**2,509**

* Issued capital is TEUR 45.

9 Subordinated liabilities

	2018 MEUR	2017 MEUR
Bonds issued	249	119

Bonds of MCZK 4,000 were issued in December 2017 (MEUR 157). They bear a fixed coupon rate of 4.5% p.a. and their final maturity is in December 2027. The Company has an early redemption option exercisable in December 2022. As of 31 December 2017, part of the bond issue amounting to MEUR 38 had not yet been placed to the investors.

Bonds of MEUR 92 were issued in September 2018. They bear a fixed coupon rate of 3.6% p.a. and their final maturity is in September 2028. The Company has an early redemption option exercisable in December 2023.

As of 31 December 2018, the amount of MEUR 1 is held by PPF banka a.s. (2017: MEUR 29 held by PPF Group N.V.).

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

MEUR	**Debt securities and subordinated liabilities**	**Share premium**	**Additional paid-in capital**	**Total**
Balance as at 1 January 2018	**119**	**2,231**	**-**	**2,350**
Cash flows from financing activities				
Proceeds from capital contribution	-	93	80	173
Proceeds from the issue of debt securities	130	-	-	130
Total cash flows from financing activities	**130**	**93**	**80**	**303**
Balance as at 31 December 2018	**249**	**2,324**	**80**	**2,653**

11 Net interest income

	2018 MEUR	2017 MEUR
Interest income – bonds	-	10
Interest income – loans	24	27
Total interest income	**24**	**37**
Interest expense – bonds	(8)	-
Total interest expenses	**(8)**	**-**
Total net interest income	**16**	**37**

12 Income tax

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

The following table reconciles the tax expense:

	2018 MEUR	2017 MEUR
Tax rate	25.00%	25.00%
Profit before tax	18	12
Computed taxation using applicable tax rate	(5)	(3)
Tax non-deductible expenses	(1)	(1)
Non-taxable income	2	2
Changes in estimates related to prior years	(2)	(4)
Total income tax expense	**(6)**	**(6)**

13 Audit expenses

2018 (TEUR)	**KPMG Accountants N.V.**	**Other KPMG network**	**Total**
	TEUR	**TEUR**	**TEUR**
Audit of financial statements	267	1,625	**1,892**
Other audit engagements	184	527	**711**
Tax advisory	-	433	**433**
Other non-audit services	-	129	**129**
Total	**451**	**2,714**	**3,165**

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

14 Related parties

The Company has related party relationships with its parent company PPF Group N.V. and its subsidiaries (PPF a.s., PPF banka a.s., Home Credit B.V., Home Credit Group B.V., Home Credit and Finance bank LLC). Furthermore, the key management personnel of the Company and their close family members as well as other parties that are controlled, jointly controlled or significantly influenced by such individuals and entities in which the individuals hold significant voting power are also considered related parties.

The key management personnel of the Company comprise the members of the Board of Directors. In 2017 and 2018, no remuneration was paid to the members of the Board of Directors.

15 Subsequent events

In June 2018, the Parent signed an agreement for the acquisition of a 100% stake in Telenor Banka a.g. Beograd, a Serbian bank providing consumer loans to the customers of Telenor Serbia, a telecommunication operator that PPF Group acquired in July 2017. The transaction was subject to regulatory approvals and closed in February 2019. The acquisition price amounted to MEUR 0.1.

In March 2019, the maturity of the existing loan facility owed by Home Credit Group B.V. was prolonged to December 2019.

In April, both shareholders of Home Credit Group B.V. signed an addendum to the agreement transferring a 2.5% stake in Home Credit Group to the Company (see Note 7). It substitutes the initially agreed third instalment with an increase in the second instalment by MEUR 50. Therefore, the total consideration for the stake amounts to MEUR 213. The maturity of the second instalment amounting to MEUR 130 has been changed to May 2019. As the addendum was agreed in 2019, the respective increase in purchase price is to be recorded in the 2019 accounts.

No other subsequent events have occurred after the balance sheet date that would have a material impact on the financial statements.

30 April 2019

Board of Directors:

Jan Cornelis Jansen
Member of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Paulus Aloysius de Reijke
Member of the Board of Directors

Kateřina Jirásková
Member of the Board of Directors

Lubomír Král
Member of the Board of Directors

Other Information

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

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

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

2 Subsidiaries

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

3 Auditor's report

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

Independent auditor's report

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

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of PPF Financial Holdings B.V. as at 31 December 2018 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2018 of PPF Financial Holdings B.V. (the 'Company' or the 'Group') based in Amsterdam, the Netherlands.

The financial statements comprise:

1. the consolidated and company statement of financial position as at 31 December 2018;
2. the following consolidated and company statements for the year ended 31 December 2018: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

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

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

Audit approach

Summary

Materiality
— Group materiality of EUR 83.5 million (2017: EUR 78.1 million)
— 3% of net assets (2017: 3% of net assets)

Group audit
— 99% of total assets (2017: 99%)
— 100% of Group profit before tax (2017: 100%)

Key audit matters
— Valuation of loan portfolio

Opinion
— Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 83.5 million (2017: EUR 78.1 million) which represents 3% (2017: 3%) of net assets. We consider net assets as the most appropriate benchmark based on our assessment of the general information needs of users of the financial statements and given the fact that the benchmark is a key metric applied in the (regulated) banking industry. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee that misstatements in excess of EUR 4.1 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

PPF Financial Holdings B.V. is at the head of a group of components. The financial information of this group is included in the consolidated financial statements of PPF Financial Holdings B.V..

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Our group audit mainly focused on significant components. These components are either individually financially significant due to their relative size within the Group or because we assigned a significant risk of material misstatement to one or more account balances. In addition, we included certain components in the scope of our group audit in order to obtain a sufficient coverage over all relevant significant account balances.

We have:

- performed audit procedures ourselves at group components PPF Financial Holdings B.V., Home Credit Group B.V. and Home Credit B.V.;
- made use of the work of other auditors for the audit of the other in scope components;
- performed review procedures or specific audit procedures at other components.

The group audit team provided instructions to component auditors, covering the significant audit areas, including the relevant risk of material misstatement and set out the information required to be reported to the group audit team. All components in scope for group reporting purposes are audited by KPMG member firms.

The group audit team has also organized conference calls with auditors of all significant and non-significant components and has visited the auditors and management of selected significant and non-significant components. During these calls and visits we discussed in more detail the planning and risk assessment procedures performed by the components auditors as well as the findings and observations reported by component auditors. Furthermore we have also performed reviews of audit files of selected components.

The group audit team has set component materiality levels, which ranged from EUR 3.0 million to EUR 30.0 million, based on the mix of size and risk profile of the components within the Group.

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

Our procedures as described above can be summarized as follows:

Total assets

99%	1%
Audit of the complete reporting package	Covered by additional procedures performed at group level

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Profit before tax

100%	0%
Audit of the complete reporting package	Covered by additional procedures performed at group level

Consideration of fraud in the audit of financial statements

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management and the Audit Committee. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Based on the auditing standards we addressed the following presumed fraud risk that is relevant to our audit:

— fraud risk in relation to management override of controls – specific in relation to the expected credit loss provision results.

We have not identified and addressed any other fraud risks which could have a material impact on the financial statements.

Our audit procedures included an evaluation of the of internal controls relevant to mitigate these risks, for example the internal controls which secure a consistent use of the approved credit risk model assumptions and supplementary substantive audit procedures, including detailed testing of manual adjustments on consolidation level.

Analyses of manual journals entries related to consolidation and reclassification of financial assets are part of our audit approach to address fraud risks which could have a material impact on the financial statements. This also relates to audit procedures carried out to address the risk of management override of controls.

The component teams performed audit procedures to address the risk management override of controls related to the expected credit loss provision results as described in the key audit matter 'Valuation of loan portfolio'. Furthermore, as part of our audit procedures to respond to the identified fraud risk, we performed corroborative inquiry with the Group's legal counsel and Group's head of internal audit.

Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

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Our procedures to address fraud risks did not result in findings to be included in this audit report.

Consideration of laws and regulations in the audit of financial statements

We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general and sector experience, through discussion with the directors, those charged with governance and/or other management (as required by auditing standards) and discussed the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations within our audit team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements, such as relevant tax laws and financial reporting standards and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to other, sector specific, laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation.

As required by auditing standards, we performed the required audit procedures to identify non-compliance with these laws and regulations by inquiring of the directors, those charged with governance and other management and inspection of minutes and regulatory and legal correspondence, if any. We assessed factors related to the risk of non-compliance with laws and regulations which could have a direct or indirect impact on the financial statements, but our assessment did not reveal a significant risk. Finally, we obtained written representations that all known instances of (suspected) non-compliance with laws and regulations have been disclosed to us.

We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Our key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Valuation of loan portfolio

Description

PPF Financial Holdings B.V. provides loans to retail customers amounting to EUR 19.4 billion through the use of various distribution channels, among other things, point of sales spread out in the countries where it operates and to corporate client amounting to to EUR 1.2 billion. These loans are measured at amortized cost, less a provision for loan losses amounts to EUR 2.1 billion in total. A number of aspects of the accounting for loan loss impairments require a certain level judgment of the management, such as applying macroeconomic scenarios to the expected credit loss ('ECL'), ECL models and the assessment of objective evidence for impairment and the assessment of the recoverable amount. The complexity of the judgments and the amounts in the provision could provide the Company with the opportunity to intentionally reflect the amounts differently.

Our response

Our approach included testing both the design and operating effectiveness of internal controls and substantive audit procedures. As part of our procedures, we identified key IT applications used in the process and tested the relevant general IT and application controls over the key applications used. These IT controls secure proper credit loss statistics and resulting calculations needed to substantiate the main provision parameters.

Our procedures over internal controls were performed on the components level and relate to test of controls around the completeness and accuracy of the data flow and the loan data in the credit loss database, which are used in the collective provisioning model. Also our audit focused on the analysis of the collective provision results and management reviews performed on impaired loans that have been individually assessed.

On the Group level, we assessed expected credit losses methodologies. KPMG model specialists have assisted in the evaluation of the accuracy of the models prepared by the Group for provision recalculation, challenged and tested the reasonableness of the assumptions (for example use of historical data) made and evaluated the calculation process. On the components level the component auditors tested the completeness and accuracy of the input data used to measure expected credit losses. The main assumptions tested by the component teams were the migration matrices, staging based on days past due and changes in behavioural scores, recovery rates and discount rates, which is in line with the requirements issued by the Group team.

Our observation

Based on our procedures performed, we found the management's overall assessment relating to valuation of loan portfolio within the acceptable range and adequately disclosed in note E.4 and F.1.7 of the financial statements respectively.

Report on the other information included in the annual report

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

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

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

- — is consistent with the financial statements and does not contain material misstatements; and
- — contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

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

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

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

Report on other legal and regulatory requirements

Engagement

We were appointed as auditors of PPF Financial Holdings B.V. starting 2018 by the Board of Directors following the passing of a resolution by the shareholders at the annual meeting held on 2 July 2018. This is the first year the Group has an EU-PIE status.

No prohibited services

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

Description of responsibilities regarding the financial statements

Responsibilities of Board of Directors of PPF Financial Holdings B.V. for the financial statements

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

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the

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going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our independent auditor's report.

Amstelveen, 30 April 2019

KPMG Accountants N.V.

M. Frikkee RA

Appendix:
Description of our responsibilities for the audit of the financial statements

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