Home Credit B.V.

Condensed Interim Financial Report
for the three-month period ended 31 March 2018

Contents

Condensed Consolidated Interim Financial Statements for the three-month period ended 31 March 2018

	Note	31 Mar 2018 MEUR	31 Dec 2017 MEUR
ASSETS			
Cash and cash equivalents	7	3,614	3,021
Financial assets at fair value through profit or loss	8	42	35
Financial assets available-for-sale	9	-	1,495
Financial assets at fair value through other comprehensive income	9	686	-
Due from banks, other financial institutions and holding companies	10	353	403
Loans to customers	11	15,228	15,452
Investment securities at amortized cost	12	774	-
Assets classified as held for sale	13	3	3
Current income tax receivables		21	16
Investments in associates	14	5	3
Property and equipment	15	189	190
Intangible assets and goodwill	16	257	242
Deferred tax assets		523	330
Other assets	17	347	336
Total assets		**22,042**	**21,526**
LIABILITIES			
Financial liabilities at fair value through profit or loss	18	329	322
Current accounts and deposits from customers	19	6,540	6,356
Due to banks, other financial institutions and holding companies	20	11,020	10,598
Debt securities issued	21	1,164	998
Subordinated liabilities	22	373	383
Current income tax liabilities		263	197
Deferred tax liabilities		8	6
Insurance and other provisions	23	37	37
Other liabilities	24	538	601
Total liabilities		**20,272**	**19,498**
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	25	659	659
Share premium	25	913	913
Statutory reserves	25	88	82
Foreign currency translation	25	(674)	(649)
Reserve for business combinations under common control	25	(91)	(91)
Revaluation reserve	25	-	(1)
Other reserves	25	863	1,100
Total equity attributable to equity holders of the Company		**1,758**	**2,013**
Non-controlling interests	26	**12**	**15**
Total equity		**1,770**	**2,028**
Total liabilities and equity		**22,042**	**21,526**

Continuing operations	**Note**	**3 months ended 31 Mar 2018 MEUR**	**3 months ended 31 Mar 2017 MEUR**
Interest income	27	1,082	751
Interest expense	27	(322)	(234)
Net interest income		**760**	**517**
Fee and commission income	28	210	168
Fee and commission expense	29	(34)	(28)
Net fee and commission income		**176**	**140**
Insurance income	30	**3**	**7**
Net gains on financial assets and liabilities	31	4	8
Other operating income	32	9	6
Operating income		**952**	**678**
Impairment losses on financial assets	33	(572)	(201)
General administrative expenses	34	(408)	(338)
Other operating expenses	35	(27)	(21)
Operating expenses		**(1,007)**	**(560)**
Losses on disposals of associates and subsidiaries		-	(2)
Share of earnings in associates		1	-
(Loss)/profit before tax		**(54)**	**116**
Income tax benefit/(expense)	36	23	(36)
Net (loss)/profit from continuing operations for the period		**(31)**	**80**
(Loss)/profit attributable to:			
Equity holders of the Company		(28)	81
Non-controlling interests	26	(3)	(1)
		(31)	**80**
Other comprehensive (loss)/income which will be subsequently reclassified to profit or loss:			
Currency translation		(25)	35
Revaluation losses on available-for-sale financial assets		-	(23)
Revaluation gains on financial assets at fair value through other comprehensive income		1	-
Income tax relating to components of other comprehensive income		-	4
Other comprehensive (loss)/income for the period		**(24)**	**16**
Total comprehensive (loss)/income for the period		**(55)**	**96**
Total comprehensive income attributable to:			
Equity holders of the Company		(52)	97
Non-controlling interests		(3)	(1)
		(55)	**96**

Attributable to equity holders of the Company

	Share capital	Share premium	Statutory reserves	Foreign currency translation	Reserve for business combinations under common control	Revaluation reserve	Other reserves	Total	Non-controlling interests	Total equity
	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR
Balance as at 31 December 2017	659	913	82	(649)	(91)	(1)	1,100	**2,013**	15	**2,028**
Transition impact, net of tax	-	-	-		-	-	(203)	**(203)**	-	**(203)**
Balance as at 1 January 2018	659	913	82	(649)	(91)	(1)	897	**1,810**	15	**1,825**
Transfers	-	-	6	-	-	-	(6)	-	-	-
Total	**659**	**913**	**88**	**(649)**	**(91)**	**(1)**	**891**	**1,810**	**15**	**1,825**
Currency translation	-	-	-	(25)	-	-	-	**(25)**	-	**(25)**
Revaluation gains on financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	-	1	-	**1**	-	**1**
Loss for the period	-	-	-	-	-	-	(28)	**(28)**	(3)	**(31)**
Total comprehensive income for the period	**-**	**-**	**-**	**(25)**	**-**	**1**	**(28)**	**(52)**	**(3)**	**(55)**
Total changes	**-**	**-**	**6**	**(25)**	**-**	**1**	**(237)**	**(255)**	**(3)**	**(258)**
Balance as at 31 March 2018	**659**	**913**	**88**	**(674)**	**(91)**	**-**	**863**	**1,758**	**12**	**1,770**

	Attributable to equity holders of the Company									
	Share capital	**Share premium**	**Statutory reserves**	**Foreign currency translation**	**Reserve for business combinations under common control**	**Revaluation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**Total equity**
	MEUR	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**	**MEUR**
Balance as at 1 January 2017	659	480	58	(506)	(91)	22	873	**1,495**	6	**1,501**
Disposal of subsidiaries	-	-	-	2	-	-	-	**2**	-	**2**
Changes in non-controlling interests	-	-	-	-	-	-	(1)	**(1)**	1	-
Total	**659**	**480**	**58**	**(504)**	**(91)**	**22**	**872**	**1,496**	**7**	**1,503**
Currency translation	-	-	-	35	-	-	-	**35**	-	**35**
Revaluation gains on available-for-sale financial assets, net of tax	-	-	-	-	-	(19)	-	**(19)**	-	**(19)**
Profit/(loss) for the period	-	-	-	-	-	-	81	**81**	(1)	**80**
Total comprehensive income for the period	**-**	**-**	**-**	**35**	**-**	**(19)**	**81**	**97**	**(1)**	**96**
Total changes	**-**	**-**	**-**	**37**	**-**	**(19)**	**80**	**98**	**-**	**98**
Balance as at 31 March 2017	**659**	**480**	**58**	**(469)**	**(91)**	**3**	**953**	**1,593**	**6**	**1,599**

	Note	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Operating activities			
(Loss)/profit before tax		(54)	116
Adjustments for:			
Interest expense	27	322	234
Interest income	27	(1,082)	(751)
Net loss on disposal of subsidiaries and associates		-	2
Effects of foreign currency translation on items other than cash and cash equivalents		42	19
Impairment losses	33,35	573	201
Share of earnings in associates		(1)	-
Depreciation and amortization	35	26	21
Net operating cash flow before changes in working capital		**(174)**	**(158)**
Change in due from banks, other financial institutions and holding companies		50	(71)
Change in loans to customers		(702)	(1,750)
Change in financial assets at fair value through profit or loss		(7)	198
Change in other assets		(11)	3
Change in held for sale assets		-	(1)
Change in current accounts and deposits from customers		148	238
Change in financial liabilities at fair value through profit or loss		7	(1)
Change in other liabilities and insurance and other provisions		(64)	(4)
Cash flows used in the operations		**(753)**	**(1,546)**
Interest paid		(458)	(647)
Interest received		1,162	865
Income tax paid		(43)	(49)
Cash flows used in operating activities		**(92)**	**(1,377)**
Investing activities			
Proceeds from sale of property, equipment and intangible assets		9	-
Acquisition of property, equipment and intangible assets		(51)	(42)
Proceeds from sale of subsidiaries and associates		-	2
Proceeds from available-for-sale financial assets		-	248
Proceeds from financial assets at fair value through other comprehensive income		817	-
Proceeds from held-to-maturity financial assets		-	(27)
Acquisition of financial assets at fair value through other comprehensive income		(797)	(422)
Cash flows used in investing activities		**(22)**	**(241)**
Financing activities			
Proceeds from the issue of debt securities		439	170
Repayment of debt securities issued		(266)	(6)
Proceeds from due to banks, other financial institutions and holding companies		4,232	14,103
Repayment of due to banks, other financial institutions and holding companies		(3,706)	(13,051)
Cash flows from financing activities		**699**	**1,216**
Net increase/(decrease) in cash and cash equivalents		585	(402)
Cash and cash equivalents as at 1 January		3,021	2,412
Effects of exchange rate changes on cash and cash equivalents		8	7
Cash and cash equivalents as at 31 March	7	**3,614**	**2,017**

1. Description of the Group

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

Registered office
Strawinskylaan 933
1077 XX Amsterdam
The Netherlands

Shareholders	Country of incorporation	Ownership interest (%) 31 Mar 2018	31 Dec 2017
PPF Financial Holdings B.V.	Netherlands	88.62	88.62
EMMA OMEGA LTD	Cyprus	11.38	11.38

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

Principal activities

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

Board of Directors

Jiří Šmejc	Chairman
Jan Cornelis Jansen	Vice-chairman
Rudolf Bosveld	Member
Mel Gerard Carvill	Member
Marcel Marinus van Santen	Member
Paulus Aloysius de Reijke	Member
Jean-Pascal Duvieusart	Member
Christoph Glaser	Member

1. Description of the Group (continued)

Consolidated subsidiaries	Country of incorporation	Ownership interest (%) 31 Mar 2018	31 Dec 2017
Non-banking Credit and Financial Organization "Home Credit" (OJSC)	Belarus	100.00	100.00
Asnova Insurance (CJSIC) [1)]	Belarus	100.00	100.00
Guangdong Home Credit Number Two Information Consulting Co., Ltd.	China	100.00	100.00
Home Credit Consumer Finance Co., Ltd.	China	100.00	100.00
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd.	China	100.00	100.00
Shenzhen Home Credit Xinchi Consulting Co., Ltd.	China	100.00	100.00
Shenzhen Home Credit Number One Consulting Co., Ltd.	China	100.00	100.00
CF Commercial Consulting (Beijing) Co., Ltd. [1)]	China	100.00	100.00
Redlione (LLC)	Cyprus	100.00	100.00
Astavedo Limited	Cyprus	100.00	100.00
Enadoco Limited	Cyprus	100.00	100.00
Rhaskos Finance Limited	Cyprus	100.00	100.00
Septus Holding Limited	Cyprus	100.00	100.00
Sylander Capital Limited	Cyprus	100.00	100.00
Talpa Estero Limited	Cyprus	100.00	100.00
Air Bank (JSC)	Czech Republic	100.00	100.00
Zonky (LLC)	Czech Republic	100.00	100.00
Home Credit (JSC)	Czech Republic	100.00	100.00
Home Credit International (JSC)	Czech Republic	100.00	100.00
HC Broker (LLC)	Czech Republic	100.00	100.00
HC Advisory Services (LLC)	Czech Republic	100.00	100.00
Autotým (LLC)	Czech Republic	100.00	100.00
My Air (LLC)	Czech Republic	100.00	100.00
Home Credit Egypt Trade S.A.E. [1)]	Egypt	100.00	100.00
Favour Ocean Limited	Hong Kong	100.00	100.00
Home Credit Asia Limited	Hong Kong	100.00	100.00
Saint World Limited	Hong Kong	100.00	100.00
Home Credit India Finance Private Limited	India	100.00	100.00
Home Credit India Strategic Advisory Services Private Limited	India	100.00	100.00
PT. Home Credit Indonesia	Indonesia	85.00	85.00
Home Credit and Finance Bank (SB JSC)	Kazakhstan	100.00	100.00
Eurasia Capital S.A. [2)]	Luxembourg	0.00	0.00
AB 2 B.V.	Netherlands	100.00	100.00
AB 4 B.V.	Netherlands	100.00	100.00
AB 7 B.V.	Netherlands	100.00	100.00
HC Asia B.V.	Netherlands	100.00	100.00
Home Credit India B.V.	Netherlands	100.00	100.00
Home Credit Indonesia B.V.	Netherlands	100.00	100.00
Home Credit Lab N.V.	Netherlands	100.00	100.00
HC Philippines Holdings B.V.	Netherlands	100.00	100.00
Eurasia Structured Finance No.3 B.V. [2)]	Netherlands	0.00	0.00
Eurasia Structured Finance No.4 B.V. [2)]	Netherlands	0.00	0.00
HC Consumer Finance Philippines, Inc.	Philippines	100.00	100.00
HCPH Financing 1, Inc.	Philippines	100.00	100.00
Filcommerce Holdings, Inc.	Philippines	100.00	100.00

[1)] subsidiaries in the process of liquidation
[2)] special purpose entities established to facilitate the Group's issues of debt securities and subordinated liabilities

1. Description of the Group (continued)

Consolidated subsidiaries	Country of incorporation	Ownership interest (%) 31 Mar 2018	31 Dec 2017
Home Credit and Finance Bank (LLC)	Russian Federation	100.00	100.00
Financial Innovations (LLC)	Russian Federation	100.00	100.00
MCC Kupi ne kopi (LLC)	Russian Federation	100.00	100.00
Home Credit Online (LLC)	Russian Federation	100.00	100.00
Home Credit Insurance (LLC)	Russian Federation	100.00	100.00
HC Finance (LLC) [1)]	Russian Federation	0.00	0.00
Home Credit Slovakia (JSC)	Slovak Republic	100.00	100.00
Homer Software House (LLC)	Ukraine	100.00	100.00
Home Credit US (LLC)	USA	50.10	50.10
Home Credit US Holding (LLC)	USA	100.00	100.00
Home Credit Vietnam Finance Company Limited	Vietnam	100.00	100.00

[1)] special purpose entities established to facilitate the Group's issues of debt securities and subordinated liabilities

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

Associates	Country of incorporation	Ownership interest (%) 31 Mar 2018	31 Dec 2017
Společnost pro informační databáze (JSC)	Czech Republic	27.96	27.96
Equifax Credit Services (LLC)	Russian Federation	25.00	25.00
Barion Payment Zrt.	Hungary	20.00	20.00

2. Basis of preparation

The condensed consolidated interim financial statements for the three-month period ended 31 March 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2017. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

(b) Basis of measurement

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

(c) Presentation and functional currency

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

(d) Changes in comparative numbers

Statement of Cash Flows

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

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

(e) Use of estimates and judgments

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

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

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

2. Basis of preparation (continued)

estimation, uncertainty and critical judgments made by management in preparing these consolidated financial statements is described in Note 3(e)(vi), Note 3(h), Note 3(s) and Note 11.

3. Significant accounting policies

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

(a) Changes in accounting policies since 1 January 2018

The following revised standard 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 from 1 January 2018)

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

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

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

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

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

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

The Group 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 period presented.

On the adoption of IFRS 15 at 1 January 2018, the impact on retained earnings was MEUR 0.

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.

3. Significant accounting policies (continued)

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 significant impact on the Group's financial statements.

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

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

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

IFRS 9 Financial Instruments (effective from 1 January 2018)

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

The Group 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 early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail below.

3. Significant accounting policies (continued)

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

	MEUR
Revaluation reserve	
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	-
Related tax	-
Impact at 1 January 2018	**-**
Other reserves	
Recognition of expected credit losses under IFRS 9	(266)
Related tax	63
Impact at 1 January 2018	**(203)**
Non-controlling interests	
Recognition of expected credit losses under IFRS 9	-
Related tax	-
Impact at 1 January 2018	**-**

(i) Classification and measurement of financial instruments

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:

	IAS 39		**IFRS 9**	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets		MEUR		MEUR
Cash and cash equivalents	Amortised cost (L&R)	3,021	Amortised cost	3,021
Positive fair value of derivative instruments	FVTPL (held for trading)	35	FVTPL (mandatory)	35
Due from banks, other financial institutions and holding companies	Amortised cost (L&R)	403	Amortised cost	402
Loans to customers	Amortised cost (L&R)	15,452	Amortised cost	15,187
Debt securities	FVOCI (AFS)	1,486	FVOCI (debt instruments)	714
			FVTPL (mandatory)	5
			Amortized cost	767
Equity securities	FVOCI (AFS)	9	FVOCI (equity instruments)	9

Neither the classification nor the measurement of Financial liabilities were affected by the adoption of IFRS 9 compared to classification and measurement as they were under IAS 39.

3. Significant accounting policies (continued)

(ii) 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.

Please refer to Note 3(e)(ii) for more detailed information regarding the new classification requirements of IFRS 9.

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	3,021	-	-	-	
Closing balance under IFRS 9					3,021
Investment securities at amortised cost:					
Opening balance under IAS 39	-				
Addition: From "available-for-sale" (IAS 39)		767			
Closing balance under IFRS 9					767
Loans and receivables due from banks, other financial institutions and holding companies					
Opening balance under IAS 39	403				
Remeasurement: ECL allowance			-	(1)	
Closing balance under IFRS 9					402
Loans to customers:					
Opening balance under IAS 39	15,452				
Remeasurement: ECL allowance				(265)	
Closing balance under IFRS 9					15,187
Trade receivables:					
Opening balance under IAS 39	91				
Closing balance under IFRS 9					91
Total financial assets measured at amortised cost	**18,967**	**767**	**-**	**(266)**	**19,468**

3. Significant accounting policies (continued)

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	1,495				
Subtraction: To FVOCI (IFRS 9)		(723)			
Subtraction: To FVTPL mandatorily (IFRS 9)		(5)			
Subtraction: To "Investment securities at amortised cost" category (IFRS 9)		(767)			
Closing balance under IFRS 9					-
FVOCI (debt instruments)					
Bonds and other debt securities:					
Opening balance under IAS 39	-				
Addition: From "Amortised cost" (IAS 39)		-			
Addition: From "Financial assets available-for-sale (IAS 39)		714			
Closing balance under IFRS 9					714
FVOCI (equity instruments)					
Equity securities:					
Opening balance under IAS 39	-				
Addition: From "Financial assets available-for-sale (IAS 39)		9			
Closing balance under IFRS 9					9
Total financial assets measured at FVOCI	**1,495**	**(772)**	**-**	**-**	**723**
Fair value through profit and loss and hedging (FVTPL)					
FVTPL (trading)					
Opening balance under IAS 39	35				
Addition: From “Financial assets available-for-sale (IAS 39)		5			
Closing balance under IFRS 9					40
Total financial assets measured at FVTPL	**35**	**5**	**-**	**-**	**40**

3. Significant accounting policies (continued)

(iii) 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)				
Cash and cash equivalents	-	-	-	-
Investment securities at amortised cost:	-	-	-	-
Loans and receivables due from banks, other financial institutions and holding companies	-	-	(1)	(1)
Loans to customers - collective impairment	(1,412)	-	(265)	(1,677)
Loans to customers - individual impairment	(7)	-	-	(7)
Trade receivables	-	-	-	-
Accrued income	-	-	-	-
subtotal	**(1,419)**	**-**	**(266)**	**(1,685)**
AFS (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Bonds and other debt securities	-	-	-	-
subtotal	**-**	**-**	**-**	**-**
Loan commitments and financial guarantee contracts				
Loan commitments	-	-	-	-
Provisions (financial guarantees)	-	-	-	-
subtotal	**-**	**-**	**-**	**-**
Total	**(1,419)**	**-**	**(266)**	**(1,685)**

(b) Basis of consolidation

(i) Subsidiaries

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

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

3. Significant accounting policies (continued)

(ii) Associates

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

(iii) Non-controlling interests

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

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

(iv) Special purpose entities

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

(v) Transactions eliminated on consolidation

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

(c) Foreign currency

(i) Foreign currency transactions

A foreign currency transaction is a transaction that is denominated or requires settlement in a currency other than the functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. For initial recognition purposes, a foreign currency transaction is translated into the functional currency using the foreign currency exchange rate ruling at the date of the transaction.

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

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

3. Significant accounting policies (continued)

(ii) Financial information of foreign operations

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

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

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

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

(d) Cash and cash equivalents

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

(e) Financial assets and liabilities

(i) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Group's policy is to recognize them using settlement date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as if the Group used trade date accounting.

(ii) Classification and measurement

<u>Policy applicable since 1 January 2018</u>

<u>Financial assets</u>

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

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

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

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

Business model assessment

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

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

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

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.

3. Significant accounting policies (continued)

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

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

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.
A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

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

Financial liabilities

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

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

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

Policy applicable before 1 January 2018

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

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

3. Significant accounting policies (continued)

(iii) Fair value measurement

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

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

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

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

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

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

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

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(iv) Amortized cost measurement principles

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

3. Significant accounting policies (continued)

(v) Gains and losses on subsequent measurement

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

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

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

(vi) Identification and measurement of impairment

Policy applicable since 1 January 2018

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ model. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Consequently, more timely information is required to be provided about expected credit losses.

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

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 _Provisions, Contingent Liabilities and Contingent Assets_).

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

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

In accordance with IFRS 9, the Group 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.

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;

3. Significant accounting policies (continued)

- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive from this commitment; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

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

Definition of default

Under IFRS 9, the Group 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.

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

Each exposure 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 data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

3. Significant accounting policies (continued)

Determining whether credit risk has increased significantly

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

The criteria may vary by portfolio and 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 primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

– the remaining probability of default (PD) as at the reporting date; with
– the PD that was estimated on initial recognition of the exposure.

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

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

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

The Group 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.

Modified financial assets

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

Inputs into measurement of ECLs

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

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

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

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

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

For retail overdraft and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group 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 cancellation of the facility.

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

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

The groupings 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.

3. Significant accounting policies (continued)

Forward-looking information

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

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

Policy applicable before 1 January 2018

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

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

(vii) Derecognition

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

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

(viii) Offsetting

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

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

(ix) Securitization

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

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

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

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

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

3. Significant accounting policies (continued)

(x) Repurchase and reverse repurchase agreements

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

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

(xi) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from financing activities. However, not all instruments qualify for hedge accounting in accordance with IAS 39/IFRS 9. For derivative instruments where hedge accounting is not applied, any gain or loss on derivatives is recognized immediately in the statement of comprehensive income as net gains/losses on financial assets and liabilities.

(xii) Hedge accounting

Policy applicable since 1 January 2018

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

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

The types of hedge accounting relationships that the Group currently designates meet the requirements of IFRS 9 and are aligned with the entity's risk management strategy and objective.

The Group applies fair value hedges against interest rate risk associated with the Group's available-for-sale assets / assets at FVOCI.

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

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

Policy applicable before 1 January 2018

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

3. Significant accounting policies (continued)

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

In addition, at the inception of the hedge relationship a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on a monthly basis. A hedge is regarded as highly effective if the changes in the fair value attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

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

(f) Intangible assets

(i) Goodwill and negative goodwill

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

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

(ii) Other intangible assets

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

(iii) Amortization

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

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

(g) Property and equipment

(i) Owned assets

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

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

3. Significant accounting policies (continued)

(ii) Leased assets

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

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

(iii) Subsequent expenditure

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

(iv) Depreciation

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

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

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

(h) Impairment of non-financial assets

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

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

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

3. Significant accounting policies (continued)

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

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

(i) Provisions

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

(j) Insurance provisions

(i) Provisions for unearned premiums

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

(ii) Provisions for outstanding claims and other insurance provisions

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

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

(iii) Deferred acquisition costs of insurance contracts

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

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

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

(k) Other payables

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

3. Significant accounting policies (continued)

(l) Financial guarantees

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

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

Financial guarantee liabilities are included within other liabilities.

(m) Equity

Share capital represents the nominal value of shares issued by the Company. To the extent such shares remain unpaid as of the end of the reporting period a corresponding receivable is presented in other assets.
Share premium decreases and other capital distributions are recognized as a liability provided they are declared before the end of the reporting period. Capital distributions declared after the end of the reporting period are not recognized as a liability but are disclosed in the notes.

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

(n) Interest income and expense

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

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

(o) Fee and commission income and expenses

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

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

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

3. Significant accounting policies (continued)

(p) Penalty fees

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

(q) Operating lease payments

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

(r) Employee benefits

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

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

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

The governments of the countries the Group operates in are responsible for providing pensions and retirement benefits to the Group's employees. A regular contribution linked to employees’ salaries is 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.

(s) Taxation

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

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

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

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

(t) Net profit allocated to non-controlling interests

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

(u) Segment reporting

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

3. Significant accounting policies (continued)

(v) Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Group's financial statements

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 March 2018 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group is in the process of analysing the likely impact on its financial statements.

IFRS 16 Leases (effective from 1 January 2019)

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

Applying IFRS 16, a lessee will:

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

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

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.

3. Significant accounting policies (continued)

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

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

These Amendments have not yet been adopted by the EU.

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

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

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

These Amendments have not yet been adopted by the EU.

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

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

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

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

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

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

In February 2018 the IASB issued narrow-scope amendments to pension accounting. The amendments specify how companies determine pension expenses when changes to a defined benefit pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. These Amendments are not expected to have significant impact on the Group’s financial statements.

These Amendments have not yet been adopted by the EU.

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

4. Financial risk management

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

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

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

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

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

(a) Credit risk

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

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

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

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

4. Financial risk management (continued)

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

Credit underwriting process

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

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

Fraud risk management prevention

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

General loan collection

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

Pre-collections

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

Early collection

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

Administrative and personal collection

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

Late collection

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

Legal collection, debt sell

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

4. Financial risk management (continued)

Exposure to credit risk

	As of 31 March 2018				
	POS loans	**Cash loans**	**Revolving loans**	**Other [1)]**	**Total**
	MEUR	MEUR	MEUR	MEUR	**MEUR**
Individual ECL					
Gross amount - Stage 1				147	147
Gross amount - Stage 2				-	-
Gross amount - Stage 3				17	17
Purchased credit-impaired				-	-
Allowance for impairment - Stage 1 (12M ECL)				(1)	(1)
Allowance for impairment - Stage 2 (LT ECL)				-	-
Allowance for impairment - Stage 3 (LT ECL)				(7)	(7)
Purchased credit-impaired				-	-
Carrying amount				**156**	**156**
Collective ECL					
Gross amount - Stage 1	4,988	8,746	388	204	**14,326**
Gross amount - Stage 2	275	980	76	49	**1,380**
Gross amount - Stage 3 (LT ECL)	445	880	58	24	**1,407**
Past due more than 91 days	445	877	58	24	**1,404**
Other reason	-	3	-	-	**3**
Purchased credit-impaired	-	-	-	-	**-**
Allowance for impairment – Stage 1 (12M ECL)	(156)	(464)	(3)	(3)	**(626)**
Allowance for impairment – Stage 2 (LT ECL)	(94)	(259)	(7)	(1)	**(361)**
Allowance for impairment – Stage 3 (LT ECL)	(336)	(647)	(50)	(21)	**(1,054)**
Purchased credit-impaired	-	-	-	-	**-**
Carrying amount	5,122	9,236	462	252	**15,072**
Total carrying amount	**5,122**	**9,236**	**462**	**408**	**15,228**

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

4. Financial risk management (continued)

Exposure to credit risk

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

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

4. Financial risk management (continued)

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

	31 Mar 2018		31 Dec 2017	
	Portfolio MEUR	% of loan portfolio	Portfolio MEUR	% of loan portfolio
Cash and cash equivalents	3,542	16.5	2,913	13.8
Financial assets at fair value through profit or loss	42	0.2	35	0.2
Debt securities available-for-sale	-	-	1,486	7.0
Debt securities at FVOCI	672	3.1	-	-
Due from banks, other financial institutions and holding companies	353	1.6	403	1.9
Loans to customers	15,228	70.7	15,452	73.2
Investment securities at amortized cost	774	3.6	-	-
Other assets	347	1.6	336	1.6
Loan commitments	580	2.7	493	2.3
Total	**21,538**		**21,118**	

Analysis of collateral

The following table provides an analysis of gross loan portfolio by types of collateral as at 31 March 2018 and 31 December 2017:

	31 Mar 2018		31 Dec 2017	
	Portfolio MEUR	% of loan portfolio	Portfolio MEUR	% of loan portfolio
Secured assets	381	2.2	370	2.2
Unsecured (no collateral)	16,896	97.8	16,501	97.8
Total	**17,277**		**16,871**	

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

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

4. Financial risk management (continued)

Collateral received for loans and advances

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

	Loans and receivables due from banks	Loans to customers
	31 Mar 2018	**31 Mar 2018**
	MEUR	**MEUR**
Against loans and receivables in Stage 3 – individually impaired	**-**	**9**
Equity securities	-	9
Against loans and receivables in Stage 3 – collectively impaired	**-**	**23**
Property and equipment	-	23
Against loans and receivables in Stage 1 and Stage 2	**1,674**	**673**
Securities received under reverse repo operations (including cash and cash equivalents)	1,493	-
Property and equipment	-	665
Equity securities	181	3
Deposits with banks	-	5
Total	**1,674**	**705**

4. Financial risk management (continued)

Offsetting financial assets and financial liabilities

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

International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position. Therefore, as at 31 March 2018 the reported balances of positive and negative fair values of trading derivatives of MEUR 28 (31 December 2017: MEUR 21) and MEUR 13 (31 December 2017: MEUR 9) respectively do not include any amounts offset.

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

Global Master Repurchase Agreements and similar agreements do not meet the criteria for offsetting in the consolidated statement of financial position. Therefore, as at 31 March 2018 the reported balances of loans and advances provided under repo operations of MEUR 79 (31 December 2017: MEUR 130) did not include any amounts offset. The remaining balance of due from banks, other financial institutions and holding companies of MEUR 274 (31 December 2017: MEUR 273) was not subject to any offsetting arrangements.

As at 31 March 2018 the reported balances of loans received under repo operations of MEUR 30 (31 December 2017: MEUR 88) did not include any amounts offset. The remaining balance of due to banks, other financial institutions and holding companies of MEUR 10,990 (31 December 2017: MEUR 10,510) was not subject to any offsetting arrangements.

(b) Liquidity risk

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

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

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

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, bank loans, loans from central banks, debt securities, inter-company loans, subordinated debt and contributions by shareholders (refer to Notes 19, 20, 21, 22 and 25). The shareholder's support enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. Management strives to maintain a balance between continuity of funding and flexibility through use of liabilities with a range of maturities.

4. Financial risk management (continued)

Exposure to liquidity risk

The following table shows financial assets and liabilities by remaining maturity dates. The table does not include prospective cash flows related to loan commitments. Refer to Note 38 for outstanding loan commitments that may impact liquidity requirements.

	31 Mar 2018						31 Dec 2017					
MEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Cash and cash equivalents	3,614	-	-	-	-	3,614	3,021	-	-	-	-	3,021
Financial assets at fair value through profit or loss	7	13	13	9	-	42	5	7	9	14	-	35
Financial assets available-for-sale	-	-	-	-	-	-	354	197	132	803	9	1,495
Financial assets at FVOCI	279	84	128	181	14	686	-	-	-	-	-	-
Due from banks, other financial institutions and holding companies	156	37	133	-	27	353	191	82	104	-	26	403
Loans to customers	3,812	5,183	6,057	172	4	15,228	3,822	5,430	5,988	208	4	15,452
Investment securities at amortized cost	4	4	54	712	-	774	-	-	-	-	-	-
Total financial assets	**7,872**	**5,321**	**6,385**	**1,074**	**45**	**20,697**	**7,393**	**5,716**	**6,233**	**1,025**	**39**	**20,406**
Financial liabilities at fair value through profit or loss	2	7	4	-	316	329	1	4	4	-	313	322
Current accounts and deposits from customers	4,844	1,406	290	-	-	6,540	4,649	1,202	497	8	-	6,356
Due to banks, other financial institutions and holding companies	2,524	4,873	3,613	10	-	11,020	1,558	5,572	3,457	11	-	10,598
Debt securities issued*	449	271	444	-	-	1,164	231	303	464	-	-	998
Subordinated liabilities*	195	-	127	51	-	373	-	195	137	51	-	383
Total financial liabilities	**8,014**	**6,557**	**4,478**	**61**	**316**	**19,426**	**6,439**	**7,276**	**4,559**	**70**	**313**	**18,657**
Net position	**(142)**	**(1,236)**	**1,907**	**1,013**	**(271)**	**1,271**	**954**	**(1,560)**	**1,674**	**955**	**(274)**	**1,749**

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

4. Financial risk management (continued)

Exposure to liquidity risk

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

	31 Mar 2018					31 Dec 2017				
MEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**No maturity**	**Total**
Current accounts and deposits from customers	4,865	1,507	317	-	6,689	4,667	1,290	545	16	6,518
Due to banks, other financial institutions and holding companies	2,771	5,328	3,907	10	12,016	1,745	6,079	3,770	11	11,605
Debt securities issued*	452	311	506	-	1,269	245	336	512	-	1,093
Subordinated liabilities*	197	7	146	57	407	-	212	157	57	426
Total	**8,285**	**7,153**	**4,876**	**67**	**20,381**	**6,657**	**7,917**	**4,984**	**84**	**19,642**

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

4. Financial risk management (continued)

(c) Market risk

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

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

Exposure to interest rate risk

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

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100 basis point parallel fall or rise in all yield curves worldwide. In such case, the net interest income for the three-month period ended 31 March 2018 would be MEUR 34 higher/lower and the revaluation reserve in equity would be MEUR 13 higher/lower (31 December 2017: MEUR 26).

4. Financial risk management (continued)

Interest rate gap position based on re-pricing dates

	31 Mar 2018						31 Dec 2017					
MEUR	**Effective interest rate**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Interest bearing financial assets												
Cash and cash equivalents	1.0%	3,614	-	-	-	3,614	0.8%	3,021	-	-	-	3,021
Financial assets at fair value through profit or loss	9.0%	5	-	-	-	5	0.0%	-	-	-	-	-
Financial assets available-for-sale	-	-	-	-	-	-	4.2%	355	652	131	348	1,486
Financial assets at FVOCI	7.1%	281	89	124	178	672	-	-	-	-	-	-
Due from banks, other financial institutions and holding companies	3.0%	200	37	92	-	329	3.8%	194	115	71	-	380
Loans to customers, net	34.6%	3,880	5,199	6,064	85	15,228	32.8%	3,830	5,495	5,995	128	15,448
Investment securities at amortized cost	0.5%	445	4	54	271	774	-	-	-	-	-	-
Total interest bearing financial assets	**27.0%**	**8,425**	**5,329**	**6,334**	**534**	**20,622**	**25.4%**	**7,400**	**6,262**	**6,197**	**476**	**20,335**
Interest bearing financial liabilities												
Current accounts and deposits from customers	3.9%	4,845	1,405	290	-	6,540	4.1%	4,649	1,202	497	8	6,356
Due to banks, other financial institutions and holding companies	9.1%	3,171	4,873	2,966	10	11,020	9.1%	2,205	5,572	2,810	11	10,598
Debt securities issued	10.0%	459	262	443	-	1,164	9.9%	231	303	464	-	998
Subordinated liabilities	9.3%	246	-	127	-	373	9.6%	-	195	137	51	383
Total interest bearing financial liabilities	**7.3%**	**8,721**	**6,540**	**3,826**	**10**	**19,097**	**7.4%**	**7,085**	**7,272**	**3,908**	**70**	**18,335**
Net position		**(296)**	**(1,211)**	**2,508**	**524**	**1,525**		**315**	**(1,010)**	**2,289**	**406**	**2,000**

4. Financial risk management (continued)

Exposure to foreign currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency. Foreign currency risk is managed principally through monitoring foreign currency mismatches in the structure of assets and liabilities in the individual Group's country operations. It is the Group's policy to hedge such mismatches by derivative financial instruments to eliminate the foreign currency exposure (refer to Note 37). The ALCO is the monitoring body for compliance with this rule.

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

The following table shows the largest open foreign currency positions of the Group (excluding foreign currency positions from net investment in foreign operations):

Open foreign currency positions

		31 Dec 2017	
	Gross position MEUR	Effect of derivatives MEUR	Net position MEUR
CNY	(316)	291	(25)
EUR	223	(230)	(7)
CZK	(84)	88	4
RUB	(14)	14	-
USD	(248)	246	(2)
INR	155	(155)	-

		31 Dec 2017	
	Gross position MEUR	Effect of derivatives MEUR	Net position MEUR
CNY	(314)	296	(18)
EUR	224	(222)	2
CZK	(120)	119	(1)
RUB	(14)	17	3
USD	(110)	105	(5)

4. Financial risk management (continued)

Foreign currency risk sensitivity analysis

An analysis of sensitivity of the Group's equity to changes in currency exchange rates based on positions existing as at 31 March 2018 and 31 December 2017 and a simplified scenario of a 5% change in CNY, RUB, USD, KZT, VND and CZK to EUR exchange rates is shown below:

	Total effect 31 Mar 2018 MEUR	Total effect 31 Dec 2017 MEUR
Effect of 5% CNY depreciation against EUR	(61)	(59)
Effect of 5% CNY appreciation against EUR	61	59
Effect of 5% RUB depreciation against EUR	(45)	(34)
Effect of 5% RUB appreciation against EUR	45	34
Effect of 5% USD depreciation against EUR	8	3
Effect of 5% USD appreciation against EUR	(8)	(3)
Effect of 5% KZT depreciation against EUR	(4)	(11)
Effect of 5% KZT appreciation against EUR	4	11
Effect of 5% VND depreciation against EUR	(7)	(7)
Effect of 5% VND appreciation against EUR	7	7
Effect of 5% CZK depreciation against EUR	(21)	(36)
Effect of 5% CZK appreciation against EUR	21	36

(d) Insurance risk

The main risk faced by the Group as part of the insurance business is the difference in actual and expected claims for insurance benefits and claims. Insurance risk on insurance contracts is divided into price risk and the reserve deficiency risk.

Price risk

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

Reserve deficiency risk

Reserve deficiency risk arises from the uncertainty regarding the development of loss reserves in the future and takes into account the likelihood that insurance reserves are insufficient to meet the Group's obligations to policyholders. Managing this risk is performed through regular checking adequacy of loss reserves and loss analysis of insurance products including sensitivity analysis of insurance reserves to changes in expected insurance contract loss rates.

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

4. Financial risk management (continued)

(e) Operational risk

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

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

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

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective.

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

(f) Capital management

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

Some of the Company's subsidiaries maintain capital adequacy in compliance with local regulatory requirements which require the respective entities to maintain the ratio of total capital to total risk-weighted assets at or above certain minimum level. The ratios are calculated based on financial statements prepared in accordance with local accounting standards. The Group's policy in this respect is to support the subsidiaries with capital as necessary in order to maintain the subsidiaries' full compliance with capital regulations described above.

5. Segment reporting

Business environment

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

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

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

Segment information

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

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

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis. The Group's senior management is the chief operating decision maker which reviews the Group's internal reporting on a regular basis to assess performance of individual segments and to allocate the Group's resources accordingly.

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

5. Segment reporting (continued)

3 months ended 31 Mar 2018 MEUR	**China**	**Czech Republic**	**Russian Federation**	**Vietnam**	**India**	**Kazakhstan**	**Slovak Republic**	**Philippines**	**Indonesia**	**Other**	**Unallocated [1]**	**Eliminations**	**Consolidated**
Revenue from external customers [2]	830	42	175	69	61	50	12	30	28	1	-	-	1,298
Inter-segment revenue	-	8	1	-	-	-	-	-	-	-	-	(9)	-
Total revenue	**830**	**50**	**176**	**69**	**61**	**50**	**12**	**30**	**28**	**1**	**-**	**(9)**	**1,298**
Net interest income from external customers	482	31	91	45	42	30	10	23	15	-	(9)	-	760
Inter-segment net interest income	-	8	-	-	(5)	-	(2)	(1)	(1)	-	-	1	-
Total net interest income	**482**	**39**	**91**	**45**	**37**	**30**	**8**	**22**	**14**	**-**	**(9)**	**1**	**760**
Income tax expense	30	(3)	(9)	(3)	-	(4)	(1)	5	9	-	(1)	-	23
Segment result	**(88)**	**6**	**35**	**13**	**(3)**	**14**	**1**	**5**	**5**	**(16)**	**(7)**	**4**	**(31)**
Depreciation and amortization	(8)	(4)	(4)	(2)	(4)	(2)	(1)	(1)	(1)	(6)	-	7	(26)
Other significant non-cash expenses [3]	(509)	(1)	(13)	(20)	(15)	(2)	(1)	(6)	(6)	-	-	-	(573)
Capital expenditure	(21)	(4)	(5)	(2)	(2)	(2)	(1)	(2)	(4)	(1)	-	3	(41)
31 Mar 2018 MEUR													
Segment assets [4]	**11,810**	**4,135**	**3,691**	**681**	**634**	**605**	**244**	**270**	**196**	**680**	**122**	**(1,026)**	**22,042**
Investments in associates	-	-	3	-	-	-	-	-	-	2	-	-	5
Segment liabilities [4]	**10,543**	**3,862**	**3,026**	**543**	**510**	**475**	**232**	**215**	**164**	**516**	**1,211**	**(1,025)**	**20,272**
Segment equity [4]	**1,267**	**273**	**665**	**138**	**124**	**130**	**12**	**55**	**32**	**164**	**(1,089)**	**(1)**	**1,770**

[1] Unallocated items represent items of revenue, operating expense, assets and liabilities which cannot be reasonably allocated to the geographical segments. Unallocated equity represents the difference between unallocated assets and unallocated liabilities and does not represent equity of holding companies included in this segment.
[2] Revenue from external customers comprises interest income, fee and commission income and gross insurance premiums earned.
[3] Other significant non-cash expenses are represented by impairment losses on financial and non-financial assets.
[4] Consolidation adjustments are included in Eliminations.

5. Segment reporting (continued)

3 months ended 31 Mar 2017 (MEUR)	**China**	**Czech Republic**	**Russian Federation**	**Vietnam**	**India**	**Kazakhstan**	**Slovak Republic**	**Philippines**	**Indonesia**	**Other**	**Unallocated [1]**	**Eliminations**	**Consolidated**
Revenue from external customers [2]	528	37	187	64	26	43	14	15	11	3	1	-	929
Inter-segment revenue	-	4	2	-	-	-	-	-	-	1	-	(7)	-
Total revenue	**528**	**41**	**189**	**64**	**26**	**43**	**14**	**15**	**11**	**4**	**1**	**(7)**	**929**
Net interest income from external customers	297	28	90	41	18	22	12	13	4	1	(9)	-	517
Inter-segment net interest income	-	4	2	-	(2)	-	(2)	(1)	-	1	(3)	1	-
Total net interest income	**297**	**32**	**92**	**41**	**16**	**22**	**10**	**12**	**4**	**2**	**(12)**	**1**	**517**
Income tax expense	(13)	(3)	(11)	(4)	-	(4)	-	-	-	-	(1)	-	(36)
Segment result	**42**	**13**	**42**	**17**	**(25)**	**14**	**2**	**(2)**	**(6)**	**(4)**	**(17)**	**4**	**80**
Depreciation and amortization	(4)	(3)	(5)	(1)	(3)	(2)	-	(1)	(2)	(4)	-	4	(21)
Other significant non-cash expenses [3]	(161)	(1)	(11)	(12)	(9)	1	(4)	(4)	(1)	1	-	-	(201)
Capital expenditure	(10)	(3)	(3)	(1)	(10)	(3)	-	(2)	(3)	(3)	-	10	(28)
31 Dec 2017 (MEUR)													
Segment assets [4]	**11,440**	**3,926**	**3,834**	**656**	**572**	**568**	**256**	**249**	**187**	**660**	**249**	**(1,071)**	**21,526**
Investments in associates	-	-	1	-	-	-	-	-	-	2	-	-	3
Segment liabilities [4]	**9,939**	**3,667**	**3,172**	**518**	**458**	**451**	**243**	**194**	**156**	**489**	**1,285**	**(1,074)**	**19,498**
Segment equity [4]	**1,501**	**259**	**662**	**138**	**114**	**117**	**13**	**55**	**31**	**171**	**(1,036)**	**3**	**2,028**

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

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

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

[4] Consolidation adjustments are included in Eliminations.

6. Fair values of financial instruments

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

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

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

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

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

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

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

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

6. Fair values of financial instruments (continued)

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

31 March 2018	Note	Carrying amount MEUR	Fair Value Level 1 MEUR	Level 2 MEUR	Level 3 MEUR	Total MEUR
Due from banks, other financial institutions and holding companies	10	353	-	353	-	353
Loans to customers	11	15,228	-	-	15,377	15,377
Current accounts and deposits from customers	19	(6,540)	-	(6,555)	-	(6,555)
Due to banks, other financial institutions and holding companies	20	(11,020)	-	(11,022)	-	(11,022)
Debt securities issued	21	(1,164)	-	(1,165)	-	(1,165)
Subordinated liabilities	22	(373)	(323)	(54)	-	(377)
		(3,516)	**(323)**	**(18,443)**	**15,377**	**(3,389)**

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

There were no transfers between Level 1, 2 and 3 in the three-month period ended 31 March 2018 or year ended 31 December 2017.

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

6. Fair values of financial instruments (continued)

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

31 Mar 2018	Note	Level 1 MEUR	Level 2 MEUR	Level 3 MEUR	Total MEUR
Financial assets at fair value through profit or loss	8	-	42	-	42
Financial assets at FVOCI	9	668	4	14	686
Financial liabilities at fair value through profit or loss	18	-	(13)	(316)	(329)
		668	**33**	**(302)**	**399**

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

There were no transfers between Level 1, 2 and 3 in the three-month period ended 31 March 2018 or year ended 31 December 2017.

Reconciliation of movements in Level 3:	Equity securities at FVOCI MEUR	Financial liabilities at fair value through profit or loss MEUR
Balance at 1 January 2018	9	(313)
Purchases, sales, issues and settlements during the period	5	-
Gains/(losses) recognized in profit or loss	-	(3)
Closing balance at 31 March 2018	**14**	**(316)**

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

6. Fair values of financial instruments (continued)

The Group holds an investment in equity shares of Nymbus, Inc., a business operating in the USA, which is classified at FVOCI, with a fair value of MEUR 11 at 31 March 2018 (31 December 2017: MEUR 9). The fair value of this investment was categorized as Level 3 at 31 March 2018. This was because the shares are not listed on an exchange and there are no recent observable arm's length transactions in the shares.

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

In July 2017 the Group signed a strategic partnership agreement with PAG Asia Capital ("PAG"), one of Asia's largest private equity firms, with the aim of supporting the long-term development of the Group's business, in China (refer to Note 18). Within this deal, PAG through one of its investment funds has made an investment to the Group, in a form of a long term loan provided to the Group's subsidiary Favour Ocean Limited. The loan is measured at fair value through profit or loss. The fair value was categorized as Level 3 and determined as MEUR 316 at 31 March 2018 (31 December 2017: MEUR 313). In accordance with the partnership agreement the value of the loan was derived from the fair value of the Chinese business. The fair value of the Chinese business was determined using generally accepted valuation techniques, especially dividend discount model. Majority of inputs to this model are not observable from the market.

7. Cash and cash equivalents

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Cash on hand	72	108
Current accounts	1,936	1,532
Current accounts with central banks	130	110
Reverse repo operations with central banks	1,431	1,249
Placements with financial institutions due within one month	45	22
	3,614	**3,021**

As at 31 March 2018 current accounts comprise MEUR 828 (31 December 2017: MEUR 834) which is restricted to its use. The use of the cash is restricted by the borrowing agreements in China with the creditors to i) disbursement of loans to retail clients; or ii) repayment of the loans received from the creditors. If the cash is used to provide loans to retail clients, the loans are pledged as collateral. Thus, the restriction on the cash effectively increases the security of the creditors.

8. Financial assets at fair value through profit or loss

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Debt securities held for trading	5	-
Positive fair values of trading derivatives	28	21
Positive fair values of hedging derivatives	9	14
	42	**35**

9. Financial assets available-for-sale / Financial assets at FVOCI

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Government bonds	218	1,029
Corporate bonds	454	457
Equity securities	14	9
	686	**1,495**

As at 31 March 2018 financial assets at FVOCI of MEUR 28 (31 December 2017 Financial assets available-for-sale: MEUR 96) served as collateral for bank loan facilities (loans received under repo operations and secured loans) (Note 20).

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

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Loans and term deposits with banks, other financial institutions and holding companies due in more than one month	144	144
Loans and advances provided under reverse repo operations	79	130
Minimum reserve deposits with central banks	87	75
Cash collateral for derivative instruments	7	7
Other	36	47
	353	**403**

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

As at 31 March 2018 term deposit of MEUR 0 (31 December 2017: MEUR 47) served as collateral for secured loans due to banks (Note 20).

As at 31 March 2018 term deposit of MEUR 7 (31 December 2017: MEUR 7) served as cash collateral for syndicated loan interest payments.

As at 31 March 2018 margin deposit of MEUR 4 (31 December 2017: MEUR 4) served as cash collateral for foreign exchange derivative contracts.

11. Loans to customers

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Gross amount		
Cash loan receivables	10,606	9,960
POS loan receivables	5,708	5,959
Revolving loan receivables	522	524
Mortgage loan receivables	160	147
Car loan receivables	117	117
Loans to corporations	162	163
Other	2	1
	17,277	**16,871**
Collective allowances for impairment		
Cash loan receivables	(1,370)	(881)
POS loan receivables	(586)	(440)
Revolving loan receivables	(60)	(64)
Mortgage loan receivables	(4)	(5)
Car loan receivables	(21)	(22)
	(2,041)	**(1,412)**
Specific allowances for impairment		
Loans to corporations	(8)	(7)
	(8)	**(7)**
	15,228	**15,452**

On the adoption of IFRS 9 on 1 January 2018, the impact of the increase in loss allowances to loans to customers (before tax) was MEUR 266.

As at 31 March 2018 cash loan receivables of MEUR 299 (31 December 2017: MEUR 398) and POS loan receivables of MEUR 648 (31 December 2017: MEUR 855) served as collateral for debt securities issued (Note 21).

As at 31 March 2018 cash loan receivables of MEUR 4,626 (31 December 2017: MEUR 4,475) and POS loan receivables of MEUR 2,338 (31 December 2017: MEUR 2,530) served as collateral for bank loan facilities (Note 20).

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

12. Investment securities at amortized cost

Investment securities at amortized cost represent government bonds of the Czech Republic and Romania.

13. Assets classified as held for sale

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

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

14. Investments in associates

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

	Country of incorporation	Ownership interest 2018 (%)	Carrying amount 31 Mar 2018 MEUR	Ownership interest 2017 (%)	Carrying amount 31 Dec 2017 MEUR
Barion Payment Zrt.	Hungary	20.00	2	20.00	2
Equifax Credit Services (LLC)	Russian Federation	25.00	3	25.00	1
Společnost pro informační databáze (JSC)	Czech Republic	27.96	<1	27.96	<1
			5		**3**

15. Property and equipment

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Acquisition cost	385	380
Accumulated depreciation	(195)	(189)
Impairment	(1)	(1)
Carrying amount	**189**	**190**

16. Intangible assets

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Acquisition cost	542	516
Accumulated depreciation	(285)	(274)
Carrying amount	**257**	**242**

17. Other assets

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Prepaid expenses	136	119
Trade receivables and settlement with suppliers	70	91
Cash collateral for payment cards	49	48
Other taxes receivable	8	7
Inventories	4	4
Accrued income from insurance fees	2	3
Deferred acquisition costs of insurance contracts	-	2
Other	78	62
	347	**336**

18. Financial liabilities at fair value through profit or loss

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Loan	316	313
Negative fair value of trading derivative instruments	13	9
	329	**322**

In July 2017 the Group signed a strategic partnership agreement with PAG Asia Capital ("PAG"), one of Asia's largest private equity firms, with the aim of supporting the long-term development of the Group's business, in China. Within this deal, PAG through one of its investment funds has made an investment to the Group, in a form of a long term loan. The Group decided to measure this loan at fair value through profit or loss.

19. Current accounts and deposits from customers

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Current accounts and demand deposits	4,406	4,138
Term deposits	2,116	2,195
Borrowings	16	21
Other	2	2
	6,540	**6,356**

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

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Secured loans	7,007	6,881
Unsecured loans	3,911	3,555
Loans received under repo operations	30	88
Other balances	72	74
	11,020	**10,598**

As at 31 March 2018 the balances of loans secured by cash loan receivables, POS loan receivables and term deposits were MEUR 4,181 (31 December 2017: MEUR 3,868), MEUR 2,138 (31 December 2017: MEUR 2,186) and MEUR nil (31 December 2017: MEUR 42), respectively.

As at 31 March 2018 the balances of loans secured by cash were MEUR 604 (31 December 2017: MEUR 726) (Note 7).

As at 31 March 2018 the balances of loans secured by guarantees were MEUR 84 (31 December 2017: MEUR 59).

As at 31 March 2018 the balance of loans received under repo operations were secured by financial assets at FVOCI.

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

21. Debt securities issued

Debt securities issued relate to bonds issued, certificates of deposit, asset-backed security issues and promissory notes except for subordinated items.

The maturities of the debt securities are as follows:

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Fixed rate debt securities		
Within 1 year	558	531
1-2 years	71	183
2-3 years	91	284
3-4 years	276	-
4-5 years	17	-
Variable rate debt securities		
Within 1 year	-	-
1-2 years	96	-
2-3 years	46	-
3-4 years	9	-
	1,164	**998**

As at 31 March 2018 the issued securities secured by cash loan receivables and POS loan receivables were MEUR 563 (31 December 2017: MEUR 576).

22. Subordinated liabilities

	Interest rate	Final maturity	Amount outstanding 31 Mar 2018 MEUR	31 Dec 2017 MEUR
Loan participation notes issue of MUSD 500	Fixed	April 2020	186	190
Loan participation notes issue of MUSD 200	Fixed	April 2021	133	140
Subordinated bonds issue of MCZK 2,000	Fixed	April 2024	54	53
			373	**383**

Subordinated loan participation notes issue of MUSD 500 were issued in October 2012 through Eurasia Capital S.A. (Note 1). The Group used an early redemption option exercisable on 24 April 2018 (Note 41). Before 31 March 2018 the Group bought back the loan participation notes with a cumulative par value of MUSD 279 (31 December 2017: cumulative par value of MUSD 276).

Subordinated loan participation notes issue of MUSD 200 were issued in October 2013 through Eurasia Capital S.A. (Note 1). The Group has an early redemption option exercisable on 17 April 2019 (the reset date). After the reset date the interest rate is determined as a variable rate. Before 31 March 2018 the Group bought back the loan participation notes with a cumulative par value of MUSD 43 (31 December 2017: MUSD 35).

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

23. Insurance and other provisions

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Provisions for unearned premiums	24	25
Provisions for outstanding claims	-	1
Provisions for insurance commissions return	10	9
Other provisions	3	2
	37	**37**

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

24. Other liabilities

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Settlement with suppliers	234	253
Accrued employee compensation	108	161
Accrued expenses	70	75
Customer loan overpayments	47	41
Other taxes payable	45	35
Advances received	3	3
Deferred income and prepayments	1	-
Other	30	33
	538	**601**

25. Equity

As at 31 March 2018 the Group's authorized share capital comprised 1,250,000,000 (31 December 2017: 1,250,000,000) ordinary shares at a par value of EUR 0.57 (31 December 2017: EUR 0.57), of which 1,156,174,806 (31 December 2017: 1,156,174,806) shares were issued and fully paid. All issued shares bear equal voting rights. The holders of the shares are entitled to receive distributions of profits and reserves when declared by the general meeting of the Company. No distributions can be made if the total amount of the reserves to be maintained pursuant to the law or the articles of association exceeds the Company's equity and the management board has not given its approval to such distribution.

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

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

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

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

26. Non-controlling interests

As at 31 March 2018 the Group reported the following non-controlling interests (NCI) and net (loss)/profit allocated to non-controlling interests for the three-month period ended 31 March 2018:

	NCI %	Total assets MEUR	Total liabilities MEUR	Carrying amount of NCI MEUR	Net (loss) / profit for the period MEUR	Net (loss) / profit allocated to NCI MEUR
Home Credit US (LLC)	49.90	39	26	7	(7)	(4)
PT. Home Credit Indonesia	15.00	196	164	5	5	1
				12		**(3)**

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

	NCI %	Total assets MEUR	Total liabilities MEUR	Carrying amount of NCI MEUR	Net losses for the period MEUR	Net losses allocated to NCI MEUR
Home Credit US (LLC)	49.90	37	16	10	-	-
PT. Home Credit Indonesia	15.00	187	156	5	(6)	(1)
HC Consumer Finance Philippines, Inc.	0.69*	-	-	-	(2)	-
				15		**(1)**

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

* *NCI applicable only for profit or loss*

27. Interest income and interest expense

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Interest income		
Cash loan receivables	794	480
POS loan receivables	229	209
Revolving loan receivables	28	34
Mortgage loan receivables	1	1
Car loan receivables	5	5
Due from banks, other financial institutions and holding companies	11	10
Financial assets available-for-sale	-	8
Financial assets at FVOCI	11	-
Financial instruments at amortized cost	1	-
Other	2	4
	1,082	**751**
Interest expense		
Current accounts and deposits from customers	57	59
Due to banks, other financial institutions and holding companies	234	156
Debt securities issued	22	9
Subordinated liabilities	9	10
	322	**234**

28. Fee and commission income

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Insurance commissions	141	113
Penalty fees	41	30
Customer payment processing and account maintenance	9	9
Cash transactions	6	5
Retailers commissions	3	4
Other	10	7
	210	**168**

29. Fee and commission expense

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Payment processing and account maintenance	9	8
Credit and other register expense	7	7
Commissions to retailers	5	5
Cash transactions	7	4
Payments to deposit insurance agencies	5	3
Stamp duties	1	-
Other	-	1
	34	**28**

30. Insurance income

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Gross premiums earned	6	9
Acquisition costs	(3)	(2)
	3	**7**

31. Net gains on financial assets and liabilities

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Net foreign currency (losses)/gains	(10)	4
Net trading gains on other financial assets and liabilities	6	-
Net gains on trading derivative instruments	8	4
	4	**8**

32. Other operating income

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Income from other services provided	3	6
Other	6	-
	9	**6**

33. Impairment losses on financial assets

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Cash loan receivables	428	117
POS loan receivables	143	83
Revolving loan receivables	2	1
Mortgage loan receivables	(1)	(1)
Car loan receivables	(1)	-
Loans to corporations	1	1
	572	**201**

34. General administrative expenses

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Employee compensation	237	198
Payroll related taxes (including pension contributions)	59	46
Advertising and marketing	13	12
Rental, maintenance and repairs	18	16
Professional services	14	12
Telecommunication and postage	18	14
Information technologies	15	9
Collection agency fee	10	9
Taxes other than income tax	11	7
Travel expenses	5	6
Other	8	9
	408	**338**

35. Other operating expenses

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Depreciation and amortization	26	21
Impairment losses on other non-financial assets	1	-
	27	**21**

36. Income tax expense

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Current tax expense	104	58
Deferred tax benefit	(127)	(22)
Total income tax expense in the statement of comprehensive income	**(23)**	**36**

37. Derivative financial instruments

Interest rate derivatives:	Notional amount 31 Mar 2018 MEUR	Positive fair values 31 Mar 2018 MEUR	Negative fair values 31 Mar 2018 MEUR
Interest rate swaps	158	2	-
Interest rate options (purchase)	8	-	-
Cross currency interest rate swaps	78	3	(1)
Total interest rate derivatives	**244**	**5**	**(1)**

Interest rate derivatives:	Notional amount 31 Dec 2017 MEUR	Positive fair values 31 Dec 2017 MEUR	Negative fair values 31 Dec 2017 MEUR
Interest rate swaps	120	2	-
Interest rate options (purchase)	8	-	-
Cross currency interest rate swaps	78	3	-
Total interest rate derivatives	**206**	**5**	**-**

Currency derivatives:	Notional amount 31 Mar 2018 MEUR	Positive fair values 31 Mar 2018 MEUR	Negative fair values 31 Mar 2018 MEUR
Forward exchange contracts	281	6	(4)
Currency/Cross currency swaps	1,311	17	(8)
Total currency derivatives	**1,592**	**23**	**(12)**

37. Derivative financial instruments (continued)

Currency derivatives:	**Notional amount 31 Dec 2017**	**Positive fair values 31 Dec 2017**	**Negative fair values 31 Dec 2017**
	MEUR	**MEUR**	**MEUR**
Forward exchange contracts	349	**2**	**(6)**
Currency/Cross currency swaps	1,165	**14**	**(3)**
Total currency derivatives	**1,514**	**16**	**(9)**

Hedging derivatives:	**Notional amount 31 Mar 2018**	**Positive fair values 31 Mar 2018**	**Negative fair values 31 Mar 2018**
	MEUR	**MEUR**	**MEUR**
Interest rate swaps	271	9	-
Total hedging derivatives	**271**	**9**	**-**

Hedging derivatives:	**Notional amount 31 Mar 2017**	**Positive fair values 31 Mar 2017**	**Negative fair values 31 Mar 2017**
	MEUR	**MEUR**	**MEUR**
Interest rate swaps	270	14	-
Total hedging derivatives	**270**	**14**	**-**

38. Commitments

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

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Revolving loan commitments	490	379
POS loan commitments	55	80
Cash loan commitments	35	34
	580	**493**

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

As at 31 March 2018 the Group reported contractual commitments for the acquisition of property and equipment and intangible assets of MEUR 9 (31 December 2017: MEUR 22).

39. Contingencies

Taxation

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

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

40. Related party transactions

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

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

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

	31 Mar 2018 MEUR	**31 Dec 2017 MEUR**
Due to banks, other financial institutions and holding companies	-	(50)
Subordinated liabilities	(135)	(122)
	(135)	**(172)**

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

	3 months ended 31 Mar 2018 MEUR	**3 months ended 31 Mar 2017 MEUR**
Other income	1	-
Interest expense	(3)	(9)
	(2)	**(9)**

40. Related party transactions (continued)

(b) Transactions with fellow subsidiaries

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

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Cash and cash equivalents	69	192
Financial assets at fair value through profit or loss	29	28
Due from banks, other financial institutions and holding companies	4	4
Loans to customers	44	44
Other assets	3	4
Financial liabilities at fair value through profit or loss	(8)	(6)
Current accounts and deposit from customers	(22)	(27)
Due to banks, other financial institutions and holding companies	(105)	(99)
Debt securities issued	(194)	(228)
Subordinated liabilities	(28)	(27)
Other liabilities	(2)	(5)
	(210)	**(120)**

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

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Interest income	1	1
Interest expense	(11)	(7)
Net gains on financial assets and liabilities	2	3
General administrative expenses	(3)	(3)
	(11)	**(6)**

40. Related party transactions (continued)

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

Amounts included in the statement of comprehensive income in relation to transactions with members of key management are long-term benefits of MEUR nil (three-month period ended 31 March 2017: nil) and short-term benefits of MEUR 7 (three-month period ended 31 March 2017: MEUR 7) comprising salaries, bonuses and non-monetary benefits.

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

The Group pays for consultancy and management services under a consultancy service agreement concluded in 2013 between the Group and an entity controlled by one of the members of its Board of Directors. Consultancy fees charged by the Group over the three-month period ended 31 March 2018 in relation to this agreement amounted to MEUR 2 (three-month period ended 31 March 2017: MEUR 2). Other expenses incurred on behalf of this related party were MEUR 1 (three-month period ended 31 March 2017: MEUR 1). All these amounts are recorded under general administrative expenses, while the related liability of MEUR 1 as at 31 March 2018 (31 December 2017: MEUR 2) is reported under other liabilities.

As at 31 March 2018 the balances due from holding companies included secured loans of MEUR 73 (31 December 2017: MEUR 72) provided by the Group to a company controlled by one of the members of its Board of Directors. The weighted average interest rate is 5.74% (31 December 2017: 5.74%) and the repayment date of those loans is 30 June 2019.

41. Subsequent events

In April 2018, the Group repaid at par subordinated participation notes issued in October 2012 (see Note 22).

Condensed Unconsolidated Interim Financial Report for the three-month period ended 31 March 2018

	Note	31 Mar 2018 MEUR	31 Dec 2017 MEUR
ASSETS			
Cash and cash equivalents	5	9	144
Time deposits with banks	6	11	11
Loans provided	7	78	69
Financial assets at fair value through profit or loss	8	7	9
Investments in subsidiaries	9	2,891	2,834
Other assets	10	3	4
Total assets		**2,999**	**3,071**
LIABILITIES			
Debt securities issued	11	97	120
Financial liabilities at fair value through profit or loss	12	317	315
Loans received and other liabilities	13	692	744
Provisions for credit losses	14	5	-
Total liabilities		**1,111**	**1,179**
EQUITY			
Share capital	15	659	659
Share premium	15	913	913
Other reserves	15	316	320
Total equity		**1,888**	**1,892**
Total liabilities and equity		**2,999**	**3,071**

	Note	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Continuing operations:			
Interest income	16	1	1
Interest expense	16	(9)	(13)
Net interest expense		**(8)**	**(12)**
Dividend income	17	10	4
Fee income	18	1	1
Net foreign exchange result		3	1
Operating income		**6**	**(6)**
General administrative expenses	19	(4)	(3)
Operating expenses		**(4)**	**(3)**
Profit/(loss) before tax		**2**	**(9)**
Income tax expense		-	-
Net profit/(loss) for the period		**2**	**(9)**
Other comprehensive income for the period		**-**	**-**
Total comprehensive income/(expense) for the period		**2**	**(9)**

	Share capital MEUR	**Share premium MEUR**	**Other reserves MEUR**	**Total equity MEUR**
Balance as at 31 December 2017	659	913	320	1,892
Transition impact, net of tax (Note 3(a)(iii))	-	-	(6)	(6)
Balance as at 1 January 2018	659	913	314	1,886
Profit for the period	-	-	2	2
Total changes	**-**	**-**	**2**	**2**
Balance as at 31 March 2018	**659**	**913**	**316**	**1,888**

	Share capital MEUR	**Share premium MEUR**	**Other reserves MEUR**	**Total equity MEUR**
Balance as at 1 January 2017	659	480	356	1,495
Loss for the period	-	-	(9)	(9)
Total changes	**-**	**-**	**(9)**	**(9)**
Balance as at 31 March 2017	**659**	**480**	**347**	**1,486**

	Note	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Operating activities			
Profit/(loss) before tax		2	(9)
Adjustments for:			
Interest income and expense	16	8	12
Dividend income	17	(10)	(4)
Income/(expenses) not involving movements of cash		4	(1)
Net operating cash flow before changes in working capital		**4**	**(2)**
Change in time deposits with banks		-	10
Change in loans provided		(8)	16
Change in other assets		3	3
Change in other liabilities		(4)	(5)
Cash flows (used in)/from the operations		**(5)**	**22**
Interest paid		(12)	(18)
Interest received		-	1
Cash flows (used in)/from operating activities		**(17)**	**5**
Investing activities			
Proceeds from available-for-sale assets		-	12
Investments into subsidiaries		(57)	(222)
Dividends received		10	69
Cash flows used in investing activities		**(47)**	**(141)**
Financing activities			
Proceeds from the issue of debt securities		-	74
Repayment of debt securities issued		(21)	-
Proceeds from due to banks and other counterparties		-	259
Repayments of due to banks and other counterparties		(50)	(194)
Cash flows (used in)/from financing activities		**(71)**	**139**
Net increase in cash and cash equivalents		(135)	3
Cash and cash equivalents at 1 January	5	144	3
Effects of exchange rate changes on cash and cash equivalents		-	-
Cash and cash equivalents at 31 March	5	**9**	**6**

1. Description of the Company

Principal activities

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

For further description of the Company see Note 1 of Notes to the Condensed Consolidated Interim Financial Statements for the three-month period ended 31 March 2018.

2. Basis of preparation

The financial statements for the three-month period ended 31 March 2018 have been prepared on an unconsolidated basis. Subsidiaries are presented on a cost-less-impairment basis.

The basis of preparation is as described in Note 2 of Notes to the Condensed Consolidated Interim Financial Statements for the three-month period ended 31 March 2018.

Presentation and functional currency

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

3. Significant accounting policies

(a) Changes in accounting policies since 1 January 2018

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 on 1 January 2018 are compared as follows ("ECL" means "expected credit loss"):

	IAS 39		IFRS 9	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets		MEUR		MEUR
Cash and cash equivalents	Amortised cost (L&R)	144	Amortised cost	144
Time deposits with banks	Amortised cost (L&R)	11	Amortised cost	11
Loans provided	Amortised cost (L&R)	69	Amortised cost	68
Financial assets at FVTPL	FVTPL (held for trading)	9	FVTPL (mandatory)	9

Neither the classification nor the measurement of financial liabilities were affected by the adoption of IFRS 9 compared to classification and measurement as they were under IAS 39.

3. Changes in accounting policies (continued)

(ii) Reconciliation of statement of financial position balances form IAS 39 to IFRS 9

MEUR	IAS 39 carrying amount at 31 December 2017	Reclassification	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	144	-	-	
Closing balance under IFRS 9				144
Time deposits with banks				
Opening balance under IAS 39	11	-	-	
Closing balance under IFRS 9				11
Loans provided				
Opening balance under IAS 39	69	-	(1)	
Closing balance under IFRS 9				68
Total financial assets measured at amortised cost	**224**	**-**	**(1)**	**223**
Fair value through profit or loss and hedging (FVTPL)				
Financial assets at fair value throuth profit or loss				
Opening balance under IAS 39	9	-	-	
Closing balance under IFRS 9				9
Total financial assets measured at FVTPL	**9**	**-**	**-**	**9**

Neither the classification nor the measurement of financial liabilities were affected by the adoption of IFRS 9 compared to classification and measurement as they were under IAS 39.

3. Changes in accounting policies (continued)

(iii) 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)				
Cash and cash equivalents	-	-	-	-
Time deposits with banks	-	-	-	-
Loans provided	-	-	(1)	(1)
subtotal	**-**	**-**	**(1)**	**(1)**
Loans commitments and financial guarantee contracts				
Loan commitments	-	-	-	-
Provisions (financial guarantees)	-	-	(5)	(5)
subtotal	**-**	**-**	**(5)**	**(5)**
Total	**-**	**-**	**(6)**	**(6)**

(b) Investments in subsidiaries

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

(c) Other accounting policies

Other significant accounting policies are as described in Note 3 of Notes to the Condensed Consolidated Interim Financial Statements for the three-month period ended 31 March 2018.

4. Financial risk management

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

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

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

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

(a) Credit risk

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

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

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

(b) Liquidity risk

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

The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company’s reputation. The liquidity position is continuously monitored. All liquidity policies and procedures as well as liquidity position projections are subject to review and approval by the Group ALCO.

4. Financial risk management (continued)

Exposure to liquidity risk

The following table shows financial assets and liabilities by remaining contractual maturity dates. The table does not include prospective cash flows related to loan commitments. Refer to Note 20 for outstanding loan commitments that may impact liquidity requirements.

	31 Mar 2018						31 Dec 2017					
MEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Non specified**	**Total**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Non specified**	**Total**
Cash and cash equivalents	9	-	-	-	-	9	144	-	-	-	-	144
Time deposits with banks	-	-	7	-	4	11	-	-	7	-	4	11
Loans provided	-	35	39	-	4	78	12	14	39	-	4	69
Financial assets at fair value through profit or loss	-	4	3	-	-	7	5	1	3	-	-	9
Total financial assets	**9**	**39**	**49**	**-**	**8**	**105**	**161**	**15**	**49**	**-**	**8**	**233**
Debt securities issued	-	-	97	-	-	97	25	-	95	-	-	120
Financial liabilities at fair value through profit or loss	1	-	-	-	316	317	1	1	-	-	313	315
Loans received and other liabilities	15	-	677	-	-	692	54	-	690	-	-	744
Total financial liabilities	**16**	**-**	**774**	**-**	**316**	**1,106**	**80**	**1**	**785**	**-**	**313**	**1,179**
Net position	**(7)**	**39**	**(725)**	**-**	**(308)**	**(1,001)**	**81**	**14**	**(736)**	**-**	**(305)**	**(946)**

4. Financial risk management (continued)

(c) Market risk

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

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

Exposure to foreign currency risk
The Company has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency. Foreign currency risk is managed principally through monitoring foreign currency mismatches in the structure of assets and liabilities and using foreign currency derivatives (refer to Note 4). The Group ALCO is the monitoring body for this risk.

There are no significant open foreign currency positions as of 31 December 2017 and 31 March 2018.

Exposure to interest rate risk

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

4. Financial risk management (continued)

Interest rate gap position

The following tables present interest bearing assets and liabilities by interest rate re-pricing periods.

	31 March 2018							31 Dec 2017						
MEUR	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Non specified**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Non specified**	**Total**
Interest bearing financial assets														
Cash and cash equivalents	0.0%	9	-	-	-	-	9	0.1%	144	-	-	-	-	144
Time deposits with banks	(0.3%)	7	-	-	-	4	11	(0.3%)	7	-	-	-	4	11
Loans provided	5.7%	4	35	39	-	-	78	5.5%	16	53	-	-	-	69
Total interest bearing financial assets		**20**	**35**	**39**	**-**	**4**	**98**		**167**	**53**	**-**	**-**	**4**	**224**
Interest bearing financial liabilities														
Debt securities issued	3.8%	-	-	97	-	-	97	4.4%	25	-	95	-	-	120
Loans received and other liabilities	4.2%	662	-	30	-	-	692	4.4%	700	-	44	-	-	744
Total interest bearing financial liabilities		**662**	**-**	**127**	**-**	**-**	**789**		**725**	**-**	**139**	**-**	**-**	**864**

4. Financial risk management (continued)

(d) Operational risk

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

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

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

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective.

(e) Capital management

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

4. Financial risk management (continued)

(f) Fair values of financial instruments

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

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

	Note	Carrying amount 31 Mar 2018 MEUR	Fair value 31 Mar 2018 MEUR	Carrying amount 31 Dec 2017 MEUR	Fair value 31 Dec 2017 MEUR
Debt securities issued	11	97	101	120	125

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices (Level 1) or calculated using valuation techniques where all the model inputs are observable in the market (Level 2) or calculated using valuation techniques where significant model inputs are not observable in the market (Level 3):

31 Mar 2018	**Level 1 MEUR**	**Level 2 MEUR**	**Level 3 MEUR**	**Total MEUR**
Financial assets at fair value through profit or loss	-	7	-	7
Financial liabilities at fair value through profit or loss	-	(1)	(316)	(317)
	-	**6**	**(316)**	**(310)**

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

There were no transfers between Level 1, 2 and 3 in the three-month period ended 31 March 2018 or year ended 31 December 2017.

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

In July 2017 the Group signed a strategic partnership agreement with PAG Asia Capital (“PAG”), one of Asia’s largest private equity firms, with the aim of supporting the long-term development of the Group’s business, in China. Within this deal, PAG through one of its investment funds has made an investment to the Group, in a form of a long term loan provided to the Group’s subsidiary Favour Ocean Limited. This subsidiary subsequently granted a loan in the same amount to Home Credit B.V. In accordance with the partnership agreement the value of the loan was derived from the fair value of the Chinese business. The fair value of the Chinese business was determined using generally accepted valuation techniques, especially the dividend discount model. Majority of inputs to this model are not observable from the market.

5. Cash and cash equivalents

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Current accounts with related parties	8	133
Other current accounts	1	11
	9	**144**

6. Time deposits with banks

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Cash collateral for syndicated loan interest payments	7	7
Cash collateral for foreign exchange derivative contracts	4	4
	11	**11**

7. Loans provided

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Loans to subsidiaries	35	26
Other loans provided	44	43
Impairment to loans provided	(1)	-
	78	**69**

The loans provided by the Company are unsecured.

8. Financial assets at fair value through profit or loss

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

9. Investments in subsidiaries

Subsidiary	Country of incorporation	Share in issued capital 31 Mar 2018 %	Share in issued capital 31 Dec 2017 %	Net cost of investment 31 Mar 2018 MEUR	Net cost of investment 31 Dec 2017 MEUR
Redlione (LLC)	Cyprus	100.00	100.00	18	18
Enadoco Limited	Cyprus	100.00	100.00	1	1
Rhaskos Finance Limited	Cyprus	100.00	100.00	1	1
Septus Holding Limited	Cyprus	100.00	100.00	1	1
Sylander Capital Limited	Cyprus	100.00	100.00	1	1
Talpa Estero Limited	Cyprus	100.00	100.00	1	1
Astavedo Limited	Cyprus	100.00	100.00	<1	<1
Home Credit International (JSC)	Czech Republic	100.00	100.00	189	182
HC Insurance Services (LLC)	Czech Republic	100.00	100.00	1	1
Air Bank (JSC)	Czech Republic	100.00	100.00	224	212
Home Credit Consumer Finance Co., Ltd.	China	100.00	100.00	977	977
CF Commercial Consulting (Beijing) Co., Ltd.	China	100.00	100.00	1	1
Favour Ocean Limited	Hong Kong	100.00	100.00	128	128
HC Asia B.V.	Netherlands	100.00	100.00	717	683
Home Credit Lab N.V.	Netherlands	100.00	100.00	18	14
Non-banking Credit and Financial Organization “Home Credit” (OJSC)	Republic of Belarus	99.59	99.59	7	7
Home Credit and Finance Bank (LLC)	Russian Federation	99.99	99.99	454	454
Home Credit Insurance (LLC)	Russian Federation	100.00	100.00	10	10
MCC Kupi ne kopi (LLC)	Russian Federation	100.00	100.00	2	2
Home Credit Slovakia (JSC)	Slovak Republic	100.00	100.00	21	21
LLC Homer Software House [1)]	Ukraine	2.78	2.78	-	-
HOME CREDIT US Holding (LLC)	USA	100.00	100.00	49	49
Home Credit Vietnam Finance Company Limited	Vietnam	100.00	100.00	70	70
				2,891	**2,834**

[1)] presented as a subsidiary because of the Company’s indirect share of 97.22% through Redlione (LLC)

9. Investments in subsidiaries (continued)

31 Mar 2018	Cost of investment MEUR	Impairment MEUR	Carrying amount MEUR
Balance as at 1 January	**2,966**	**(132)**	**2,834**
Investments	57	-	57
Balance as at 31 March	**3,023**	**(132)**	**2,891**

31 Mar 2017	Cost of investment MEUR	Impairment MEUR	Carrying amount MEUR
Balance as at 1 January	**2,244**	**(136)**	**2,108**
Investments	222	-	222
Balance as at 31 March	**2,466**	**(136)**	**2,330**

10. Other assets

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Trade receivables and prepayments	3	4
	3	**4**

Trade receivables balances represent receivables for services provided to related parties. Prepayments represent prepaid expenses for advertising.

11. Debt securities issued

	Interest rate	Final maturity	Amount outstanding 31 Mar 2018 MEUR	Amount outstanding 31 Dec 2017 MEUR
CZK promissory note issue of MCZK 650	Zero-coupon	March 2018	-	25
Unsecured CZK bond issue of MCZK 1,998	3.75%	March 2020	82	81
CZK promissory note issue of MCZK 207	Zero-coupon	April 2020	8	7
EUR promissory note issue of MEUR 7.96	Zero-coupon	April 2020	7	7
			97	**120**

All the bonds and promissory notes issued are unsecured.

12. Financial liabilities at fair value through profit or loss

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Loan from subsidiary	316	313
Negative fair value of trading derivative instruments	1	2
	317	**315**

In July 2017 the Group signed a strategic partnership agreement with PAG Asia Capital ("PAG"), one of Asia's largest private equity firms, with the aim of supporting the long-term development of the Group's business, in China. Within this deal, PAG through one of its investment funds has made an investment to the Group, in a form of a long term loan provided to the Group's subsidiary Favour Ocean Limited. This subsidiary subsequently granted a loan in the same amount to Home Credit B.V. The Company decided to measure this loan at fair value through profit or loss.

13. Loans received and other liabilities

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Loans received	691	740
Settlement with suppliers	1	4
	692	**744**

Loans received

	Interest Rate	Currency	Maturity	Amount outstanding 31 Mar 2018 MEUR	Amount outstanding 31 Dec 2017 MEUR
Loan from parent company	Variable	EUR	February 2018	-	50
Loan from subsidiary	Fixed	RUB	June 2018	14	15
Syndicated loan	Variable	EUR	June 2019	647	646
Loan from fellow subsidiary	Fixed	CZK	January 2020	30	29
				691	**740**

All loans are unsecured. There were no breaches of loan covenants in the three-month period ended 31 March 2018 or year ended 31 December 2017.

14. Provisions for credit losses

Provisions for credit losses represent expected credit losses related to guarantees issued and to loan commitments provided.

15. Equity

Share capital

As at 31 March 2018 the Company's share capital comprised 1,250,000,000 (31 December 2017: 1,250,000,000) ordinary shares at a par value of EUR 0.57 each (31 December 2017: EUR 0.57), of which 1,156,174,806 (31 December 2017: 1,156,174,806) shares were issued and fully paid. All issued shares bear equal voting rights. The holders of the shares are entitled to receive distributions of profits and reserves when declared by the general meeting of the Company. No distributions can be made if the total amount of the reserves to be maintained pursuant to the law or the articles of association exceeds the Company's equity and the management board has not given its approval to such distribution.

16. Interest income and interest expense

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Interest income		
Other related parties	1	1
	1	**1**
Interest expense		
Loans received	8	12
Debt securities issued	1	1
	9	**13**

17. Dividend income

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Subsidiary		
Home Credit International (JSC)	10	-
Home Credit (JSC)	-	4
	10	**4**

18. Fee income

Fee income represents fees for services provided to related parties.

19. General administrative expenses

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Professional services	3	2
Travel expenses	1	1
	4	**3**

20. Commitments and guarantees

As at 31 March 2018 the Company had outstanding commitments to extend credit of MEUR 8 (31 December 2017: MEUR 8).

As at 31 March 2018 the Company had outstanding guarantees of MEUR 477 (31 December 2017: MEUR 451) issued by the Company in favour of financing entities for loans drawn by related parties.

21. Related party transactions

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

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

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

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Loans received and other liabilities	-	(50)
	-	**(50)**

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

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Interest expense	-	(5)
	-	**(5)**

21. Related party transactions (continued)

(b) Transactions with subsidiaries and fellow subsidiaries

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

	31 Mar 2018 MEUR	31 Dec 2017 MEUR
Cash and cash equivalents	8	133
Time deposits with banks	4	4
Loans provided	39	31
Financial assets at fair value through profit or loss	7	9
Other assets	1	2
Debt securities issued	(15)	(40)
Financial liabilities at fair value through profit or loss	(317)	(315)
Loans received and other liabilities	(30)	(44)
	(303)	**(220)**

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

	3 months ended 31 Mar 2018 MEUR	3 months ended 31 Mar 2017 MEUR
Interest expense	(1)	(3)
Dividend income	10	4
Fee income	1	1
Net foreign exchange result	6	-
	16	**2**

As at 31 March 2018 the Company had outstanding guarantees of MEUR 477 (31 December 2017: MEUR 451) issued by the Company in favour of financing entities for loans drawn by related parties.

As at 31 March 2018 the Company had outstanding loan commitments of MEUR 8 (31 December 2017: MEUR 8) with its subsidiaries.

21. Related party transactions (continued)

(c) Transactions with other related parties

As at 31 March 2018 the balance of Loans provided included an unsecured loan of MEUR 38 (31 December 2017: unsecured loan of MEUR 38) provided by the Company to a company controlled by one of the members of its Board of Directors. The interest rate is 5.74% (31 December 2017: 5.74%) and the repayment date of this loan is 30 June 2019.

As at 31 March 2018 the Company had no outstanding loan commitments (31 December 2017: nil) with other related parties.

(d) Transactions with key management personnel

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

Salaries and bonuses of the key management are included in the Company statement of comprehensive income, the amounts for three-month periods ended 31 March 2018 and ended 31 March 2017 were lower than MEUR 1.

The Company pays for consultancy and management services under a consultancy service agreement concluded in 2013 between the Company and an entity controlled by one of the members of its Board of Directors. Consultancy fees incurred by the Company in the three-month period ended 31 March 2018 in relation to this agreement amounted to MEUR 2 (three-month period ended 31 March 2017: MEUR 2). Other expenses incurred on behalf of this related party were MEUR 1 (three-month period ended 31 March 2017: MEUR 1). All these amounts are recorded under general administrative expenses, while the related liability of MEUR 1 as at 31 March 2018 (31 December 2017: MEUR 2) is reported under loans received and other liabilities.

22. Segment information

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

23. Subsequent events

In April 2018, the Company received a dividend from Home Credit Insurance (LLC) amounting to MEUR 4 (equivalent).

In April 2018, the Company received a dividend from Home Credit Vietnam Finance Company Limited amounting to MEUR 15.

In April and May 2018, the Company increased the share premium of HC Asia B.V. by MEUR 33.

In May 2018, the Company received dividends from Enadoco Limited, Rhaskos Finance Limited, Septus Holding Limited, Sylander Capital Limited, Talpa Estero Limited and Atavedo Limited amounting to a total of MEUR 5.

In May 2018, the Company increased the share capital of HOME CREDIT US Holding, LLC by MEUR 7 (equivalent).

In May 2018, the Company reduced the share premium of Home Credit Lab N.V. by MEUR 15.

In May 2018, the Company made a voluntary equity contribution to Home Credit International (JSC) amounting to MEUR 3.

The Condensed Consolidated Interim Financial Statements as set out on pages 4 to 75 and the Condensed Unconsolidated Interim Financial Statements as set out on pages 77 to 98 were issued on 30 May 2018.

Christoph Glaser
Member of the Board of Directors