Home Credit Group B.V.

Annual Report

for the fifteen-month period from 1 October 2017 to 31 December 2018

Contents

Directors' Report

Description of the Company

Home Credit Group B.V.

Date of incorporation:	20 September 2017
Registered office:	Netherlands, Strawinskylaan 933, 1077XX Amsterdam
Identification number:	69638284
Issued capital:	EUR 999,999,999.99
Paid up capital:	EUR 999,999,999.99
Principal business:	Holding company activities and financing thereof

General information

Home Credit Group B.V. ("HCGBV") is the parent which holds the equity stakes in leading consumer finance providers ("operating entities") operating on high potential markets in four geographical segments: Central and Eastern Europe ("CEE"), Commonwealth of Independent States ("CIS"), South East Asia including India ("SEA"), China, and the United States (in segment reporting presented within "Other" as this is starting business). Majority of our subsidiaries are regulated companies which are fully licensed by a national government regulatory body and compliant with the respective local laws. Three of the lenders held the banking licenses. Our mission, unchanged throughout our 22-year history[1], is to provide responsible lending primarily to salaried people with little or no credit history, those who are underserved by the local high street banks. Our inclusive approach to lending services is enabled by superior, high-tech powered tools for risk management. We utilize machine learning and other robust technologies to process high volumes of data which describes, directly or indirectly, customers' behaviour pattern in order to gain strong predictive power for taking the decisions. Through such market leading data analytics capabilities, our operating entities are able to sustain customer and partner relationships across multiple cultural environments to offer their products and services through localised sales channels in the countries in which they operate while sticking to centralised risk management

As the parent we also perform the role of securing the refinancing facilities for our operating entities. For a detailed description of the Group please refer to Note 1 of the consolidated financial statements.

The majority shareholder of HCGBV is PPF Financial Holdings B.V., a wholly owned subsidiary of PPF Group N.V. (hereinafter "PPF") with 88.62%[2] stake. PPF Group, whose ultimate beneficiaries are Mr. Petr Kellner, Mr. Ladislav Bartonicek and Mr. Jean-Pascal Duvieusart, owns assets of EUR 45 billion (as at 31 December 2018). For more information on PPF, please, visit www.ppf.eu.

The remaining 11.38%[3] stake in HCGBV is held by EMMA OMEGA LTD, an investment holding company ultimately owned by Mr. Jiří Šmejc.

[1] Home Credit B.V. was incorporated in 1997. Home Credit Group B.V. become the parent company of Home Credit B.V in May 2018.
[2] This is share from legal prospective. From economic prospective the share as of 31 December 2018 was 91.12%. Legally the change become effective as of 31 January 2019.
[3] This is share from legal prospective. From economic prospective the share as of 31 December 2018 was 8.88%. Legally the change become effective as of 31 January 2019.

Business Objectives

We aspire to change the way the world shops by providing consumer finance products that are easily accessible and affordable for our customers. In this mission, the Group benefits from the following key strengths:

1. **Leading emerging market consumer finance specialist**
    - Our operating entities continue being the leading consumer finance providers in eight countries and our entity in India is ranked second by POS loan balance (according to Oliver Wyman).

2. **Highly scalable and resilient platform underpinned by superior technology**
    - Our operating platform centrally manages core strategy, risk, technology, products, funding, finance and talent while adapting to local market conditions. This enables our business to be resilient in the face of changing market conditions, and achieve leadership and profitability in new countries.
    - We have built a strong track record of operating through credit cycles across our operating entities. Our underwriting and operating experience in countries where we have been present for a long time provides us with unique risk management and customer insights that we successfully deploy in newer countries.

3. **Presence wherever and whenever our customers need financing**
    - We have developed an omni-channel distribution model which enables us to be present wherever and whenever our customers need their financing.

4. **Proven ability to maximize customer lifetime value**
    - We offer our suite of products, progressively to first capture customers with the right risk profile, then maximize their lifetime value through the cross-selling of higher value and higher margin products.

5. **Centralized data analytics enabling superior customer and risk management**
    - Our operating companies manage their technologies and data analytics centrally to ensure experiences are shared across countries on a real time basis. We believe that their powerful technologies and the substantial resources that we have invested enable them to have achieved superior risk management outcomes while forming an entry barrier to potential competitors.

6. **Experienced management team with proven track records**

    - The executive management team has had on average over 15-20 years of experience at global institutions and has unparalleled experience in operating consumer finance businesses across credit cycles in Europe and Asia.

Operational Highlights

- We have served over 116 million borrowers. As of 31 December 2018 had 28 million active customers.
- We have built a highly scalable, portable and resilient global platform which centrally manages our core strategy, technology, risk, product and funding functions while adapting to local market needs. Over 22-year of successful track record, our operating entities have accumulated a wealth of experience as well as a large volume of borrower behavior data which they use to refine our risk algorithms and cross-sell.
- This global platform is supported by our highly scalable, robust technology architecture. We develop these technologies centrally and design them to be deployable across all of our operating entities, with embedded localization features that satisfy our country-specific operating needs. Such approach enables us to unlock economies of scale as we expand and continuously optimize our operations to improve profitability.
- Risk management insights enable our operating entities to rapidly expand in new countries while maintaining growth and profitability under evolving market conditions. More recently, we have successfully leveraged our platform to enter three new countries in South and Southeast Asia (India, Indonesia and the Philippines) since 2012, where we have achieved leadership positions and during 2017-2018 they have reached profitability;
- We apply advanced big data analytics, artificial intelligence and new frontier modelling technologies throughout the stages of our customer's journey, from loan application to credit approval to collections and customer management. Leveraging the centralized credit approval process and advanced data capture technologies, our operating entities are able to:
    - Keep the credit risk and risk costs at the historical lows as our scorecards are continuously iterated using machine learning techniques to improve their predictive power;
    - Reduced the median time to a loan decision to under 1 minute while providing a frictionless and simple application process for our customers;
    - Apply the same data-driven approach to customer management in order to retain our borrowers and keep them engaged with the right product offers at the right price, place and time;
        - It means we offer affordable POS loan pricing and loan terms of up to 12 months to borrowers who lack formal credit histories.
        - For borrowers who have demonstrated repayment capability and proven creditworthiness, our smart CRM system to cross-sell cash loans for a broader range of consumption scenarios. Such strategy deepens our engagement and increases our interaction frequency as we finance a wider range of customers' personal consumption needs. This is the way we maximize the lifetime value of high quality customers.
        - We also offer a complementary suite of optional add-on, third party products, including FPSP, insurance and warranty policies, which enable us to serve our customers' borrowing-adjacent needs while generating fee income.
- We have developed an omni-channel distribution model which enables us to be present wherever and whenever our customers need financing: (1) in physical points of sale in stores and shopping malls. Our operating entities make their products affordable for more customers through an ecosystem of over 310 thousand partners; (2) through e-POS embedded in 750 partner e-shops and our HC Marketplace platform; and (3) repeat customers can apply directly through our mobile app or website. (4) A top of that our integrated online-offline network enables customers to start their application at mobile app and complete it by in-person verification at the nearest POS location.
- Our commitment to responsible lending extends from our honest business practices, including transparent disclosure of loan terms, no-fee early repayment options, and fair collections practices, to our long-standing and active initiatives to promote financial literacy in our communities.

Online and Digitalization

As an increasing proportion of customers are buying products or services over the internet, including through mobile apps, our online sales channels have become an essential part of our omni-channel offering to our customers. Online sales operated by our operating companies includes (1) online points of sale, (2) our mobile apps, (3) own websites, and (4) telemarketing and SMS. If a potential customer applies for a loan through one of these online channels above and we need more information to assess the creditworthiness of such customer, we may invite the potential customer to come to our nearest self-operated point of sale for a face-to-face conversation with one of our sales agents. Once an online sales requires such in-person verification, we call it "online-to-offline" sales. Our products are available online in all the countries in which we operate. Our online points of sale comprise third-party e-shops as well as our own Market Place.

Market Place is a feature within our mobile apps, through which its users can purchase goods and services provided by our POS partners online using a loan provided by our operating companies. Whenever the mobile app users are ready to pay for their purchases, they apply for a POS loan, typically with "zero interest rate", as the payment method. We launched our Market Place in Russia in 2017 and subsequently rolled it out in China (Q1 2019) and India. We plan to roll it out in due course in other countries in which we operate.

Our operating entities use their mobile apps to originate loans and provide services and financial education to their customers. The main functions of the mobile apps include the following:

- Featured products and services such as *Market Place* or *HC Pay*, i.e. a revolving loan with a QR code payment feature, currently available only in China, and a *loyalty program*.
- Communication tools such as list of our product offerings, application for our products, and notifications on the progress of their product application and reminders for repayment.
- Customer self-service tools which give users a possibility to have their questions answered by chat-bot, repay their loans via the app, and update their personal information and upload documents when needed.
- Loan Management tools. Users of our mobile apps can view their loan profile, view their payment record, view their loan contracts with us, and apply for or cancel early repayment plans.

In the reporting period, the operating companies have made a substantial progress in digitalization of end-to-end sales process which leads to fully paper-less, hassle-free customer experience. In physical points of sale in China, besides classical sale assisted by our own sales agent on-site, the customers can even self-handle the entire application process for a POS-loan by scanning their documents, their faces and selected products on our service tablets which offer also a selection from loan parameters. The loan decision prompts on the screen while customer shops and signals to the shop personnel that payment has been made by a loan. Customers can opt also for an assisted self-service. This represents a process when a call-centre operator provides a guidance to a customer over the video call on the service tablet. The implementation of a fully digitized, paper-less process has been also finalized in India while other countries are on track to complete it. Digitized sales process substantially boosted productivity and, in combination with chat-bots utilization in call centres, pushed down the cost-to-income ratio.

2018 Highlights

In 2018, the operating entities HCGBV owns performed strongly across all its markets. The headwinds in China, which stemmed from regulatory and market challenges in late 2017 and caused the Group to have a poor first quarter of 2018, have been successfully addressed. As expected, the Group has ultimately benefited from the changes, with its country business is back on track with excellent sales results, lowered fixed costs delivered by technology-driven innovations, and a sustainable risk profile. The Group's businesses around the world continued rapidly expanding their scale and delivered profitability, which grew with even faster pace.

The Group posted EUR 394 million in profit for the 15 month period ended 31 December 2018. The Group's businesses are widely regarded as innovative and high-tech. Technology not only provides for operating costs savings but, even more importantly, through implementation of data science and biometrics, it enables the Group to deepen its inclusive financial services supported by leading-edge risk management. At the same time, technology also delivers a substantially enhanced customer experience, starting from a fully digitized sales process and more convenient KYC procedure, to much-shortened "time-to-yes", an offline offer merged with online, and even faster customer service provided by chat-bots.

2018's key themes revolve around the Group's profitability growing faster than its operations' scale. The very strong performance the Group delivered in 2018 is based on "smart growth", a triangle of scale, diversification and productivity. The diversified assets and income base that the Group has built throughout South-East Asia and China, together with its continually-expanding scale, and its operational efficiency heavily supported by technology and data science, are all the key drivers behind the Group's long-term success. In 2018 the initiatives that were gradually introduced earlier, such as alternative distribution, online-to-offline sales models, AI-driven automation and fully digitized in-store sales, brought their sought-after benefits: a major, sustainable move of the Group's cost base towards variable costs. As a consequence, the Group's cost-to-income ratio fell by 7.5% period-over-period from 52.9% to 45.4% as productivity increased. As the Group also succeeded in further diversified its funding base, the cost of funds grew at a much slower pace than our pricing which, in combination with the Group's growing scale, brought the net interest margin up by 1.2% period-over-period from 14.5% to 15.7%.

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

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

2018 Key Results

HCGBV's profit for the 15 month period ended 31 December 2018 was EUR 394 million.

Consolidated financial highlights

	1/10/2017 – 31/12/2018	1/1/2017 – 30/9/2017
Total assets (BEUR)	23.6	19.5
Gross loans (BEUR)	19.6	15.0
Deposits (BEUR)	6.8	6.0
Total equity (BEUR)	2.2	1.7
Net profit (MEUR)	394	232
Net interest margin	15.7%	14.5%
Cost of risk	10.7%	7.7%
Cost-to-income ratio	45.5%	52.9%
Return on average equity (RoAE)	16.5%	19.5%
Number of distribution points (ths.)	437	399
Number of active customers (mil.)	28.0	28.9

HCGBV Group's rapid recovery from a modest loss in the first quarter of 2018, which was primarily caused by market turbulence in China, demonstrated the HC Group's resilience and its solid financial footing. Moreover, as expected, the momentary tightening of regulatory conditions in this market eventually led to a more stable and well-regulated space, where customers of former unlicensed players have gravitated towards more established companies, both of which have benefited Home Credit.

The HC Group’s net interest margin has increased from 14.5% in comparative period to 15.7% in reporting period thanks to portfolio growth and thanks to the cost of funds increasing at a slower rate compared to pricing.

Risk performance remains strong, with the risk-based pricing adopted in 2017 underpinning it. The cost-of-risk ratio increased from 7.7% to 10.7%, although this is largely attributable to the growth in the HC Group’s portfolio, particularly in China; since the first quarter of 2018, the cost-of-risk ratio in China has been improving gradually every quarter.

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

In terms of assets, the HC Group saw a 25.7% increase in loans to customers, with BEUR 17.5 of loans on the HC Group’s books; on the liabilities side, deposits increased by 12.1%.

Operationally, the HC Group continued to expand its reach through points of sale, with 437,417 locations as at 31 December 2018 compared to 398,572 as at 30 September 2017, while simultaneously expanding its online channels. The number of employees has at the same time been streamlined from 140.1 thousand at the end of September 2017 to 139.2 thousand at the end of 2018.

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

In China – where Home Credit’s business was one of the first four consumer finance companies in China to gain a nationwide consumer finance license - regulatory changes at the end of 2017 brought short-term market challenges, as well as a temporary increase in risk cost in early 2018. As expected, however, corrective actions taken during the last quarter of 2017 remedied the cost of risk increase later in 2018. Loans to customers amounted to MEUR 10,920, an 26% increase from MEUR 8,697 at the beginning of reporting period. The company has maintained the scale of its POS network with a net increase of 9 thousand points of sales, while also transitioning to an alternative distribution (ALDI) model in many locations; ALDI points of sale have grown to 87 thousand in 2018 from just under 2 thousand at the beginning of reporting period.

The headline in CIS geographical cluster would read “the business volumes grew while credit risk metrics remained at historical lows”. Overall macroeconomic environment stabilised although an adverse effect of low prices of crude oil, a major export commodity, and the foreign investments outflow continued being a clear burden. As shallow retail demand gradually recovered, the HC Group successfully refocused on customer segments which enabled it to grow. Loans to customers reached MEUR 3,083, up from MEUR 2,788 at the beginning of reporting period. The implementation of high technologies in combination with data science had a two-fold impact: it positioned the HC Group as a true leader in predictive risk modelling and, at the same time, the business had been given a powerful tool to be quick on the market with a tailor-made offer to the best customers. Simultaneously, the HC Group’s business in CIS cluster saw a strong increase in number of customers who exclusively use online services, including online underwriting of loans. The online lending was substantially eased by the Government-run, nation-wide program of biometrics database in Russia which the HC Group joined from the early stage. The mobile app proved to be a strong acquisition tool which brought young, tech-savvy generation to the customer base.

The major highlights for SEA geographical cluster which includes India, Indonesia, the Philippines and Vietnam, was substantially extended scale and growing reach to customers which, in combination, brought an increased market share, improved profitability and better brand recognition in every local market. Overall, the HC Group has served altogether over 19 million customers in SEA in last five years, while the number of customers who have an outstanding loan (“active customers”) amounted to 8.9 million as at the end of 2018. The Group’s geographic presence across SEA expanded by 22,133 stores up to 62,500 in 15 months. The SEA loans to customers significantly grew and at the end of the year reached MEUR 1,915, a 65% increase during the reporting period.

The CEE is currently represented by two mature “home markets” – the Czech Republic and Slovakia – which are the oldest and, given the markets’ size, also the smallest in the Group’s portfolio. Highlights here are “an increased cost efficiency and outstanding risk performance”. The CEE geographical cluster delivered improvements in underwriting based on the changes in decision system logic. Better usage of alternative data sources, together with upgrades in scorecards, contributed to more accurate risk prediction. This allowed the company to increase the approval rate without a negative impact on risk costs. The loans to customers increased by 22% during the reporting period and amounted to MEUR 1,513 at the end of 2018.

Business Outlook

In 2019, the Group will continue to manage and finance its holdings carefully and use its capital in a disciplined way. Its focus will be on managing the business for the sustainable creation of shareholders’ value. HC Group expects that 2019 will see a continuation of the trends established in 2018. Technological innovations, which the Group actively develops and embraces, have the potential to generate further efficiencies, while the scale already established should continue to provide its own benefits, all while underpinned by cutting-edge risk management methods. The Group intends to remain focused on constantly evolving its class-leading customer experience, thereby extending its positive brand recognition to new customers while continuing to develop relationships with existing ones. The Group is also constantly seeking new funding sources to add to its already diversified funding base. All of these combined can reflect favourably on the Group’s results in the coming year.

Staff development, environmental influence and research and development

The average number of employees during 15 months reporting period was 139,231.
The impact of the Group’s operations on the environment is not quantified as it is considered insignificant. The Group dedicates ample resources to research and development activities, primarily in the area of the development of consumer finance IT systems.

Composition of the Board of Directors

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

Code of Conduct

Group’s reputation and integrity are ones of its most important assets and has been instrumental in its business success. Group designed and implemented in the relevant Group entities Code of Business Conduct and Ethics. The purpose of the Code of Business Conduct and Ethics is to promote honest, ethical and professional business conduct and to ensure compliance with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to Group’s activities worldwide in order to protect the business and reputation of the Group as well as the best interests of Group’s shareholders and other stakeholders. Obligation to conduct the Group entities’ business in an honest and ethical manner also includes the handling of actual, apparent and potential conflicts of interest, obligation of discretion and confidentiality, records keeping, protection and proper use of Group assets etc. The Group holds itself to high standards when carrying on business, and at all times strives to observe the spirit as well as the letter of the law.

Financial Instruments and Risk Management

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

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

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

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

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

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

For detailed information on risk management see Note 4 of the consolidated financial statements.

27 June 2019

Board of Directors:	
Jiří Šmejc	Christoph Glaser
Executive Chairman of the Board of Directors	*Member of the Board of Directors*
Rudolf Bosveld	Jan Cornelis Jansen
Member of the Board of Directors	*Member of the Board of Directors*
Mel Gerard Carvill	Marcel Marinus van Santen
Member of the Board of Directors	*Member of the Board of Directors*
Paulus Aloysius de Reijke	Jean-Pascal Duvieusart
Member of the Board of Directors	*Member of the Board of Directors*

Consolidated Financial Statements
for the year ended 31 December 2018

	Note	31 Dec 2018 MEUR	30 Sep 2017 MEUR
ASSETS			
Cash and cash equivalents	7	3,362	2,815
Financial assets at fair value through profit or loss	8	21	20
Financial assets available-for-sale	9	-	1,211
Financial assets at fair value through other comprehensive income	9	462	-
Due from banks, other financial institutions and holding companies	10	314	625
Loans to customers	11	17,462	13,888
Investment securities at amortized cost	12	761	-
Assets classified as held for sale	13	3	3
Current income tax receivables		8	4
Investments in associates	14	27	1
Property and equipment	15	181	176
Intangible assets and goodwill	16	287	216
Deferred tax assets	17	423	256
Other assets	18	336	279
Total assets		**23,647**	**19,494**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	21	307
Current accounts and deposits from customers	20	6,776	6,046
Due to banks, other financial institutions and holding companies	21	11,966	9,376
Debt securities issued	22	1,795	939
Subordinated liabilities	23	199	400
Current income tax liabilities		82	132
Deferred tax liabilities	17	9	4
Insurance and other provisions	24	42	39
Other liabilities	25	603	508
Total liabilities		**21,493**	**17,751**
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	26	1,000	7
Share premium	26	628	-
Statutory reserves	26	114	58
Foreign currency translation	26	(770)	(650)
Reserve for business combinations under common control	26	(153)	1,206
Revaluation reserve	26	-	12
Other reserves	26	1,318	1,102
Total equity attributable to equity holders of the Company		**2,137**	**1,735**
Non-controlling interests	27	**17**	**8**
Total equity		**2,154**	**1,743**
Total liabilities and equity		**23,647**	**19,494**

Continuing operations:	Note	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Interest income	29	5,643	2,477
Interest expense	29	(1,699)	(787)
Net interest income		**3,944**	**1,690**
Fee and commission income	30	1,085	542
Fee and commission expense	31	(193)	(88)
Net fee and commission income		**892**	**454**
Net insurance income	32	**22**	**20**
Net gains/(losses) on financial assets and liabilities	33	(8)	(1)
Other operating income	34	39	24
Operating income		**4,889**	**2,187**
Impairment losses on financial assets	35	(2,215)	(688)
Personnel expenses and Other operating expenses	36	(1,982)	(1,044)
Rental, maintenance and repairs		(96)	(50)
Depreciation and amortization		(141)	(63)
Operating expenses		**(4,434)**	**(1,845)**
Losses on disposals/liquidations of associates and subsidiaries		(9)	(2)
Share of earnings in associates		4	2
Profit before tax		**450**	**342**
Income tax benefit/(expense)	37	(56)	(110)
Net profit from continuing operations for the period		**394**	**232**
Profit/(loss) attributable to:			
Equity holders of the Company		427	234
Non-controlling interests	27	(33)	(2)
Net profit for the period		**394**	**232**
Other comprehensive (loss)/income which will be subsequently reclassified to profit or loss:			
Currency translation		(136)	(145)
Revaluation (losses)/gains on available-for-sale financial assets		-	(22)
Revaluation of financial assets at fair value through other comprehensive income		(37)	-
Revaluation of available-for-sale financial assets transferred to profit or loss		-	10
Revaluation of financial assets at fair value through other comprehensive income transferred to profit or loss		22	-
Income tax relating to components of other comprehensive income		3	2
Other comprehensive (loss)/income for the period		**(148)**	**(155)**
Total comprehensive income/(loss) for the period		**246**	**77**
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		278	80
Non-controlling interests		(32)	(3)
Total comprehensive income/(loss) for the period		**246**	**77**

	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 30 September 2017	7	-	58	(650)	1,206	12	1,102	**1,735**	8	**1,743**
Adjustment on initial application of IFRS 9, net of tax (Note 3)	-	-	-	-	-	-	(163)	**(163)**	-	**(163)**
Balance as at 1 October 2017	7	-	58	(650)	1,206	12	939	**1,572**	8	**1,580**
Contribution in kind (reverse acquisition)	993	353	-	-	(1,346)	-	-	**-**	-	-
Share premium increase	-	275	-	-	-	-	-	**275**	-	**275**
Disposal/deconsolidation of subsidiaries	-	-	(1)	17	(13)	-	9	**12**	-	**12**
Other changes in non-controlling interest	-	-	-	-	-	-	-	**-**	41	**41**
Transfers	-	-	57	-	-	-	(57)	**-**	-	**-**
Total	**1,000**	**628**	**114**	**(633)**	**(153)**	**12**	**891**	**1,859**	**49**	**1,908**
Currency translation	-	-	-	(137)	-	-	-	**(137)**	1	**(136)**
Revaluation gains/ (losses) on financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	-	(33)	-	**(33)**	-	**(33)**
Revaluation of financial assets at fair value through other comprehensive income transferred to profit or loss, net of tax	-	-	-	-	-	21	-	**21**	-	**21**
Profit for the period	-	-	-	-	-	-	427	**427**	(33)	**394**
Total comprehensive income for the period	**-**	**-**	**-**	**(137)**	**-**	**(12)**	**427**	**278**	**(32)**	**246**
Total changes	**993**	**628**	**56**	**(120)**	**(1,359)**	**(12)**	**216**	**402**	**9**	**411**
Balance as at 31 December 2018	**1,000**	**628**	**114**	**(770)**	**(153)**	**-**	**1,318**	**2,137**	**17**	**2,154**

	Attributable to equity holders of the Company									
	Share capital	Share premium	Statutory reserves	Foreign currency translation	Reserve for business combinations under common control	Revaluation reserve	Other reserves	Total	Non-controlling interests	Total equity
	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR
Balance as at 1 January 2017	659	480	58	(506)	(91)	22	873	**1,495**	6	**1,501**
Share premium increase	-	158	-	-	-	-	-	**158**	-	**158**
Transfer due to reverse acquisition	(659)	(638)	-	-	1,297	-	-	-	-	-
Share capital increase	7	-	-	-	-	-	-	**7**	-	**7**
Transfers	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	(5)	**(5)**	5	-
Total	**7**	**-**	**58**	**(506)**	**1,206**	**22**	**868**	**1,655**	**11**	**1,666**
Currency translation	-	-	-	(144)	-	-	-	**(144)**	(1)	**(145)**
Revaluation gains on available-for-sale financial assets, net of tax	-	-	-	-	-	(18)	-	**(18)**	-	**(18)**
Revaluation of available-for-sale financial assets transferred to profit or loss, net of tax	-	-	-	-	-	8	-	**8**	-	**8**
Profit/(loss) for the period	-	-	-	-	-	-	234	**234**	(2)	**232**
Total comprehensive income for the period	**-**	**-**	**-**	**(144)**	**-**	**(10)**	**234**	**80**	**(3)**	**77**
Total changes	**(652)**	**(480)**	**-**	**(144)**	**1,297**	**(10)**	**229**	**240**	**2**	**242**
Balance as at 30 September 2017	**7**	**-**	**58**	**(650)**	**1,206**	**12**	**1,102**	**1,735**	**8**	**1,743**

	Note	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Operating activities			
Profit before tax		450	342
Adjustments for:			
Interest expense	29	1,699	787
Interest income	29	(5,643)	(2,477)
Net loss/gain on disposal of property, equipment and intangible assets		(2)	1
Net loss on disposal of subsidiaries and associates		11	-
Impairment losses	35,37	2,224	688
Share of earnings in associates		(4)	(2)
Depreciation and amortization	37	141	63
Net operating cash flow before changes in working capital		**(1,124)**	**(598)**
Change in due from banks, other financial institutions and holding companies		411	(346)
Change in loans to customers		(6,874)	(5,668)
Change in financial assets at fair value through profit or loss		(7)	184
Change in other assets		(65)	(15)
Change in held for sale assets		-	(1)
Change in current accounts and deposits from customers		726	704
Change in financial liabilities at fair value through profit or loss		(282)	275
Change in other liabilities and insurance and other provisions		67	79
Effects of foreign currency translation on items other than cash and cash equivalents		367	(15)
Cash flows used in the operations		**(6,781)**	**(5,401)**
Interest paid		(2,005)	(846)
Interest received		6,001	2,836
Income tax paid		(189)	(189)
Cash flows used in operating activities		**(2,974)**	**(3,600)**
Investing activities			
Proceeds from sale of property, equipment and intangible assets		29	6
Acquisition of property, equipment and intangible assets		(256)	(145)
Proceeds from sale of subsidiaries and associates		(11)	-
Dividends from associates		-	3
Proceeds from available-for-sale financial assets		-	1,426
Acquisition of available-for-sale financial assets		-	(1,606)
Acquisition of financial assets at fair value through other comprehensive income		(3,440)	-
Proceeds from sale of financial assets at fair value through other comprehensive income		3,313	-
Acquisition of Investment securities at amortized cost		1	-
Acquisition of investment in associate		(26)	-
Cash flows from/ (used in) investing activities		**(390)**	**(316)**
Financing activities			
Share premium increase through cash		275	158
Proceeds from the issue of debt securities (included subordinated)		2,418	1,226
Repayment of debt securities issued (included subordinated)		(1,719)	(552)
Proceeds from due to banks, other financial institutions and holding companies		22,910	11,384
Repayment of due to banks, other financial institutions and holding companies		(19,948)	(7,833)
Cash flows from financing activities		**3,936**	**4,383**
Net increase/(decrease) in cash and cash equivalents		572	467
Cash and cash equivalents as at 1 October/1 January		2,815	2,412
Effects of exchange rate changes on cash and cash equivalents		(25)	(64)
Cash and cash equivalents as at 31 December/30 September	7	**3,362**	**2,815**

1. Description of the Group

Home Credit Group B.V. (the "Company") was incorporated on 20 September 2017 in the Netherlands.

Registered office
Strawinskylaan 933
1077 XX Amsterdam
The Netherlands

In reverse acquisition effective 8 May 2018, PPF Financial Holdings B.V. and Emma Omega Ltd. contributed its shares in Home Credit B.V. into equity of Home Credit Group B.V. For accounting purposes, the legal acquiree Home Credit B.V. was identified as the acquiring entity. Consequently, these consolidated financial statements represent the continuation of the financial statements of Home Credit B.V. except the capital structure, which has been adjusted to reflect the capital structure of Home Credit Group B.V. For presentation of the Company's comparatives see Note 2(d).

Home Credit Group B.V. is a subsidiary of PPF Financial Holdings B.V. and Emma Omega Ltd. PPF Financial Holdings B.V. is a subsidiary of PPF Group N.V. The ultimate controlling person of Home Credit Group B.V. 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
Ondřej Frydrych	Vice-chairman
Jean-Pascal Duvieusart	Member
Mel Gerard Carvill	Member
Jan Cornelis Jansen	Member
Rudolf Bosveld	Member
Paulus Aloysius de Reijke	Member
Marcel Marinus van Santen	Member

1. Description of the Group (continued)

Consolidated subsidiaries	Country of incorporation	Ownership interest (%) 31 Dec 2018	30 Sep 2017
Non-banking Credit and Financial Organization "Home Credit" (OJSC) [1]	Belarus	0.00	100.00
Asnova Insurance (CJSIC) [1]	Belarus	0.00	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. [2]	China	0.00	100.00
Redlione (LLC) [3]	Cyprus	100.00	100.00
Astavedo Limited [3]	Cyprus	100.00	100.00
Enadoco Limited [3]	Cyprus	100.00	100.00
Rhaskos Finance Limited [3]	Cyprus	100.00	100.00
Septus Holding Limited [3]	Cyprus	100.00	100.00
Sylander Capital Limited [3]	Cyprus	100.00	100.00
Talpa Estero Limited [3]	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
ABDE Holding s.r.o.	Czech Republic	100.00	-
Home Credit Egypt Trade S.A.E. [2]	Egypt	100.00	100.00
Innoble GmbH	Germany	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	-
PT. Home Credit Indonesia	Indonesia	85.00	85.00
Bank Home Credit SB JSC	Kazakhstan	100.00	100.00
Eurasia Capital S.A. [4]	Luxembourg	0.0	0.0
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
Home Credit B.V.	Netherlands	100.00	0.00
Eurasia Structured Finance No.3 B.V. [4]	Netherlands	0.00	0.00
Eurasia Structured Finance No.4 B.V. [4]	Netherlands	0.00	0.00
HC Consumer Finance Philippines, Inc.	Philippines	100.00	100.00
HCPH Financing 1, Inc.	Philippines	100.00	100.00
HCPH2 Financing, Inc.	Philippines	100.00	-
Filcommerce Holdings, Inc.	Philippines	100.00	100.00

[1] The investment was disposed in 2018.
[2] Subsidiary was liquidated in 2018.
[3] Subsidiary is in the process of liquidation.
[4] 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 Dec 2018	30 Sep 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/Forward leasing Limited Liability Company [5] (LLC)	Russian Federation	100.00	100.00
Home Credit Insurance (LLC)	Russian Federation	100.00	100.00
HC Finance (LLC) [4]	Russian Federation	0.00	0.00
Home Credit Slovakia (JSC)	Slovak Republic	100.00	100.00
Homer Software House (LLC) [6]	Ukraine	0.00	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

4) Special purpose entities established to facilitate the Group's issues of debt securities and subordinated liabilities.
5) Home Credit Online LLC was renamed to Forward leasing Limited Liability Company
6) The investment was disposed in 2018.

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 Dec 2018	30 Sep 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
NYMBUS, INC.[1]	Delaware	20.23	-
Eureka Analytics PTE. LTD.[1]	Singapore	26.70	-

1) Both investments exceeded 20% share in 2018

On 15 June 2018 both Home Credit B.V. and Home Credit International a.s. disposed their investments in Non-banking Credit and Financial Organization "Home Credit" (OJSC).

The following table summarizes the financial aspect of the transaction:

In MEUR	
Sale price	4
Net asset value disposed	(7)
Negative currency translation reserve (reclassified to income statement)	(5)
Net loss on sale	**(8)**

On 20 June 2018 Home Credit B.V. disposed its investment in Non-banking Credit and Financial Organization Home Credit OJSC and on 12 July 2018 disposed its investment in Homer Software House (LLC).

2. Basis of preparation

The consolidated financial statements for the period ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the “Group”).

Information relating to the periods ended 31 December 2018 and 30 September 2017 have been prepared and presented in accordance with the reverse acquisition principle discussed in Note 2(d).

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), including International Accounting Standards (IASs), promulgated by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB as adopted by the European Union and with Section 2:362(9) of the Netherlands Civil Code.

In line with Article 35 of Articles of Association – Transitional provision of incorporation documents of Home Credit Group B.V., the first financial year of Home Credit Group B.V. shall be for the fifteen-month period ended 31 December 2018. For this reason the comparative period for first accounts of Home Credit Group B.V. shall be for nine-month period ended 30 September 2017.

The Company has also prepared the unconsolidated financial statements for the fifteen-month period from 1 October 2017 to 31 December 2018, which have been prepared in accordance with IFRSs, including IASs, promulgated by the IASB and interpretations issued by the IFRIC of the IASB as adopted by the European Union.

This is the first set of the Group’s annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 3.

(b) Basis of measurement

These consolidated 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 consolidated 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.

2. Basis of preparation (continued)

(d) Changes in comparative numbers

Statement of Financial Position, Statement of Comprehensive Income and Statement of Cash Flows

For the consolidated financial statements of the Group, prepared under IFRS, the principle of reverse acquisition accounting under IFRS 3 “Business combinations” have been applied. In applying the principles of reverse acquisition accounting, the consolidated financial statements have been presented as a continuation of Home Credit B.V. and the Group is presented as if the Company had always owned the Group. The consolidated equity of the Group reflect the statutory share capital and share premium of the Company as if it had always exist, adjusted for movements in the underlying Home Credit B.V.

Home Credit Group B.V. was established on 20 September 2017 and, as such, these financial statement for the period ended 31 December 2018 are its first set of statutory accounts.

Statement of Changes in Equity

Changes in equity were recorded under the line “Transfer due to reverse acquisition”.

Comparative numbers from preceding period are presented as if Home Credit B.V. was already a subsidiary of the Group as at 1 October 2017.

Segment reporting

The Group has changed segment allocation for respective subsidiaries in 2018 to better depict the current operations of those subsidiaries within the Group’s operations. Segment reporting balances as at 30 September 2017 were restated accordingly.

(e) Use of estimates and judgments

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

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

The areas where estimates and judgments have the most significant impact are recognition of deferred tax asset and measurement of impairment. In particular, information about significant areas of 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(t), Note 11 and Note 17.

3. Significant accounting policies

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

(a) Changes in accounting policies from 1 October 2017

The Group has initially adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 October 2017.

A number of other new standards are also effective from 1 October 2017 but they do not have a material effect on the Group's financial statements.

Due to transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect this requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 3(a)(iii)) ; and
- additional disclosures related to IFRS 9 (see Note 4(a)).

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

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

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts. IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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. 1 October 2017). As a result, the Group did not apply the requirements of IFRS 15 to the comparative period presented. The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group when compared with IAS 18. Accordingly, the impact on retained earnings on the adoption of IFRS 15 at 1 January 2018 was nil.

IFRS 9 Financial Instruments (effective from 1 January 2018)

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

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 October 2017, 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.

The Group has also adopted the new requirements of IFRS 9 for hedge accounting.

3. Significant accounting policies (continued)

As for transition, the following assessment have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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.

Consequently, for notes disclosures, the consequential amendments to *IFRS 7 Financial Instruments: Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below and in Note 3(e).

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. 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.

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.

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.

Other reserves	**MEUR**
Recognition of expected credit losses under IFRS 9	(216)
Related tax	53
Impact at 1 October 2017	**(163)**

3. Significant accounting policies (continued)

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 October 2017 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)	2,815	Amortised cost	2,815
Positive fair value of derivative instruments	FVTPL (held for trading)	20	FVTPL (mandatory)	19
Due from banks, other financial institutions and holding companies	Amortised cost (L&R)	625	Amortised cost	624
Loans to customers	Amortised cost (L&R)	13,888	Amortised cost	13,673
Debt securities	FVOCI (AFS)	1,201	FVOCI (debt instruments)	419
			FVTPL (mandatory)	-
			Amortized cost	782
Equity securities	FVOCI (AFS)	10	FVOCI (equity instruments)	10
Trade receivables	Amortised cost (L&R)	56	Amortised cost	56
Accrued income	Amortised cost (L&R)	6	Amortised cost	6

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 October 2017:

MEUR	IAS 39 carrying amount at 30 September 2017	Reclassification	Remeasurement: change of classification	Remeasurement: change of ECL[4]	IFRS 9 carrying amount at 1 October 2017
Financial assets					
Amortised cost					
Cash and cash equivalents:					
Opening balance under IAS 39	2,815	-	-	-	
Closing balance under IFRS 9	-	-	-	-	2,815
Investment securities at amortised cost:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "available-for-sale" (IAS 39)	-	782	-	-	-
Closing balance under IFRS 9	-	-	-	-	782
Loans and receivables due from banks, other financial institutions and holding companies					
Opening balance under IAS 39	625	-	-	-	-
Remeasurement: ECL allowance	-	-	-	(1)	-
Closing balance under IFRS 9	-	-	-	-	624
Loans to customers:					
Opening balance under IAS 39	13,888	-	-	-	-
Remeasurement: ECL allowance	-	-	-	(215)	-
Closing balance under IFRS 9	-	-	-	-	13,673
Trade receivables:					
Opening balance under IAS 39	56	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	56
Accrued income:					
Opening balance under IAS 39	6	-	-	-	-
Remeasurement: ECL allowance	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	6
Total financial assets measured at amortised cost	**17,390**	**782**	**-**	**(216)**	**17,956**

[4] ECL = Expected Credit Loss

3. Significant accounting policies (continued)

MEUR	IAS 39 carrying amount at 30 September 2017	Reclassification	Remeasurement: change of classification	Remeasurement: change of ECL	IFRS 9 carrying amount at 1 October 2017
Fair value through other comprehensive income (FVOCI)					
Available-for-sale					
Opening balance under IAS 39	1,211	-	-	-	-
Subtraction: To FVOCI (IFRS 9)	-	(429)	-	-	-
Subtraction: To FVTPL mandatorily (IFRS 9)	-	-	-	-	-
Subtraction: To “Investment securities at amortised cost” category (IFRS 9)	-	(782)	-	-	-
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)	-	419	-	-	-
Closing balance under IFRS 9	-	-	-	-	419
FVOCI (equity instruments)					
Equity securities:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From “Financial assets available-for-sale” (IAS 39)	-	10	-	-	-
Closing balance under IFRS 9	-	-	-	-	10
Total financial assets measured at FVOCI	**1,211**	**(782)**	**-**	**-**	**429**
Fair value through profit and loss and hedging (FVTPL)					
FVTPL (trading)					
Opening balance under IAS 39	20	-	-	-	-
Addition: From “Financial assets available-for-sale” (IAS 39)	-	(1)	-	-	-
Closing balance under IFRS 9	-	-	-	-	19
Total financial assets measured at FVTPL	**20**	**(1)**	**-**	**-**	**19**

3. Significant accounting policies (continued)

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

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

(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 October 2017:

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	(1,119)	-	(215)	(1,334)
Loans to customers - individual impairment	(10)	-	-	(10)
Trade receivables	-	-	-	-
Accrued income	-	-	-	-
Subtotal	**(1,129)**	**-**	**(216)**	**(1,345)**
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	**(1,129)**	**-**	**(216)**	**(1,345)**

3. Significant accounting policies (continued)

(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.

(ii) Non-controlling interests

Non-controlling interest (NCI) is the portion of equity ownership in a subsidiary not attributable to the Group.

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.

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

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

(iii) 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.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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.

3. Significant accounting policies (continued)

(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 translated into 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 translated into 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 translated 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).

(ii) Financial information of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to EUR at the exchange rates ruling at the reporting date. The 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.

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.

3. Significant accounting policies (continued)

(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 settlement date accounting.

(ii) Classification and measurement

Policy applicable from 1 October 2017

Financial assets

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

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

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

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

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

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

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

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

A financial asset is classified into one of these categories on initial recognition. See 3(a)(i) 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.

For more details on caption "Loans and receivables" refer to Note 3(f).

3. Significant accounting policies (continued)

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 income, 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.

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

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

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.
A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents 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.

3. Significant accounting policies (continued)

Financial liabilities

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

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Policy applicable before 1 October 2017 - classification

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

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

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

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

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

Policy applicable before 1 January 2018 – measurement

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

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

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

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 from 1 October 2017

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' model (hereafter "ECL"). 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.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- loans and receivables due from banks, other financial institutions and holding companies;
- loans to customers;
- trade receivables and accrued income;
- cash and cash equivalents;
- debt instruments at FVOCI; 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. The Group measures loss allowance at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECLs are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments".

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments".

Credit-impaired financial assets

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

The Group also considers other events which can trigger detrimental impact on the estimated future cash flows of the financial asset resulting in credit-impaired classification. Examples of these events are:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Measurement of ECLs

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

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

Inputs into measurement of ECLs

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

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

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

For 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.

3. Significant accounting policies (continued)

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;
- date of 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.

Forward-looking information

Under IFRS 9, the Group incorporates forward-looking information (hereafter "FLI") based on both external and internal sources into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – also 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, commercial sources (such as Bloomberg or Thomas Reuters), and selected private sector and academic forecasters. Internal information then consists of both portfolio and vintage risk parameters and calibrated clients scoring models and functions.

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 external drivers may include variables such as interest rates, unemployment rates, inflation rates, GDP growth rates, FX rates and other macroeconomic variables and their forecasts.

As at 31 December 2018 the Group has estimated the overall impact of FLI macro model incorporation into ECL calculation process and the calculated result was reflected in the Consolidated financial Statements.

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 material 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.

3. Significant accounting policies (continued)

Write-off

Loans and debt securities are generally written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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.

Group's internal credit risk grades

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

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

Determining whether credit risk has 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.

3. Significant accounting policies (continued)

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 PD is determined to have increased – since initial recognition – more than is defined for the respective risk grade.

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

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

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

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

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

3. Significant accounting policies (continued)

Policy applicable before 1 October 2017

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.

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.

A loan shall be written off if there is any instalment overdue for more than 180/360/720 days (predefined for each entity). However, the loan shall remain in the company's balance sheet 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.

3. Significant accounting policies (continued)

(vii) Derecognition

Financial assets

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

– the contractual rights to the cash flows from the financial asset expire, or
– the Group transfers substantially all of the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

Financial liabilities

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in the profit or loss.

(viii) Offsetting

Financial assets and liabilities are offset 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 from 1 October 2017

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 an 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 October 2017

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 an 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.

There was no material impact resulting from the change of the policy.

(f) Loans and receivables

The "Loans to customers" and "Due from banks, other financial institutions and holding companies" captions in the statement of financial position include:

- Loans and advances measured at amortised cost; they are initially measured at fair value plus incremental transaction costs, and subsequently at their amortised cost using the effective interest method;
- Loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

(g) Investment securities at amortized cost

Policy applicable from 1 October 2017

The "investment securities" caption in the statement of financial position includes debt securities measured at amortized costs; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Policy applicable before 1 October 2017

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

(h) Intangible assets and goodwill

(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(j)).

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

3. Significant accounting policies (continued)

(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(j)).

(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 period, 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

(i) 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(j)). 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.

(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(j)).

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

3. Significant accounting policies (continued)

(j) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested for impairment at each reporting date.

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

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

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

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

(k) 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.

3. Significant accounting policies (continued)

(l) 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.

(m) 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.

(n) 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.

(o) Equity

Share capital represents the nominal value of shares issued by the Company.

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.

3. Significant accounting policies (continued)

Reserve for business combinations under common control arise in the moment when the Group acquires subsidiary from entity ultimately controlled by the same party. The amount of the reserve is the difference between consideration paid for acquisition and net assets acquired.

(p) Interest income and expense

Policy applicable from 1 October 2017

Effective interest rate

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not Expected Credit Loss (hereafter "ECL"). For purchased or originated credit-impaired financial assets, a credit adjustment effective interest rate is calculated using estimated future cash flows including ECL.

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

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method orf any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 October 2017).

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjustment for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustments begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

3. Significant accounting policies (continued)

(q) 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.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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.

(r) Late payment fee

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

(s) 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.

(t) 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.

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.

3. Significant accounting policies (continued)

(u) Taxation

Income tax on the profit or loss for the period 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 period, 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 recognised in respect of 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 recognised 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.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(v) 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.

3. Significant accounting policies (continued)

(w) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Group's other components, whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and asses its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and asses its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's Chief Executive Officer and the Executive Committee (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Other items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses and tax assets and liabilities.

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

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 December 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.

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

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

Applying IFRS 16, a lessee will:

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

The Group assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 16. Based on the information currently available, the Group estimates that it will recognize additional lease liabilities in the range of MEUR 150-180 in the Group's financial statements as at 1 January 2019.

3. Significant accounting policies (continued)

IFRS 17 Insurance Contracts (adopted from 1 January 2021)

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to held reinsurance contracts and issued investment contracts with discretionary participation features. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of the Consolidated 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 Group.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17. Given the nature of the Group's operations, this standard is not expected to have significant impact on the Consolidated Financial Statements.

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

The amendments to IFRS 3 Business Combinations narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

These amendments are not expected to have a significant impact on the Consolidated Special Purpose Financial.

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 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.

3. Significant accounting policies (continued)

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.

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

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

This interpretation has been adopted by the EU.

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

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

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

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

These amendments have not yet been adopted by the EU.

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

4. Financial risk management

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

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

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

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

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

(a) Credit risk

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

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

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

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

4. Financial risk management (continued)

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

Credit underwriting process

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

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

Fraud risk management prevention

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

General loan collection

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

Pre-collections

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

Early collection

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

Administrative and personal collection

The Group sends 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 sale

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

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized.

Loans to customers – retail

The Company does not use internal rating grades for segmentation of its retail portfolio. Instead it uses different measures which will help to categorize the portfolio – the main tool being days past due structure. The Company also uses other measures such as scoring against the benchmark which helps to identify staging as well as significant increase in credit risk categorization.

The table below shows the maximum exposure to credit risk based on the Company's period-end stage classification. The amounts presented are gross of impairment allowances.

	As of 31 December 2018				
Loans to customers – retail	**Cash loans** MEUR	**POS loans** MEUR	**Revolving loans** MEUR	**Other** [1] MEUR	**Total MEUR**
Collective ECL					
Gross amount - Stage 1	11,019	4,391	463	284	**16,157**
Gross amount - Stage 2	1,312	220	75	35	**1,642**
Gross amount - Stage 3 (LT ECL)	1,167	389	57	25	**1,638**
Past due more than 90 days	1,165	389	57	25	**1,636**
Other reason	2	-	-	-	**2**
Purchased credit-impaired	-	-	-	-	**-**
Allowance for impairment – Stage 1 (12M ECL)	(393)	(98)	(11)	(2)	**(504)**
Allowance for impairment – Stage 2 (LT ECL)	(303)	(53)	(5)	(1)	**(362)**
Allowance for impairment – Stage 3 (LT ECL)	(864)	(290)	(50)	(23)	**(1,227)**
Purchased credit-impaired	-	-	-	-	**-**
Carrying amount	**11,938**	**4,559**	**529**	**318**	**17,344**

ECL allowances for retail loans to customers (consumer lending) are calculated on a collective basis.

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

4. Financial risk management (continued)

The table below shows an analysis of changes in the ECL allowances in relation to Loans to customers – retail between the beginning and the end of the period.

In MEUR

Loss allowance – Loans to customers - retail	Stage 1 12m ECL	Stage 2 LT ECL	Stage 3 LT ECL	POCI[5]	Total
Loss allowance as at 1 October 2017 (under IFRS 9)	**(447)**	**(204)**	**(683)**	**-**	**(1,334)**
Changes in the loss allowance	46	(69)	(603)	-	(626)
Transfer to stage 1	-	1	-	-	1
Transfer to stage 2	14	(93)	-	-	(79)
Transfer to stage 3	32	23	(603)	-	(548)
New originated or purchased	(431)	(240)	(471)	-	(1,142)
Net remeasurement	43	(18)	(36)	-	(11)
Financial assets derecognised	254	58	65	-	377
Write-offs	24	105	483	-	612
Modification of contractual cash-flows	-	-	-	-	-
FX and other movements	7	6	18	-	31
Net change during the period	**(57)**	**(158)**	**(544)**	-	**(759)**
Loss allowance as at 31 December 2018	**(504)**	**(362)**	**(1,227)**	-	**(2,093)**

Loans to customers – non-retail (loans to corporations)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and period-end stage classification. Details of the Group's internal credit risk grades' system are explained in Note 3(e)(vi). The amounts presented are gross of impairment allowances.

In MEUR

	31 December 2018					30 September 2017
Loans to customers – non-retail (corporations)	**Stage 1 12-months ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI**	**Total**	**Total**
Very low risk	4	-	-	-	**4**	**4**
Low risk	1	-	-	-	**1**	**-**
Medium risk	114	-	-	-	**114**	**205**
High Risk	-	-	-	-	**-**	**1**
Default	-	-	14	-	**14**	**-**
Total gross carrying amount	**119**	-	**14**	-	**133**	**210**
Loss allowance	(1)	-	(14)	-	**(15)**	**(10)**
Carrying amount	**118**	-	-	-	**118**	**200**

ECL allowances for non-retail loans to customers, which represent loans to corporations, are calculated on an individual basis.

[5] POCI = purchased or originated credit-impaired financial assets

4. Financial risk management (continued)

The table below shows an analysis of changes in the ECL allowances in relation to Loans to customers – non-retail (corporations) between the beginning and the end of the period:

In MEUR

Loss allowance - Loans to customers - non- retail (corporations)	**Stage 1 12m ECL**	**Stage 2 LT ECL**	**Stage 3 LT ECL**	**POCI**	**Total**
Loss allowance as at 1 October 2017 (under IFRS 9)	**-**	**-**	**(10)**	**-**	**(10)**
Changes in the loss allowance	-	-	-	-	-
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
New originated or purchased	-	-	-	-	-
Net remeasurement	-	-	(6)	-	(6)
Financial assets derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Modification of contractual cash-flows	-	-	-	-	-
FX and other movements	-	-	1	-	1
Net change during the period	**-**	**-**	**(5)**	**-**	**(5)**
Loss allowance as at 31 December 2018	**-**	**-**	**(15)**	**-**	**(15)**

An analysis of the maximum exposure to credit risk under IAS 39 for loans to customers – both retail and non-retail, for the period to 30 September 2017 is, as follows:

Exposure to credit risk

	As of 30 September 2017				
	Cash loans	**POS loans**	**Revolving loans**	**Other [1]**	**Total**
	MEUR	**MEUR**	**MEUR**	**MEUR**	**MEUR**
Individually assessed					
Gross amount	-	-	-	43	43
Allowance for impairment	-	-	-	(10)	(10)
Carrying amount	**-**	**-**	**-**	**33**	**33**
Not impaired	**-**	**-**	**-**	**170**	**170**
Collectively assessed					
Gross amount	8,482	5,554	524	244	14,804
Not past due	7,621	5,040	418	207	13,286
Past due 1 – 90 days	370	202	43	9	624
Past due 91 – 360 days	417	284	33	5	739
Past due more than 360 days	74	28	30	23	155
Allowance for impairment	(658)	(366)	(67)	(28)	(1,119)
Carrying amount	**7,824**	**5,188**	**457**	**216**	**13,685**
Total carrying amount	**7,824**	**5,188**	**457**	**419**	**13,888**

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

4. Financial risk management (continued)

Due from banks, other financial institutions and holding companies

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and period-end stage classification. Details of the Group's internal credit risk grades' system are explained in Note 3(e)(vi). The amounts presented are gross of impairment allowances.

In MEUR

	31 December 2018					30 September 2017
Due from banks, other financial institutions and holding companies	**Stage 1 12-months ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI**	**Total**	**Total**
Very low risk	72	-	-	-	**72**	**46**
Low risk	129	-	-	-	**129**	**324**
Medium risk	113	-	-	-	**113**	**255**
High Risk	-	-	-	-	**-**	**-**
Default	-	-	-	-	**-**	**-**
Total gross carrying amount	**314**	**-**	**-**	**-**	**314**	**625**
Loss allowance	-	-	-	-	-	-
Carrying amount	**314**	**-**	**-**	**-**	**314**	**625**

ECL allowances for Due from banks, other financial institutions and holding companies are calculated on an individual basis.

The table below shows an analysis of changes in the ECL allowances in relation to Due from banks, other financial institutions and holding companies between the beginning and the end of the period:

In MEUR

Loss allowance - Due from banks, other financial institutions and holding companies	**Stage 1 12m ECL**	**Stage 2 LT ECL**	**Stage 3 LT ECL**	**POCI**	**Total**
Loss allowance as at 1 October 2017	(1)	-	-	-	(1)
Changes in the loss allowance	-	-	-	-	-
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
New originated or purchased	-	-	-	-	-
Net remeasurement	-	-	-	-	-
Financial assets derecognised	1	-	-	-	1
Write-offs	-	-	-	-	-
Modification of contractual cash-flows	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change during the period	**1**	**-**	**-**	**-**	**1**
Loss allowance as at 31 December 2018	-	-	-	-	-

4. Financial risk management (continued)

Investment securities at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and period-end stages classification. Details of the Group's internal credit risk grades' system are explained in Note 3(e)(vi). The amounts presented are gross of impairment allowances.

In MEUR

	31 December 2018					30 September 2017
Investments securities at amortised costs	**Stage 1 12-months ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI**	**Total**	**Total**
Very low risk	761	-	-	-	**761**	-
Low risk	-	-	-	-	-	-
Medium risk	-	-	-	-	-	-
High Risk	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total gross carrying amount	**761**	-	-	-	**761**	**-**
Loss allowance	-	-	-	-	-	-
Carrying amount	**761**	-	-	-	**761**	**-**

ECL allowances for investment securities at amortised cost are calculated on an individual basis.

An analysis of the changes in the corresponding ECL allowances in relation to Investment securities at amortised costs, as follows:

In MEUR

Loss allowance Investments securities at amortised cost	**Stage 1 12m ECL**	**Stage 2 LT ECL**	**Stage 3 LT ECL**	**POCI**	**Total**
Loss allowance as at 1 October 2017	-	-	-	-	-
Changes in the loss allowance	-	-	-	-	-
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
New originated or purchased	-	-	-	-	-
Net remeasurement	-	-	-	-	-
Financial assets derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Modification of contractual cash-flows	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change during the period	-	-	-	-	-
Loss allowance as at 31 December 2018	-	-	-	-	-

4. Financial risk management (continued)

Financial assets at FVOCI (debt instruments)

The table below shows the fair value of the Group's debt instruments at FVOCI by credit risk, based on the Group's internal rating system and period-end stage classification. Details of the Group's internal credit risk grades' system are explained in Note 3(e)(vi).

In MEUR

	31 December 2018					30 September 2017
Debt instruments at FVOCI	**Stage 1 12-months ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI**	**Total**	**Total**
Very low risk	22	-	-	-	**22**	**799**
Low risk	408	-	-	-	**408**	**213**
Medium risk	28	-	-	-	**28**	**189**
High Risk	-	4	-	-	**4**	**-**
Default	-	-	-	-	**-**	**-**
Total gross carrying amount (fair value)	**458**	**4**	**-**	**-**	**462**	**1,201**
Loss allowance	**-**	**(1)**	**-**	**-**	**(1)**	**-**
Carrying amount	**458**	**3**	**-**	**-**	**461**	**1,201**

ECL allowances for debt instruments at FVOCI are calculated on an individual basis.

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

In MEUR

Loss allowance – debt instruments at FVOCI	**Stage 1 12m ECL**	**Stage 2 LT ECL**	**Stage 3 LT ECL**	**POCI**	**Total**
Loss allowance as at 1 October 2017	**-**	**-**	**-**	**-**	**-**
Changes in the loss allowance	-	-	-	-	-
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
New originated or purchased	-	(1)	-	-	(1)
Net remeasurement	-	-	-	-	-
Financial assets derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Modification of contractual cash-flows	-	-	-	-	-
FX and other movements	-	-	-	-	-
Net change during the period	**-**	**(1)**	**-**	**-**	**(1)**
Loss allowance as at 31 December 2018	**-**	**(1)**	**-**	**-**	**(1)**

4. Financial risk management (continued)

Credit quality analysis as at 30 September 2017 (IAS 39):

The table below shows gross balances under IAS 39 as at 30 September 2017 based on the Group's internal credit rating system:

In millions of EUR

30 September 2017	Very low risk	Low risk	Medium risk	High risk	Default	**Total**
Financial assets held-to-maturity	-	-	-	-	-	-
Financial assets available-for-sale	799	213	189	-	-	1,201
Debt securities	*799*	*213*	*189*	-	-	*1,201*
Loans and receivables	-	-	-	-	-	-
Total	**799**	**213**	**189**	-	-	**1,201**

Details of the Group's internal credit risk grades' system are explained in Note 3(e)(vi).

Impairment allowance as at 30 September 2017 (IAS 39)

An analysis of the allowance for impairment losses under IAS 39 for investment securities is, as follows:

In millions of EUR

	Financial assets held-to-maturity	Financial assets AFS – debt instruments	Financial assets AFS – equity instruments
Balance as at 1 January 2017	-	-	-
Deconsolidation	-	-	-
Effect of movements in exchange rates	-	-	-
Balance as at 30 September 2017	**-**	**-**	**-**

Trade and other receivables

The following table provides information about trade and other receivables as at 31 December 2018 and 30 September 2017.

In MEUR

	31 Dec 2018	30 Sep 2017
Gross amount	67	62
Trade receivables	58	56
Accrued income	9	6
Individual impairment	(1)	-
Total carrying amount	**66**	**62**

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 December 2018		30 September 2017	
	Portfolio MEUR	% of loan portfolio	Portfolio MEUR	% of loan portfolio
Cash and cash equivalents excluding item "cash in hand"	3,212	13.7	2,734	14.3
Financial assets at fair value through profit or loss	21	0.1	20	0.1
Financial assets at fair value through other comprehensive income	461	2.0	-	-
Financial assets available-for-sale	-	-	1,201	6.3
Due from banks, other financial institutions and holding companies	314	1.3	625	3.3
Investment securities at amortized costs	761	3.3	-	-
Loans to customers	17,462	74.7	13,888	72.8
Other financial assets	336	1.4	138	0.7
Subtotal of balances from Statements of Financial Position	**22,567**	**96.5**	**18,606**	**97.5**
Loan commitments	814	3.5	468	2.5
Subtotal of off-balance sheet balances	**814**	**3.5**	**468**	**2.5**
Total	**23,381**		**19,074**	

Concentration of credit risk

A concentration of credit risk arises as a result of the existence of loans with similar economic characteristics affecting the debtor's ability to meet its obligations.
The following table shows the economic and geographic concentration of credit risk:

In MEUR

	31 December 2018	31 December 2018	30 September 2017	30 September 2017
Economic concentration				
Households/individuals	17,080	85.6%	13,623	83.8%
Financial services	1,501	7.5%	1,640	10.1%
Public sector	835	4.2%	828	5.1%
Corporate sector	43	0.2%	132	0.8%
Construction and real estate	72	0.4%	33	0.2%
Other	418	2.1%	7	0.0%
Total	**19,949**	**100%**	**16,263**	**100%**
Geographic concentration				
China	10,973	55.0%	8,743	53.8%
Russia	3,445	17.3%	3,295	20.3%
Czech Republic	2,252	11.3%	1,991	12.2%
Vietnam	698	3.5%	536	3.3%
Kazakhstan	683	3.4%	446	2.7%
Other EU countries	63	0.3%	201	1.2%
Slovakia	239	1.2%	270	1.7%
Cyprus	74	0.4%	81	0.5%
Netherlands	18	0.1%	10	0.1%
Other	1,504	7.5%	690	4.2%
Total	**19,949**	**100%**	**16,263**	**100%**

4. Financial risk management (continued)

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

Analysis of collateral

The following table provides an analysis of gross loan portfolio by types of collateral as at 31 December 2018 and 30 September 2017:

	31 December 2018		30 September 2017	
	Portfolio MEUR	**% of loan portfolio**	**Portfolio MEUR**	**% of loan portfolio**
Secured assets	455	2.3	345	2.3
Unsecured (no collateral)	19,115	97.7	14,672	97.7
Total	**19,570**		**15,017**	

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.

	Loans and receivables due from banks 31 Dec 2018 MEUR	Loans to customers 31 Dec 2018 MEUR
Against loans and receivables in Stage 3 – individually impaired	**-**	**43**
Equity securities	-	43
Against loans and receivables in Stage 3 – collectively impaired	**-**	**17**
Property and equipment	-	17
Against loans and receivables in Stage 1 and Stage 2	**1,717**	**703**
Securities received under reverse repo operations (including cash and cash equivalents)	1,545	-
Property and equipment	-	673
Equity securities	172	26
Deposits with banks	-	4
Total	**1,717**	**763**

4. Financial risk management (continued)

Collateral received for loans and advances

	Loans and receivables due from banks 30 Sep 2017 MEUR	Loans to customers 30 Sep 2017 MEUR
Against individually impaired	**-**	**100**
Property and equipment	-	82
Equity securities	-	18
Against collectively impaired	**-**	**169**
Property and equipment	-	169
Against neither past due nor impaired	**501**	**329**
Securities received under reverse repo operations (including cash and cash equivalents)	394	
Property and equipment	-	325
Equity securities	107	-
Deposits with banks	-	4
Total	**501**	**598**

Offsetting financial assets and financial liabilities

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

International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position. Therefore, as at 31 December 2018 the reported balances of positive and negative fair values of trading derivatives of MEUR 12 (30 September 2017: MEUR 15) and MEUR 21 (30 September 2017: MEUR 11) respectively do not include any amounts offset.

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

Global Master Repurchase Agreements and similar agreements do not meet the criteria for offsetting in the consolidated statement of financial position. Therefore, as at 31 December 2018 the reported balances of loans and advances provided under repo operations of MEUR 64 (30 September 2017: MEUR 373) did not include any amounts offset. The remaining balance of due from banks, other financial institutions and holding companies of MEUR 250 (30 September 2017: MEUR 252) was not subject to any offsetting arrangements.

As at 31 December 2018 the reported balances of loans received under repo operations of MEUR 31 (30 September 2017: MEUR 16) did not include any amounts offset. The remaining balance of due to banks, other financial institutions and holding companies of MEUR 11,935 (30 September 2017: MEUR 9,360) was not subject to any offsetting arrangements.

4. Financial risk management (continued)

(b) Liquidity risk

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

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

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

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, bank loans, loans from central banks, debt securities, intercompany loans, subordinated debt and contributions by shareholders (refer to Notes 20, 21, 22, 23 and 26). 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 39 for outstanding loan commitments that may impact liquidity requirements.

	31 December 2018					30 September 2017				
	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	More than 5 years	Total
Cash and cash equivalents	3,362	-	-	-	3,362	2,814	1	-	-	2,815
Financial assets at fair value through profit or loss	2	7	7	5	21	4	4	7	5	20
Financial assets available-for-sale	-	-	-	-	-	103	241	113	754	1,211
Financial assets at FVOCI	394	28	38	2	462	-	-	-	-	-
Due from banks, other financial institutions and holding companies	146	147	17	4	314	425	29	146	25	625
Loans to customers	4,570	5,170	7,561	161	17,462	3,853	4,910	4,992	133	13,888
Investment securities at amortized cost	-	60	395	306	761	-	-	-	-	-
Other financial assets	141	2	54	-	197	99	1	38	-	138
Total financial assets	**8,615**	**5,414**	**8,072**	**478**	**22,579**	**7,298**	**5,186**	**5,296**	**917**	**18,697**
Financial liabilities at fair value through profit or loss	2	14	5	-	21	3	300	4	-	307
Current accounts and deposits from customers	5,505	1,115	156	-	6,776	4,147	1,178	645	76	6,046
Due to banks, other financial institutions and holding companies	2,555	6,880	2,527	4	11,966	2,233	4,795	2,341	7	9,376
Debt securities issued*	173	1,011	611	-	1,795	250	324	365	-	939
Subordinated liabilities*	-	142	7	50	199	15	335	-	50	400
Other financial liabilities	386	85	-	-	471	357	79	-	-	436
Total financial liabilities	**8,621**	**9,247**	**3,306**	**54**	**21,228**	**7,005**	**7,011**	**3,355**	**133**	**17,504**
Net position	**(6)**	**(3,833)**	**4,766**	**424**	**1,351**	**293**	**(1,825)**	**1,941**	**784**	**1,193**

* Debt securities and subordinated liabilities are classified considering early redemption rights (refer to Note 22 and Note 23).

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.

MEUR	31 December 2018					30 September 2017				
	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	More than 5 years	Total
Current accounts and deposits from customers	5,518	1,162	169	-	6,849	4,158	1,238	700	76	6,172
Due to banks, other financial institutions and holding companies	2,818	7,387	2,725	5	12,935	2,456	5,213	2,544	7	10,220
Debt securities issued*	197	1,090	682	-	1,969	261	358	410	-	1,029
Subordinated liabilities*	-	147	18	54	219	17	352	27	53	449
Total	**8,533**	**9,786**	**3,594**	**59**	**21,972**	**6,892**	**7,161**	**3,681**	**136**	**17,870**

* Debt securities and subordinated liabilities are classified considering early redemption rights (refer to Note 22 and Note 23).

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 fifteen-month period ended 31 December 2018 would be MEUR 201 higher/lower (30 September 2017: MEUR 91) and the revaluation reserve in equity would be MEUR 6 higher/lower (30 September 2017: MEUR 22).

4. Financial risk management (continued)

Interest rate gap position based on re-pricing dates

MEUR	31 December 2018						30 September 2017					
	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	1.5%	3,362	-	-	-	3,362	0.9%	2,814	1	-	-	2,815
Financial assets available-for-sale	-	-	-	-	-	-	3.2%	143	650	113	295	1,201
Financial assets at FVOCI	7.6%	394	28	37	2	461	-	-	-	-	-	-
Due from banks, other financial institutions and holding companies	3.6%	168	125	17	4	314	4.4%	429	59	112	25	625
Loans to customers, net	31.1%	4,579	5,216	7,606	61	17,462	31.3%	3,881	4,950	4,996	61	13,888
Investment securities at amortized cost	1.0%	-	494	-	267	761	-	-	-	-	-	-
Total interest bearing financial assets	**n/a**	**8,503**	**5,863**	**7,660**	**334**	**22,360**	**n/a**	**7,267**	**5,660**	**5,221**	**381**	**18,529**
Interest bearing financial liabilities												
Current accounts and deposits from customers	3.5%	5,505	1,115	156	-	6,776	4.1%	4,147	1,178	645	76	6,046
Due to banks, other financial institutions and holding companies	9.2%	3,209	6,230	2,527	-	11,966	9.0%	2,886	4,795	1,695	-	9,376
Debt securities issued	11.0%	173	1,011	611	-	1,795	9.7%	250	324	365	-	939
Subordinated liabilities	9.3%	-	141	7	51	199	9.7%	15	335	-	50	400
Total interest bearing financial liabilities	**n/a**	**8,887**	**8,497**	**3,301**	**51**	**20,736**	**n/a**	**7,298**	**6,632**	**2,705**	**126**	**16,761**
Net position	**n/a**	**(384)**	**(2,634)**	**4,359**	**283**	**1,624**	**n/a**	**(31)**	**(972)**	**2,516**	**255**	**1,768**

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 38). The ALCO is the monitoring body for compliance with this rule.

Net investments in foreign operations are not hedged. As a result, the Group's financial position is adequately sensitive 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 December 2018

In MEUR	EUR	USD	CNY	RUB	CZK	KZT	INR	VND	Other
Financial assets	395	393	-	-	10	-	312	-	588
Financial liabilities	229	739	-	38	125	-	156	-	361
Effect of FX derivatives	(197)	348	-	38	109	-	(166)	-	(50)
Net FX position	**(31)**	**2**	**-**	**-**	**(6)**	**-**	**(10)**	**-**	**n/a**
Effect of 5% depreciation against EUR	n/a	-	-	-	-	-	(1)	-	n/a
Net investment in foreign operations	**(972)**	**23**	**1,462**	**645**	**471**	**146**	**260**	**147**	**(28)**
Effect of 5% appreciation against EUR	n/a	1	73	32	24	7	13	7	n/a
Effect of 5% depreciation against EUR	n/a	(1)	(73)	(32)	(24)	(7)	(13)	(7)	n/a

30 September 2017

In MEUR	EUR	USD	CNY	RUB	CZK	KZT	INR[1]	VND	Other
Financial assets	370	561	295	-	87	-	n/a	-	539
Financial liabilities	104	562	589	16	200	-	n/a	-	289
Effect of FX derivatives	(274)	5	294	16	130	-	n/a	-	(243)
Net FX position	**(8)**	**4**	**-**	**-**	**17**	**-**	**n/a**	**-**	**n/a**
Effect of 5% depreciation against EUR	n/a	-	-	-	1	-	-	-	n/a
Net investment in foreign operations	**(1,110)**	**6**	**1,486**	**630**	**259**	**112**	**102**	**137**	**121**
Effect of 5% appreciation against EUR	n/a	-	74	32	13	6	5	7	n/a
Effect of 5% depreciation against EUR	n/a	-	(74)	(32)	(13)	(6)	(5)	(7)	n/a

[1] INR was part of other currencies as of 30 September 2017.

4. Financial risk management (continued)

(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 period. However, the Company is included in a regulated group of 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.

Operating segments

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

The Group newly reports on one global consumer lending segment where all information about similar products, services, and customers is presented. This approach suits the global business strategy of having a similar approach to customers, a unique and unified product portfolio, as well as centralized processes that drive operational excellence.

Operating segments are reported in a manner consistent with the internal reporting provided to the key operating decision-maker. The senior management team represented by the chief executive officer is our key operating decision-maker.

An operating segment is a component of our Group which satisfies all of the following conditions:

(1) that component can earn revenues and incur expenses from ordinary activities;
(2) the component's operating results are regularly reviewed by the key operating decision-maker to make decisions about resource allocation and performance assessment;
(3) relevant financial information is available to us.

The group reports one Global Consumer Lending segment where all information about similar product, services and customers are presented. This approach suites to global business strategy having similar approach to customers, unique and unified products scale and centralized processes that drives operational excellence.

Segment Other includes servicing and holding operations of the Group.

Financial information

Intra-segment revenue and costs are eliminated. Income and expenses directly associated with each segment are taken into consideration in determining segment performance. The classification of reporting segments is determined based on the operating segments, and the assets and expenses shared by all the segments are allocated according to their scale.

Information about geographical areas are presented separately and took into consideration such aspects as the similarity of the licensing mechanism, the macroeconomics criteria of the grouped areas as well as the current life span of the individual countries where the Group operates.

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

5. Segment reporting (continued)

	Consumer Lending	Other	Eliminations	Consolidated
	For the fifteen months ended 31 December,			
	2018	2018	2018	2018
	MEUR	MEUR	MEUR	MEUR
Operating income from external customers	**4,948**	**(59)**	**-**	**4,889**
China	*3,166*	-	-	*3,166*
CIS	*731*	-	-	*731*
SSEA	*837*	-	-	*837*
CEE	*214*	-	-	*214*
Other	-	*(59)*	-	*(59)*
Inter-segment operating income	**(2)**	**145**	**(143)**	**-**
China	-	-	-	-
CIS	-	-	-	-
SSEA	*(3)*	-	*3*	-
CEE	*1*	-	*(1)*	-
Other	-	*145*	*(145)*	-
Total operating income	**4,946**	**86**	**(143)**	**4,889**
Net interest income from external customers	**4,035**	**(91)**	**-**	**3,944**
China	*2,533*	-	-	*2,533*
CIS	*613*	-	-	*613*
SSEA	*677*	-	-	*677*
CEE	*212*	-	-	*212*
Other	-	*(91)*	-	*(91)*
Inter-segment net interest income	**(3)**	**(1)**	**4**	**-**
China	-	-	-	-
CIS	-	-	-	-
SSEA	*(3)*	-	*3*	-
CEE	-	-	-	-
Other	-	*(1)*	*1*	-
Total net interest income	**4,032**	**(92)**	**4**	**3,944**
Income tax expense	(78)	22	-	(56)
Net segment result	**543**	**(163)**	**14**	**394**
Depreciation and amortization	(136)	(43)	38	(141)
Other significant non-cash expenses[1)]	(2,206)	(18)	-	(2,224)
Capital expenditure	(252)	(42)	99	(195)

1) Other significant non-cash expenses are represented by impairment losses on financial and non-financial assets.

5. Segment reporting (continued)

	Consumer Lending	Other	Eliminations	Consolidated
	As at 31 December 2018			
	2018 MEUR	2018 MEUR	2018 MEUR	2018 MEUR
Net loans to external customers	**17,431**	**89**	**(58)**	**17,462**
China	*10,920*	-	-	*10,920*
CIS	*3,083*	-	-	*3,083*
SSEA	*1,915*	-	-	*1,915*
CEE	*1,513*	-	-	*1,513*
Other	-	*89*	-	*89*
Eliminations	-	-	*(58)*	*(58)*
Gross loans to external customers	**19,522**	**106**	**(58)**	**19,570**
China	*12,446*	-	-	*12,446*
CIS	*3,245*	-	-	*3,245*
SSEA	*2,128*	-	-	*2,128*
CEE	*1,703*	-	-	*1,703*
Other	-	*106*	-	*106*
Eliminations	-	-	*(58)*	*(58)*
	As at 31 December 2018			
Segment assets[2)]	**23,378**	**494**	**(225)**	**23,647**
Investments in associates	12	15	-	27
Segment liabilities[2)]	**20,294**	**1,427**	**(228)**	**21,493**
Segment equity[2)]	**3,084**	**(933)**	**3**	**2,154**

2) Consolidation adjustments are included in Eliminations.

5. Segment reporting (continued)

	Consumer Lending	Other	Eliminations	Consolidated
	For the nine months ended 30 September,			
	2017	2017	2017	2017
	MEUR	MEUR	MEUR	MEUR
Operating income from external customers	**2,201**	**(14)**	**-**	**2,187**
China	*1,291*	*-*	*-*	*1,291*
CIS	*462*	*-*	*-*	*462*
SSEA	*323*	*-*	*-*	*323*
CEE	*125*	*-*	*-*	*125*
Other	*-*	*(14)*	*-*	*(14)*
Inter-segment operating income	**1**	**50**	**(51)**	**-**
China	*-*	*-*	*-*	*-*
CIS	*4*	*-*	*(4)*	*-*
SSEA	*(3)*	*-*	*3*	*-*
CEE	*-*	*-*	*-*	*-*
Other	*-*	*50*	*(50)*	*-*
Total operating income	**2,202**	**36**	**(51)**	**2,187**
Net interest income from external customers	**1,722**	**(32)**	**-**	**1,690**
China	*993*	*-*	*-*	*993*
CIS	*344*	*-*	*-*	*344*
SSEA	*263*	*-*	*-*	*263*
CEE	*122*	*-*	*-*	*122*
Other	*-*	*(32)*	*-*	*(32)*
Inter-segment net interest income	**1**	**(2)**	**1**	**-**
China	*-*	*-*	*-*	*-*
CIS	*4*	*-*	*(4)*	*-*
SSEA	*(3)*	*-*	*3*	*-*
CEE	*-*	*-*	*-*	*-*
Other	*-*	*(2)*	*2*	*-*
Total net interest income	**1,723**	**(34)**	**1**	**1,690**
Income tax expense	(103)	(7)	-	(110)
Net segment result	**305**	**(84)**	**11**	**232**
Depreciation and amortization	(64)	(13)	14	(63)
Other significant non-cash expenses[1)]	(690)	2	-	(688)
Capital expenditure	(120)	(23)	30	(113)

1) Other significant non-cash expenses are represented by impairment losses on financial and non-financial assets.

5. Segment reporting (continued)

	Consumer Lending	Other	Eliminations	Consolidated
	As at 30 September 2017,			
	2017	2017	2017	2017
	MEUR	MEUR	MEUR	MEUR
Net loans to external customers	**13,885**	**7**	**(4)**	**13,888**
China	*8,697*	*-*	*-*	*8,697*
CIS	*2,788*	*-*	*-*	*2,788*
SSEA	*1,165*	*-*	*-*	*1,165*
CEE	*1,235*	*-*	*-*	*1,235*
Other	*-*	*7*	*-*	*7*
Eliminations	*-*	*-*	*(4)*	*(4)*
Gross loans to external customers	**15,014**	**7**	**(4)**	**15,017**
China	*9,374*	*-*	*-*	*9,374*
CIS	*2,955*	*-*	*-*	*2,955*
SSEA	*1,250*	*-*	*-*	*1,250*
CEE	*1,435*	*-*	*-*	*1,435*
Other	*-*	*7*	*-*	*7*
Eliminations	*-*	*-*	*(4)*	*(4)*
	As at 30 September 2017			
Segment assets[2)]	**19,157**	**494**	**(157)**	**19,494**
Investments in associates	1	-	-	1
Segment liabilities[2)]	**16,380**	**1,530**	**(159)**	**17,751**
Segment equity[2)]	**2,777**	**(1,036)**	**2**	**1,743**

2) Consolidation adjustments are included in Eliminations.

5. Segment reporting (continued)

Additional information about significant geographical areas for consumer lending.

	NPL*	Cost of Risk	NPL coverage
	As at 31 December,		
	2018	2018	2018
China	9.7%	13.3%	125.9%
CIS	3.7%	1.5%	135.0%
SSEA	6.2%	12.5%	160.4%
CEE	10.7%	(0.1)%	105.6%

	NPL*	Cost of Risk	NPL coverage
	As at 30 September,		
	2017	2017	2017
China	5.6%	10.1%	128.1%
CIS	5.5%	1.4%	103.2%
SSEA	4.0%	10.3%	169.2%
CEE	13.5%	0.6%	101.2%

NPL ratio is calculated as gross non-performing loans divided by total gross loans. The Group defines non-performing loans as loans at Stage 3. In 2017 and 2018 collectively impaired loans that are overdue by more than 90 days as well as loans considered individually impaired.

Cost of risk ratio represents impairment losses on the loan portfolio (annualized) divided by average balance of gross loans to customers. Average is calculated based on quarterly numbers.

NPL coverage ratio is calculated as loss allowance for loans to customers divided by gross non-performing loans.

* Non-performing loans

6. Fair values of financial instruments

Fair value measurement methodology is explained in Note 3(e)(iii).

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:

		Carrying amount	Fair Value			
31 December 2018	**Note**	**MEUR**	**Level 1 MEUR**	**Level 2 MEUR**	**Level 3 MEUR**	**Total MEUR**
Cash and cash equivalents	7	3,362	3,362	-	-	3,362
Due from banks, other financial institutions and holding companies	10	314	-	314	-	314
Investment securities at amortised costs	12	761	749	-	-	749
Loans to customers	11	17,462	-	-	17,674	17,674
Current accounts and deposits from customers	20	(6,776)	-	(2,796)	(3,988)	(6,784)
Due to banks, other financial institutions and holding companies	21	(11,966)	-	(11,969)	-	(11,969)
Debt securities issued	22	(1,795)	(1,050)	(269)	(481)	(1,800)
Subordinated liabilities	23	(199)	(141)	-	(59)	(200)
		1,163	**2,920**	**(14,720)**	**13,146**	**1,346**

		Carrying amount	Fair Value			
30 September 2017	**Note**	**MEUR**	**Level 1 MEUR**	**Level 2 MEUR**	**Level 3 MEUR**	**Total MEUR**
Cash and cash equivalents	7	2,815	2,815	-	-	2,815
Due from banks, other financial institutions and holding companies	10	625	-	625	-	625
Loans to customers	11	13,888	-	-	14,000	14,000
Current accounts and deposits from customers	20	(6,046)	-	(6,049)	-	(6,049)
Due to banks, other financial institutions and holding companies	21	(9,376)	-	(9,377)	-	(9,377)
Debt securities issued	22	(939)	(7)	(937)	-	(944)
Subordinated liabilities	23	(400)	(359)	-	(52)	(411)
		567	**2,449**	**(15,738)**	**13,948**	**659**

There were no transfers between Level 1, 2 and 3 in period of 15 months ended 31 December 2018 and 9 months ended 30 September 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 December 2018	**Note**	**Level 1 MEUR**	**Level 2 MEUR**	**Level 3 MEUR**	**Total MEUR**
Financial assets at fair value through profit or loss	8	-	21	-	21
Financial assets at FVOCI	9	433	29	-	462
Financial liabilities at fair value through profit or loss	19	-	(21)	-	(21)
		433	**29**	**-**	**462**

30 September 2017	**Note**	**Level 1 MEUR**	**Level 2 MEUR**	**Level 3 MEUR**	**Total MEUR**
Financial assets at fair value through profit or loss	8	-	20	-	20
Financial assets available-for-sale	9	1,184	17	10	1,211
Financial liabilities at fair value through profit or loss	19	-	(12)	(295)	(307)
		1,184	**25**	**(285)**	**924**

There were no transfers between Level 1, 2 and 3 in period of 15 months ended 31 December 2018 and 9 months ended 30 September 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 October 2017	10	(295)
Purchases, sales, issues and settlements during the period	-	293
Transfer out of Level 3	(9)	
Gains/(losses) recognized in profit or loss	(1)	2
Closing balance at 31 December 2018	**-**	**-**

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	-	-
Closing balance at 30 September 2017	**10**	**(295)**

6. Fair values of financial instruments (continued)

As at 30 September 2017 the Group had an investment in equity shares of Nymbus, Inc., a business operating in the USA, which was classified at FVOCI, with a fair value of MEUR 10. The fair value of this investment was categorized as Level 3 at 30 September 2017 as the shares were not listed on an exchange and there was no recent observable arm's length transactions in the shares. As at 31 December 2018 this investment exceeded 20% and was therefore recorded as investment in associates (Note 14).

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 August 2018, the Group and PAG Asia Capital Limited ("PAG") agreed to discontinue their partnership and the Group returned PAG's investment which had been made in the form of an interest bearing long term loan and provided to the Group's subsidiary Favour Ocean Limited in 2017. At the same time and in conjunction with this, Home Credit B.V. settled the loan which had subsequently been provided by this subsidiary.

7. Cash and cash equivalents

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Cash on hand	150	81
Current accounts	1,480	1,404
Current accounts with central banks	204	135
Reverse repo operations with central banks	1,479	1,147
Placements with financial institutions due within one month	49	48
	3,362	**2,815**

As at 31 December 2018 current accounts comprise MEUR 792 (30 September 2017: MEUR 829) 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 Dec 2018 MEUR	30 Sep 2017 MEUR
Positive fair values of trading derivatives	12	15
Positive fair values of hedging derivatives	9	5
	21	**20**

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

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Equity securities	1	10
Government bonds	420	1,199
Corporate bonds	41	2
	462	**1,211**

As at 31 December 2018 financial assets at FVOCI of MEUR 33 (30 September 2017 Financial assets available-for-sale: MEUR 17) served as collateral for bank loan facilities (loans received under repo operations and secured loans) (Note 21).

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

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Loans and term deposits with banks, other financial institutions and holding companies due in more than one month	140	139
Loans and advances provided under reverse repo operations	64	373
Minimum reserve deposits with central banks	99	60
Cash collateral for derivative instruments	10	7
Other	1	46
	314	**625**

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

As at 31 December 2018 term deposit of MEUR nil (30 September 2017: MEUR 46) served as collateral for secured loans due to banks (Note 21).

As at 31 December 2018 term deposit of MEUR 7 (30 September 2017: MEUR 6) served as cash collateral for syndicated loan interest payments.

As at 31 December 2018 margin deposit of MEUR 4 (30 September 2017: MEUR 4) served as cash collateral for foreign exchange derivative contracts.

Due from holding companies

As at 31 December 2018 and 30 September 2017 the balances of loans with holding companies were nil.

11. Loans to customers

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Gross amount		
Cash loan receivables	13,498	8,482
POS loan receivables	5,000	5,554
Revolving loan receivables	595	524
Mortgage loan receivables	210	130
Car loan receivables	132	114
Loans to corporations	133	210
Other	2	3
	19,570	**15,017**
Collective allowances for impairment		
Cash loan receivables	(1,560)	(658)
POS loan receivables	(441)	(366)
Revolving loan receivables	(66)	(67)
Mortgage loan receivables	(4)	(6)
Car loan receivables	(22)	(22)
	(2,093)	**(1,119)**
Specific allowances for impairment		
Loans to corporations	(15)	(10)
	(15)	**(10)**
	17,462	**13,888**

On the adoption of IFRS 9 on 1 October 2017, the impact of the increase in loss allowances to loans to customers (before tax) was MEUR 215.

As at 31 December 2018 cash loan receivables of MEUR nil (30 September 2017: MEUR 861) and POS loan receivables of MEUR 1,046 (30 September 2017: MEUR 577) served as collateral for debt securities issued (Note 22).

As at 31 December 2018 cash loan receivables of MEUR 7,877 (30 September 2017: MEUR 3,735) and POS loan receivables of MEUR 1,162 (30 September 2017: MEUR 2,585) served as collateral for bank loan facilities (Note 21).

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.

	Interest rate	Final maturity	Amount outstanding 31 Dec 2018	30 Oct 2017
			MEUR	MEUR
Unsecured CZK bond issue of MCZK 9 850,4 (SD VAR23)	1.77%	April 2023	400	-
Unsecured CZK bond issue of MCZK 1 000 (SD VAR27)	0.89%	November 2027	39	-
Unsecured CZK bond issue of MCZK 2 250 (SD 2,4/25)	2.40%	September 2025	97	-
Unsecured CZK bond issue of MCZK 1 750 (SD 2,5/28)	2.50%	August 2028	77	-
Unsecured CZK bond issue of MCZK 1 800 (SD 4,2/36)	4.20%	December 2036	95	-
Unsecured EUR bond issue of MEUR 51,12 (4,875 Romania 07/11/2019)	4.88%	November 2019	53	-
			761	**-**

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 as part of the CIS segment.

14. Investments in associates

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

	Country of incorporation	Ownership interest 2018	Carrying amount 31 Dec 2018	Ownership interest 2017	Carrying amount 30 Oct 2017
		(%)	MEUR	(%)	MEUR
Barion Payment Zrt.	Hungary	20.00	2	20.00	-
Equifax Credit Services (LLC)	Russian Federation	25.00	3	25.00	1
Společnost pro informační databáze (JSC)	Czech Republic	27.96	-	27.96	-
Nymbus	USA	20.23	15	-	-
Eureka Analytics Pte. Ltd.	Singapore	26.70	7	-	-
			27		**1**

15. Property and equipment

31 December 2018	Buildings MEUR	Equipment and other tangible assets MEUR	Total MEUR
Acquisition cost			
Balance as at 1 October 2017	92	268	360
Additions	10	93	103
Disposals	-	(50)	(50)
Transfers and other changes	(9)	8	(1)
Translation difference	(11)	(14)	(25)
Balance as at 31 December 2018	**82**	**305**	**387**
Accumulated depreciation			
Balance as at 1 October 2017	27	156	183
Additions	-	(1)	(1)
Charge for the period	4	61	65
Disposals	(1)	(26)	(27)
Transfers and other changes	1	(1)	-
Translation difference	(4)	(10)	(14)
Balance as at 31 December 2018	**27**	**179**	**206**
Impairment			
Balance as at 1 October 2017	-	1	1
Reversal of impairment losses	-	(1)	(1)
Balance as at 31 December 2018	**-**	**-**	**-**
Carrying amount			
at 1 October 2017	**65**	**111**	**176**
at 31 December 2018	**55**	**126**	**181**

15. Property and equipment (continued)

30 September 2017	Buildings MEUR	Equipment and other tangible assets MEUR	Total MEUR
Acquisition cost			
Balance as at 1 January 2017	93	244	337
Additions	-	65	65
Disposals	(6)	(13)	(19)
Transfers and other changes	10	(11)	(1)
Translation difference	(5)	(17)	(22)
Balance as at 30 September 2017	**92**	**268**	**360**
Accumulated depreciation			
Balance as at 1 January 2017	26	148	174
Charge for the period	2	31	33
Disposals	(1)	(12)	(13)
Transfers and other changes	1	(1)	-
Translation difference	(1)	(10)	(11)
Balance as at 30 September 2017	**27**	**156**	**183**
Impairment			
Balance as at 1 January 2017	-	2	2
Reversal of impairment losses	-	-	-
Disposals	-	(1)	(1)
Balance as at 30 September 2017	**-**	**1**	**1**
Carrying amount			
at 1 January 2017	**67**	**94**	**161**
at 30 September 2017	**65**	**111**	**176**

16. Intangible assets and goodwill

31 December 2018	Goodwill	Software	Present value of future profits	Other intangible assets	Total
	MEUR	MEUR	MEUR	MEUR	MEUR
Acquisition cost					
Balance as at 1 October 2017	3	461	6	7	**477**
Additions	-	139	-	14	**153**
Disposals	-	(33)	-	(1)	**(34)**
Transfers and other changes	-	(3)	4	(1)	**-**
Translation difference	-	(10)	-	-	**(10)**
Balance as at 31 December 2018	**3**	**554**	**10**	**19**	**586**
Accumulated amortization					
Balance as at 1 October 2017	-	251	6	4	**261**
Charge for the period	-	70	-	2	**72**
Disposals	-	(27)	-	(1)	**(28)**
Transfers and other changes	-	1	-	-	**1**
Translation difference	-	(6)	(1)	-	**(7)**
Balance as at 31 December 2018	**-**	**289**	**5**	**5**	**299**
Carrying amount					
at 1 October 2017	**3**	**210**	**-**	**3**	**216**
at 31 December 2018	**3**	**265**	**5**	**14**	**287**

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

16. Intangible assets and goodwill (continued)

30 September 2017	**Goodwill**	**Software**	**Present value of future profits**	**Other intangible assets**	**Total**
	MEUR	**MEUR**	**MEUR**	**MEUR**	**MEUR**
Acquisition cost					
Balance as at 1 January 2017	3	386	7	4	400
Additions	-	79	-	1	80
Disposals	-	(6)	-	-	(6)
Transfers and other changes	-	(1)	-	2	1
Translation difference	-	3	(1)	-	2
Balance as at 30 September 2017	**3**	**461**	**6**	**7**	**477**
Accumulated amortization					
Balance as at 1 January 2017	-	221	6	2	229
Charge for the period	-	31	-	(1)	30
Disposals	-	(3)	-	-	(3)
Transfers and other changes	-	1	-	4	5
Translation difference	-	1	-	(1)	-
Balance as at 30 September 2017	**-**	**251**	**6**	**4**	**261**
Carrying amount					
at 1 January 2017	**3**	**165**	**1**	**2**	**171**
at 30 September 2017	**3**	**210**	**-**	**3**	**216**

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

17. Deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Deferred tax arising from “Loans to customers”	292	179	-	(1)	292	178
Deferred tax arising from “Due from banks, other financial institutions and holding companies”	24	43	-	-	24	43
Deferred tax arising from “Carrying value of property and equipment”	1	2	(8)	(8)	(7)	(6)
Deferred tax arising from “Other assets”	47	29	(21)	(12)	26	17
Deferred tax arising from “Tax loss carry forward”	11	6	-	-	11	6
Other	68	16	-	(2)	68	14
Deferred tax assets/(liabilities)					**414**	**252**

Deferred tax assets and liabilities in the Consolidated statements of financial position

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Deferred tax assets	443	256
Deferred tax liabilities	(29)	(4)
Net deferred tax assets	**414**	**252**

The Group does not recognize deferred tax liability in respect of dividend withholding tax relating to the undistributed profits of the Group as the Company controls the dividend policy of these subsidiaries and it is determined that dividends would not be distributed from these subsidiaries in the foreseeable future.

17. Deferred tax assets and liabilities (continued)

Analysis of movements in net deferred tax assets	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Net deferred tax asset as at 1 October/1 January	252	168
Deferred tax income for the period	102	98
Deferred tax recognized directly in equity	64	-
Net foreign exchange differences	(4)	(14)
Balance as at 31 December/30 September	**414**	**252**

Deferred tax not recognized

As at 31 December 2018 the Group records incurred tax losses from recent years of MEUR 455 (30 September 2017: MEUR 601) available to be carried forward and off-set against future taxable income. To the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilized, the deferred tax assets are not recognized. The unrecognised deferred tax assets amount to MEUR 71 (30 September 2017: MEUR 127). The unutilized tax losses expire as follows:

Year of expiration	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
2018	-	23
2019	8	17
2020	11	30
2021	15	26
2022	12	21
2023	14	21
2024	5	39
2025	17	54
2026	85	62
2027	1	-
Tax losses that can be carried forward indefinitely	287	308
Total	**455**	**601**

Expiration dates and unrecognized deferred tax asset recalculation is performed based on the applicable legislation of countries where subsidiaries are located.

18. Other assets

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Prepaid expenses	112	106
Trade receivables and settlement with suppliers	58	56
Cash collateral for payment cards	51	45
Other taxes receivable	6	10
Inventories	2	3
Accrued income from insurance fees	9	6
Deferred acquisition costs of insurance contracts	1	3
Rental deposit	8	7
Insurance deposit	24	12
Credit card settlement accounts	12	7
Oher settlement accounts	44	12
Other	13	12
Total gross carrying amount	**340**	**279**
Allowance for impairment	**(4)**	**-**
Total net carrying amount	**336**	**279**

Analysis of movements in allowances for impairment	**15 months ended 31 Dec 2018 MEUR**	**9 months ended 30 Sep 2017 MEUR**
Balance as at 1 October	-	-
Net impairment losses recognized in the statement of comprehensive income	(5)	-
Amounts related to assets sold and written off	1	-
Translation difference	-	-
Balance as at 31 December	**(4)**	**-**
Total Other assets	**336**	**279**

19. Financial liabilities at fair value through profit or loss

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Loan	-	295
Negative fair value of trading derivative instruments	21	11
Negative fair value of hedging derivative instruments	-	1
	21	**307**

In August 2018, the Group and PAG Asia Capital Limited ("PAG") agreed to discontinue their partnership and the Group returned PAG's investment which had been made in the form of an interest bearing long term loan and provided to the Group's subsidiary Favour Ocean Limited in 2017. At the same time and in conjunction with this, Home Credit B.V. settled the loan which had subsequently been provided by this subsidiary.

20. Current accounts and deposits from customers

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Current accounts and demand deposits	4,707	3,835
Term deposits	2,048	2,182
Borrowings	19	26
Other	2	3
	6,776	**6,046**

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

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Secured loans	7,100	6,002
Unsecured loans	4,763	3,310
Loans received under repo operations	31	16
Other balances	72	48
	11,966	**9,376**

As at 31 December 2018 the balances of loans secured by cash loan receivables, POS loan receivables and term deposits were MEUR 5,732 (30 September 2017: MEUR 3,194), MEUR 881 (30 September 2017: MEUR 2,126) and MEUR nil (30 September 2017: MEUR 42), respectively.

As at 31 December 2018 the balances of loans secured by cash were MEUR 454 (30 September 2017: MEUR 606) (Note 7).

As at 31 December 2018 the balances of loans secured by guarantees were MEUR 33 (30 September 2017: MEUR 34).

As at 31 December 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. Due to banks, other financial institutions and holding companies (continued)

Due to holding companies

As at 31 December 2018 the balance of loans due to holding companies was MEUR 365, maturity 31 March 2019, 7.5% (30 September 2017: MEUR 273, maturity 25 November 2017, 7.5%).

22. 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 Dec 2018 MEUR	30 Sep 2017 MEUR
Fixed rate debt securities		
Within 1 year	1,150	602
1-2 years	313	56
2-3 years	237	281
Variable rate debt securities		
Within 1 year	61	-
1-2 years	28	-
2-3 years	6	-
	1,795	**939**

As at 31 December 2018 the issued securities secured by cash and cash equivalents, cash loan receivables and POS loan receivables were MEUR 1,076 (30 September 2017: MEUR 523).

All debt securities had fixed interest rate as at 30 September 2017.

23. Subordinated liabilities

	Interest rate	Final maturity	Amount outstanding 31 Dec 2018 MEUR	30 Sep 2017 MEUR
Loan participation notes issue of MUSD 500	Fixed	April 2020	-	202
Loan participation notes issue of MUSD 200	Fixed	April 2021	140	147
Subordinated bonds issue of MCZK 2,000	Fixed	April 2024	53	51
Loan Sprint eBusiness of MUSD 7,485	Variable	March 2023	6	-
			199	**400**

23. Subordinated liabilities (continued)

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. Before 31 December 2018 the Group fully repaid loan participation notes issue at par with the prior consent of the CBR. The amount of early redemption was MUSD 221 (30 September 2017: cumulative par value of MUSD 272).

Subordinated loan participation notes issue of MUSD 200 were issued in October 2013 through Eurasia Capital S.A. (Note 1). The Group has an early redemption option exercisable on 17 April 2019 (the reset date). After the reset date the interest rate is determined as a variable rate. Before 31 December 2018 the Group bought back the loan participation notes with a cumulative par value of MUSD 43 (30 September 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.

24. Insurance and other provisions

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Provisions for unearned premiums	30	26
Provisions for outstanding claims	-	1
Provisions for insurance commissions return	8	-
Other provisions	4	12
	42	**39**

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Provisions for unearned premiums		
Balance as at 1 Janaury/October	26	31
Premiums written during a period	38	23
Premiums earned during the period	(31)	(25)
Translation difference	(3)	(3)
Balance as at 30 September/31 December	**30**	**26**
Provisions for outstanding claims		
Balance as at 1 January/October	1	1
Claims incurred in the current period	1	1
Adjustments for losses incurred in previous periods	(1)	-
Claims paid during the period	(1)	(1)
Translation difference	-	-
Balance as at 30 September/31 December	**-**	**1**

25. Other liabilities

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Settlement with suppliers	176	217
Accrued employee compensation	138	141
Accrued expenses	85	60
Customer loan overpayments	53	38
Other taxes payable	85	34
Advances received	18	1
Deferred income and prepayments	3	1
Other	45	16
	603	**508**

26. Equity

Before the reverse acquisition, the authorized share capital of Home Credit B.V. comprised 1,250,000,000 ordinary shares at a par value of EUR 0.57 of which 1,156,174,806 shares were issued and fully paid. In conjunction with the reverse acquisition, Home Credit Group B.V. and Home Credit B.V. agreed to implement a combination, whereby 100% of the shares of Home Credit B.V. were exchanged for shares of Home Credit Group B.V., so as of 31 December 2018 the Group's share capital comprised 175,438,596,491 ordinary shares at a par value of EUR 0.0057, of which all 175,438,596,491 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., Air Bank (JSC) and Home Credit B.V. from the Group's shareholders. The reserve for business combinations under common control is not available for distribution to the shareholders.

Other reserves represent retained earnings and profit/ (loss) for the period.

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.

27. Non-controlling interests

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

	NCI	Total assets	Total liabilities	Carrying amount of NCI	Net (loss) / profit for the period	Net (loss) / profit allocated to NCI
	%	MEUR	MEUR	MEUR	MEUR	MEUR
Home Credit US (LLC)	49.90	91	72	10	(65)	(32)
PT. Home Credit Indonesia	15.00	276	227	7	(1)	(1)
				17		**(33)**

As at 30 September 2017 the Group reported the following non-controlling interests (NCI) and net losses allocated to non-controlling interests for the period ended 30 September 2017:

	NCI	Total assets	Total liabilities	Carrying amount of NCI	Net losses for the period	Net losses allocated to NCI
	%	MEUR	MEUR	MEUR	MEUR	MEUR
Home Credit US (LLC)	49.90	30	25	2	-	-
PT. Home Credit Indonesia	15.00	190	155	6	(15)	(2)
HC Consumer Finance Philippines, Inc.	0.69*	-	-	-	(5)	-
				8		**(2)**

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*

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

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

	Liabilities		Equity		
	Debt securities and subordinated liabilities	Due to banks, other financial institution and holding companies	Share capital	Share premium	Total
	MEUR	MEUR	MEUR	MEUR	MEUR
Balance as at 1 October 2017	**1,339**	**9,376**	**7**	**-**	**10,722**
<u>Changes from financing cash flows</u>					
Proceeds from share premium increase	-	-	-	275	275
Proceeds from the issue of debt securities	2,418	-	-	-	2,418
Proceeds from due to banks, other financial institutions and holding companies	-	22,910	-	-	22,910
Repayment of debt securities	(1,719)	-	-	-	(1,719)
Repayment of due to banks, other financial institutions and holding companies	-	(19,948)	-	-	(19,948)
Total changes from financing cash flows	**699**	**2,962**	**-**	**275**	**3,936**
The effect of changes in foreign exchange rates and transfers	(22)	(69)	-	-	(91)
Interest expense	160	1,256	-	-	1,416
Interest paid	(182)	(1,559)	-	-	(1,741)
Contribution in kind (reverse acquisition)[1]	-	-	993	353	1,346
	(44)	**(372)**	**993**	**353**	**930**
Balance as at 31 December 2018	**1,994**	**11,966**	**1,000**	**628**	**15,588**

[1] Refer to Note 2(d) and Consolidated Statement of Changes in Equity for the fifteen months ended 31 December 2018 for details.

28. Reconciliation of movements of liabilities to cash flows arising from financing activities (continued)

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

	Liabilities		Equity		
	Debt securities and subordinated liabilities	**Due to banks, other financial institution and holding companies**	**Share capital**	**Share premium**	**Total**
	MEUR	**MEUR**		**MEUR**	**MEUR**
Balance as at 1 January 2017	**736**	**6,428**	**659**	**480**	**8,303**
<u>Changes from financing cash flows</u>					
Proceeds from share premium increase	-	-	-	158	**158**
Proceeds from share capital increase	-	-	7	-	**7**
Proceeds from the issue of debt securities	1,226	-	-	-	**1,226**
Proceeds from due to banks, other financial institutions and holding companies	-	11,384	-	-	**11,384**
Repayment of debt securities	(552)	-	-	-	**(552)**
Repayment of due to banks, other financial institutions and holding companies	-	(7,833)	-	-	**(7,833)**
Total changes from financing cash flows	**674**	**3,551**	**7**	**158**	**4,390**
The effect of changes in foreign exchange rates and transfers	(91)	(524)	-	-	**(615)**
Interest expense	75	543	-	-	**618**
Interest paid	(55)	(622)	-	-	**(677)**
Transfer due to reverse acquisition[1]	-	-	(659)	(638)	**(1,297)**
	(71)	**(603)**	**(659)**	**(638)**	**(1,971)**
Balance as at 30 September 2017	**1,339**	**9,376**	**7***	**-***	**10,722**

* Refer to Note 2(d) and Consolidated Statement of Changes in Equity for the nine months ended 30 September 2017 for details.

29. Interest income and interest expense

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Interest income		
Cash loan receivables	4,216	1,679
POS loan receivables	1,134	617
Revolving loan receivables	136	100
Mortgage loan receivables	6	3
Car loan receivables	23	14
Due from banks, other financial institutions and holding companies	66	30
Financial assets available-for-sale	-	25
Financial assets at FVOCI	43	-
Financial instruments at amortized cost	7	-
Other	12	9
	5,643	**2,477**
Interest expense		
Current accounts and deposits from customers	277	169
Due to banks, other financial institutions and holding companies	1,256	543
Debt securities issued	128	47
Subordinated liabilities	32	28
Other	6	-
	1,699	**787**

30. Fee and commission income

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Insurance commissions	702	378
Late payment fees	237	96
Customer payment processing and account maintenance	50	27
Cash transactions	33	15
Retailers commissions	19	7
Other	44	19
	1,085	**542**

31. Fee and commission expense

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Payment processing and account maintenance	55	28
Credit and other register expense	49	18
Commissions to retailers	24	17
Cash transactions	31	12
Payments to deposit insurance agencies	23	10
Stamp duties	6	1
Other	5	2
	193	**88**

32. Net insurance income

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Gross premiums earned	29	27
Net insurance benefits and claims	-	(1)
Acquisition costs	(7)	(6)
	22	**20**

33. Net gains/ (losses) on financial assets and liabilities

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Net foreign currency (losses)/gains	(10)	(34)
Net trading (losses)/gains on other financial assets and liabilities	(12)	(10)
Net gains on trading derivative instruments	(3)	31
Net gains/(losses) on hedging derivative instruments	3	12
FX trading	13	-
Other	1	-
	(8)	**(1)**

34. Other operating income

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Income from other services provided	14	16
Other	25	8
	39	**24**

35. Impairment losses on financial assets

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Cash loan receivables	1,680	401
POS loan receivables	512	274
Revolving loan receivables	18	6
Mortgage loan receivables	(2)	(1)
Car loan receivables	-	-
Loans to corporations	13	-
Financial assets at FVOCI	1	-
Other financial assets	(7)	8
	2,215	**688**

36. Personnel expenses and Other operating expenses

Personnel expenses	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Employee compensation	1,146	640
Payroll related taxes (including pension contributions)	272	147
Total personnel expenses	**1,418**	**787**

Other operating expenses	**15 months ended 31 Dec 2018** MEUR	**9 months ended 30 Sep 2017** MEUR
Telecommunication and postage	95	48
Information technologies	83	29
Advertising and marketing	87	46
Professional services	83	43
Collection agency fee	65	27
Taxes other than income tax	54	21
Travel expenses	35	18
Impairment losses on other non-financial assets	9	-
Loss/gain on disposal of property and equipment and intangible assets	(2)	3
Net impairment losses on property and equipment	(1)	-
Other	56	22
Total operating expenses	**564**	**257**

37. Income tax expense

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Current tax expense	(158)	(208)
Deferred tax benefit	102	98
Total income tax expense in the statement of comprehensive income	**(56)**	**(110)**

Reconciliation of effective tax rate	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Profit before tax	**450**	**342**
Income tax using the domestic tax rate of 25%	(113)	(86)
Effect of deferred tax assets not recognized	4	(21)
Non-deductible costs	(45)	(4)
Withholding tax	(23)	-
Non-taxable income	(12)	1
Effect of tax rates in foreign jurisdictions	6	19
Utilized tax loss not previously recognized	6	-
Deferred tax not previously recognized and other	121	(19)
Total income tax expense	**(56)**	**(110)**

The Company is subject to the Corporate Income Tax in the Netherlands and the income tax rate is 25%. The Company's subsidiaries as well as associates are also subject to corporate income tax laws in the respective jurisdictions where the Group operates with corporate income tax rate ranging from 16.5% in Hong Kong to 34.61% in India.

Pursuant to local tax legislation and relevant double tax treaties, a withholding tax in the range of 0% to 30% is levied on the dividends, interest, royalties and other relevant payments to foreign recipients.

The Group follows the principle for recognition of deferred tax asset to the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilised, the deferred tax assets are not recognised. Deferred tax loss not previously recognized substantially decreased the effective tax rate of the Group during 2018 as it becomes likely that the Group generates sufficient taxable profits to utilise tax losses from previous periods.

38. Derivative financial instruments

Interest rate derivatives:	Notional amount 31 Dec 2018	Positive fair values 31 Dec 2018	Negative fair values 31 Dec 2018
	MEUR	MEUR	MEUR
Interest rate swaps	216	2	(2)
Interest rate options (purchase)	4	-	-
Cross currency interest rate swaps	97	2	(2)
Total interest rate derivatives	**317**	**4**	**(4)**

Interest rate derivatives:	Notional amount 30 Sep 2017	Positive fair values 30 Sep 2017	Negative fair values 30 Sep 2017
	MEUR	MEUR	MEUR
Interest rate swaps	105	2	-
Interest rate options (purchase)	8	-	-
Cross currency interest rate swaps	78	2	-
Total interest rate derivatives	**191**	**4**	**-**

Currency derivatives:	Notional amount 31 Dec 2018	Positive fair values 31 Dec 2018	Negative fair values 31 Dec 2018
	MEUR	MEUR	MEUR
Forward exchange contracts	323	-	(15)
Currency/Cross currency swaps	1,047	8	(2)
Total currency derivatives	**1,370**	**8**	**(17)**

Currency derivatives:	Notional amount 30 Sep 2017	Positive fair values 30 Sep 2017	Negative fair values 30 Sep 2017
	MEUR	MEUR	MEUR
Forward exchange contracts	347	2	(4)
Currency/Cross currency swaps	1,325	9	(7)
Total currency derivatives	**1,672**	**11**	**(11)**

38. Derivative financial instruments (continued)

Hedging derivatives:	Notional amount 31 Dec 2018	Positive fair values 31 Dec 2018	Negative fair values 31 Dec 2018
	MEUR	MEUR	MEUR
Interest rate swaps	268	9	-
Total hedging derivatives	**268**	**9**	**-**

Hedging derivatives:	Notional amount 30 Sep 2017	Positive fair values 30 Sep 2017	Negative fair values 30 Sep 2017
	MEUR	MEUR	MEUR
Interest rate swaps	266	5	(1)
Total hedging derivatives	**266**	**5**	**(1)**

39. Commitments

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

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Revolving loan commitments	699	388
POS loan commitments	68	32
Cash loan commitments	37	48
Undrawn overdraft facilities	7	-
Term loans facilities	3	-
	814	**468**

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

As at 31 December 2018 the Group reported contractual commitments for the acquisition of property and equipment and intangible assets of MEUR 6 (30 September 2017: MEUR 14).

40. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Less than one year	42	34
Between one and five years	128	120
More than five years	29	25
	199	**179**

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

During period ended 31 December 2018 MEUR 22 (30 September 2017: MEUR 10) was recognized as an expense in the statement of comprehensive income in respect of operating leases.

41. Contingencies

Taxation

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

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

Home Credit and Finance Bank (LLC) is currently under review of tax inspection for period 2014-2016. The final output is not known yet.

42. Related party transactions

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

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

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

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Due to banks, other financial institutions and holding companies	(365)	(273)
Subordinated liabilities	(51)	(132)
	(416)	**(405)**

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:

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Interest expense	(23)	(25)
General administrative expenses	(1)	-
	(24)	**(25)**

42. Related party transactions (continued)

(b) Transactions with fellow subsidiaries

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

	31 Dec 2018 MEUR	30 Sep 2017 MEUR
Cash and cash equivalents	69	253
Financial assets at fair value through profit or loss	13	16
Due from banks, other financial institutions and holding companies	14	4
Loans to customers	38	-
Other assets	2	3
Financial liabilities at fair value through profit or loss	(15)	(7)
Current accounts and deposit from customers	(9)	(26)
Due to banks, other financial institutions and holding companies	(309)	(104)
Debt securities issued	(196)	(174)
Subordinated liabilities	-	(27)
Other liabilities	(3)	(2)
	(396)	**(64)**

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

	15 months ended 31 Dec 2018 MEUR	9 months ended 30 Sep 2017 MEUR
Interest income	5	1
Interest expense	(52)	(20)
Fee and commission expense	(1)	(1)
Net gains/ (losses) on financial assets and liabilities	(9)	23
General administrative expenses	(19)	(10)
Other Income	4	-
	(72)	**(7)**

42. Related party transactions (continued)

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

Amounts included in the statement of comprehensive income in relation to transactions with members of key management are long-term benefits of MEUR 3 (30 September 2017: MEUR 1) and short-term benefits of MEUR 23 (30 September 2017: MEUR 16) 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 period ended 31 December 2018 in relation to this agreement amounted to MEUR 10 (30 September 2017: MEUR 5). Other expenses incurred on behalf of this related party were MEUR 5 (30 September 2017: MEUR 2). All these amounts are recorded under general administrative expenses, while the related liability of MEUR 1 as at 31 December 2018 (30 September 2017: MEUR 1) is reported under other liabilities.

As at 31 December 2018 the balances due from holding companies included secured loans of MEUR 74 (30 September 2017: MEUR 73) 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% (30 September 2017: 7.48%) and the repayment date of those loans is 30 June 2019.

43. Workforce

For the fifteen months ended 31 December 2018 the average number of the Group's employees was 139,231 (9 months ended 30 Sep 2017: 140,083 employees), of which six employees was employed in the Netherlands (9 months ended 30 Sep 2017: four employees).

44. Subsequent events

On 1 June 2019 Mr. Christoph Glaser was appointed as a member of the Board of Directors of the Company.

On 1 June 2019 Mr. Ondřej Frydrych stepped down from Board of Directors of the Company.

Company Financial Statements

for the fifteen-month period from 1 October 2017 to 31 December 2018

	Note	31 Dec 2018 MEUR
ASSETS		
Cash and cash equivalents	5	1
Time deposits with banks	6	11
Loans provided	7	471
Financial assets at fair value through profit or loss	8	2
Investments in subsidiaries	9	2,349
Other assets	10	2
Total assets		**2,836**
LIABILITIES		
Debt securities issued	11	94
Financial liabilities at fair value through profit or loss	12	2
Loans received and other liabilities	13	1,086
Provisions		3
Total liabilities		**1,185**
EQUITY		
Share capital	14	1,000
Share premium	14	628
Other reserves	14	23
Total equity		**1,651**
Total liabilities and equity		**2,836**

	Note	15 months period ended 31 December 2018 MEUR
Continuing operations:		
Interest income	16	7
Interest expense	16	(14)
Net interest expense		**(7)**
Dividend income	17	38
Fee income	18	4
Net foreign exchange result		1
Operating income		**36**
Impairment losses	19	(4)
Other operating expenses	20	(9)
Operating expenses		**(13)**
(Loss)/profit before tax		**23**
Income tax expense	21	-
Net (loss)/profit for the period		**23**
Other comprehensive income for the period		**-**
Total comprehensive (expense)/income for the period		**23**

	Share capital MEUR	Share premium MEUR	Other reserves MEUR	Total equity MEUR
Balance as at 1 October 2017	-	-	-	-
Capital increase	1,000	628	-	1,628
Total	**1,000**	**628**	**-**	**1,628**
Profit for the period	-	-	23	23
Total comprehensive income for the period	**-**	**-**	**23**	**23**
Total changes	**1,000**	**628**	**23**	**1,651**
Balance as at 31 December 2018	**1,000**	**628**	**23**	**1,651**

	Note	15 months period ended 31 December 2018 MEUR
Operating activities		
(Loss)/profit before tax		23
Adjustments for:		
Interest income and expense	16	7
Dividend income	17	(38)
Impairment losses	19	4
Net loss on revaluation of financial liabilities		-
Net loss on sale of subsidiary		-
Income/(expenses) not involving movements of cash		-
Net operating cash flow before changes in working capital		**(4)**
Change in time deposits with banks		(11)
Change in loans provided		(439)
Change in other assets		(4)
Change in other liabilities		5
Cash flows from/(used in) the operations		**(453)**
Interest paid		(8)
Cash flows used in operating activities		**(461)**
Investing activities		
Investments into subsidiaries		30
Dividends received		38
Cash flows used in investing activities		**68**
Financing activities		
Proceeds from the issue of share capital and other capital contributions		7
Proceeds from due to banks and other counterparties		434
Repayments of due to banks and other counterparties		(47)
Cash flows from financing activities		**394**
Net (decrease)/increase in cash and cash equivalents		1
Cash and cash equivalents as at 1 October 2017	5	-
Effects of exchange rate changes on cash and cash equivalents		-
Cash and cash equivalents at 31 December 2018	5	**1**

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 Consolidated Financial Statements for the fifteen-months period ended 31 December 2018.

2. Basis of preparation

The financial statements for the period ended 31 December 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 Consolidated Financial Statements for the fifteen-months period ended 31 December 2018.

The Company was founded in September 2017. In its Articles of Association has the Company stated that its first accounting period ends on 31 December 2018. Therefore in these Financial Statements stated amounts are for period starting 1 October 2017 and ending 31 December 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 from 1 October 2017

(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 October 2017 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)	7	Amortised cost	7

There were no financial liabilities as at 1 October 2017.

3. Changes in accounting policies (continued)

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

MEUR	IAS 39 carrying amount at 30 September 2017	Reclassification	Remeasurement: change of ECL	IFRS 9 carrying amount at 1 October 2017
Financial assets				
Amortised cost				
Cash and cash equivalents:				
Opening balance under IAS 39	7	-	-	
Closing balance under IFRS 9				7
Total financial assets measured at amortised cost	**7**	**-**	**-**	**7**

There were no financial liabilities as at 31 December 2018.

(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 October 2017:

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	-	-	-	-
Total	**-**	**-**	**-**	**-**

(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 Consolidated Financial Statements for the period ended 31 December 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 analyse 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.

The Company's liquidity position as at 31 December 2018 shows liquidity gaps, which the Company will face in 2018. The Company plans refinancing the maturing loans through a diverse funding base to which the Company has access. The Company raises funds both on the market and through related parties. The shareholder's support enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

4. Financial risk management (continued)

Exposure to liquidity risk

The following table shows financial assets and liabilities by remaining contractual maturity dates. The table does not include prospective cash flows related to loan commitments. Refer to Note 22 for outstanding loan commitments that may impact liquidity requirements.

			31 December 2018		
MEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Cash and cash equivalents	1	-	-	-	1
Time deposits with banks	-	11	-	-	11
Loans provided	354	39	78	-	471
Financial assets at fair value through profit or loss	-	-	2	-	2
Total financial assets	**355**	**50**	**80**	**-**	**485**
Debt securities issued	-	-	94	-	94
Financial liabilities at fair value through profit or loss	-	2	-	-	2
Loans received and other liabilities	370	662	54	-	1,086
Total financial liabilities	**370**	**664**	**148**	**-**	**1,182**
Net position	**(15)**	**(614)**	**(68)**	**-**	**(697)**

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. The Group ALCO is the monitoring body for this risk.

There are no significant open foreign currency positions as of 31 December 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 December 2018				
MEUR	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Interest bearing financial assets						
Cash and cash equivalents	0.0%	1	-	-	-	1
Time deposits with banks	(0.3%)	11	-	-	-	11
Loans provided	6.9%	405	45	21	-	471
Total interest bearing financial assets		**413**	**45**	**21**	**-**	**483**
Interest bearing financial liabilities						
Debt securities issued	3.8%	1	-	93	-	94
Loans received and other liabilities	5.4%	1,018	13	55	-	1,086
Total interest bearing financial liabilities		**1,019**	**13**	**148**	**-**	**1,180**

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 2018 MEUR	Fair value 2018 MEUR
Debt securities issued	11	94	97

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):

2018	Level 1 MEUR	Level 2 MEUR	Level 3 MEUR	Total MEUR
Financial assets at fair value through profit or loss	-	2	-	2
Financial liabilities at fair value through profit or loss	-	(2)	-	(2)
	-	**-**	**-**	**-**

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

5. Cash and cash equivalents

	31 Dec 2018 MEUR
Current accounts with related parties	1
	1

6. Time deposits with banks

	2018 MEUR
Cash collateral for syndicated loan interest payments	7
Cash collateral for foreign exchange derivative contracts	4
	11

7. Loans provided

	2018 MEUR
Loans to subsidiaries	429
Other loans provided	43
Impairment to loans provided	(1)
	471

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	Net cost of investment
		as at 31 December 2018	as at 31 December 2018
		%	MEUR
Home Credit B.V.	Netherlands	100.00	2,343
ABDE Holding s.r.o.	Czech Republic	100.00	6
			2,349

2018	**Cost of investment**	**Impairment**	**Carrying amount**
	MEUR	**MEUR**	**MEUR**
Balance as at 1 October 2017	**-**	**-**	**-**
Investments	2,349	-	2,349
Divestments	-	-	-
Impairment changes	-	-	-
Balance as at 31 December 2018	**2,349**	**-**	**2,349**

For the nine months ended 30 September 2017 the Company had investments less than MEUR 1.

10. Other assets

	31 Dec 2018 MEUR
Trade receivables	1
Estimated receivables	1
	2

11. Debt securities issued

	Interest rate	Final maturity	Amount outstanding 2018 MEUR
Unsecured CZK bond issue of MCZK 1,998	3.75%	March 2020	78
CZK promissory note issue of MCZK 207	Zero-coupon	April 2020	8
EUR promissory note issue of MEUR 7.96	Zero-coupon	April 2020	8
			94

All the bonds and promissory notes issued are unsecured.

12. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent negative fair value of trading derivative instruments.

13. Loans received and other liabilities

	2018 MEUR
Loans received	1,083
Settlement with suppliers	2
Other accounts payable	1
	1,086

Loans received

	Interest Rate	Currency	Maturity	Amount outstanding 2018 MEUR
Syndicated loan	Variable	EUR	June 2019	651
Loan from parent company	Variable	EUR	March 2019	364
Loan from other related party	Fixed	CZK	January 2020	30
Loan from subsidiary	Fixed	RUB	December 2019	13
Loan from subsidiary	Fixed	RUB	November 2021	25
				1,083

All loans are unsecured. There were no breaches of loan covenants in 2018.

14. Equity

Share capital

Home Credit Group B.V. (hereafter "the Group") was established on 20 September 2017.

As of 31 December 2018 Company's share capital comprised 175,438,596,491 ordinary shares at a par value of EUR 0.0057, of which all 175,438,596,491 shares were issued and fully paid. All issued shares bear equal voting rights. The holders of the shares are entitled to receive distributions of profits and reserves when declared by the general meeting of the Company. No distributions can be made if the total amount of the reserves to be maintained pursuant to the law or the articles of association exceeds the Company's equity and the management board has not given its approval to such distribution.

In May 2018 the Company's shareholders increased share capital and share premium by MEUR 993 and MEUR 628 respectively.

14. Equity (continued)

The difference between the Company's equity and consolidated equity results from the fact that the Company presents its investments in subsidiaries at cost. In consolidated financial statements the subsidiaries are consolidated and their cumulative result is added to the consolidated equity. The Company's net result for 2018 is lower than the consolidated result by MEUR 1,082.

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

	Share capital MEUR	Share premium MEUR	Statutory reserve fund MEUR	Foreign currency translation MEUR	Revaluation reserve MEUR	Reserve for business combinations under common control MEUR	Other reserves MEUR	Total equity attributable to equity holders of the Company MEUR
Individual balance as at 31 December 2018	**1,000**	**628**	**-**	**-**	**-**	**-**	**23**	**1,651**
Adjustment for:								
Impairment of subsidiaries, current period	-	-	-	-	-	-	-	-
Impairment of subsidiaries, prior years	-	-	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-	(38)	(38)
Net result of subsidiaries in 2018	-	-	-	-	-	-	457	457
Reserves related to subsidiaries	-	-	114	(770)	-	(153)	876	67
Consolidated balance as at 31 December 2018	**1,000**	**628**	**114**	**(770)**	**-**	**(153)**	**1,318**	**2,137**

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

	Liabilities			Equity		Total
	Debt securities issued	FL at FVTPL 1)	Loans received 2)	Share capital	Share premium	
	MEUR	MEUR	MEUR	MEUR	MEUR	MEUR
Balance as at 1 October 2018	-	-	-	-	-	-
Changes from financing cash flows						
Proceeds from share premium increase	-	-	-	7	-	7
Proceeds from the issue of debt securities	-	-	-	-	-	-
Proceeds from due to banks and other counterparties	-	-	434	-	-	434
Repayment of debt securities	-	-	-	-	-	-
Repayment of due to banks and other counterparties	-	-	(47)	-	-	(47)
Total changes from financing cash flows	**-**	**-**	**387**	**7**	**-**	**394**
Other changes						
Interest expense	1	-	13	-	-	14
Interest paid	-	-	(8)	-	-	(8)
Increase due to contribution of Home Credit B.V. into Home Credit Group B.V.	-	-	-	993	628	1,621
Transfer of assets and liabilities from Home Credit B.V.	93	-	691	-	-	784
Change in Other liabilities	-	-	5	-	-	5
Effect of changes in FX rates	-	2	(2)	-	-	-
Total Other changes	**94**	**2**	**699**	**993**	**628**	**2,416**
Balance as at 31 December 2018	**94**	**2**	**1,086**	**1,000**	**628**	**2,810**

16. Interest income and interest expense

	15 months ended 31 Dec 2018 MEUR
Interest income	
Subsidiaries	6
Other	1
	7
Interest expense	
Loans received	13
Debt securities issued	1
	14

17. Dividend income

	15 months ended 31 Dec 2018 MEUR
Subsidiary	
Home Credit B.V.	38
	38

18. Fee income

	15 months ended 31 Dec 2018 MEUR
Fees for services provided	3
Guarantee fees	1
	4

19. Impairment losses

	15 months ended 31 Dec 2018 MEUR
Loans	1
Guarantees issued	2
Undrawn credit limit	1
	4

20. Other operating expenses

	15 months ended 31 Dec 2018 MEUR
Professional services	7
Travel expenses	2
	9

21. Taxation

As at 31 December 2018 the Company incurred accumulated tax losses of MEUR 10 available to be carried forward and off-set against future taxable income. The unutilized tax losses expire in 2027.

There is no expectation of sufficient taxable income, as dividends received are tax exempt in the Netherlands. Therefore, no income tax is accounted for in the profit and loss account apart from withholding taxes, and no deferred tax asset is recorded. The amount of unrecognized deferred tax asset as at 31 December 2018 is MEUR 3.

Year of expiration	**2018 MEUR**
2027	10
Total	**10**

Reconciliation of effective tax rate	**15 months ended 31 Dec 2018 MEUR**
Profit/(loss) before tax	**23**
Income tax using the domestic tax rate of 25%	6
Non-deductible costs	-
Withholding tax	-
Non-taxable income	(9)
Tax losses not recognized	3
Total income tax expense	**-**

22. Commitments and guarantees

As at 31 December 2018 the Company had outstanding commitments to extend credit of MEUR 70.

As at 31 December 2018 the Company had outstanding guarantees of MEUR 343 issued by the Company in favour of financing entities for loans drawn by subsidiaries.

23. 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 Dec 2018 MEUR
Loans received and other liabilities	(365)
	(365)

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:

	15 months ended 31 Dec 2018 MEUR
Interest expense	**(6)**
	(6)

(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:

	2018 MEUR
Cash and cash equivalents	1
Time deposits with banks	4
Loans provided	433
Financial assets at fair value through profit or loss	2
Other assets	2
Debt securities issued	(15)
Financial liabilities at fair value through profit or loss	(2)
Loans received and other liabilities	(69)
	356

23. Related party transactions (continued)

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

	15 months ended 31 Dec 2018 MEUR
Interest income	7
Interest expense	(1)
Dividend income	38
Fee income	4
Net foreign exchange result	(1)
General administrative expenses	(1)
	46

(c) Transactions with other related parties

There were no transactions with other related parties both as at 31 December 2018.

(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.

The Company paid for consultancy and management services under a consultancy service agreement that was in May 2018 assigned to the Company from its subsidiary Home Credit B.V. The agreement was concluded in 2013 between Home Credit B.V. and an entity controlled by one of the members of Company's Board of Directors. Consultancy fees incurred by the Company in the period ended 31 December 2018 in relation to this agreement amounted to MEUR 5. Other expenses incurred on behalf of this related party were MEUR 2. All these amounts are recorded under general administrative expenses, while the related liability of MEUR 1 as at 31 December 2018 is reported under other liabilities.

24. Audit expenses

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

15 months ended 31 Dec 2018	KPMG Accountants N.V. TEUR	Other KPMG network TEUR	Total TEUR
Audit of financial statements	243	1,945	**2,188**
Other audit engagements	128	530	**658**
Tax advisory	3	680	**683**
Other non-audit services	-	111	**111**
Total	**374**	**3,266**	**3,640**

9 months ended 30 September 2017	KPMG Accountants N.V. TEUR	Other KPMG network TEUR	Total TEUR
Audit of financial statements	57	455	**512**
Other audit engagements	13	80	**93**
Tax advisory	-	356	**356**
Other non-audit services	-	-	**-**
Total	**70**	**891**	**961**

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

25. 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.

26. Subsequent events

In January, March and May 2019, the Company increased share premium in Home Credit B.V. by MEUR 807.

In February 2019, the Company acquired an investment in Zonky (LLC).

In March, April and May 2019, the Company increased share premium in Zonky (LLC) by MEUR 5.

In March 2019 the Company performed equity contribution of MEUR 2 in ABDE Holding s.r.o.

In April 2019, the Company acquired an investment in HC Advisory Services (LLC).

In April 2019, the Company acquired an investment in Home Credit US Holding (LLC).

In May 2019, the Company performed capital contribution of MEUR 3 in Home Credit US Holding (LLC).

In May 2019, the Company received dividend from subsidiary in amount of MEUR 500.

In June 2019, dividend in amount of MEUR 25 was declared by Home Credit B.V.

On 1 June 2019 Mr. Christoph Glaser was appointed as a member of the Board of Directors of the Company.

On 1 June 2019 Mr. Ondřej Frydrych stepped down from Board of Directors of the Company.

On 12 June 2019 the Cypriote companies TALPA ESTERO LIMITED, SEPTUS HOLDING LIMITED, ENADOCO LIMITED, RHASKOS FINANCE LIMITED, SYLANDER CAPITAL LIMITED, ASTAVEDO LIMITED were transferred from Home Credit B.V to Home Credit Group B.V and the Cypriote company REDLIONE LIMITED was transferred from Home Credit B.V. and Home Credit International a.s. to Home Credit Group B.V.

The Consolidated Financial Statements as set out on pages 12 to 108 and the Company Financial Statements as set out on pages 109 to 132 were approved by the Board of Directors on 27 June 2019.

Jiří Šmejc
Chairman of the Board of Directors

Christoph Glaser
Member of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Jan Cornelis Jansen
Member of the Board of Directors

Mel Gerard Carvill
Member of the Board of Directors

Marcel Marinus van Santen
Member of the Board of Directors

Paulus Aloysius de Reijke
Member of the Board of Directors

Jean-Pascal Duvieusart
Member of the Board of Directors

Other information

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

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

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

2. Subsidiaries

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

3. Auditor’s report

The auditor’s report with respect to the Annual Report is set out on the next pages after Additional information on the twelve-month period consolidated result.

Additional Information on the Twelve-month Period Consolidated Result

Due to fifteen-month period of consolidated accounts presented in the Annual report the Group decided to present additional information to Annual report covering twelve-month period consolidated result.

Consolidated Statement of Financial Position

	31 Dec 2018 MEUR	31 Dec 2017 MEUR
ASSETS		
Cash and cash equivalents	3,362	3,028
Financial assets at fair value through profit or loss	21	35
Financial assets available-for-sale	-	1,495
Financial assets at fair value through other comprehensive income	462	-
Due from banks, other financial institutions and holding companies	314	403
Loans to customers	17,462	15,452
Investment securities at amortized cost	761	-
Assets classified as held for sale	3	3
Current income tax receivables	8	16
Investments in associates	27	3
Property and equipment	181	190
Intangible assets and goodwill	287	242
Deferred tax assets	423	330
Other assets	336	336
Total assets	**23,647**	**21,533**
LIABILITIES		
Financial liabilities at fair value through profit or loss	21	322
Current accounts and deposits from customers	6,776	6,356
Due to banks, other financial institutions and holding companies	11,966	10,598
Debt securities issued	1,795	998
Subordinated liabilities	199	383
Current income tax liabilities	82	197
Deferred tax liabilities	9	6
Insurance and other provisions	42	37
Other liabilities	603	601
Total liabilities	**21,493**	**19,498**
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	1,000	7
Share premium	628	-
Statutory reserves	114	82
Foreign currency translation	(770)	(649)
Reserve for business combinations under common control	(153)	1,481
Revaluation reserve	-	(1)
Other reserves	1,318	1,100
Total equity attributable to equity holders of the Company	**2,137**	**2,020**
Non-controlling interests	**17**	**15**
Total equity	**2,154**	**2,035**
Total liabilities and equity	**23,647**	**21,533**

Consolidated Statement of Comprehensive Income

Continuing operations:	2018 MEUR	2017 MEUR
Interest income	4,601	3,519
Interest expense	(1,384)	(1,102)
Net interest income	**3,217**	**2,417**
Fee and commission income	837	790
Fee and commission expense	(157)	(124)
Net fee and commission income	**680**	**666**
Insurance income	17	25
Net gains/(losses) on financial assets and liabilities	2	(11)
Other operating income	37	26
Operating income	**3,953**	**3,123**
Impairment losses on financial assets	(1,729)	(1,124)
General administrative expenses	(1,632)	(1,531)
Other operating expenses	(118)	(95)
Operating expenses	**(3,479)**	**(2,750)**
Losses on disposals/liquidations of associates and subsidiaries	(8)	(3)
Share of earnings in associates	3	3
Profit before tax	**469**	**373**
Income tax benefit/(expense)	(47)	(129)
Net profit from continuing operations for the period	**422**	**244**
Profit/(loss) attributable to:		
Equity holders of the Company	445	256
Non-controlling interests	(23)	(12)
	422	**244**
Other comprehensive (loss)/income which will be subsequently reclassified to profit or loss:		
Currency translation	(138)	(143)
Revaluation (losses)/gains on available-for-sale financial assets	-	(45)
Revaluation of financial assets at fair value through other comprehensive income, net of tax	(14)	-
Revaluation of available-for-sale financial assets transferred to profit or loss	-	17
Revaluation of financial assets at fair value through other comprehensive income transferred to profit or loss, net of tax	15	-
Income tax relating to components of other comprehensive income	-	5
Other comprehensive (loss)/income for the period	**(137)**	**(166)**
Total comprehensive income/(loss) for the period	**285**	**78**
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	308	90
Non-controlling interests	(23)	(12)
	285	**78**

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Independent auditor's report

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

Report on the audit of the financial statements for the fifteen month period ended 31 December 2018 included in the annual report

Our opinion

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

What we have audited

We have audited the financial statements of the fifteen month period ended 31 December 2018 of Home Credit Group B.V. (the 'Company' or the 'Group') based in Amsterdam, the Netherlands.

The financial statements comprise:

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

Basis for our opinion

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

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

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

Audit approach

Summary

Materiality
— Group materiality of EUR 55 million
— 3% of net assets

Group audit
— 99% of total assets
— 100% of Group profit before tax

Key audit matters
— Valuation of loan portfolio

Opinion
— Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 55 million which represents 3% of net assets. We consider net assets as the most appropriate benchmark based on our assessment of the general information needs of users of the financial statements and given the fact that the benchmark is a key metric applied in the (regulated) banking industry. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee that misstatements in excess of EUR 2.7 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

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

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

We have:

— performed audit procedures ourselves at group components Home Credit Group B.V. and Home Credit B.V.;

— made use of the work of other auditors for the audit of the other in scope components;

— performed review procedures or specific audit procedures at other components.

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

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

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

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

Our procedures as described above can be summarized as follows:

Total assets

99% 1%

Audit of the complete reporting package

Covered by additional procedures performed at group level

Profit before tax

100%

Audit of the complete reporting package

0%

Covered by additional procedures performed at group level

Consideration of fraud in the audit of financial statements

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

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

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

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

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

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

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

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

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

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

Consideration of laws and regulations in the audit of financial statements

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

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

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

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

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

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

Our key audit matters

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

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

Valuation of loan portfolio

Description

Home Credit Group B.V. provides loans to retail customers amounts to EUR 19.6 billion through the use of various distribution channels, among other things, point of sales spread out in the countries where it operates and to corporate client amounts to EUR 0,1 billion. These loans are measured at amortized cost, less a provision for loan losses amounts to EUR 2.1 billion in total. A number of aspects of the accounting for loan loss impairments require a certain level judgment of the management, such as applying macroeconomic scenarios to the expected credit loss ('ECL'), ECL models and the assessment of objective evidence for impairment and the assessment of the recoverable amount. The complexity of the judgments and the amounts in the provision could provide the Company with the opportunity to intentionally reflect the amounts differently.

Our response

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

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

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

Our observation

Based on our procedures performed, we found the management's overall assessment relating to valuation of loan portfolio within the acceptable range and adequately disclosed in note 3.(vi) and 11 of the financial statements respectively.

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Report on the other information included in the annual report

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

- the Directors' report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- the additional information on the twelve-month period consolidated result.

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

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

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

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

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

Report on other legal and regulatory requirements

Engagement

We were appointed as auditors of Home Credit Group B.V. starting 2018 by the Board of Directors at the meeting held on 20 December 2018, as the shareholders of the Company refrained from the appointment of an auditor within the meaning of Section 2:393 of the Dutch Civil Code. This is the first year the Group has an EU-PIE status.

No prohibited services

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

Description of responsibilities regarding the financial statements

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

The Board of Directors of Home Credit Group B.V. is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the

Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibilities for the audit of the financial statements

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our independent auditor's report.

Amstelveen, 27 June 2019

KPMG Accountants N.V.

M. Frikkee RA