



PPF GROUP N.V.

Annual accounts 2017

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Description of the Company

PPF Group N.V.

Date of incorporation: 29 December 1994

Registered office: Netherlands, Strawinskylaan 933, 1077XX Amsterdam

Identification number: 33264887

Basic share capital: EUR 624,010

Principal business: Holding company activities and financing thereof

General information

PPF Group (the “Group”) invests in multiple market sectors such as banking and financial services, real estate, telecommunications, insurance, agriculture and biotechnology. PPF Group’s reach spans from Central and Eastern Europe to Russia, the USA and across Asia. As at 31 December 2017, PPF Group owned assets amounting to BEUR 38.

PPF Group N.V., with its registered office in Amsterdam, is the key holding company of the Group that makes strategic decisions governing the entire Group’s activity. The Group comprises several business segments. The most significant segment is PPF Financial Holdings, combining consumer finance, retail and corporate banking. The Group holds an 88.62% interest in Home Credit B.V., the holding company for the Home Credit Group companies, providing a global consumer finance business, and Air Bank a.s. (a retail bank). The Group’s focus in corporate banking is represented by PPF banka a.s., in which the Group holds a 92.96% share.

Non-financial segments are represented predominantly by real estate and telecommunication. The Group owns 100% of PPF Real Estate Holding B.V., a Group company specialised in real estate projects.

In January 2014, the Group acquired a controlling stake in Telefónica Czech Republic a.s. (subsequently renamed to O2 Czech Republic), a Czech publicly listed telecommunication company also operating in the Slovak Republic. In 2015, the company demerged into O2 Czech Republic a.s. and Česká telekomunikační infrastruktura, a.s. (“CETIN”). As of 31 December 2017, the Group holds an 83.4% share in O2 CR and a 100% share in CETIN.

Significant events in 2017 (up to May 2018)

October

The Group acquired a 40% stake in Sully System a.s. This group comprises Mall Group and Heureka, representing an e-commerce platform in Central and Eastern Europe and a comparison shopping platform in the Czech Republic and Slovakia.

November

The Group signed an agreement for the acquisition of a 100% stake in Škoda Transportation, a traditional transport engineering manufacturer. Škoda Transportation’s main products include low-floor trams, electric locomotives, metro trains, suburban train units, trolleybuses, electric buses, as well as traction engines and complete powertrains for transport systems. The majority of operations is located in the Czech Republic. The Group has also subsidiaries in Germany, Poland, Hungary,

Finland, and Russia. The transaction was finalised after approval by the European Commission in April 2018.

February 2018

The Group signed an agreement for the acquisition of a 100% share in Nova Broadcasting Group, Bulgaria's largest national media group, from the international media corporation MTG and local private owners. The transaction is subject to approval by the competent regulatory authorities.

March 2018

The Group signed an agreement to purchase Telenor's telecommunication assets in Central and Eastern Europe, specifically in Hungary, Bulgaria, Montenegro and Serbia. The transaction is subject to approval by the competent regulatory authorities.

To finance this transaction, PPF Group obtained a syndicated loan commitment of MEUR 3,025 from a consortium of leading European banks.

Financial performance

As of 31 December 2017, the total consolidated balance sheet amounted to MEUR 38,222 (2016: MEUR 27,041).

At the end of 2017, the consolidated shareholders' equity in PPF Group N.V. amounted to MEUR 6,907 (2016: MEUR 6,361).

The consolidated profit attributable to equity shareholders of the Group for 2017 reached MEUR 642 (2016: MEUR 1,031).

The Group's key driver of asset growth is the positive development in the financial segment represented by Home Credit and PPF banka, representing 72% of total assets. The core non-financial segments - real estate and telecommunication - are stable with respect to their size and performance. The biggest contributors to the Group's consolidated profit in 2017 were Home Credit (39%), O2 (20%) and CETIN (17%). The 2017 net result is comparable to 2016 profit after the deduction of the effect of the reclassification of Polymetal shares and a gain on the bargain purchase of LEAG (in total MEUR 397).

Workforce

The rounded average number of employees during 2017 was 154,000 (2016: 102,000).

PPF Group's operations did not have any significant impact on the environment.

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 as closely as possible fit the profile and strategy of the Company. This aim for the best fit, in combination with the availability of qualified candidates, resulted in PPF Group currently having a Board of Directors in which all three members are male. To increase gender diversity on the Board of Directors, in accordance with Article 2:276, Section 2 of the Dutch Civil Code, PPF Group intends to pay close attention to gender diversity in the process of recruiting and appointing future members of the Board of Directors. PPF Group will retain an active and open attitude as regards selecting female candidates.

Capital management

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

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

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

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

Financial instruments and risk management

The Group is exposed to various risks as a result of its activities: liquidity risk, market risks (interest rate risk, equity price risk, currency risk), credit risk and insurance risk.

Liquidity risk arises in the general funding of the Group’s activities and in the management of its positions. The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits as well as other liabilities evidenced by paper, bank loans and shareholders’ equity.

All financial instruments and positions are subject to market risk, i.e. the risk that future changes in market conditions may make an instrument more or less valuable. Exposure to market risk is formally managed by buying or selling instruments or entering into offsetting positions in accordance with risk limits or frameworks set by senior management.

The Group is subject to credit risk through its trading, lending and investing activities and where it acts as an intermediary on behalf of third parties. The Group’s primary exposure to credit risk arises through the purchase of debt securities and through the provision of loans and advances. Credit risk is managed at the level of the individual Group companies.

The Group carries an inventory of capital market instruments to manage those risks. Positions are opened in the money market, foreign exchange markets, debt and credit markets and equity markets based on expectations of future market conditions. As at 31 December 2017, the Group held financial instruments of MEUR 21,743 (excluding cash and cash equivalents). Of this amount, financial assets at fair value through profit or loss amounted to MEUR 332; financial assets available for sale came to MEUR 3,346 and loans and receivables to MEUR 18,053. Financial liabilities held by the Group include, in particular, liabilities due to non-banks totalling MEUR 11,637, liabilities due to banks of MEUR 13,927, debt securities issued amounting to MEUR 1,697, subordinated liabilities of MEUR 351 and financial liabilities at fair value through profit or loss of MEUR 813.

The Group holds derivative financial instruments for trading and for risk management purposes: swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices or price indices.

For detailed information on risk management, see Section C of the notes to the consolidated financial statements.

Description of core business segments and their development in 2017

Home Credit Group

Consolidated financial highlights, in millions of EUR

	2017	2016
PPF Group's share	88.62%	88.62%
Operating income	3,123	2,000
Net profit	244	210
Total assets	21,526	14,704
Total equity	2,028	1,501

The Home Credit B.V. Group is a leading multi-channel provider of consumer finance in Europe and Asia.

The Home Credit Group (“Home Credit” or “HC Group”) is the world’s largest consumer credit provider, operating primarily in Asian countries showing high growth potential and on its traditional markets in Central and Eastern Europe.

2017 was a pivotal year for the Home Credit Group as it rebranded across all its markets to present itself as more innovative, more accessible and more trusted by its customers. The HC Group has continued to balance high growth and strong customer acquisition with solid performance and well-controlled risk.

The key themes of the year were to leverage the HC Group’s fintech capabilities – using advanced technology underpinning its acquisition, approval, and risk management processes, as well as innovative products, support services like customer apps, and channels like online marketplaces – and improving customer satisfaction evidenced by increased net promoter scores across the HC Group. The HC Group has also been recognised as an employer of choice by numerous awards across its markets.

All key HC Group businesses contributed to this year’s profit - the second profitable year in a row. Two of four investment-phase operations (Indonesia and the Philippines) broke even over the course of the year, while the remaining two (India and the United States) remain on track in their development plan.

The HC Group thus boasts a wide portfolio of successful businesses across its footprint, sustaining its market-leading positions and command over the fast-growing mobile phone financing market segment in particular. It achieves this while being vigilant on risk and costs, running a fast and lean underwriting process, and staying able to quickly adapt and seize new opportunities.

The HC Group put forward another strong result for the year ended 31 December 2017, with a total net profit of MEUR 244: a modest, but solid increase of 16% over the result for 2016 (MEUR 210). Each quarter of 2017 was profitable, thus extending the run of profitable quarters to ten. This demonstrates the HC Group’s solid financial footing and that the adjustments made following weaker

results in previous years have proven prudent, effective and sustainable in the long term. Although both intermittent and lasting pressures on the consumer lending market continue in some of our markets, Home Credit is well-adapted to this operational context.

Risk performance remains strong, and the HC Group boasts a diversified funding base and a growing asset base. This is also thanks to completing the roll out of risk-based pricing, which has now been adopted by all of the HC Group's country operations. The result of this transition is also visible in improved market penetration and an improvement in the overall risk-return profile of our loan portfolio.

Home Credit's distinctive business model of providing consumer finance products which are easily accessible even at the lower end of the economic scale, and the Group's size, make it attractive to manufacturers and retailers seeking a consumer finance partner in a number of its markets. This in turn supports Home Credit's rapid development, particularly in Asia. New loans granted in 2017 totalled MEUR 20,693, representing an increase of 79% compared to 2016, with the HC Group having 29.9 million active customers at the end of 2017.

Home Credit's global POS network is a key pillar of its successful distribution model, incorporating 399,228 sites worldwide and providing access to customers in areas where bank and post office branches are more limited. The expansion of the POS network was strongest in Asia, where the increase was 122,494 new sites over the period.

HC Group companies are performing strongly. Russia, China, Vietnam and Kazakhstan – four of the key profit contributors to the group – are all profitable.

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

Air Bank

Individual financial highlights, in millions of EUR

	2017	2016
PPF Group's share	88.62%	88.62%
Operating income	80	66
Net profit	22.9	9.0
Total assets	3,840	3,212
Total equity	241	200

Air Bank is a new-generation retail bank. Since its launch in November 2011, it has competed with traditional banks by offering simple, innovative services and a friendly approach to clients. PPF Group holds an 88.62% stake in Air Bank, part of the HC Group.

In 2017, the bank made a net profit of MEUR 23, with operating costs of MEUR 51 and revenues of MEUR 80. Total assets climbed by 13% year on year to BEUR 3.8, placing Air Bank among the

Czech market's medium-sized financial institutions. The bank's equity rose 14% to MEUR 241. Total profit went up by 147% year-on-year, driven by an increase in the number of clients and the volume of loans granted, and, most importantly, by the market appreciation of investments in the first half of 2017.

At the end of 2017, six years after its inception, Air Bank had 597,000 customers served by 767 employees at 35 branches distributed among the Czech Republic's largest towns and cities. Last year, Air Bank attracted 82,000 new customers, tantamount to a 16% year-on-year growth. It also received numerous awards, including being voted as the Most Helpful Bank of the Year and a company delivering the best customer experience in the Czech Republic. Půjčka od Air Bank (Air Bank Loan) topped the Safe Credit Navigator rankings and triumphed in the Responsible Lending Index, which was analysed by the People in Need non-profit organisation.

Current-account and savings-account deposits went up by 13% to BEUR 3.5 in 2017. Lending expanded by 19% to BEUR 1.5.

The bank managed to generate more income from retail operations on the back of rapid growth in consumer loans and an increase in the number of payments per card.

Last year, the bank again invested heavily in the construction of new ATMs, as a satisfaction survey showed that easier cash machine access topped customers' wish lists. The ATM network doubled over the year to 321 machines, which have now been deployed in more than 100 towns and cities across the Czech Republic. While Air Bank's entire ATM network is contactless, in 2017, Air Bank became the first bank in the world to start publicly testing a unique, purely contactless ATM, from which clients can only make contactless withdrawals.

In 2017, the bank opened a new branch and offered its customers several innovations, such as new mortgages and enhanced mobile apps. The bank's clients can also easily and quickly take out insurance for their foreign travels directly through a mobile app.

As in previous years, Air Bank also concentrated on marketing to promote the bank's values. For example, it once again set up an online map for May Day, so that customers could find blossoming cherry trees under which, in keeping with Czech tradition, they could kiss their significant other. In September, it converted selected ATMs into gambling machines, giving the bank's clients the chance to double the money they had withdrawn from the ATM.

PPF banka

Individual financial highlights, in millions of EUR

	2017	2016
PPF Group's share	92.96%	92.96%
Operating income	122	91
Net profit	57.8	44.5
Total assets	9,122	5,056
Total equity	397	324

PPF banka offers all banking and financial services, primarily for companies and municipalities. It specialises in trading on financial and capital markets. Last year, it developed its project, export, and acquisition financing services. For other PPF Group companies, it carries out international payment transactions and hedging, and procures financing for their projects on the capital markets. PPF banka also plays a key role as the PPF Group's treasury bank.

In 2017, PPF banka generated the highest net profit in its history (MEUR 58), representing a return on average equity of 15.8%. In addition, PPF banka improved its capital position, demonstrated by an increase of the capital adequacy ratio from 15.9% in December 2016 to 16.2% at the end of 2017. The bank's above-average profitability and good capital position are good news for its two main ultimate shareholders: PPF Group and the Capital City of Prague.

The bank increased the volume of loans granted to clients by 12% to BEUR 1.3, showing above-average growth in this indicator compared with the rest of the Czech banking market while maintaining our operations' high effectiveness. PPF banka's general administrative expenses in 2017 accounted for only 0.4% of total assets, which is half of what is reported by the Czech banking market.

The bank became the most active dealer with Czech government bonds on the primary market in 2017 and ranked first in the summary evaluation by the Czech Ministry of Finance. Of all primary bond market makers, PPF banka helped the Czech Republic place on the market the largest number of government bonds used by the Ministry of Finance of the CR to finance the state debt.

The bank as the administrator successfully organised the issue of subordinated bonds of PPF Financial Holdings B. V. totalling MCZK 4,000 (MEUR 157).

Looking at the operational level, the bank significantly strengthened its IT systems allowing a more effective use of its database. We also completed a number of projects arising from regulatory requirements and the need to enhance the Bank's internal processes (such as IFRS9, PSD2, MiFID II).

PPF Life Insurance (Russia)

Individual financial highlights, in millions of EUR

	2017	2016
PPF Group's share	100%	100%
Insurance premium revenue	58.6	63.2
Net profit	4.8	3.4
Total equity	35.4	30.9

2017 was an anniversary year for PPF Life Insurance. For 15 years, the company has maintained its strong market position among leading life insurers in Russia.

The total volume of insurance premiums in life business increased by 11% year-on-year exceeding MEUR 48.9. Sales grew primarily thanks to the efficient operation of the company's agency network. The amount of insurance benefits paid out in 2017 increased by 20% and totalled more than MEUR 15.

PPF Life Insurance strengthened its presence in seven regions of Russia. New offices opened in cities such as Ufa, Rostov on the Don, Novosibirsk, Krasnodar, Perm and Novokuznetsk. In 2017, the company presented to the market a unique insurance product for pregnant women called Maria providing reliable financial support to future mothers throughout the entire pregnancy and early postnatal period.

The company invested considerable amounts in its business development and saw substantial growth in the total amount of insurance benefits paid, all of this in an environment of quite modest market dynamics in the segment of traditional life products; its net profit increased to MEUR 4.8.

The company focuses on developing traditional life insurance products – endowment life insurance and pension-related life insurance policies. With its market share of more than 34%, PPF Life Insurance has been the market leader in the specific segment of pension-related life policies for five years in a row.

PPF Life Insurance's reinsurance partner is SCOR Group, one of the largest reinsurers in the world, which has been given an AA- rating by S&P and Fitch.

PPF Life Insurance is an active member of the most prominent professional associations, VSS and the Association of Life Insurance Companies. For 15 years, PPF Life Insurance has been actively involved in various activities to improve the population's financial literacy in most of Russian regions. PPF Life Insurance has also contributed significantly to efforts against oncological diseases as it traditionally provides funds for grants to future oncologists; in this, the company works with the reputable cancer prevention fund.

Real Estate

Consolidated financial highlights, in millions of EUR

	2017	2016
PPF Group's share	100%	100%
Net profit	76	44
Total assets	1,840	1,854
Total equity	430	401

PPF Real Estate Holding is a prominent real estate investor and developer. It manages PPF Group's real estate portfolio and does business in the Netherlands, the Czech Republic, Russia, Germany, the UK and other European countries.

In 2017, the company actively further consolidated its property portfolio. It sold several small, non-core projects to other investors and focused on the long-term stabilisation of its assets on all markets.

PPF Real Estate Holding actively assessed the number of acquisition opportunities in countries where it currently operates, as well as on new markets. One acquisition in Russia was signed just before year-end 2017, with closing in April 2018. Several other new purchase transactions were at an advanced stage of negotiations.

PPF Group's real estate investments in the Netherlands comprise nine office buildings and one shopping centre. Nine of these buildings offer more than 160,000 m² to let in prestigious locations such as the Millennium Tower in Rotterdam. On the highly competitive Dutch market, these properties attract high-quality tenants. The remaining building, which has been undergoing complete renovation since 2016, will offer a further 13,000 m² of modern office space once completed in the second half of 2018.

In Russia, PPF Real Estate offers offices, shopping malls and logistics complexes that, it either fully owns or co-owns together with other leading investors, including the Hines Russia & Poland Fund. Together with Hines, the Group owns two office buildings in Moscow's popular Metropolis centre, on the way from Sheremetyevo Airport to the city centre. Here, 55,000 m² is available for lease. It also owns and operates two large shopping centres, one in Ryazan, the other in Astrakhan, with a total area of more than 100,000 m².

At the Comcity business park in "New Moscow", just off the main ring road, the company operates the initial stage of this project, offering 107,500 m² for lease in particular to telecommunication and IT companies. In Comcity's initial stages, more than 90% of the premises were let. The Comcity concept, with plans to prepare up to 430,000 m² for customers, also incorporates green rest areas and a large shopping gallery, including a supermarket, restaurants, cafés and a gym.

In tandem with its long-term partner, Radius Group, PPF Real Estate is contributing to the development of one of the largest logistics parks in the southern part of the broader Moscow region. South Gate Industrial Park spreads out over an area of 144 ha. With an overall capacity of 653,000 m², it is an industry leader. In 2016, Radius Group successfully completed a 100,000 m² distribution centre for a major French retail DIY company. This development was built precisely to the client's requirements. On the back of this sound experience in "built-to-suit" projects, it won another contract to design and build a similar distribution centre for another French retail company, this time covering an area of 120,000 m². The completion of the centre is planned for the end of 2018 on a land plot across the road from the current site of the South Gate logistics park.

Last year, the reconfiguration of two Victorian-era houses in Bishopswood Road, London, UK, was completed and both properties were rented out. The development of a third house also progressed, with completion planned for early 2019. The houses are modernised for 21st-century living, each offering around 1,000 m² of accommodation.

The ArtGen Project in Prague offers modern offices and retail units in two buildings over approximately 26,000 m². Since being commissioned in 2014, the buildings have reached more than 90% occupancy. ArtGen serves as a prime example of how what was once one of Prague's industrial districts has been transformed into a modern office, retail and residential location. Another office building offering 8,000 m² in Kateřinská Street, in the centre of Prague, has seen a substantial increase in occupancy to 80%, compared to 15% when the project was purchased in September 2016.

PPF Real Estate's property portfolio in Germany numbers three office buildings situated in the centre of Berlin and in the regions of Monheim/Düsseldorf and Langen/Frankfurt, with a total area of 43,000 m². All three boast eminent and prestigious tenants and a high level of occupancy.

In October 2016, the company expanded its international portfolio when it acquired an 18,000 m² office building in the centre of the Romanian capital Bucharest. The Metropolis Centre is a complex of modern offices built around a historical print works preserved from 1919. The premises have been refurbished according to Class A standards and are a fine example of how to reconcile modern and classic architectural styles.

O2 Czech Republic (Group)

Consolidated financial highlights (before PPA adjustments), in millions of EUR

	2017	2016
PPF Group's share (voting)	83.4%	85.4%
Total revenues	1,395	1,388
Net profit	212	195
Total assets	1,364	1,233
Total equity	606	648

Main operating indicators, in thousands

	2017	2016
Fixed voice lines	613	699
xDSL connections – retail	729	769
Pay TV – O2 TV	237	221
Mobile customers in the Czech Republic	4,938	4,941
– <i>of this</i> contract customers	3,429	3,356
prepaid customers	1,510	1,585
Mobile customers in Slovakia	1,937	1,892

O2 Group comprises mainly O2 Czech Republic and its subsidiary O2 Slovakia.

O2 Czech Republic ("O2") is the largest telecommunications operator on the Czech market. Its customers last year used nearly eight million fixed and mobile lines. This ranks it among the biggest operators in Europe.

O2 Slovakia belongs to the three largest mobile operators on the Slovak market with more than 1.9 million mobile customers.

During 2017, O2 introduced a number of new products and services. For customers without a fixed internet access point of sufficient speed, in February, it launched a home network with wireless connection. As a result, O2 can offer internet access to 99% of households in the Czech Republic. As part of its overall strategy, the company began offering O2 Spolu, a flexible convergent bundle offering groups of customers (such as families) a package of unlimited calls, SMS and mobile data, along with digital TV and internet service. In Slovakia, the offer of innovative high-capacity data tariffs goes by the name of O2 Data.

O2 also continued to make further improvements to its mobile network and prepare for future growth in data consumption. At a frequency auction, O2 won a 40 MHz block in the 3.7 GHz band for MEUR 8, making it the best-prepared operator for the future development of 5G services and technology. The company also focuses on expanding 4G LTE network coverage in Slovakia. At the end of 2017, it covered more than 90% of the population, becoming the market leader. In addition, the company has begun building a wireless network primarily to provide O2 TV digital television and internet services to households. At the end of 2017, this was available to customers in almost half of all municipalities throughout Slovakia.

Last year, O2 also introduced its first device developed from the drawing board to the final product entirely using in-house resources. The elegant O2 Smart Box combines the most powerful DSL modem on the market for connecting to HD Internet and a Wi-Fi router to provide perfect home and family coverage, and to interconnect smart household devices. What is more, everything is easily controlled wirelessly via a specially developed mobile app.

On the strength of its O2 TV service, the company is also the largest internet television provider in the Czech Republic. Thousands of viewers last year enjoyed watching the 24-hour access station O2 TV Sport. At the same time, the company continued to focus on offering exclusive sports content. In January, O2 launched a new sports station called O2 TV Tennis. The company also managed to obtain broadcast rights to the world's most famous football competition – the prestigious UEFA Champions League will be part of O2's exclusive offerings for the 2018/2019, 2019/2020 and 2020/2021 seasons. The exclusive rights to the complete UEFA Champions League apply to the Czech and Slovak markets.

Apart from traditional telecommunication services, O2 also provides clients with a comprehensive range of information technologies for housing, hosting and cloud services in data centres with a total area of 7,300 square metres. As for significant new trends in the telecommunications sector, O2 also focuses on the development and supply of non-traditional telecommunication services. These primarily include financial services, hardware insurance, travel insurance and an innovative new electronic sales reporting tool.

In the following year, O2 plans to build on these activities while focusing on developing new services and further improving existing ones.

CETIN

Consolidated financial highlights (before PPA adjustments), in millions of EUR

	2017	2016
PPF Group's share (voting)	100%	100%
Total revenues	796	754
Net profit	103	83
Total assets	2,145	2,028
Total equity	816	665

CETIN was formed when it was spun off from the telecommunication company O2 Czech Republic a.s., on 1 June 2015. It is an independent infrastructure wholesale company. Its clients are telecommunications operators and firms offering internet connections that, through CETIN infrastructure, deliver services to final customers.

CETIN is a technology company and a trend-setter in its sector. It invests extensively in new networks. In the Czech Republic, it primarily offers mobile and fixed network infrastructure services, data services for corporate networks, and data centre leasing.

CETIN owns and operates the largest electronic communications network in the Czech Republic. Its telecommunication network covers 99.7% of the population via fixed technologies and a set of mobile technologies disseminated over more than 6,000 base stations. CETIN contributes to a network sharing project and provides its mobile infrastructure to O2 and T-Mobile. In 2017, it put 513 new LTE stations – used by both operators – into operation. The network sharing project was completed in 2017. A second capacity layer was added to the almost 500 base stations in Brno and the eastern part of the shared network. This enables CETIN to transfer increased data volumes, reflecting the needs of the customers of both the above-mentioned operators.

CETIN's national network comprises 20 million pairs of copper cables and 38,000 km of fibre-optic cables. These numbers are continuously increasing thanks to extensive investment in the Fibre-to-the-Cabinet (FTTC) programme. In 2017, the company built 1,930 FTTC street cabinets. This considerably sped up the connection for 650,000 households, with more than 70% having access to speeds of at least 50 Mbps. In 2017, the entire CETIN network started offering 250 Mbps, which is now available to almost 200,000 customers. Large-scale investments also helped to accelerate xDSL technology at a pace outstripping all other technologies on the Czech market last year. Another area in which CETIN made considerable investments was new development projects. This resulted in the connection of 16,925 new residential units to the CETIN network over the year.

CETIN offers international services to domestic and foreign customers alike. Abroad, the company is active in London, Vienna, Bratislava and Frankfurt via physical network nodes (POPs). In addition, it provides comprehensive international voice and data services to more than 200 customers around the world. International transmission services primarily comprise voice traffic for international operators worldwide. These services generate significant revenues with low margins requiring very low operating costs.

Mall Group and HEUREKA

Mall Group is the largest online retail platform in Central and Eastern Europe, offering services to customers in the Czech Republic, Slovakia, Poland, Hungary, Slovenia, Croatia, and Romania. Mall Group encompasses universal shopping galleries with a wide range of merchandise, spearheaded by

the Mall portal, and specialised e-shops such as CZC, Prodeti.cz, Vivantis, and Košík.cz. The group's annual turnover is in excess of MEUR 500. The Group acquired a 40% stake in October 2017.

Heureka.cz, the largest online price comparator in the Czech Republic and Slovakia with almost a million customers a day, is one of the five most frequented websites in the region. In its comparisons, it sifts through 150 million offers in a catalogue containing 20 million products. Besides comparing prices, it offers complete product descriptions, photographs and price histories. After making their comparisons, customers can purchase the product they have selected directly on the Heureka site, without having to enter the specific online shop where they selected the merchandise and services. Revenue generated from Heureka's offers comes to MEUR 40 per year. In December 2016, the group expanded by purchasing leading price comparators in Hungary, Romania and Bulgaria (Arukereso.hu, Compari.ro and Pazaruvaj.com). This acquisition made Heureka the comparator leader in Central and Eastern Europe.

The Group acquired a 40% stake in both businesses in October 2017. The residual shareholders are EC Investments (40%) and Rockaway (20%), wielding management control over the group as a whole.

Research and development (SOTIO)

SOTIO is an international biotechnology company dedicated to the research and development of new medical therapies, focusing on the treatment of cancer and autoimmune diseases. The company has been part of PPF Group since 2012. The SOTIO Group employs more than 300 professionals. SOTIO's headquarters are based in Prague. The Group also includes companies in the US, China, and Russia.

SOTIO spearheads PPF Group's drive to build a diverse biotechnology portfolio. To achieve this, it uses its own research and development, collaboration, in-licensing, investment, and mergers and acquisitions sections. The most advanced project is its proprietary platform of active cellular immunotherapy (ACI) on the basis of dendritic cells. SOTIO verifies the safety and efficacy of its DCVAC products through multiple Phase I to Phase III clinical trials.

A key Phase III international clinical trial focusing on prostate cancer patients (VIABLE) was launched in 2014. The recruitment of patients from 21 European countries and the US was completed at the end of 2017. This was the first time in modern history that a company from the Czech Republic reached this level of clinical development. SOTIO is also the first company from Central and Eastern Europe to initiate a Phase III clinical trial in the area of cellular immunotherapy.

In 2012, SOTIO started running 11 clinical studies in Europe and the US, focusing on patients with prostate, ovarian and lung cancer. Several other clinical trials are also under preparation. In addition, the company is also conducting several joint research projects with leading hospitals in China.

Building on positive signals from ongoing clinical studies focusing on patients with ovarian cancer, in 2017 SOTIO expanded its clinical trial portfolio to include further studies into this serious disease.

SOTIO is always looking to partner with other companies and institutions that develop promising oncology therapeutics. Working with its affiliate Accord Research, SOTIO is responsible for pre-clinical and clinical development for other biotechnology companies affiliated with PPF or SOTIO through equity or contracts. These currently include France-based Cytune Pharma, Germany-based Lead Discovery Center and Switzerland-based NBE-Therapeutics. This threesome is complemented by the management of PPF Group's investment in the Swiss company Cellestia Biotech. In cooperation with the partnering companies and within its own research activities, SOTIO is actively

implementing several preclinical stage projects with the aim of advancing several lead products and conducting Phase I clinical trials in the near future.

The company also carries out and finances independent scientific research – the most extensive of its kind in the Czech Republic. SOTIO puts into practice the results of work by Czech scientists currently researching new methods for the treatment of serious oncological and autoimmune disorders.

SOTIO has facilities in Europe, the United States, China and Russia and has all the functionalities needed for research, clinical development and market access in-house. In Holešovice, Prague, SOTIO has built its own state-of-the-art production and research facility, one of the largest and most modern of its kind in Europe. These super-clean laboratories meet the most stringent requirements for the sterile production of the drugs used in cellular therapy. The company also operates similar laboratories in Beijing, China.

Establishment of Supervisory Board

The shareholders of PPF Group N.V. have decided to establish a Supervisory Board in compliance with the articles of association of PPF Group N.V. The respective decision of the shareholders of PPF Group N.V. became effective on 26 February, 2018. The shareholders of PPF Group N.V. have appointed Messrs. František Dostálek (designated as the Chairman), Kamil Ziegler and Lubomír Král the members of the Supervisory Board. The Supervisory Board shall supervise the Board of Directors of PPF Group N.V. and provide this body with any (un)solicited advice it deems appropriate within the best interest of PPF Group N.V.

The Supervisory Board may also establish special committees of its members or other persons or both. Based on the aforementioned authority, an Audit Committee (comprising of the same three members as the Supervisory Board) has been instantly established at PPF Group N.V. Regarding the fact that all conditions of the Dutch transposition of Article 39 (3) (a) of Directive 2006/43/EC are followed in case of the Audit Committee, two Group entities - Credit B.V. and CETIN Finance B.V. as public interest entities are not obliged to establish their own audit committees because all related applicable requirements are followed by the Audit Committee at PPF Group N.V. level.

Outlook

The primary goal of PPF Group's activities is to generate returns on its investments in the most efficient manner. The investment strategy of PPF Group is based on two pillars. The first is expansion, i.e. constantly seeking new investment opportunities where we can add value by conducting operational restructuring with tried and tested business models, implementing strict financial and corporate discipline, and engendering leadership and expertise through excellence in management.

As visible from its significant transactions in 2017 and 2018 the Group is about to enter new business segments with respect to industry or geographic area. This brings necessary attention to new risks and the needs to manage those risks and capital invested in a prudent and disciplined manner. The Group is already undertaking steps to address these opportunities and threats by strengthening its management structure and related corporate governance.

Apart from the development of PPF Group through expansion into new markets, a no less important element in the investment policy is stabilising and reinforcing the existing position of companies (investments) in markets where the Group already has a presence. This also means improving and expanding the existing offer of financial services and products. In this manner, modern financial

products are being produced throughout the Group, assuring comprehensive client service and satisfying client needs to the maximum extent possible.

We aim to continue to grow, innovate and leverage the extensive background of our knowledge and experience to achieve further success. Over the 27 years of its existence, PPF Group has gained a proven track record in business restructuring in Central and Eastern Europe, Russia and Asia, and we will continue to focus on achieving investment opportunities in these key regions.

Social responsibility

PPF Group is aware of its wider social responsibility wherever it operates and invests. Each of the companies of the Group pursues its own corporate social responsibility projects in the countries where it operates. From the beginning, PPF Group has been focusing its support primarily on two areas: education and art.

The decision to focus PPF Group's supporting efforts on education is associated with the Group's general emphasis on human capital. PPF Group feels it is the Group's responsibility to help those who not of their doing find themselves in difficult situations in life, yet have the will, determination and ability to change their life through education. Several projects have been developed on the basis of this idea, all focused on improving the quality of education.

PPF Group has a national association with art projects and works of art in the Czech Republic. PPF Group possesses an extensive private photographic collection and an art collection, mainly including paintings and sculptures by both classical as well as modern artists. PPF Group operates two art galleries in Prague and supports many top-ranked cultural events. For example, it sponsors the Summer Shakespeare Festival, contributes every year to the operation of the Jára Cimrman Theatre in Prague, and supports the world-renown Czech Philharmonic Orchestra and the Prague Spring Music Festival.

1 June 2018

Board of Directors:

Aleš Minx
Chairman of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Jan Cornelis Jansen
Member of the Board of Directors



PPF GROUP N.V.

Consolidated financial statements for the year ended 31 December 2017

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Glossary of abbreviations

OCI	- other comprehensive income
NCI	- non-controlling interests
AFS	- available for sale
FVTPL	- fair value through profit or loss
HTM	- held to maturity
OTC	- over the counter
JV	- joint venture
PPE	- property, plant and equipment
PVFP	- present value of future profits
IPRD	- in-progress research and development
FX	- foreign exchange
FV	- fair value
CGU	- cash generating unit
LAT	- liability adequacy test
RBNS	- provision for claims reported but not settled
IBNR	- provision for claims incurred but not reported
LTV	- loan to value

Consolidated statement of financial position

As at 31 December

In millions of EUR

	Note	2017	2016
ASSETS			
Cash and cash equivalents	E1	9,118	4,674
Investment securities	E2	3,690	3,393
Loans and receivables due from banks and other financial institutions	E4	546	555
Loans due from customers	E5	17,066	11,337
Trade and other receivables	E6	441	368
Current tax assets		20	9
Inventories	E8	69	91
Assets held for sale	E9	47	31
Investments in associates and joint ventures	E10	506	377
Investment property	E11	1,474	1,505
Property, plant and equipment	E12	2,479	2,269
Intangible assets and goodwill	E13	2,065	1,935
Deferred tax assets	E7.2	373	226
Other assets	E14	328	271
TOTAL ASSETS		38,222	27,041
LIABILITIES			
Financial liabilities at fair value through profit or loss	E2.2	813	411
Due to non-banks	E15	11,637	8,373
Due to banks and other financial institutions	E16	13,927	8,111
Debt securities issued	E17	1,697	1,237
Subordinated liabilities	E18	351	308
Current tax liabilities		210	122
Trade and other payables	E20	1,559	1,094
Provisions	E19	191	191
Deferred tax liabilities	E7.2	460	431
TOTAL LIABILITIES		30,845	20,278
CONSOLIDATED EQUITY			
Capital issued	E21	1	1
Share premium	E21	677	677
Other reserves	E22	(509)	(448)
Retained earnings		6,738	6,131
Total equity attributable to owners of the Parent		6,907	6,361
Non-controlling interests	E23	470	402
Total consolidated equity		7,377	6,763
TOTAL LIABILITIES AND EQUITY		38,222	27,041

Consolidated income statement

For the year ended 31 December

In millions of EUR

	Note	2017	2016
Interest income		3,649	2,323
Interest expense		(1,141)	(736)
Net interest income	E25	2,508	1,587
Fee and commission income		797	522
Fee and commission expense		(133)	(104)
Net fee and commission income	E26	664	418
Net gain/(loss) on financial assets	E27	61	(16)
Net impairment losses on financial assets	E28	(1,144)	(573)
Other banking result		(1,083)	(589)
NET BANKING INCOME		2,089	1,416
Net earned premiums		92	99
Net insurance benefits and claims		(31)	(27)
Acquisition costs		(26)	(32)
NET INSURANCE INCOME	E29	35	40
Net rental and related income	E30	140	137
Property operating expenses		(35)	(31)
Net valuation gain/(loss) on investment property	E11	61	(45)
Net income related to construction contracts		3	5
Profit on disposal of investment property		1	-
NET REAL ESTATE INCOME		170	66
Telecommunication income		1,822	1,742
Telecommunication expenses		(693)	(644)
NET TELECOMMUNICATION INCOME	E31	1,129	1,098
Net agriculture income	E32	5	7
Net income on retail operations		1	1
Other income	E33	68	246
OTHER OPERATING INCOME		74	254
General administrative expenses	E34	(2,110)	(1,598)
Other operating expenses	E35	(544)	(502)
OPERATING EXPENSES		(2,654)	(2,100)
Net gain/(loss) from sale of subsidiaries and associates		(3)	62
Share of earnings of associates/joint ventures	E10	94	491
PROFIT BEFORE TAX		934	1,327
Income tax expense	E7.1	(244)	(213)
NET PROFIT FROM CONTINUING OPERATIONS		690	1,114
Profit from discontinued operations	E36	-	1
NET PROFIT FOR THE PERIOD		690	1,115
Net profit attributable to non-controlling interests	E23	48	84
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		642	1,031

Consolidated statement of comprehensive income

For the year ended 31 December

In millions of EUR

	2017	2016
NET PROFIT FOR THE PERIOD	690	1,115
Other comprehensive income*		
Valuation gains/(losses) on available-for-sale financial assets	(19)	(41)
AFS revaluation gains/(losses) transferred to income statement	6	(12)
Currency translation differences	(93)	336
Effect of movement in equity of associates	(7)	-
Income tax relating to components of other comprehensive income	6	(2)
Other comprehensive income/(loss) for the period (net of tax)	(107)	281
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	583	1,396
Total comprehensive income attributable to non-controlling interests	27	97
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT	556	1,299

* Items that are or may be reclassified to the income statement.

The consolidated financial statements were approved by the Board of Directors on 1 June 2018.

Consolidated statement of changes in equity

In millions of EUR, for the year ended 31 December

	Capital issued	Share premium	Available-for-sale reserve	Legal and statutory reserves	Translation reserve	Other reserves	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
Balance as at 1 January 2017	1	677	(40)	65	(473)	-	6,131	6,361	402	6,763
Profit for the period	-	-	-	-	-	-	642	642	48	690
Currency translation differences	-	-	-	-	(75)	-	-	(75)	(18)	(93)
Valuation losses taken to equity for AFS	-	-	(16)	-	-	-	-	(16)	(3)	(19)
AFS revaluation gains transferred to income statement	-	-	6	-	-	-	-	6	-	6
Effect of movement in equity of associates	-	-	-	-	-	(7)	-	(7)	-	(7)
Tax on items taken directly to or transferred from equity	-	-	6	-	-	-	-	6	-	6
Total comprehensive income	-	-	(4)	-	(75)	(7)	642	556	27	583
Net allocation to legal and statutory reserves	-	-	-	25	-	-	(25)	-	-	-
Dividends to shareholders	-	-	-	-	-	-	(40)	(40)	-	(40)
Dividends paid to NCI	-	-	-	-	-	-	-	-	(34)	(34)
Other changes in NCI	-	-	-	-	-	-	30	30	75	105
Total transactions with owners of the Company	-	-	-	25	-	-	(35)	(10)	41	31
Balance as at 31 December 2017	1	677	(44)	90	(548)	(7)	6,738	6,907	470	7,377

Consolidated statement of changes in equity

In millions of EUR, for the year ended 31 December

	Capital issued	Share premium	Available-for-sale reserve	Legal and statutory reserves	Translation reserve	Hedging reserve	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
Balance as at 1 January 2016	1	677	15	44	(794)	(2)	5,222	5,163	517	5,680
Profit for the period	-	-	-	-	-	-	1,031	1,031	84	1,115
Currency translation differences	-	-	-	-	321	2	-	323	13	336
Valuation losses taken to equity for AFS	-	-	(41)	-	-	-	-	(41)	-	(41)
AFS revaluation gains transferred to income statement	-	-	(12)	-	-	-	-	(12)	-	(12)
Tax on items taken directly to or transferred from equity	-	-	(2)	-	-	-	-	(2)	-	(2)
Total comprehensive income	-	-	(55)	-	321	2	1,031	1,299	97	1,396
Net allocation to legal and statutory reserves	-	-	-	21	-	-	(21)	-	-	-
Acquisition of NCI in Facipero	-	-	-	-	-	-	(37)	(37)	(82)	(119)
Dividends paid to NCI	-	-	-	-	-	-	-	-	(29)	(29)
Other changes in NCI	-	-	-	-	-	-	(64)	(64)	(101)	(165)
Total transactions with owners of the Company	-	-	-	21	-	-	(122)	(101)	(212)	(313)
Balance as at 31 December 2016	1	677	(40)	65	(473)	-	6,131	6,361	402	6,763

Consolidated statement of cash flows

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

In millions of EUR

	2017	2016
Cash flows from operating activities		
Profit before tax (including discontinued operations in 2016)	934	1,325
Adjustments for:		
Depreciation and amortisation	442	450
Impairment losses on goodwill	-	3
Impairment and reversal of impairment of current and non-current assets	1,314	637
Profit/loss on disposal of PPE, intangible assets and investment property	(1)	5
Profit/loss on sale of investment securities	19	79
Gain/loss on disposal of consolidated subsidiaries and associates	3	(62)
Interest expense	1,141	737
Interest income	(3,649)	(2,337)
Other income/expenses not involving movements of cash	(415)	(248)
Gain on bargain purchase of joint ventures	-	(254)
Interest received	4,082	2,381
Change in loans and receivables due from banks and other financial institutions	23	(50)
Change in loans due from customers	(7,404)	(4,839)
Change in trade and other receivables	(72)	(16)
Change in other assets	(45)	(239)
Change in liabilities due to non-banks	2,997	1,184
Change in trade and other payables	464	335
Income tax paid	(321)	(202)
Net cash from/(used in) operating activities	(488)	(1,111)
Cash flows from investing activities		
Dividends received	7	16
Purchase of tangible assets and intangible assets	(571)	(486)
Purchase of financial assets at FVTPL	(288)	(439)
Proceeds from financial assets at FVTPL	320	667
Proceeds from sale of financial assets at FVTPL not held for trading	205	-
Purchase of financial assets at FVTPL not held for trading	-	(22)
Purchase of financial assets held to maturity	(40)	(5)
Purchase of financial assets available for sale	(3,236)	(1,633)
Purchase of investment property	(20)	(33)
Acquisition of subsidiaries and associates, net of cash acquired	(73)	(330)
Proceeds from disposals of PPE and intangible assets	15	168
Proceeds from financial assets held to maturity	27	9
Proceeds from sale of financial assets available for sale	2,745	1,733
Proceeds from sale of investment property	11	3
Proceeds from disposal of subsidiaries and associates, net of cash disposed	91	783
Net cash from/(used in) investing activities	(807)	431

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2017*

	2017	2016
Cash flows from financing activities		
Proceeds from the issue of debt securities	1,742	1,148
Proceeds from loans due to banks and other financial institutions	13,648	12,969
Repayment of debt securities	(1,197)	(979)
Repayment of loans due to banks and other financial institutions	(7,255)	(9,950)
Interest paid	(1,208)	(780)
Dividends paid to shareholders	(40)	-
Dividends paid to non-controlling interests	(34)	(29)
Cash flow from/(used in) financing activities	5,656	2,379
Net increase in cash and cash equivalents	4,361	1,699
Cash and cash equivalents as at 1 January	4,674	2,732
Effect of exchange rate movements on cash and cash equivalents	83	243
Cash and cash equivalents as at 31 December	9,118	4,674

In 2016, cash flow lines directly attributable to the income statement comprise both continuing and discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

PPF Group N.V. (the “Parent Company” or the “Parent”) is a company domiciled in the Netherlands. It invests in multiple market segments such as banking and financial services, telecommunications, real estate, insurance, metal mining, agriculture and biotechnology. Its activities span from Europe to Russia, the US and across Asia.

The consolidated financial statements of the Parent Company for the year ended 31 December 2017 comprise the Parent Company and its subsidiaries (together the “PPF Group” or the “Group”) and the Group’s interests in associates, joint ventures and affiliated entities. For a listing of significant Group entities and changes to the Group in 2017 and 2016, please refer to Section B of these consolidated financial statements.

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

As at 31 December 2017, the ultimate shareholder structure was as follows:

Petr Kellner - 98.92% (directly and indirectly)

Ladislav Bartoníček - 0.54% (indirectly)

Jean-Pascal Duvieusart - 0.54% (indirectly)

A.2. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, including International Accounting Standards (“IASs”), promulgated by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB.

A.3. Basis of preparation

Dutch accounting legislation enables the Group to prepare these consolidated financial statements in accordance with IFRS (as adopted by the EU).

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

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments designated upon initial recognition

as financial instruments at fair value through profit or loss, financial instruments classified as available for sale, investment property, and biological assets. Financial assets and liabilities as well as non-financial assets and liabilities measured at historical cost are stated at amortised cost using the effective interest method or historical cost, as appropriate, net of any relevant impairment.

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

A.4. Use of judgements and estimates

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

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

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

- the fair value of tangible and intangible assets identified during the purchase price allocation exercise and initial value of goodwill for each business combination (refer to B);
- measurement of retail loans impairment (refer to E.5);
- in-progress research and development recognised as intangible asset (refer to E.13)
- provisions recognised under liabilities (refer to E.19); and
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits (refer to E.7.2).

Judgements made in applying accounting policies with the most significant effect on the amounts recognised in the consolidated financial statements are described as follows:

Classification of retail business as discontinued operations in 2016

On 8 December 2016, acting through its subsidiary Facipero Investments Ltd., the Group sold its 100% stake in Eldorado LLC. Eldorado is a Russian retailer of consumer electronic and domestic appliances in which the Group held an 80% effective share. As the Eldorado retail business was considered a separate major line of business, its performance is presented in the 2016 consolidated income statement as discontinued operations. Refer to E.36 for more information.

Classification of real estate acquisitions as a business combination or purchase of individual assets and liabilities

Most of the Group's real estate acquisitions are structured as purchases of legal entities with assets and liabilities rather than individual asset deals. In these cases, the Group evaluates if the acquired entity represents a business consisting of inputs and processes leading to the ability to create outputs in the form of rental income. The core feature leading to the identification of a business combination is the existence of lease agreements, property management and administration service agreements that are part of the acquired business. If this core feature is not present, the acquisition is treated as a purchase of individual assets and liabilities.

Classification of leased property occupied by the Group and external tenants

The Group holds in its portfolio several office and retail buildings which are occupied by the Group and by external tenants. If a significant portion of space is occupied by the Group, the property is classified as operating property and stated at cost less depreciation. Otherwise, the building is classified as investment property, which is stated at fair value.

Enhancement of credit risk model

During 2017, the Group enhanced its credit risk prediction model used in the Home Credit subgroup to limit the volatility of risk costs caused by seasonal and other effects related to the end-of-month provision calculation cycle. Specifically, the Group decided to extend the definition of the “current” bucket from an exact 0 days past due (“DPD”) to a wider category of 0-15 DPD. This change has been in effect since 1 July 2017. As a result, the Group released a part of its existing collective impairment allowances amounting to MEUR 71. The change was recognised in the income statement.

Classification of reverse repo with central banks – change in presentation

Loans provided under reverse repo with central banks were previously presented within Loans and receivables due from banks and other financial institutions. In 2017, the category was moved to Cash and cash equivalents. As of 31 December 2016, the comparable balance of reverse repo with central banks amounting to MEUR 285 was restated accordingly.

The reclassification had no impact on the Group’s result or equity.

A.5. Basis of consolidation

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

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

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

PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 2017

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

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

B. The consolidated group and main changes for the period

B.1. Group entities

The following list shows only significant holding and operating entities that are subsidiaries, associates or joint ventures of the Parent Company as of 31 December 2017 and 2016.

Company	Domicile	Effective proportion of ownership interest 2017	Effective proportion of ownership interest 2016
PPF Group N.V.	Netherlands	Parent Company	Parent Company
<i>PPF Financial Holdings subgroup -subsidiaries</i>			
PPF Financial Holdings B.V.	Netherlands	100.00%	100.00%
AB 2 B.V.	Netherlands	88.62%	88.62%
AB 4 B.V.	Netherlands	88.62%	88.62%
AB 7 B.V.	Netherlands	88.62%	88.62%
Air Bank a.s.	Czech Republic	88.62%	88.62%
Asnova Insurance CJSIC	Belarus	88.62%	88.62%
Bank Home Credit SB JSC	Kazakhstan	88.62%	88.62%
Favour Ocean Ltd.	Hong Kong	88.62%	88.62%
Guangdong Home Credit Number Two Information Consulting Co., Ltd.	China	88.62%	88.62%
HC Consumer Finance Philippines, Inc.	Philippines	88.62%	87.99%
HCPH Financing 1, Inc.	Philippines	88.62%	-
Home Credit a.s.	Czech Republic	88.62%	88.62%
Home Credit and Finance Bank LLC	Russia	88.62%	88.62%
Home Credit Asia Ltd.	Hong Kong	88.62%	88.62%
Home Credit B.V.	Netherlands	88.62%	88.62%
Home Credit Consumer Finance China Ltd.	China	88.62%	88.62%
Home Credit Group B.V.	Netherlands	100.00%	-
Home Credit India Finance Private Ltd.	India	88.62%	88.62%
Home Credit Indonesia PT	Indonesia	75.33%	75.33%
Home Credit Insurance LLC	Russia	88.62%	88.62%
Home Credit International a.s.	Czech Republic	88.62%	88.62%
Home Credit Lab N.V.	Netherlands	88.62%	88.62%
Home Credit Slovakia, a.s.	Slovakia	88.62%	88.62%
Home Credit US, LLC	USA	44.40%	44.40%
Home Credit Vietnam Finance Company Ltd.	Vietnam	88.62%	88.62%
Homer Software House LLC	Ukraine	88.62%	88.62%
Non-banking Credit and Financial Organization Home Credit OJSC	Belarus	88.62%	88.62%
PPF banka, a.s.	Czech Republic	92.96%	92.96%
PPF Co3 B.V.	Netherlands	92.96%	92.96%
Ruconfin B.V.	Netherlands	92.96%	92.96%
Shenzhen Home Credit Number One Consulting Co., Ltd.	China	88.62%	88.62%
Shenzhen Home Credit Xinchu Consulting Co., Ltd.	China	88.62%	88.62%
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd	China	88.62%	88.62%
Zonky, s.r.o.	Czech Republic	88.62%	88.62%
<i>Other banking subgroup - associates</i>			
ClearBank Ltd.	United Kingdom	36.36%	35.10%

PPF Group N.V.*Notes to the consolidated financial statements for the year ended 31 December 2017*

<i>Real estate subgroup - subsidiaries</i>			
PPF Real Estate Holding B.V.	Netherlands	100.00%	100.00%
Alrik Ventures Ltd.	Cyprus	100.00%	100.00%
Anthemona Ltd.	Cyprus	100.00%	100.00%
Art Office Gallery a.s.	Czech Republic	100.00%	100.00%
Boryspil Project Management Ltd.	Ukraine	100.00%	100.00%
Bucca Properties Ltd.	BVI	100.00%	100.00%
Capellalaan B.V.	Netherlands	100.00%	100.00%
Dadrin Ltd.	Cyprus	100.00%	100.00%
De Reling (Dronten) B.V.	Netherlands	100.00%	100.00%
Eusebius BS (Arnhem) B.V.	Netherlands	100.00%	100.00%
Fantom LLC	Russia	100.00%	100.00%
Gen Office Gallery a.s.	Czech Republic	100.00%	100.00%
German Properties B.V.	Netherlands	100.00%	100.00%
Glancus Investments Inc.	BVI	100.00%	100.00%
Gorod Molodovo Pokoleniya CJSC	Russia	73.00%	73.00%
Hofplein Offices (Rotterdam) B.V.	Netherlands	100.00%	100.00%
Charlie Com LLC	Russia	100.00%	100.00%
In Vino LLC	Russia	99.90%	99.90%
Intrust NN CJSC	Russia	66.67%	66.67%
Investitsionny Trust CJSC	Russia	78.75%	78.75%
ISK Klokovo LLC	Russia	100.00%	100.00%
Johan H (Amsterdam) B.V.	Netherlands	100.00%	100.00%
Katerinská Office Building s.r.o.	Czech Republic	100.00%	100.00%
Kvartal Togliatti LLC	Russia	100.00%	100.00%
Langen Property B.V.	Netherlands	100.00%	100.00%
Logistics-A LLC	Russia	100.00%	100.00%
Logistika Rostov LLC	Russia	100.00%	100.00%
Logistika-Ufa LLC	Russia	100.00%	100.00%
LvZH (Rijswijk) B.V.	Netherlands	100.00%	100.00%
Millennium Tower (Rotterdam) B.V.	Netherlands	100.00%	100.00%
Mitino Sport City LLC	Russia	100.00%	100.00%
Monheim Property B.V.	Netherlands	100.00%	100.00%
Monchylein (Den Haag) B.V.	Netherlands	100.00%	100.00%
Office Star Nine spol. s r. o.	Czech Republic	100.00%	100.00%
Pompenburg (Rotterdam) B.V.	Netherlands	100.00%	100.00%
PPF Gate, a.s.	Czech Republic	100.00%	100.00%
PPF Real Estate s.r.o.	Czech Republic	100.00%	100.00%
PPF Real Estate Russia LLC	Russia	100.00%	100.00%
Razvitie LLC	Russia	60.07%	60.07%
RC Properties S.R.L.	Romania	100.00%	100.00%
Retail Star 22, spol. s r.o.	Czech Republic	100.00%	100.00%
Roko LLC	Russia	100.00%	100.00%
Ryazan Shopping Mall Ltd.	Cyprus	100.00%	100.00%
Skladi 104 LLC	Russia	60.07%	60.07%
Skolkovo Gate LLC	Russia	100.00%	100.00%
Spektr LLC	Russia	100.00%	100.00%
Tanaina Holdings Ltd.	Cyprus	99.90%	100.00%
Telistan Ltd.	Cyprus	100.00%	99.90%
TK Lipetskiy LLC	Russia	100.00%	100.00%
Trigon Berlin B.V.	Netherlands	100.00%	100.00%
Velthemia Ltd.	Cyprus	60.07%	60.07%
Wilhelminaplein B.V.	Netherlands	100.00%	100.00%
Yugo-Vostochnaya promyshlennaya kompaniya "Kartontara" LLC	Russia	100.00%	100.00%
Areál Dáblice s.r.o.	Czech Republic	-	100.00%
<i>Real estate subgroup – associates/joint ventures</i>			
Bohemia LLC	Russia	35.00%	35.00%
Flowermills Holding B.V.	Netherlands	49.94%	49.94%
Gilbey Holdings Ltd.	Cyprus	60.00%	40.00%

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Komodor LLC	Ukraine	59.40%	40.00%
Marisana Enterprises Ltd.	Cyprus	49.94%	49.94%
Moravia LLC	Russia	35.00%	35.00%
Syner NN LLC	Russia	35.00%	35.00%
<i>Other significant subsidiaries</i>			
Anthiarose Ltd.	Cyprus	100.00%	100.00%
Bavella B.V.	Netherlands	100.00%	100.00%
Bestsport, a.s.	Czech Republic	100.00%	100.00%
BONAK a.s.	Czech Republic	99.99%	99.99%
CETIN Finance B.V.	Netherlands	100.00%	100.00%
Česká telekomunikační infrastruktura a.s. ("CETIN")	Czech Republic	100.00%	100.00%
Facipero Investments Ltd.	Cyprus	100.00%	100.00%
Fodina B.V.	Netherlands	100.00%	100.00%
GEMCOL Ltd.	Cyprus	100.00%	100.00%
Letňany eGate s.r.o.	Czech Republic	100.00%	-
Letňany Park Gate s.r.o.	Czech Republic	100.00%	-
Letňany Air Land s.r.o.	Czech Republic	100.00%	-
Letňany Air Logistics s.r.o.	Czech Republic	100.00%	-
Lindus Services Ltd.	Cyprus	100.00%	100.00%
O2 Czech Republic a.s.*	Czech Republic	83.40%	85.40%
O2 IT Services s.r.o.	Czech Republic	83.40%	85.40%
O2 Slovakia, s.r.o.	Slovakia	83.40%	85.40%
PPF a.s.	Czech Republic	99.99%	99.99%
PPF A3 B.V.	Netherlands	100.00%	100.00%
PPF Arena 1 B.V.	Netherlands	100.00%	100.00%
PPF Beer Topholdco B.V.	Netherlands	100.00%	100.00%
PPF Capital Partners Fund B.V.	Netherlands	96.00%	96.00%
PPF Financial Holdings B.V.	Netherlands	100.00%	100.00%
PPF Infrastructure B.V.	Netherlands	100.00%	100.00%
PPF Life Insurance LLC	Russia	100.00%	100.00%
PPF Telco B.V.	Netherlands	100.00%	100.00%
Prague Entertainment Group B.V.	Netherlands	100.00%	100.00%
RAV Agro LLC	Russia	100.00%	100.00%
RAV Molokoproduct LLC	Russia	100.00%	100.00%
Sotio a.s.	Czech Republic	92.16%	92.16%
Sotio Medical Research (Beijing) Co., Ltd.	China	96.00%	96.00%
Sotio N.V.	Netherlands	96.00%	96.00%
Timeworth Holdings Ltd.	Cyprus	100.00%	100.00%
Vox Ventures B.V.	Netherlands	100.00%	100.00%
<i>Other significant associates/joint ventures</i>			
Cytune Pharma SAS	France	22.96%	22.96%
The Culture Trip Ltd.	United Kingdom	43.69%	43.69%
LEAG Holding a.s.	Czech Republic	50.00%	50.00%
Lausitz Energie Verwaltungs GmbH**	Germany	50.00%	50.00%
Sully system a.s.	Czech Republic	40.00%	-
CZC.cz s.r.o.	Czech Republic	40.00%	-
Heureka Shopping s.r.o.	Czech Republic	40.00%	-
Internet Mall Polska, Sp.z o.o.	Poland	40.00%	-
Internet Mall Slovakia, s.r.o.	Slovakia	40.00%	-
Internet Mall, a.s.	Czech Republic	40.00%	-
Westminster JV a.s.	Czech Republic	50.00%	-
Carolia Westminster Hotel Ltd.	United Kingdom	45.00%	-

* As of 31 December 2017, due to existence of treasury shares held by O2 Czech Republic a.s. the direct stake in the registered capital of this company is 81.06% (2016: 84.06%).

** This joint venture comprises a group of entities.

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The principal place of business corresponds to the domicile of the respective entity with the following exceptions:

Place of business	Entity
Russia	Anthemonia Ltd., Ryazan Shopping Mall Ltd., Flowermills Holding B.V., Marisana Enterprises Ltd.
United Kingdom	Alrik Ventures Ltd., Dadrin Ltd., Tanaina Holdings Ltd.
Germany	Langen Property B.V., Monheim Property B.V., Trigon Berlin B.V.

B.2. Acquisitions and disposals through business combinations in 2017/2016

B.2.1. Acquisition of Sully Group

On 17 October 2017, through its subsidiary BONAK a.s. the Group signed an agreement for the acquisition of a 40% stake in Sully System a.s. (the “Sully Group”). This group comprises Mall Group and Heureka, representing an e-commerce platform in Central and Eastern Europe and a comparison shopping platform in the Czech Republic and Slovakia.

The investment is classified as an associate and it is accounted for using the equity method. The consolidated income statement includes a share on Sully System’s financial performance since the acquisition.

From the Group’s perspective, the acquisition of Sully System a.s. is considered a long-term financial investment that enables better risk diversification and the strengthening of its position in the on-line business sector. The Group considers its position to be that of a financial investor that will not interfere in the running of the group, which is left to minority partner.

In accordance with IFRS 3, the Sully Group performed a purchase price allocation exercise (“PPA”) based on which the acquired assets and assumed liabilities of the acquired business were restated to their respective fair values. The excess of the purchase price over the fair values of identified assets and liabilities resulted in the recognition of goodwill.

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The following table summarises the recognised amounts of assets and liabilities assumed in the acquisition, taking into consideration the facts stated above:

In millions of EUR, as at 17 October 2017

Fair value of assets	300
Non-current assets	177
Property, plant and equipment	25
Intangible assets	150
Other assets	2
Current assets	123
Inventories	59
Cash and cash equivalents	16
Other assets	48
Fair value of liabilities	400
Non-current liabilities	248
Bank borrowings	168
Loans to non-banks	51
Deferred tax liabilities	27
Other liabilities	2
Current liabilities	152
Bank borrowings	41
Trade liabilities	94
Other liabilities	17
Fair value of identifiable net assets	(100)

Goodwill arising from the acquisition has been recognised as a result of the excess of the purchase price over the fair value of the identifiable net assets as follows:

In millions of EUR

Consideration	47
Total effective ownership acquired	40%
Fair value of identifiable assets	(100)
Net asset value attributable to the Group's share	(40)
Goodwill (part of the carrying amount)	87

Goodwill is attributable to the established position of Mall Group and Heureka on the on-line market and the assembled workforce. Goodwill is presented as a part of the investment in the associate.

B.2.2. Acquisition of Komodor

In July 2017, the Group increased its shareholding in Gilbey Holdings Ltd., an entity indirectly holding Ukrainian logistic centre Komodor, from 40% to 60%. The project is still classified as a joint venture based on the contractual agreement with the partner in the project.

The total acquisition price of MEUR 12 comprised consideration for additional shares and the assignment of a former shareholder loan. The difference between the purchase price and the acquired share on the net asset value was insignificant.

B.2.3. Acquisition of Westminster Hotel

With a joint venture partner, in January 2017 the Group acquired an up-and-running London hotel building. The investment is classified as an associate with a 45% effective share. In accordance with IFRS 3, the Group performed a purchase price allocation exercise based on

which the acquired assets and assumed liabilities of the acquired business were restated to their respective fair values.

The following table summarises the financial aspects of the transaction described above:

In millions of EUR

Transaction date	January 2017
Effective stake acquired	45%
<i>In millions of EUR</i>	
Capital contribution	10
Fair value of assets acquired	221
<i>out of which:</i>	
Property, plant and equipment	180
Fair value of liabilities acquired	(200)
Non-controlling interests	(2)
Net asset value attributable to the Group's share	9

B.2.4. Acquisition of minority stake in ClearBank

Throughout 2016 and 2017, the Group invested into a newly incorporated company in the UK, authorised to operate as a credit institution in December 2016 by the competent domestic authorities. The bank is jointly regulated by the Prudential Regulation Authority and the Financial Conduct Authority. It provides clearing and settlement services to non-retail customers as part of its core business model. As of 31 December 2017, the Group holds a 36.36% share, entailing an investment of MEUR 29 (2016: MEUR 15).

B.2.5. Sale of O2 CR Shares

In February 2017, the Group sold a 3% stake in O2 Czech Republic a.s. ("O2 CR"). As a consequence, the effective share taking into account the treasury shares held by O2 CR decreased by 3.05%.

The following table summarises the financial aspects of the transaction described above:

In millions of EUR

Total net consideration received	91
Net effective ownership in O2 CR decreased	3.05%
Net asset value attributable to non-controlling interests sold	28
Effect recorded in retained earnings (gain)	63

B.2.6. Acquisition of minority stake in The Culture Trip (in 2016)

On 3 June 2016, the Group acquired a 34.58% stake in The Culture Trip Ltd., a UK start-up company dealing with online publishing and book selling. Following the acquisition, the Group increased its share to 43.69% through a capital contribution. The Group classifies the investment as an associate; the voting share is 49%.

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The following table summarises the financial aspects of the transactions described above:

In millions of EUR

Consideration	8
Capital contribution	18
Total effective ownership acquired	43.69%
Fair value of assets	17
Fair value of liabilities	-
Net asset value attributable to the Group's share	7
Goodwill	19

B.2.7. Acquisition of LEAG (in 2016)

In 2016, the Group became an investor in Gemcol Ltd., a Cypriot investment vehicle legally fully controlled by PPF Investments Ltd. Although the Group holds only preference shares with non-voting rights, it consolidates all assets and liabilities of the said entity.

On 30 September 2016, LEAG Holding a.s., an entity jointly controlled by Gemcol Ltd. and Energetický a průmyslový holding, a.s. ("EPH"), acquired a 100% stake in Vattenfall Europe Mining Aktiengesellschaft and Vattenfall Europe Generation, a German group dealing with the extraction, processing, refining and sale of lignite and the generation of electricity and heat. The group operates four open pit mines, four power plants and one refining plant.

The joint venture was subsequently renamed to LEAG (Lausitz Energie) and in the Group's consolidated accounts, it is accounted for using the equity method. The consolidated income statement includes a share on LEAG's financial performance since the acquisition.

From the Group's perspective, the acquisition of LEAG through Gemcol Ltd. is considered a long-term financial investment that enables better risk diversification by entering a different industry with a partner that is strong in this type of business. The Group considers its position to be that of a financial investor that will not interfere in the running of the group, which will be left to EPH.

In accordance with IFRS 3, LEAG performed a purchase price allocation exercise based on which the acquired assets and assumed liabilities of the acquired business were restated to their respective fair values. The excess of the fair values of identified assets and liabilities over the purchase price resulted in the recognition of gain on a bargain purchase.

The following table summarises the recognised amounts of assets and liabilities assumed in the acquisition, taking into consideration the facts stated above:

In millions of EUR, as at 30 September 2016

Fair value of assets	4,040
Non-current assets	2,278
Current assets	1,762
Fair value of liabilities	3,532
Non-current liabilities	2,804
Current liabilities	728
Fair value of identifiable net assets	508

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Gain on a bargain purchase arising from the acquisition has been recognised as a result of excess of fair value of identifiable net assets over the purchase price as follows:

In millions of EUR

Effective ownership	50%
Fair value of identifiable net assets	508
Net asset value attributable to the Group's share	254
Gain on a bargain purchase	254

Gain on a bargain purchase was attributable to the following facts: Vattenfall (the seller) was abandoning the lignite sector in Germany while facing a limited number of bidders due to the considerable size of disposed assets and sector characteristics. Furthermore, the disposed assets were heavily exposed to the commodity market and energy/environmental regulations. Both have been quite volatile in Germany during the last few years.

B.2.8. CETIN squeeze-out (in 2016)

On 11 January 2016, as a result of a squeeze-out of minority shareholders, the Group became the sole shareholder of CETIN. The squeeze-out price for the residual 5.1% stake amounted to CZK 172.4 per share. The Group started to settle the relevant part of the consideration with eligible individual former shareholders in February.

The following table summarises the financial aspects of the transaction:

In millions of EUR

Consideration	101
Effective ownership acquired in CETIN	5.1%
Net asset attributable to non-controlling interests acquired	(88)
Effect recorded in retained earnings (decrease)	(13)

B.2.9. Acquisition of Metropolis Romania (in 2016)

In October 2016, the Group acquired a 100% stake in RC Properties S.R.L., an entity holding an up-and-running office building complex in Bucharest.

The following table summarises the financial aspect of the transaction:

In millions of EUR

Transaction date	October 2016
Type of investment property	office complex
Location	Romania
Stake acquired	100%

In millions of EUR

Consideration	5
Fair value of assets acquired	48
<i>of which:</i>	
Investment property	43
Fair value of liabilities acquired	(43)

B.2.10. Sale of City Tower (in 2016)

In July 2016, the Group signed an agreement for the sale of an up-and-running office building in Prague (City Tower). The transaction closed in September 2016; the final consideration for

the sale of an entity owning the property was MEUR 100; profit from the sale amounted to MEUR 15.

B.2.11. Sale of Eldorado (in 2016)

On 8 December 2016, acting through its subsidiary Facipero Investments Ltd., the Group sold its stake in Eldorado LLC. Eldorado is a Russian retailer of consumer electronic and domestic appliances in which the Group held an 80% effective share. The transaction also included the disposal of Eldorado's subsidiaries Invest-Realty LLC, Rentol LLC and TK Pemsy LLC. The consolidated income statement comprises Eldorado's financial performance until its disposal and the results are presented under discontinued operations.

The impact of the transaction is as follows:

In millions of EUR

Consideration	417
Carrying value of assets disposed	1,029
Goodwill derecognised	143
Carrying value of liabilities disposed	(915)
Negative currency translation reserve (reclassified to income statement)	93
Net profit from the sale	67
Net profit attributable to non-controlling interests	61
Net profit attributable to the owners of the Parent	6

On 28 December 2016, following the Eldorado transaction, the Group acquired a 20% stake in Facipero Investments Ltd. The difference between the acquisition price and the net asset value attributable to non-controlling interests acquired was recognised directly in equity.

The following table summarises the financial aspect of the transaction:

Consideration	119
Effective ownership acquired	20%
Net asset attributable to non-controlling interests acquired	83
Effect recorded in retained earnings (decrease)	(36)

B.3. Other changes**B.3.1. Share buy-back programme in O2 CR**

On 28 January 2016, O2 CR commenced the acquisition of its own shares on the regulated market organised by the Prague Stock Exchange, under the conditions published in connection with the approval of the share buy-back programme on the regulated market in December 2015. Until 31 December 2017, it acquired a total of 8.7 million treasury shares for the total acquisition price of MEUR 86. The aggregate amount of acquired treasury shares represents 2.8% of voting rights of O2 CR.

B.3.2. Sale of Polymetal shares and change in classification (in 2016)

On 23 September 2016, the Group sold a 3.05% share in Polymetal. As the Group's effective share in the company fell below 13%, the Group decided to change its classification of its Polymetal stake from associate to asset available for sale. Due to a positive difference between

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the fair value and the initial carrying value of the remaining stake, a significant one-off gain was recognised in the consolidated income statement.

The impact of the transaction is as follows:

In millions of EUR

Percentage ownership interest before sale	15.96%
Carrying amount of investment in associate before sale	588
Stake sold	3.04%
Consideration	146
Profit from the sale	34
Carrying amount of investment in associate after sale	476
Fair value of the stake after sale	619
Gain on the reclassification to AFS asset	143

C. Risk exposures, risk management objectives and procedures

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Due to the varying nature of the Group's businesses and associated risks the senior management of each business segment is responsible for setting up and monitoring the risk management policies. The Board of Directors and the Group's senior management, including shareholders, regularly perform business reviews of individual business segments, including an assessment of the risk management.

In 2015, PPF Group restructured its consumer finance and other banking business represented by Home Credit (including Air Bank) and PPF banka under PPF Financial Holdings B.V., a new holding entity. It established the Group Risk Committee and mandated it to assist the Board of Directors in the risk management area. The Group Risk Committee designs and implements the risk management framework. The Group Risk Committee approves the main risk management internal regulations such as the group risk management framework, the internal capital adequacy assessment framework, and the internal liquidity assessment framework. The Group Risk Committee also approves the counterparty exposure limits for the largest counterparties.

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

PPF banka a.s. and Air Bank a.s. established the function of Chief Risk Officer to head the independent risk management function in the respective banks. O2 CR has its own separate Credit Management Unit.

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

Management of risk arising from participation in foreign subsidiaries and from financial instruments is fundamental to the Group's business and is an essential element of its operations. Major risks related to participation in foreign subsidiaries include the risk of impairment due to adverse economic conditions, movements in foreign exchange rates, and liquidity risk given the strong growth in emerging markets. Those risks are managed by the Group by monitoring developments in foreign markets, using a robust investment decision-making process, and

exercising prudence in liquidity management. The Group faces financial instrument risk in conjunction with credit exposures, movements in interest rates and foreign exchange rates.

Risk management policies at other significant associates/JVs are determined by the controlling shareholder(s) and/or other major shareholders. The Group regularly monitors and analyses the situation at said associates/JVs as a minority shareholder exercising its significant influence through its existing representatives in the respective executive bodies.

C.1. Derivative financial instruments

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

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

C.1.1. Swaps

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

C.1.2. Futures and forwards

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

C.1.3. Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Group enters into interest rate options, foreign exchange options, equity and index options and credit failure options (swaps). Interest rate options, including caps and floors, may

be used as hedges against a rise or fall in interest rates. They provide protection against changes in interest rates of floating rate instruments above or below a specified level. Foreign currency options may also be used (commensurate with the type of option) to hedge against rising or falling currency rates. As a buyer of over-the-counter options, the Group is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Group exercises the option. As a writer of over-the-counter options, the Group is subject to market risk, as it is obliged to make payments if the option is exercised by the counterparty.

C.1.4. Other derivatives

In connection with some significant acquisitions, the Group negotiated various over-the-counter contracts. Those existing at the reporting date are recognised at fair value using external or internal valuations.

C.2. Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers. Other significant businesses affected by credit risk are corporate banking (PPF banka) and telecommunication business (O2 CR).

C.2.1. Home Credit Group

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

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

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

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

Credit underwriting process

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

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

Fraud prevention

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

General loan collection

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

Pre-collection measures

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

Early collection

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

Administrative and personal collection

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

Late collection

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

Legal collection, debt sale

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

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

The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee. A separate Credit Risk Management Department, reporting to the Credit Committee, is responsible for the oversight of the Bank's credit risk similar to the Home Credit Group procedures mentioned above, but with the following business specifics:

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

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

C.2.3. O2 CR

For telecommunications, business credit risk is managed by the Credit Management Unit and is based on three main activities:

- monitoring of accounts receivable: regular monitoring of the payment morale of existing customers and monitoring and analysing of the receivable aging structure (internal and external indicators of any potential bad debts). Those activities are processed in the integrated system solution for the scoring, maintenance and collection of receivables;
- prevention: scoring of new customers – checking procedures (integrated Black List, Solus Debtor Register, other external information databases), limits and/or deposits applied based on the customer segments or the product. Credit limits for indirect sales partners (dealers, distributors, retailers, franchises) for the purchase of our products, collateral security (deposits, receivables insurance, bills of exchange, pledges of real estate, bank guarantees, etc.);
- collection process: Credit Management cooperates with Customer Care on the setting-up of a reasonable, effective and continual collection process. Collection process competences are divided. Collection from active customers is in the competence of Customer Care; subsequent collection (after the contract is cancelled) is the responsibility of Credit Management.

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

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

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

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

Concentration of credit risks (applicable to PPF Financial Holdings B.V.)

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. PPF Financial Holdings B.V. (the “Subgroup”, refer to C.9) treats a receivable from a debtor or an economically connected group of debtors exceeding 10% of the Subgroup's eligible capital as a large exposure and applies a limit of 25% of the Subgroup's eligible capital to such exposures. As at the balance sheet date, the Subgroup did not have any significant concentration of credit risk with respect to any individual debtor and the 25% limit had not been exceeded in relation to individual debtors and to related parties.

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

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

In millions of EUR, as at 31 December

	2017	2017	2016	2016
Economic concentration				
Households/individuals	15,346	70.07%	10,417	64.48%
Financial services	2,561	11.69%	1,665	10.31%
Public sector	1,770	8.08%	2,149	13.30%
Corporate sector	1,545	7.05%	1,659	10.27%
Construction and real estate	647	2.95%	235	1.45%
Other	35	0.16%	31	0.19%
Total	21,904	100.00%	16,156	100.00%
Geographic concentration				
China	9,795	44.72%	5,371	33.24%
Czech Republic	4,092	18.68%	4,143	25.64%
Russia	3,771	17.23%	3,382	20.93%
Slovak Republic	490	2.24%	501	3.10%
Kazakhstan	561	2.56%	372	2.30%
Cyprus	496	2.26%	449	2.78%
Vietnam	630	2.88%	476	2.95%
Netherlands	86	0.39%	224	1.39%
Other EU countries	786	3.59%	594	3.68%
Other	1,197	5.45%	644	3.99%
Total	21,904	100.00%	16,156	100.00%
Of which:				
Investment securities (except for equity securities)	3,084	14.09%	2,762	17.09%
Loans and receivables due from banks and other financial institutions	546	2.49%	840	5.20%
Loans due from customers	17,066	77.91%	11,337	70.17%
Trade and other receivables	441	2.01%	368	2.28%
Loan commitments and guarantees	767	3.50%	849	5.26%

The amounts in the tables represent the maximum accounting loss that would be recognised at the reporting date if the counterparts failed completely to meet their obligations and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses that are included in the allowance for uncollectibility. The table comprises off-balance sheet items (refer to E.39.1) and financial assets, except equity securities.

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

In millions of EUR, as at 31 December

	Loans due from customers		Trade and other receivables	
	2017	2016	2017	2016
Individually impaired				
Gross amount	253	188	89	58
Allowance for impairment	(76)	(83)	(40)	(37)
Carrying amount	177	105	49	21
Collectively impaired				
Current	14,810	9,427	-	-
1-90 days past due	759	487	-	-
91-365 past due	985	505	-	-
>365 past due	160	145	-	-
Gross amount	16,714	10,564	-	-
Allowance for impairment	(1,414)	(847)	-	-
Carrying amount	15,300	9,717	-	-
Unimpaired				
Current	1,581	1,498	377	313
1-90 days past due	8	15	14	24
91-365 past due	-	2	1	10
Carrying amount	1,589	1,515	392	347
Total carrying amount	17,066	11,337	441	368

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

All these transactions are conducted at arm's length.

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

In millions of EUR, as at 31 December

	Loans and receivables due from banks		Loans and receivables due from customers	
	2017	2016	2017	2016
Against individually impaired	-	-	84	13
Property	-	-	82	10
Deposits with banks	-	-	2	2
Other	-	-	-	1
Against collectively impaired	-	-	520	461
Property	-	-	502	442
Equity securities	-	-	18	19
Against neither past due nor impaired	7,301	431	742	753
Securities received under reverse repo*	7,301	431	-	84
Property	-	-	359	283
Debt securities	-	-	-	22
Equity securities	-	-	349	332
Deposits with banks	-	-	23	14
Other	-	-	11	18
Total collateral received	7,301	431	1,346	1,227

* incl. cash and cash equivalents with central banks

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The total value of assets held as collateral is MEUR 8,647 (2016: MEUR 1,745; refer to E.39.3) and consists of the collateral stated above (2017: MEUR 8,647; 2016: MEUR 1,658) plus collateral received for the guarantees provided (2017: MEUR nil; 2016: MEUR 87).

No collateral is held for trade and other receivables.

C.3. Liquidity risk

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

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

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

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

The following tables show exposure to liquidity risk:

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non- specified	Total
Cash and cash equivalents	9,118	-	-	-	-	9,118
Investment securities	510	309	700	1,565	606	3,690
Financial assets at FVTPL	31	16	37	248	-	332
Financial assets AFS	467	293	663	1,317	606	3,346
Financial assets HTM	12	-	-	-	-	12
Loans and receivables due from banks and other financial institutions	333	47	141	-	25	546
Loans due from customers	4,012	5,792	6,807	407	48	17,066
Trade and other receivables	345	75	21	-	-	441
Total financial assets	14,318	6,223	7,669	1,972	679	30,861

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In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non- specified	Total
Financial liabilities at FVTPL	16	14	148	303	332	813
Due to non-banks	9,026	1,873	652	86	-	11,637
Due to banks and other financial institutions	3,191	5,578	4,750	408	-	13,927
Debt securities issued	231	301	975	190	-	1,697
Subordinated liabilities	-	109	75	167	-	351
Trade and other payables	1,217	222	38	48	34	1,559
Total financial liabilities	13,681	8,097	6,638	1,202	366	29,984
Net liquidity position 2017	637	(1,874)	1,031	770	313	877

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

In millions of EUR, as at 31 December 2016

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non- specified	Total
Cash and cash equivalents	4,674	-	-	-	-	4,674
Investment securities	115	510	624	1,512	632	3,393
Financial assets at FVTPL	21	14	24	486	-	545
Financial assets AFS	94	496	600	1,026	632	2,848
Loans and receivables due from banks and other financial institutions	442	56	29	-	28	555
Loans due from customers	2,938	3,860	4,089	412	38	11,337
Trade and other receivables	315	48	5	-	-	368
Total financial assets	8,484	4,474	4,747	1,924	698	20,327

In millions of EUR, as at 31 December 2016

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non- specified	Total
Financial liabilities at FVTPL	17	15	118	245	16	411
Due to non-banks	5,996	1,935	442	-	-	8,373
Due to banks and other financial institutions	1,024	3,986	2,919	182	-	8,111
Debt securities issued	1	201	857	178	-	1,237
Subordinated liabilities	-	8	212	88	-	308
Trade and other payables	806	190	41	27	30	1,094
Total financial liabilities	7,844	6,335	4,589	720	46	19,534
Net liquidity position 2016	640	(1,861)	158	1,204	652	793

The minimal excess of financial assets over financial liabilities in both periods reflects the fact that the Group financed the acquisition of its significant investments (O2 CR/CETIN) and investment property using bank financing. The Group repays such loans by proceeds from future dividends, rental income or the sale of assets, or is able to refinance such facilities at their maturities.

The following tables show the residual maturities of balance sheet and off-balance sheet liabilities on an undiscounted cash flow basis. Only those liability items are shown for which

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the total estimated undiscounted cash flows differ from the book values shown in the consolidated statement of the financial position.

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non- specified	Total
Due to non-banks	9,044	1,964	701	95	-	11,804
Due to banks and other financial institutions	3,385	6,113	5,178	419	-	15,095
Debt securities issued	238	327	1,027	193	-	1,785
Subordinated liabilities	1	124	121	204	-	450
Trade and other payables	1,218	223	37	47	34	1,559
Loan commitments	373	77	59	2	180	691
Payment guarantees provided	16	9	11	8	-	44
Total	14,275	8,837	7,134	968	214	31,428

In millions of EUR, as at 31 December 2016

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non- specified	Total
Due to non-banks	6,011	2,030	487	-	-	8,528
Due to banks and other financial institutions	1,154	4,271	3,205	203	-	8,833
Debt securities issued	6	229	915	183	-	1,333
Subordinated liabilities	-	25	254	103	-	382
Trade and other payables	806	190	41	27	30	1,094
Loan commitments	370	29	125	15	217	756
Payment guarantees provided	2	4	19	32	-	57
Total	8,349	6,778	5,046	563	247	20,983

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

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
<i>Outflows</i>					
Interest rate derivatives held for trading	(54)	(2,277)	(2,371)	(2,136)	(6,838)
Currency derivatives held for trading	(2,314)	(2,098)	(4,239)	(6)	(8,657)
Hedging derivatives	-	(2)	(7)	(18)	(27)
<i>Inflows</i>					
IR derivatives held for trading	54	2,277	2,311	2,134	6,776
Currency derivatives held for trading	2,318	2,103	4,228	6	8,655
Hedging derivatives	-	1	9	23	33
Net position	4	4	(69)	3	(58)

In millions of EUR, as at 31 December 2016

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
<i>Outflows</i>					
Interest rate derivatives held for trading	(91)	(289)	(1,683)	(818)	(2,881)
Currency derivatives held for trading	(1,538)	(2,650)	(176)	-	(4,364)
<i>Inflows</i>					
IR derivatives held for trading	92	289	1,682	816	2,879
Currency derivatives held for trading	1,559	2,645	168	-	4,372
Net position	22	(5)	(9)	(2)	6

C.4. Market risk

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

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

C.4.1. Interest rate risk

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

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

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring of the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100-basis-point parallel fall or rise in all yield curves worldwide. In such a case, the net interest income for the year ended 31 December 2017 would be approximately MEUR 130 higher/lower (2016: MEUR 85).

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

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

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Cash and cash equivalents	0.6%	9,118	-	-	-	-	9,118
Investment securities	3.7%	554	1,193	562	638	743	3,690
Financial assets at FVTPL	1.2%	7	55	(10)	144	136	332
Financial assets AFS	3.9%	535	1,138	572	494	607	3,346
Financial assets HTM	6.3%	12	-	-	-	-	12
Loans and receivables due from banks and other financial institutions	2.1%	342	46	136	-	22	546
Loans due from customers	30.2%	4,672	5,967	6,175	183	69	17,066
Trade and other receivables	-	345	75	21	-	-	441
Total financial assets	-	15,031	7,281	6,894	821	834	30,861

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities at FVTPL	1.8%	-	181	84	107	441	813
Due to non-banks	1.7%	9,026	1,873	652	86	-	11,637
Due to banks and other financial institutions	7.1%	4,794	5,844	2,949	340	-	13,927
Debt securities issued	5.1%	231	301	975	190	-	1,697
Subordinated liabilities	7.8%	-	109	165	77	-	351
Trade and other payables	0.1%	1,218	223	37	47	34	1,559
Total financial liabilities	-	15,269	8,531	4,862	847	475	29,984
Net position 2017		(238)	(1,250)	2,032	(26)	359	877

In millions of EUR, as at 31 December 2016

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Cash and cash equivalents	0.4%	4,674	-	-	-	-	4,674
Investment securities	2.7%	279	1,323	529	582	680	3,393
Financial assets at FVTPL	2.0%	-	76	14	407	48	545
Financial assets AFS	3.0%	279	1,247	515	175	632	2,848
Loans and receivables due from banks and other financial institutions	1.5%	464	45	19	-	27	555
Loans due from customers	32.1%	3,499	3,973	3,711	116	38	11,337
Trade and other receivables	-	315	48	5	-	-	368
Total financial assets	-	9,231	5,389	4,264	698	745	20,327

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In millions of EUR, as at 31 December 2016

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-specified	Total
Financial liabilities at FVTPL	1.8%	-	118	41	163	89	411
Due to non-banks	3.1%	5,996	1,935	442	-	-	8,373
Due to banks and other financial institutions	8.3%	1,976	4,233	1,753	149	-	8,111
Debt securities issued	2.9%	1	201	857	178	-	1,237
Subordinated liabilities	9.1%	-	8	212	88	-	308
Trade and other payables	-	806	190	41	27	30	1,094
Total financial liabilities	-	8,779	6,685	3,346	605	119	19,534
Net position 2016		452	(1,296)	918	93	626	793

C.4.2. Equity price risk

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

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

C.4.3. Currency risk

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

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

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

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

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In millions of EUR, as at 31 December 2017

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Cash and cash equivalents	74	7,491	1,225	183	33	24	88	9,118
Investment securities	814	1,622	-	646	603	-	5	3,690
Loans and receivables due from banks and other financial institutions	44	244	48	58	142	2	8	546
Loans due from customers	1,137	1,560	9,727	2,511	202	472	1,457	17,066
Trade and other receivables	157	205	16	18	12	5	28	441
Total financial assets	2,226	11,122	11,016	3,416	992	503	1,586	30,861

In millions of EUR, as at 31 December 2017

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Financial liabilities at FVTPL	19	479	313	-	-	-	2	813
Due to non-banks	415	8,157	-	2,502	307	226	30	11,637
Due to banks and other financial institutions	1,863	1,958	9,104	61	467	62	412	13,927
Debt securities issued	635	373	348	21	-	58	262	1,697
Subordinated liabilities	-	171	-	-	180	-	-	351
Trade and other payables	301	652	283	109	61	21	132	1,559
Total financial liabilities	3,233	11,790	10,048	2,693	1,015	367	838	29,984

Effect of foreign currency derivatives	506	(336)	295	40	108	(65)	(544)	4
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Net foreign currency position	(501)	(1,004)	1,263	763	85	71	204	881
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In millions of EUR, as at 31 December 2016

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Cash and cash equivalents	81	3,126	1,122	187	42	37	79	4,674
Investment securities	747	1,810	-	337	499	-	-	3,393
Loans and receivables due from banks and other financial institutions	73	172	40	73	190	2	5	555
Loans due from customers	969	1,251	5,314	2,346	363	334	760	11,337
Trade and other receivables	104	195	9	9	17	4	30	368
Total financial assets	1,974	6,554	6,485	2,952	1,111	377	874	20,327

In millions of EUR, as at 31 December 2016

	EUR	CZK	CNY	RUB	USD	KZT	Other	Total
Financial liabilities at FVTPL	16	394	-	-	-	-	1	411
Due to non-banks	455	5,233	-	2,162	295	192	36	8,373
Due to banks and other financial institutions	1,040	952	5,303	4	504	44	264	8,111
Debt securities issued	637	374	-	8	-	20	198	1,237
Subordinated liabilities	-	92	-	-	216	-	-	308
Trade and other payables	8	610	207	102	42	15	110	1,094
Total financial liabilities	2,156	7,655	5,510	2,276	1,057	271	609	19,534

Effect of foreign currency derivatives	313	(85)	-	(30)	1	(20)	(190)	(11)
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Net foreign currency position	131	(1,186)	975	646	55	86	75	782
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The following tables present an analysis of the sensitivity of the Group's equity to changes in currency exchange rates based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 5% change in CZK, CNY, RUB, USD and KZT to EUR exchange rates:

In millions of EUR, as at 31 December 2017

	CZK	CNY	RUB	USD	KZT
Effect of 5% currency depreciation against EUR	(135)	(74)	(74)	(20)	(4)
Effect of 5% currency appreciation against EUR	135	74	74	20	4

In millions of EUR, as at 31 December 2016

	CZK	CNY	RUB	USD	KZT
Effect of 5% currency depreciation against EUR	(115)	(52)	(49)	(19)	(5)
Effect of 5% currency appreciation against EUR	115	52	49	19	5

C.4.4. Hedging

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

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

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

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

C.5. Insurance risk

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

The Group uses reinsurance agreements as a part of its risk mitigation programme. Insurance risk is transferred to reinsurance on a pro rata and disproportional basis. Most reinsurance contracts are proportional reinsurance (quota/surplus reinsurance) combined with excess of loss reinsurance.

C.5.1. Life insurance

Insurance risks related to life insurance contracts include biometric risks arising from events related to mortality trends, longevity, morbidity, etc., as well as risks related to trends in lapses and acquisition and maintenance expenses from insurance contracts.

The vast majority of life insurance contracts offered by the Group have two components: the main programme, which is a savings (endowment/pure endowment) component, and riders that may include pure risks cover, such as accident cover or critical illness cover. One of the Group's products also includes a pension annuity. All of the Group's life insurance contracts have a guaranteed interest rate. In order to fulfil its obligations to policyholders, the Group uses the concept of asset-liability matching, which means that the Group invests in assets with a rate of return equal to or more than the minimum interest guaranteed under insurance contracts.

Risks associated with the savings component of insurance contracts are screened (i.e. assessed and analysed) regularly in light of the principle of prudence. Such screening includes, *inter alia*, analysing the prevailing conditions on financial markets and any regulatory restrictions. The screening results are used to shape the underwriting and pricing policies of the Group.

As of 31 December 2017, the mathematical provision for products with guaranteed interest of 4% amounted to MEUR 15 (2016: MEUR 19); for products with 3% guaranteed interest it was MEUR 91 (2016: MEUR 78).

For the quantitative analysis of the underwriting risk under life insurance agreements, the Group performs analyses of the sensitivity of life insurance reserves to changes in several variables having the most significant impact on reserves value. The sensitivity analysis shows the impact on life insurance reserves of a change in one variable, while all other assumptions are kept constant. This analysis is used by the Group in order to make management decisions regarding different measures, such as cost cutting, the improvement of lapse rates and the revision of insurance tariffs.

Life insurance reserve sensitivity analysis shows the following results as of the reporting date:

Mortality – increase by 10% – 0.1% increase in life insurance reserves
Mortality – decrease by 10% – 0.1% decrease in life insurance reserves
Morbidity – increase by 10% – 0.3% increase in life insurance reserves
Morbidity – decrease by 10% – 0.3% decrease in life insurance reserves
Technical interest rate – increase by 1% – 3.9% decrease in life insurance reserves
Technical interest rate – decrease by 1% – 5.8% increase in life insurance reserves

As regards the lapse rate, a reduction may have either a positive or a negative effect on insurance reserves. Whether the effect is positive or negative depends primarily on the amount of fines imposed for early lapse of the contract, and this depends on several factors such as contract duration and other terms of the contract.

Key assumptions

One of the basic assumptions used to calculate insurance tariffs is the mortality table. The mortality tables used by the Group reflect experience of previous years as well as a prudential margin. The mortality tables are reviewed on a regular basis by taking into consideration factors such as gender, age, the sum insured, etc. Particular emphasis is placed on the underwriting process. As a part of the underwriting process, the Group has developed procedures, limits, instructions, manuals and forms. To mitigate the Group's exposure to mortality and morbidity risks, the Group has also entered into a surplus reinsurance agreement.

C.5.2. Non-life insurance

Non-life insurance business comprises mainly loan and accident insurance. Insurance risk on non-life insurance contracts is divided into price risk, concentration risk and reserve deficiency risk. The Group's portfolio of accident insurance is not subject to catastrophe risk. Price risk arises due to the fact that insurance premiums may not be sufficient to cover future losses and expenses on insurance contracts. To manage price risk, the Group regularly analyses profitability in the context of insurance products and makes appropriate adjustments in its pricing policy. The Group also uses reinsurance contracts as a part of its risk management programme.

Concentration risk arises when a particular event or series of events may have a significant impact on the Group obligations. Such a concentration of risks may arise from one insurance contract or from several related insurance contracts with similar risks characteristics and can refer to the circumstances that may lead to significant liabilities. The risk is managed by keeping low average insurance amounts and a wide geographical distribution of insurance contracts.

Reserve deficiency risk arises from uncertainty regarding the future development of loss reserves and takes into account the likelihood that insurance reserves are insufficient to meet the Group's obligations to policyholders. This risk is managed by regularly checking the adequacy of loss reserves and conducting loss analyses of insurance products, including the analysis of the sensitivity of insurance reserves to changes in expected insurance contract loss rates. The Group analyses its assumptions against publicly available market data. The uncertainty associated with the analysis of incurred but not reported (IBNR) provisions is greater than that of the reported but not settled (RBNS) analysis. The identification of claims generated by the Group's insurance portfolio is of a short-term nature. Therefore, most claims are settled within one year of the loss incident. Refer to section E.19.1 for quantitative information related to insurance provision.

C.6. Risks specific to real estate business

C.6.1. Concentration risk

The Group's goal is to hold a well-balanced portfolio with respect to the geographical concentration of its assets. Therefore, it broadened its geographical focus during the last years by having properties in the Czech Republic, Germany, the Netherlands, Romania, Russia and the United Kingdom. Any potential concentration risk is also managed through diversified investments into different real estate sectors such as office, logistics and retail and through careful selection of real estate projects and internal project management controls.

C.6.2. Valuation risk

Given the nature of the assets and the requirement that they be measured at fair market value, the Group uses only reputable and internationally well-known independent experts to establish fair market values. In the event that a valuation is made based on internal calculations, it is always subject to several rounds of discussions between internal real estate analysts and the Group's senior management, with strict emphasis on taking a justifiable, conservative approach.

C.6.3. Occupancy risk

The Group is exposed to an occupancy risk stemming from the possibility of losing the tenant or the need to provide for significant incentives either to keep the current tenant or to obtain a new one. In the current buyers' market environment, when faced with such requirements the Group's position is not very strong. To partially mitigate such adverse conditions, the Group tries to offset the immediate negative impact in the long term, e.g. to negotiate long rental agreements incorporating the unilateral option to renew the agreement or to impose significant penalties if the contract is broken by the tenant.

C.7. Fair value of financial assets and liabilities

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

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

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

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

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

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

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financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

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

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

In millions of EUR, as at 31 December 2017

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets held to maturity	12	12	-	12	-
Loans and receivables due from banks and other financial institutions	546	546	-	546	-
Loans due from customers	17,066	17,205	-	-	17,205
Trade and other receivables	441	441	-	-	441
Due to non-banks	(11,637)	(11,645)	-	(11,645)	-
Due to banks and other financial institutions	(13,927)	(13,926)	-	(13,433)	(493)
Debt securities issued	(1,697)	(1,714)	(7)	(1,707)	-
Subordinated liabilities	(351)	(356)	(185)	(171)	-
Trade and other payables	(1,559)	(1,559)	-	-	(1,559)

In millions of EUR, as at 31 December 2016

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and receivables due from banks and other financial institutions	555	555	-	555	-
Loans due from customers	11,337	11,355	-	-	11,355
Trade and other receivables	368	368	-	-	368
Due to non-banks	(8,373)	(8,381)	-	(8,381)	-
Due to banks and other financial institutions	(8,111)	(8,122)	-	(8,122)	-
Debt securities issued	(1,237)	(1,254)	(937)	(317)	-
Subordinated liabilities	(308)	(317)	(223)	(94)	-
Trade and other payables	(1,094)	(1,094)	-	-	(1,094)

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

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

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In millions of EUR, as at 31 December 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	192	140	-	332
Financial assets AFS	3,057	173	116	3,346
Financial liabilities at FVTPL	(372)	(109)	(332)	(813)
Total	2,877	204	(216)	2,865

In millions of EUR, as at 31 December 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	502	43	-	545
Financial assets AFS	2,483	349	16	2,848
Financial liabilities at FVTPL	(322)	(73)	(16)	(411)
Total	2,663	319	-	2,982

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

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

	Financial assets at FVTPL	Financial assets AFS	Financial liabilities FVTPL	Total
Balance as at 1 January	-	16	(16)	-
Net gains/(losses) recorded in profit or loss (included in "Net gain/(loss) on financial assets")	-	8	(21)	(13)
Purchases of financial assets	-	93	-	93
Additions of financial liabilities	-	-	(295)	(295)
Settlements	-	(1)	-	(1)
Balance as at 31 December 2017	-	116	(332)	(216)

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

	Financial assets at FVTPL	Financial assets AFS	Financial liabilities FVTPL	Total
Balance as at 1 January	75	84	(9)	150
Net gains/(losses) recorded in profit or loss (included in "Net gain/(loss) on financial assets")	7	-	(7)	-
Net gains/(losses) recorded in other comprehensive income	-	1	-	1
Purchases of financial assets	-	4	-	4
Additions of financial liabilities	-	-	(2)	(2)
Settlements	(82)	(75)	2	(155)
Transfer out of Level 3	-	2	-	2
Balance as at 31 December 2016	-	16	(16)	-

No transfers took place between Level 1, 2 and 3 in 2017.

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

The financial assets available for sale presented in Level 3 consist of debt securities of MEUR 90 (2016: MEUR 1) and equity securities of MEUR 26 (2016: MEUR 15). The fair value of debt securities is sensitive to market interest rates. The fair value of equity securities is sensitive to economic developments at the businesses in question.

C.8. Offsetting financial assets and liabilities

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

International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2017 and 31 December 2016 the reported balances of positive and negative fair values of derivatives do not include any offset amounts.

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

Such agreements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2017 and 31 December 2016 the reported balances of loans and advances provided under repo operations do not include any offset amounts. The remaining balances of liabilities due from banks and non-banks are not subject to any offsetting arrangements.

C.9. Operational risk

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

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

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

- requirements for the appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;

- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where effective.

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

C.10. Capital management

In January 2015, following the Generali PPF Holding divestment, the Group ceased to be a financial conglomerate and became a mixed holding company. As such, the Group is no longer subject to supplementary prudential rules applicable to financial conglomerates.

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

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

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

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

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

In millions of EUR, as at 31 December

	2017	2016
Issued capital	0.05	0.05
Share premium	2,231	2,217
Retained earnings and other reserves	(5)	(114)
Interim profit included into capital	280	96
Minority interests on CET 1	10	7
(-) Additional valuation adjustment	(3)	(3)
(-) Intangible assets	(232)	(166)
(-) Deferred tax assets carry loss forward	(118)	(4)
Total Tier 1 capital	2,163	2,033
Total Tier 2 capital	268	49
Total capital	2,431	2,081

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

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

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

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

D. Segment reporting

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

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

Reportable segment	Business name/brand	Operations	Geographic focus
Banking and consumer finance (Financial segment)	Home Credit	Lending to private individual customers, deposit-taking	Czech Republic, Slovakia, Russia, Asia, USA
	Air Bank	Deposits, loans and other transactions and balances with retail customers	Czech Republic
	subsidiaries of PPF banka and Air Bank	Lending to private individual customers	Czech Republic, Slovakia, Russia
	PPF banka	Loans, deposits and other transactions and balances with corporate customers, trading activities	Czech Republic
	ClearBank (associate)	Clearing and settlement services	United Kingdom
Telecommunications	O2	Telecommunication operator providing a range of voice and data services (CZ), mobile operator (SK)	Czech Republic, Slovakia
	CETIN	Administration and operation of data and communication network	Czech Republic
Real estate	PPF Real Estate Holding	Developing, investing and professional consulting in the property sector	Central and Western Europe, Russia, Ukraine, Romania
Insurance	PPF Insurance	Provision of life insurance products	Russia
Retail (discontinued)	Eldorado (sold in 2016)	Retailing in consumer electronic and domestic appliances	Russia
Other	Sotio	Development of new medical therapies, focusing on the treatment of cancer and autoimmune diseases	Czech Republic, USA, China
	RAV Holding	Grain and livestock production, storage and trade	Russia
	O2 Arena	Operation of multipurpose hall hosting mainly sports and cultural events	Czech Republic
	The Culture Trip	Online publishing and book selling	worldwide
	LEAG (JV)	Extraction, processing, refining and sale of lignite, generation of electricity and heat	Germany
	Mall/Heureka (associate)	e-commerce and comparison shopping platforms	Central and Eastern Europe

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

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

In millions of EUR, for the year ended 31 December

	2017	2016	2016
	Continuing	Continuing	Discontinued
Interest income	3,649	2,323	1
Fee and commission income	797	522	29
Net earned premiums	92	99	-
Net rental and related income	140	137	-
Net income related to construction contracts	-	5	-
Sales of goods	-	2	1,260
Other income from retail operations	1	-	18
Telecommunication income	1,822	1,742	-
Net agriculture income	5	7	-
Total revenue from external customers	6,506	4,837	1,308

The following table shows the main items from the financial statements broken down according to reportable segments for 2017 and 2016:

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In millions of EUR

2017	Financial segment	Telecommunications	Real Estate	Insurance	Other	Unallocated	Eliminations	Consolidated
Revenue from external customers	4,449	1,822	144	68	15	8	-	6,506
Inter-segment revenue	3	3	2	2	-	24	(34)	-
Total revenue	4,452	1,825	146	70	15	32	(34)	6,506
Segment share of earnings of associates/JVs	(7)	-	31	-	70	-	-	94
Net profit from continuing operations	306	270	71	3	63	(42)	19	690
Net profit for the year								690
Capital expenditure	170	322	2	-	31	-	-	525
Depreciation and amortisation	92	341	2	2	4	1	-	442
Other significant non-cash expenses	1,130	11	7	-	-	18	-	1,166
Segment assets	30,224	4,283	1,787	175	536	2,287	(1,576)	37,716
Investments in associates/JVs	17	1	72	-	416	-	-	506
Total assets								38,222
Segment liabilities	(27,469)	(2,125)	(1,411)	(131)	(404)	(873)	1,568	(30,845)
Total liabilities								(30,845)
Segment equity	2,772	2,159	448	44	548	1,414	(8)	7,377

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In millions of EUR

2016	Financial segment	Telecommunications	Real estate	Insurance	Retail	Other	Unallocated	Eliminations	Consolidated
Revenue from external customers	2,849	1,743	146	71	1,308	16	12	-	6,145
Inter-segment revenue	11	15	1	3	2	-	21	(53)	-
Total revenue from continuing operations	2,860	1,758	147	74	-	16	33	(51)	4,837
Total revenue from discontinued operations					1,310			(2)	1,308
Segment share of earnings of associates/JVs	(4)	(1)	(32)	-	-	528	-	-	491
Net profit from continuing operations	284	231	34	2	67*	513	(30)	13	1,114
Segment result from discontinued operations					1				1
Net profit for the year									1,115
Capital expenditure	129	294	4	-	21	32	1	(38)	443
Depreciation and amortisation	84	338	2	2	-	4	1	-	431
Other significant non-cash expenses	574	37	20	-	-	2	3	-	636
Segment assets	19,584	4,056	1,807	178	-	326	2,182	(1,469)	26,664
Investments in associates/JVs	11	2	50	-	-	314	-	-	377
Total assets									27,041
Segment liabilities	(17,066)	(1,995)	(1,448)	(136)	-	(218)	(877)	1,462	(20,278)
Total liabilities									(20,278)
Segment equity	2,529	2,063	409	42	-	422	1,305	(7)	6,763

* Profit from the sale of Eldorado

D.1. Banking and consumer finance segment (Financial segment)

The segment represented by the PPF Financial Holdings subgroup comprises PPF banka, Air Bank and Home Credit business.

The Home Credit (“HC”) business is divided into segments based on geographical regions corresponding to the geographical location of customers. The HC Group operates in the following principal geographical areas: China, the Russian Federation, the Czech Republic, Vietnam, Kazakhstan, Slovakia, India, Indonesia, and the Philippines. The Russian and Kazakh Home Credit segments operate under banking licences enabling taking of deposits. The countries not presented in a separate segment column are included in the Other segment.

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

The following table supplements the information presented for the financial segment in the previous table. Eliminations represent intercompany balances among individual reporting segments. Inter-segment revenue represents revenue realised with other segments inside the financial segment.

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In millions of EUR

2017	Corporate banking		Retail banking and consumer finance								Unallocated	Eliminations	Consolidated
	PPF banka	Air Bank	HC China	HC Russian Federation	HC Czech Republic	HC Vietnam	HC Kazakhstan	HC Slovakia	HC India	Other			
Revenue from customers	91	62	2,639	746	96	249	186	55	145	171	12	-	4,452
Inter-segment revenue	27	35	-	6	12	-	-	-	-	1	11	(92)	-
Total revenue	118	97	2,639	752	108	249	186	55	145	172	23	(92)	4,452
Net interest income from external customers	67	34	1,450	383	83	161	106	48	121	122	(17)	-	2,558
Inter-segment net interest income	26	35	-	(12)	(14)	-	-	(8)	(27)	(9)	3	6	-
Total net interest income	93	69	1,450	370	69	161	106	40	94	113	(14)	7	2,558
Income tax expense	(15)	(5)	(40)	(43)	(9)	(16)	(16)	(1)	-	4	(9)	-	(150)
Net profit from continuing operations	58	21	121	123	75	39	24	43	(69)	(44)	(101)	16	306
Capital expenditure	4	12	85	13	14	4	8	7	25	37	31	(70)	170
Depreciation and amortisation	3	10	23	21	2	5	7	1	13	12	21	(26)	92
Other significant non-cash expenses	5	3	965	35	(7)	41	(2)	13	41	36	-	-	1,130
Segment assets (incl. associates)	9,122	3,827	11,440	3,848	640	656	568	256	575	628	855	(2,174)	30,241
Segment liabilities	(8,728)	(3,599)	(9,939)	(3,174)	(622)	(518)	(451)	(243)	(458)	(397)	(1,522)	2,182	(27,469)
Segment equity	394	228	1,501	674	18	138	117	13	117	231	(667)	8	2,772

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In millions of EUR

2016	Corporate banking		Retail banking and consumer finance								Unallocated	Eliminations	Consolidated
	PPF banka	Air Bank	HC China	HC Russian Federation	HC Czech Republic	HC Vietnam	HC Kazakhstan	HC Slovakia	HC India	Other			
Revenue from customers	74	50	1,351	725	103	198	145	63	58	80	13	-	2,860
Inter-segment revenue	19	36	-	16	2	-	-	-	-	1	13	(87)	-
Total revenue	93	86	1,351	741	105	198	145	63	58	81	26	(87)	2,860
Net interest income from external customers	49	24	783	358	86	129	75	54	44	49	(3)	-	1,648
Inter-segment net interest income	18	35	-	(10)	(20)	-	(7)	(12)	(4)	(2)	(1)	3	-
Total net interest income	67	59	783	348	66	129	68	42	40	47	(4)	3	1,648
Income tax expense	(10)	(3)	(58)	(17)	(3)	(12)	(12)	-	-	(3)	(1)	-	(119)
Net profit from continuing operations	46	11	196	74	22	46	46	4	(61)	(50)	(28)	(22)	284
Capital expenditure	1	9	33	10	2	5	8	-	18	24	19	-	129
Depreciation and amortisation	3	8	11	24	1	5	5	-	7	9	30	(19)	84
Other significant non-cash expenses	-	9	311	161	(2)	37	3	18	26	11	-	-	574
Segment assets (incl. associates)	5,054	3,201	6,641	3,371	520	515	410	301	248	302	754	(1,722)	19,595
Segment liabilities	(4,732)	(3,012)	(5,673)	(2,776)	(514)	(398)	(304)	(296)	(203)	(149)	(705)	1,696	(17,066)
Segment equity	322	189	968	595	6	117	106	5	45	153	49	(26)	2,529

D.2. Telecommunication segment

The telecommunication segment is represented by O2 CR and CETIN. O2 CR is further divided into two segments based on geographical regions corresponding to the geographical location of customers.

The following table supplements the information presented for the telecommunications business in the previous table. Eliminations represent intercompany balances among individual reporting segments within the segment. Inter-segment revenue represents revenue realised with other segments inside the telecommunication segment.

In millions of EUR

2017	CETIN	O2 Czech Republic	O2 Slovak Republic	Eliminations	Consolidated
Revenue from customers	402	1,152	268	-	1,822
Inter-segment revenue	395	13	2	(410)	-
Total revenue	797	1,165	270	(410)	1,822
Cost related to telecommunication business	(353)	(243)	(115)	18	(693)
Net telecommunication income	49	909	153	18	1,129
Segment result	111	172	29	(42)	270
Capital expenditure	154	119	49	-	322
Depreciation and amortisation	150	144	47	-	341
Other significant non-cash expenses	8	-	3	-	11
Segment assets (incl. associates)	2,209	1,907	483	(315)	4,284
Segment liabilities	(1,320)	(729)	(152)	76	(2,125)
Segment equity	889	1,178	331	(239)	2,159
2016	CETIN	O2 Czech Republic	O2 Slovak Republic	Eliminations	Consolidated
Revenue from customers	377	1,131	250	-	1,758
Inter-segment revenue	389	5	2	(396)	-
Total revenue	766	1,136	252	(396)	1,758
Cost related to telecommunication business	(318)	(614)	(110)	398	(644)
Segment share of earnings of associates	-	(1)	-	-	(1)
Net telecommunication income	45	516	140	398	1,099
Segment result	88	161	23	(41)	231
Capital expenditure	131	122	41	-	294
Depreciation and amortisation	145	144	49	-	338
Other significant non-cash expenses	35	-	2	-	37
Segment assets (incl. associates)	2,080	1,804	462	(288)	4,058
Segment liabilities	(1,354)	(582)	(120)	61	(1,995)
Segment equity	726	1,222	342	(227)	2,063

E. Notes to the consolidated financial statements

E.1. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Cash on hand	111	93
Current accounts	1,517	1,407
Balances with central banks	189	2,007
Reverse repo operations with central banks	7,277	285
Placements with financial institutions due within one month	24	882
Total cash and cash equivalents	9,118	4,674

As of 31 December 2017, cash and cash equivalents amounting to MEUR 834 (2016: MEUR 985) are restricted by borrowing agreements contracted by Chinese Home Credit with the creditors either to the disbursement of loans to retail clients or repayment of loans received from the creditors. If the cash is used to provide loans to retail clients, the loans are pledged as collateral.

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

E.2. Investment securities

Investment securities comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Financial assets at fair value through profit or loss	332	545
Financial assets available for sale	3,346	2,848
Financial assets held to maturity	12	-
Total investment securities	3,690	3,393

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

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

In millions of EUR, as at 31 December

	2017	2016
Government and other public-sector bonds	183	479
Corporate bonds	13	18
Interest rate derivatives	67	24
Currency derivatives	64	24
Positive fair value of hedging derivatives	5	-
Total financial assets at FVTPL	332	545

In 2016, government bonds included non-trading 10-year fixed-interest bonds amounting to MEUR 201. The fixed interest income from these bonds was economically hedged by interest rate swaps. The bonds were sold in 2017.

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

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

In millions of EUR, as at 31 December

	2017	2016
Negative fair values of derivatives	109	73
Interest rate derivatives	49	35
Currency derivatives	60	38
Liabilities from short sales of securities	372	322
Liability due to non-banks	313	-
Other	19	16
Total financial liabilities at FVTPL	813	411

In July 2017, the Group signed a strategic partnership agreement with PAG Asia Capital (“PAG”), one of Asia’s largest private equity firms, with the aim of supporting the long-term development of the Group’s business, in China. Within this deal, through one of its investment funds PAG made an investment to the Group in form of a long-term loan provided to the Group’s subsidiary. The loan is measured at fair value through profit or loss. The fair value was categorised as Level 3 and determined as MEUR 313 as at 31 December 2017. In accordance with the partnership agreement, the value of the loan was derived from the fair value of the Chinese business. The fair value of the Chinese business was determined using generally accepted valuation techniques, in particular the dividend discount model. The majority of inputs to this model are not observable from the market.

Details of derivatives are provided in the following tables:

In millions of EUR, as at 31 December 2017

Interest rate derivatives	Notional amount	Positive fair values	Negative fair values
<i>OTC products:</i>			
Forward rate agreements	1,727	-	-
Interest rate swaps	5,116	63	(49)
Interest rate options (purchase)	26	-	-
Interest rate options (sale)	18	-	-
Other interest rate contracts	284	-	-
<i>Exchange-traded products:</i>			
Interest rate futures	18	4	-
Total	7,189	67	(49)
Currency derivatives			
<i>OTC products:</i>			
Forward exchange contracts	1,652	8	(26)
Currency/cross currency swaps	7,118	55	(34)
Foreign exchange options (purchase)	24	1	-
Foreign exchange options (sale)	22	-	-
Total	8,816	64	(60)

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In millions of EUR, as at 31 December 2016

Interest rate derivatives	Notional amount	Positive fair values	Negative fair values
<i>OTC products:</i>			
Interest rate swaps	3,075	18	(35)
Other interest rate contracts	295	-	-
<i>Exchange-traded products:</i>			
Interest rate futures	20	6	-
Total	3,390	24	(35)
Currency derivatives			
<i>OTC products:</i>			
Forward exchange contracts	598	-	(8)
Currency/cross currency swaps	4,174	24	(30)
Total	4,772	24	(38)

E.2.3. Financial assets available for sale

Financial assets available for sale comprise the following:

In millions of EUR, as at 31 December 2017

	Carrying amount	Amortised cost
Debt securities	2,740	2,714
Government bonds	1,576	1,557
Corporate bonds	1,101	1,090
Other debt securities	63	67
Equity securities - shares	606	663
Total AFS assets	3,346	3,377

In millions of EUR, as at 31 December 2016

	Carrying amount	Amortised cost
Debt securities	2,216	2,165
Government bonds	1,286	1,238
Corporate bonds	841	837
Other debt securities	89	90
Equity securities	631	696
Loans and receivables	1	6
Total AFS assets	2,848	2,867

In September 2016, the Group reclassified its 12.92% share in Polymetal from investment in associate to AFS asset. Upon reclassification, a MEUR 143 gain was recognised in the income statement as the difference between the carrying amount of the associate and its fair value derived from the market price (refer to B.3.2). As of 31 December 2017, the Group holds 54.6 million shares (2016: 55.2 million). The fair value amounted to MEUR 566 and a MEUR 22 gain was recognised as AFS reserve in 2017 equity (2016: a fair value of MEUR 551).

Movements in allowances for impairment may be broken as follows:

In millions of EUR

	2017	2016
Balance as at 1 January	16	16
Deconsolidation	(15)	-
Effect of movements in exchange rates	(1)	-
Balance as at 31 December	-	16

E.3. Hedging derivative instruments

The following table shows details of the hedging derivatives in 2017:

In millions of EUR, as at 31 December 2017

	Notional amount	Positive fair values	Negative fair values
Cross currency interest rate swaps	59	5	-
Interest rate swaps	66	-	-
Total	125	5	-

Cash flows from the hedging derivative instruments are expected to occur in 2018-2036.

E.4. Loans and receivables due from banks and other financial institutions

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

In millions of EUR, as at 31 December

	2017	2016
Term deposits at banks	30	133
Minimum reserve deposits with central banks	153	141
Loans to banks	7	9
Loans and advances provided under repos	130	141
Cash collateral for derivative instruments	68	92
Other	158	39
Total loans and receivables due from banks and other financial institutions	546	555

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

E.5. Loans due from customers

Loans due from customers comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Gross amount		
Cash loan receivables	9,967	5,487
Consumer loan receivables	5,959	4,265
Revolving loan receivables	524	585
Car loan receivables	117	117
Mortgage loan receivables	147	111
Loans to corporations	1,687	1,599
Loans and advances provided under repos	-	59
Loans to associates	152	40
Other	3	4
Total gross amount	18,556	12,267
Collective allowances for impairment		
Cash loan receivables	(882)	(465)
Consumer loans receivables	(441)	(265)
Revolving loan receivables	(64)	(86)
Car loan receivables	(22)	(23)
Mortgage loan receivables	(5)	(8)
Total collective impairment	(1,414)	(847)
Individual allowances for impairment		
Loans to corporations	(70)	(45)
Loans to associates	(6)	(38)
Total individual impairment	(76)	(83)

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Notes to the consolidated financial statements for the year ended 31 December 2017

Total carrying amount	17,066	11,337
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Movements in allowances for impairment may be broken down as follows:

In millions of EUR, for the year ended 31 December

	2017	2016
Balance as at 1 January	930	867
Impairment losses recognised in the income statement	1,144	573
Change in impairment of loans to associates (negative share)	(25)	2
Amount related to loans written off and disposed of	(507)	(566)
Disposals from business combinations	-	(2)
Effect of movements in exchange rates	(52)	56
Balance as at 31 December	1,490	930

E.6. Trade and other receivables

Trade and other receivables comprise the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Gross amount		
Trade receivables	470	397
Accrued income	11	8
Individual impairment	(40)	(37)
Balance as at 31 December	441	368

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

In millions of EUR, for the year ended 31 December

	2017	2016
Balance as at 1 January	(37)	(25)
Disposals resulting from business combination	-	1
Impairment losses recognised in the income statement	(8)	(5)
Amount related to receivable written off	-	(8)
Release of impairment losses on written off items	3	2
Effect of movements in exchange rates	2	(2)
Balance as at 31 December	(40)	(37)

E.7. Income taxes

E.7.1. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Current tax expense	(398)	(261)
Deferred tax expense	154	48
Total income tax expense (net)	(244)	(213)

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The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2017	2016
Tax rate	25.0%	25.0%
Profit from continuing operations (before taxation)	934	1,327
Computed taxation using applicable tax rate	(234)	(332)
Tax non-deductible expenses	(79)	(63)
Non-taxable income	37	177
Non-taxable share of earnings of associates	24	59
Tax rate differences on foreign results	51	(27)
Utilised tax loss not previously recognised	8	15
Tax loss carry forward not recognised	(36)	(57)
Withholding tax on intra-group dividends	(6)	(3)
Other	(9)	18
Total income tax expense/income	(244)	(213)

E.7.2. Deferred tax

Deferred tax assets and liabilities comprise the following:

In millions of EUR, as at 31 December

	2017 Deferred tax liabilities	2017 Deferred tax assets	2016 Deferred tax liabilities	2016 Deferred tax assets
Investment securities	(7)	4	(12)	2
Loans	(1)	307	(1)	161
Inventories	-	1	-	1
Investment property	(120)	3	(104)	3
Property, plant and equipment	(257)	2	(235)	5
Intangible assets	(130)	1	(135)	1
Other assets	(6)	12	(6)	13
Trade and other payables	-	23	-	21
Provisions	(3)	10	(3)	8
Other temporary differences	(7)	36	(8)	37
Value of loss carry-forwards recognised	-	45	-	47
Deferred tax assets/(liabilities)	(531)	444	(504)	299
Net deferred tax assets/(liabilities)	(460)	373	(431)	226

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

In millions of EUR, for the year ended 31 December

	2017	2016
Net deferred tax assets/(liabilities) as at 1 January	(205)	(285)
Deferred tax (expense)/income for the period	154	48
Deferred tax recognised directly in equity	6	(2)
Additions from business combinations	(14)	4
Disposals resulting from business combinations	-	29
Effect of movements in exchange rates	(28)	1
Net deferred tax assets/(liabilities) as at 31 December	(87)	(205)

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

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E.7.3. Tax losses

As at 31 December 2017 the Group incurred tax losses from recent years of MEUR 2,225 (2016: MEUR 2,101) available to be carried forward and off-set against future taxable income. To the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilised, the deferred tax assets are not recognised. The unrecognised deferred tax assets amount to MEUR 478 (2016: MEUR 445). The unutilised tax losses can be claimed in the period from 2018 to 2026 in the Netherlands (2018 to 2022 in the Czech Republic and Cyprus, and for an indefinite time in Hong Kong and in the Russian Federation) and expire as follows:

In millions of EUR, as at 31 December 2016

	2017	2016
2017	-	15
2018	47	60
2019	246	249
2020	367	370
2021	287	287
2022	440	416
2023	80	122
2024	139	104
2025	93	90
2026	68	1
2027	1	-
Tax losses that can be carried forward indefinitely	457	387
Total	2,225	2,101

E.8. Inventories

Inventories comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Goods/merchandise for resale	37	24
Trading property	22	55
Agricultural inventories	7	10
Other inventory	3	2
Total inventories	69	91

E.9. Assets held for sale

Assets held for sale as at 31 December are as follows:

In millions of EUR, as at 31 December

	2017	2016
Cash and cash equivalents	-	1
Investment property	43	4
Property, plant and equipment	1	25
Other assets	3	1
Total assets held for sale	47	31

E.10. Investments in associates and joint ventures

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

In millions of EUR, as at 31 December

	2017	2016
LEAG	358	281
Metropolis (Russia)	54	50
Sully Group	43	-
The Culture Trip	18	26
ClearBank	14	9
Westminster	8	-
Other	11	11
Total investments in associates/joint ventures	506	377

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

In millions of EUR, for the year ended 31 December

	2017	2016
LEAG	82	274
Metropolis (Russia)	31	(29)
Sully Group	(4)	-
The Culture Trip	(5)	-
ClearBank	(10)	(6)
Polymetal	-	255
Other	-	(3)
Total share of earnings in associates/joint ventures	94	491

The difference between the total investment and the Group's share in equity comprises goodwill.

LEAG

Since October 2016, the Group holds a 50% share in LEAG, a German group of entities dealing with the extraction, processing, refining and sale of lignite, and the generation of electricity and heat. LEAG operates mines, power plants and a refining plant. The following table shows LEAG's performance (2016: in the three months since its acquisition):

In millions of EUR, as at 31 December

	2017	2016
Percentage ownership interest	50.00%	50.00%
Non-current assets	2,150	2,873
Current assets	2,059	1,006
Non-current liabilities	(2,575)	(2,852)
Current liabilities	(918)	(466)
Net assets (100%)	716	561
Carrying amount of investment in associate (50.00%)	358	281
Total revenue	2,153	1,245
Total net profit/(loss) for the period (100%)	164	40
Group's share of profit/(loss)	82	20
Gain on a bargain purchase (refer to B.2.7)	-	254
Total share in profit/(loss) (50.00%)	82	274

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Metropolis (Russia)

In July 2015, the Group acquired a 49.99% stake in entities holding two up-and-running Moscow office buildings. In 2017, due to the positive development of the exchange rate, the project has made a revaluation gain compensated by a translation loss of MEUR 46 recorded directly in equity (2016: translation gain of MEUR 69).

In millions of EUR, as at 31 December

	2017	2016
Percentage ownership interest	49.99%	49.99%
Non-current assets	361	366
Current assets	15	15
Non-current liabilities	(252)	(122)
Current liabilities	(16)	(158)
Net assets (100%)	108	101
Carrying amount of investment in associate (49.99%)	54	50
Total revenue	40	43
Total net profit/(loss) for the period (100%)	62	(59)
Total share in profit/(loss) (49.99%)	31	(29)
Dividends received by the Group	5	2

The Culture Trip

The Culture Trip Ltd., a UK start-up company dealing with online publishing and book selling, was acquired in June 2016. As of December 2017, the Group holds a 43.69% share with a net asset value of MEUR 2 (2016: MEUR 14).

ClearBank

Clearbank is a newly established UK bank that from 2017 has been providing clearing and settlement services. The following table shows the bank's performance (since April 2016):

In millions of EUR

	2017	2016
Non-current assets	8	2
Current assets	33	22
Current liabilities	(7)	(3)
Net assets (100%)	34	21
Group's share of net assets (36.36%; 2016:35%)	13	7
Goodwill included in carrying amount	1	2
Carrying amount of investment in associate	14	9
Total net loss for the period (100%)	(19)	(6)
Group's share of the net loss (36.36%; 2016: 35%)	(7)	(2)
Dilution loss	(3)	(4)
Total share in profit/(loss)	(10)	(6)

Polymetal

The investment in Polymetal International Plc, a Russian precious metals mining company, was classified as an associate since 2008. During nine months of 2016, the share in Polymetal was decreased to 15.97% and on 23 September 2016, the Group sold a 3.05% share and changed the classification of the Polymetal stake from associate to asset available for sale. The company is listed on the London Stock Exchange (refer to E2.3).

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The following table presents the 2016 performance of Polymetal for a period of nine months up to the reclassification to AFS asset:

In millions of EUR, as at 31 December

	2016
Percentage ownership interest	12.92%
Total revenue	949
Total net profit/(loss) for the period (100%)	284
Group's share of profit/(loss) (inclusive changes in ownership interest and changes in FX rates)	48
Dilution gain, profit on sale and other changes in equity of Polymetal	64
Gain on reclassification to AFS asset	143
Total share in profit/(loss)	255
Dividends received by the Group (full period)	22

Westminster

Together with a joint venture partner, in January 2017 the Group acquired an up-and-running London hotel building. The investment is classified as an associate with a 45% effective share.

In millions of EUR

	2017
Percentage ownership interest (direct)	50%
Non-current assets	211
Current assets	7
Non-current liabilities	(196)
Current liabilities	(5)
Net assets (100%)	17
NCI at subholding level	(2)
Carrying amount of investment in associate (45%*)	8
Total revenue	25
Total net profit/(loss) for the period (100%)	(1)
Total share in profit/(loss) (45%*)	(1)

* effective ownership

Sully Group

In October 2017, the Group acquired a 40% stake in Sully System a.s. The investment comprises Mall Group and Heureka, representing an e-commerce platform in Central and Eastern Europe and a comparison shopping platform in the Czech Republic and Slovakia.

The following table presents the 2017 performance of Sully Group since the acquisition:

In millions of EUR

	2017
Percentage ownership interest	40%
Non-current assets	176
Current assets	165
Non-current liabilities	(261)
Current liabilities	(193)
Net assets (100%)	(113)
Group's share of net assets (40%)	(45)
Goodwill included in carrying amount	88
Carrying amount of investment in associate	43
Total net loss for the period (100%)	(10)
Total share in profit/(loss) (40%)	(4)

E.11. Investment property

Investment property includes all projects acquired through several acquisitions during the last several years. The projects, located in the Russian Federation, the Czech Republic, the Netherlands, Germany and Romania, consist mainly of completed and rented office premises, buildings, warehouses, and shopping malls.

The following table shows the breakdown of investment property by category and country:

In millions of EUR, as at 31 December 2017

	Russia	Czech Republic	Netherlands	Germany	Romania	UK	Total
Land plot	120	-	-	-	-	-	120
Office	318	80	272	116	53	-	839
Warehouse	321	-	-	-	-	-	321
Retail	109	24	30	-	-	-	163
Residential	-	-	-	-	-	18	18
Other	13	-	-	-	-	-	13
Total investment property	881	104	302	116	53	18	1,474

In millions of EUR, as at 31 December 2016

	Russia	Czech Republic	Netherlands	Germany	Romania	Total
Land plot	141	-	-	-	-	141
Office	306	61	257	97	53	774
Warehouse	377	-	-	-	-	377
Retail	144	21	34	-	-	199
Other	14	-	-	-	-	14
Total investment property	982	82	291	97	53	1,505

The following table shows the roll-forward of investment property:

In millions of EUR, for the year ended 31 December

	2017	2016
Balance as at 1 January	1,505	1,507
Additions resulting from business combination	-	43
Disposals resulting from business combination	(3)	(174)
Additions - acquisition through asset deal	-	12
Additions - capitalised costs	20	21
Disposals	(9)	(4)
Transfer to non-current assets held for sale	(43)	(4)
Transfer from trading property	18	-
Transfer from PPE	-	4
Unrealised gains from investment property	102	74
Unrealised losses from investment property	(41)	(119)
Effect of movements in exchange rates	(75)	145
Balance as at 31 December	1,474	1,505

E.11.1. Techniques used for valuing investment property

Residual calculation

The residual method takes into consideration the level of revenues or sales that could be achieved by disposing of the development properties. The total sum of these revenues or sales is known as the Gross Development Value (“GDV”) and includes all of the separate areas that

comprise the entire development, including residential and/or commercial areas (apartment areas, terraces/balconies, garages, parking, cellars and any garden areas).

From the GDV figure, the total development costs associated with the development of the project are deducted to arrive at the “residual” or market value of the land. These deductions typically include construction costs together with any contingency element, ancillary costs, legal/agency and professional fees, purchaser costs, financing costs and the developer’s profit or required rate of return for the risk of undertaking the project.

Income approach – Discounted Cash Flow (“DCF”) calculation

The income approach is used to value commercial and investment properties. Because it is intended to directly reflect or model the expectations and behaviours of typical market participants, this approach is generally considered the most applicable valuation technique for income-producing properties, where sufficient market data exists.

In a commercial income-producing property, this approach capitalises an income stream into a present value. This can be done using revenue multipliers or capitalisation rates applied to Net Operating Income.

The DCF methodology reflects the market’s perception of a relationship between a property’s potential income and its market value, a relationship expressed as a capitalisation rate or yield. This approach converts the anticipated benefits in terms of income (cash flow) or amenity to be derived from the ownership of the property into a value indication through capitalisation. This approach is widely used when appraising either income-producing properties or properties capable of producing an income. The property is valued by capitalising the future cash flow produced by the building at the end of the assumed holding period. These future cash flows (both rental and capital receipts from an assumed sale, and assumed expenditure required to realise same) are then discounted back at a discount rate that reflects a typical investor’s overall target rate of return.

Sales comparable approach

This method relies on direct evidence from the market of sales and/or offers on properties with similar characteristics. As it is difficult to find evidence of comparables which are identical to any given property which is to be valued, the evidence must be adjusted to align it with the property in question. This allows the comparable evidence to be utilised in a calculation. The adjustments made will vary depending on the drivers of value in any given market and the specific differences between the property being valued and the comparables. The amount of adjustment depends on the judgement and knowledge of the valuer, and relies on his skill and understanding of the market.

The following table summarises valuation methods used for different categories of investment property:

Country	Category	Valuation method
Netherlands	office/retail	Income approach
Germany	office	Income approach
Czech Republic	office/retail	Income approach/ Residual approach
Russia	office (including under development)	Income approach
Russia	warehouse (including under development)	Income approach
Romania	office	Income approach
All locations	land	Sales comparison

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The following table summarises the significant inputs used in measuring the fair value of investment property used in the valuation of income-generating properties:

For the year ended 31 December 2017

	Current income per sqm	Market rent per sqm	Initial yield	Reversionary yield
Germany	EUR 7.26-12.92	EUR 9.79-16.38	n/a	n/a
Netherlands	EUR 0.97-18.22	EUR 11.56-16.80	(0.74%)-16.44%	5.19%-13.05%
Czech Republic	EUR 2.24-24.63	EUR 12.94-15.91	(1.18%)-8.58%	5.55%-7.47%
Russia	EUR 7.06-23.20	EUR 6.85-17.00	10.50%-12.48%	7.79%-8.87%
Romania	EUR 17.85	EUR 17.42	7.31%	6.97%

For the year ended 31 December 2016

	Current income per sqm	Market rent per sqm	Initial yield	Reversionary yield
Germany	EUR 9.07-13.16	EUR 8.5-17.0	0.16%-7.3%	4.73%-7.58%
Netherlands	EUR 0.38-17.86	EUR 9.58-15.83	5.85%-10.50%	7.58%-27.22%
Czech Republic	EUR 2.13-22.91	EUR 9.50-25	(1.98%)-7.68%	5.16%-8.86%
Russia	EUR 9.5-98.6	EUR 6.40-40.83	6%-12.38%	n/a
Romania	EUR 18.63	EUR 15-17	6.4%	n/a

The Group categorised the investment property within Level 3 of the fair value hierarchy, as certain inputs for the assessment of the fair value are unobservable.

E.12. Property, plant and equipment

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

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

	Land and buildings	Ducts, cables and related plant	Telecom technology and related equipment	Other tangible assets and equipment	Total
Carrying amount					
Balance as at 1 January	455	1,334	329	151	2,269
Additions	58	43	116	134	351
Disposals resulting from business combinations					
Disposals	(5)	(1)	(1)	(3)	(10)
Transfer to non-current assets held for sale	(1)	-	-	-	(1)
Other movements	8	-	(1)	(9)	(2)
Depreciation charge	(30)	(79)	(63)	(58)	(230)
Depreciation included in cost of sales (agriculture)	-	-	-	(2)	(2)
Impairment charge	-	-	-	(1)	(1)
Effect of movements in exchange rates	16	77	17	(5)	105
Balance as at 31 December	501	1,374	397	207	2,479
Cost	646	1,687	681	463	3,477
Accumulated depreciation and impairment	(145)	(313)	(284)	(256)	(998)
<i>Of which: Not in use</i>	9	18	78	22	127

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

	Land and buildings	Ducts, cables and related plant	Telecom technology and related equipment	Other tangible assets and equipment	Total
Carrying amount					
Balance as at 1 January	591	1,366	298	162	2,417
Additions	19	41	99	81	240
Disposals resulting from business combinations	(77)	-	-	(33)	(110)
Disposals	(7)	-	(2)	(4)	(13)
Transfer to non-current assets held for sale	(25)	-	-	-	(25)
Other movements	(4)	1	-	1	(2)
Depreciation charge*	(34)	(75)	(62)	(59)	(230)
Depreciation included in cost of sales (agriculture)	-	-	-	(2)	(2)
Impairment charge	(27)	-	(4)	(2)	(33)
Impairment reversal	-	-	-	1	1
Effect of movements in exchange rates	19	1	-	6	26
Balance as at 31 December	455	1,334	329	151	2,269
Cost	571	1,554	557	378	3,060
Accumulated depreciation and impairment	(116)	(220)	(228)	(227)	(791)
<i>Of which: Not in use</i>	5	17	75	6	103

*Depreciation includes discontinued operations.

E.13. Intangible assets and goodwill

Intangible assets comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Goodwill	569	540
Software	447	342
Licences	354	360
Customer relationships	407	445
In-process research and development	196	158
Trademark	73	68
Present value of future profits from portfolios acquired	11	13
Other	8	9
Total intangible assets	2,065	1,935

Licences (including spectrum licences) facilitate the roll-out of mobile services. Customer relationships are an asset ensuring a long-term revenue stream from customers who have made commitments to purchase specific amounts of products or services. In the case of O2 CR, they comprise individuals, small/home offices and corporations.

E.13.1. Goodwill

The following table shows the roll-forward of goodwill:

In millions of EUR, for the year ended 31 December

	2017	2016
Balance as at 1 January	540	680
Disposals (Eldorado)	-	(159)
Additions from business combination	1	-
Impairment losses recognised	-	(3)
Effect of movements in exchange rates	28	22
Balance as at 31 December	569	540

Goodwill consists of two significant items arising from the acquisition of O2 CR in 2014. Following the demerger of O2 CR in 2015 the initial goodwill was allocated to newly established CGUs not existing at the time of acquisition based on the proportion of external revenues generated by both businesses (O2 CR: 80.3%, CETIN: 19.7%).

As of 31 December 2017, the carrying amount of O2 CR goodwill was MEUR 441 (2016: MEUR 417) and the carrying amount of CETIN goodwill was MEUR 110 (2016: MEUR 104). Goodwill is tested annually for impairment.

O2 CR

The impairment test involves determining the recoverable amount of the consolidated entity, which corresponds to the value in use. Value in use is the present value of future cash flows expected to be derived from the company (CGU).

Value in use is determined on the basis of a discounted cash flow enterprise valuation model. Value in use is derived from cash flow forecasts based on the analyst mean forecast sourced from Thomson Reuters Eikon (for 2018 to 2020). Cash flows beyond the forecast period were extrapolated (for 2021 to 2024) using appropriate growth rates, based on general economic data derived from macroeconomic and financial studies.

The calculation of value in use is most sensitive to the following assumptions:

Estimated growth rate in terminal value – forecasts of the market and regulatory environment in which the company conducts its principal business, as well as the investment life cycle, are the basis for determining the value assigned to the estimated growth rate. A 1.5% growth rate is used.

Discount rate – the discount rate reflects the Group's estimate of the risk and related expected return specific to the CGU. The weighted average cost of capital forms the basis for the determination of the discount rate. Relevant data taken from financial independent financial analysts as a benchmark for the weighted average cost of capital were used to determine the discount rate. The resulting discount rate and its effect on value in use were tested for sensitivity. The current methodology used as of 31 December 2017 will be subject to regular reassessment and potential adjustments.

The discounted cash flow valuation was supported by a valuation using the market approach based on publicly traded peer companies. The multiple of enterprise value (EV) to earnings before interest, taxes, depreciation and amortisation (EBITDA) was selected as the most suitable multiple, as EBITDA is considered to be the closest approximate of free cash flow. The

value estimates draw on EV/EBITDA multiples based on market data as at the valuation date and the EBITDA of the peer public companies for 2017. Additionally, EV/Sales multiple was considered as well.

As O2 CR is a publicly traded company on the Prague Stock Exchange, its share price on the exchange was considered as a supportive indication of value, while taking into consideration share liquidity.

CETIN

The impairment test involves determining the recoverable amount of the CETIN cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from the CGU.

Value in use is determined on the basis of an enterprise valuation model and is assessed from a Group-internal perspective. Value in use is derived from the medium-term forecast for a period of five years (for 2018 to 2022), which has been prepared by the management and is the most recent at the time of the impairment test. The medium-term forecast is based on past experience, as well as on future market trends. Further, the medium-term forecast is based on general economic data derived from macroeconomic and financial studies. Key assumptions, on which the management has based its business plan and growth rates, include trends in the gross domestic product, interest rates, nominal wages, capital expenditures, market share, growth rates and discount rates. Cash flows beyond the management forecast period were extrapolated (for 2023 to 2024) using appropriate growth rates, based on general economic data derived from macroeconomic and financial studies.

The calculations of value in use for CGU are most sensitive to the following assumptions:

Estimated growth rate in terminal value – forecasts of the market and regulatory environment in which the company conducts its principal business, as well as the investment life cycle, are the basis for determining the value assigned to the estimated growth rate. A 1.5% growth rate is used.

Discount rate – this reflects the Group's estimate of the risk and related expected return. The weighted average cost of capital forms the basis for the determination of the discount rate. Relevant data taken from financial independent financial analysts as a benchmark for the weighted average cost of capital were used to determine the discount rate. The resulting discount rate and its effect on value in use were tested for sensitivity. The current methodology used as of 31 December 2017 will be subject to regular reassessment and, potentially, adjustment.

The discounted cash flow valuation was supported by a valuation using the market approach based on publicly traded peer companies. The multiple of enterprise value (EV) to earnings before interest, taxes, depreciation and amortisation (EBITDA) was selected as the most suitable multiple, as EBITDA is considered to be the closest approximate of free cash flow. The value estimates draw on EV/EBITDA multiples based on market data as at the valuation date and the EBITDA of the peer public companies for 2017. Additionally, EV/Sales multiple was considered as well.

E.13.2. Other intangible assets

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

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

	Software	Licences	Customer relationships	IPRD	Trade-marks	PVFP	Other intangible assets	Total
Carrying amount								
Balance as at 1 January	342	360	445	158	68	13	9	1,395
Additions resulting from business combinations	2	-	-	-	-	-	-	2
Additions	141	17	-	24	30	-	1	213
Additions from internal development	41	-	-	5	-	-	-	46
Disposals resulting from business combinations	-	-	-	-	-	-	-	-
Disposal	(5)	-	-	-	-	-	-	(5)
Other changes								
Amortisation charge	(86)	(35)	(58)	-	(28)	(2)	(3)	(212)
Impairment charge	(2)	-	-	-	-	-	-	(2)
Impairment reversal	-	-	-	-	-	-	-	-
Effect of movements in exchange rates	14	12	20	9	3	-	1	59
Balance as at 31 December	447	354	407	196	73	11	8	1,496
Cost	885	482	639	196	179	30	17	2,428
Accumulated amortisation and impairment losses	(438)	(128)	(232)	-	(106)	(19)	(9)	(932)
<i>Of which: Not in use</i>	78	8	-	-	-	-	1	87

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

	Software	Licences	Customer relationships	IPRD	Trade-marks	PVFP	Other intangible assets	Total
Carrying amount								
Balance as at 1 January	294	341	501	127	194	12	8	1,477
Additions	121	55	-	25	-	-	3	204
Additions from internal development	36	-	-	6	-	-	-	42
Disposals resulting from business combinations	(16)	-	-	-	(108)	-	-	(124)
Disposal	(1)	-	-	-	-	-	-	(1)
Other changes	(4)	-	-	-	-	-	1	(3)
Amortisation charge*	(90)	(36)	(56)	-	(33)	(2)	(3)	(220)
Impairment charge	(6)	-	-	-	-	-	-	(6)
Impairment reversal	-	-	-	-	-	-	-	-
Effect of movements in exchange rates	8	-	-	-	15	3	-	26
Balance as at 31 December	342	360	445	158	68	13	9	1,395
Cost	704	448	611	158	141	32	15	2,109
Accumulated amortisation and impairment losses	(362)	(88)	(166)	-	(73)	(19)	(6)	(714)
<i>Of which: Not in use</i>	56	1	-	-	-	-	-	57

* Amortisation includes discontinued operations.

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E.14. Other assets

Other assets comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Prepaid expenses and advances	164	133
Cash collateral for payment cards	54	51
Other taxes receivable	23	22
Biological assets	7	8
Insurance related other assets	6	17
Other	80	46
Subtotal other assets (gross)	334	277
Individual allowances for impairment	(6)	(6)
Prepaid expenses and advances	(6)	(5)
Other	-	(1)
Total other assets (net)	328	271

E.14.1. Deferred acquisition costs – insurance business

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

In millions of EUR, for the year ended 31 December

	2017	2016
Balance as at 1 January	14	28
Disposal resulting from business combinations	-	4
Acquisition costs incurred during the period	15	12
Amortisation (charged in the income statement)	(26)	(32)
Effect of movements in exchange rates	-	2
Balance as at 31 December	3	14

E.15. Liabilities to non-banks

Liabilities to non-banks comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Current accounts and demand deposits	6,628	5,486
Term deposits	3,133	2,791
Loans	97	29
Loans received under repos	1,778	59
Other	1	8
Total liabilities to non-banks	11,637	8,373

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

E.16. Liabilities to banks and other financial institutions

Liabilities to banks and other financial institutions comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Repayable on demand	1	15
Loans received under repos	1,754	389
Secured loans (other than repos)	8,251	6,742
Unsecured loans	3,830	885
Other	91	80
Total liabilities to banks	13,927	8,111

Secured loans include following significant acquisition loan facilities:

A syndicated loan facility was provided by a consortium led by Société Générale (the “SG facility”) in connection with the acquisition of O2 CR in January 2014. It comprised a MEUR 1,300 term loan, financing the initial acquisition price and additional shares acquired during the mandatory tender offer, and a MEUR 63 revolving loan used to cover debt service costs. In August 2015, the facility was fully repaid and replaced by a new facility. At that moment the Group obtained a new syndicated loan facility through its subsidiary CETIN, which was provided by a bank consortium and totalled MEUR 1,181. The facility, denominated in Czech crowns, consisted of a three-year term loan amounting to MEUR 374 and a seven-year term loan amounting to MEUR 807. It was secured by a pledge of the CETIN share held by PPF Telco and with fixed assets held by CETIN. In July 2016, CETIN as a debtor received a Moody’s investment rating which resulted in the release of the pledge of a 74.46% share in CETIN and fixed assets of the said entity amounting to MEUR 952. The facility became unsecured. In December 2016, CETIN refinanced the existing facility by an unsecured CZK and EUR bond issue.

In connection with additional direct purchases of O2 CR shares, the Group received another secured loan of MEUR 270, initially maturing in October 2020. In 2015, the facility was renegotiated in a move that saw the maturity extended until October 2021. The facility is secured by a pledge of O2 CR and CETIN shares in a proportion financed by the facility.

In November 2015, the Group received a new senior loan facility from a group of banks consisting of a term loan of MEUR 370 and a revolving credit facility of MEUR 10. The term loan was fully drawn to finance the deferred purchase price owed to Telefonica S.A. and for recapitalisation purposes. The facility, denominated in Czech crowns, matures in December 2020 and is secured by a pledge of O2 CR shares (refer to E.39.1).

As of 31 December 2017 the Group complied with all covenants related to the loan facilities with the exception of one project in Russia. The situation on the Russian real estate market remains challenging due to high vacancy rates and the historically lowest rental rates despite the strong appreciation of the Russian rouble in 2016. This has influenced the underlying market values of the Russian assets. And while all assets are doing fine in terms of cash flow performance and loans are properly serviced, the pressure remains on LTV (loan-to-value) covenant.

As of 31 December 2017, the LTV covenant for the Ryazan shopping mall project had not been fulfilled (2016: Ryazan shopping mall and Tomilino projects). A temporary waiver for any breach of covenants was granted in February 2017. During 2017, the financing bank initiated a

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public tender for loan assignment which was finalised in December 2017. The loan has been assumed by a Russian investment fund manager. The Group currently intends to negotiate prolongation of waiver with the new creditor. The outstanding amount of the loan provided to the Ryazan project is MEUR 71 (2016: MEUR 71) and since December 2017 the whole amount was reclassified as a loan to non-banks.

E.17. Debt securities issued

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

In millions of EUR, as at 31 December

	Interest rate	Maturity	2017	2016
Unsecured CZK bond issue of MCZK 920	Fixed	2017	-	2
Unsecured CZK bond issue of MCZK 3,000	Fixed	2017	-	111
Deposit certificate of MKZT 315	Fixed	2017	-	1
Asset-Backed Security issue 4 (2017-2) in CNY	Fixed	2018	19	-
Asset-Backed Security issue 5 (2017-3) in CNY	Fixed	2018	81	-
Asset-Backed Security issue 6 (2017-4) in CNY	Fixed	2018	93	-
Asset-Backed Security issue 7 (2017-5) in CNY	Fixed	2018	157	-
Secured INR bond issue of MINR 1,535	Fixed	2018	12	-
Unsecured bond issue of MKZT 6,769	Fixed	2019	17	20
Stock exchange RUB bond issue of MRUB 1,500	Fixed	2019	18	8
Unsecured KZT bond issue 4 of MKZT 5,000	Fixed	2019	13	-
Secured INR bond issue of MINR 1,413	Fixed	2019	15	-
Unsecured CZK bond issue of MCZK 1,998	Fixed	2020	81	-
Unsecured bond issue of MKZT 10,000	Fixed	2020	25	-
Secured INR bond issue of MINR 953	Fixed	2020	10	-
Unsecured EUR bond issue of MEUR 625	Fixed	2021	624	623
Unsecured CZK bond issue of MCZK 4,866	Fixed	2023	189	178
Long-term registered certificate of deposit; rate (8.7 - 13.5%)	Fixed	2017	-	82
Deposit bill of exchange; rate (0.20 - 0.71%)	Fixed	2017	-	10
Long-term registered certificate of deposit; rate (9.7 - 10.50%)	Fixed	2018	80	90
Deposit bill of exchange; rate (0% - 0.47%)	Fixed	2018	59	50
Short term registered certificate of deposit; rate (7.5 - 9.5%)	Fixed	2018	64	-
Certificates of deposit issue of MKZT 116,5	Fixed	2018	2	-
Long-term registered certificate of deposit; rate (8.8 - 11.25%)	Fixed	2019	59	25
Short term registered certificate of deposit; rate (10%)	Fixed	2019	2	-
Deposit bill of exchange; rate (0.60 - 0.85%)	Fixed	2019	2	-
Deposit bill of exchange; zero-coupon rate	Fixed	2020	40	37
Long-term registered certificate of deposit; rate (9.5 - 11.5%)	Fixed	2020	21	-
Deposit bill of exchange, zero coupon rate	Fixed	2022	14	-
Total debt securities issued			1,697	1,237

As at 31 December 2017, cash loan receivables of MEUR 398 (2016: MEUR nil) and consumer loan receivables of MEUR 640 (2016: MEUR nil) served as collateral for CNY asset-backed securities.

E.18. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of EUR, as at 31 December

	Interest rate	Maturity	2017	2016
Loan participation notes issue 7 of MUSD 500	Fixed	2020	74	95
Loan participation notes issue 8 of MUSD 200	Fixed	2021	106	121
Bond issue of MCZK 1,400	Fixed	2023	28	54
Bond issue of MCZK 2,000	Fixed	2024	53	38
Bond issue of MCZK 4,000	Fixed	2027	90	-
Total subordinated liabilities			351	308

Subordinated loan participation notes issue 7 was made in October 2012. The Group has an early redemption option exercisable on 24 April 2018 (the reset date). After the reset date, the interest rate is determined as a variable rate. During 2017, the Group bought back the loan participation notes with a cumulative par value of MUSD 276, (2016: MUSD 272).

Subordinated loan participation notes issue 8 was made in October 2013. The Group has an early redemption option exercisable on 17 April 2019 (the reset date). After the reset date, the interest rate is determined as a variable rate. During 2017, the Group bought back the loan participation notes with a cumulative par value of MUSD 35 (2016: MUSD 35).

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

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

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

E.19. Provisions

Provisions comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Insurance provisions	147	158
Provision for litigation except for tax-related litigation	4	6
Other provisions	40	27
Total provisions	191	191

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

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

	Provision for litigation except for tax issues	Other provisions	Total
Balance as at 1 January	6	27	33
Provisions created during the year	1	42	43
Provisions used during the year	(1)	(29)	(30)
Provisions released during the year	(2)	(1)	(3)
Effect of movements in exchange rates	-	1	1
Balance as at 31 December	4	40	44
Non-current (> 1 year)	-	18	18
Current (< 1 year)	4	22	26
Total provisions	4	40	44

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

	Goods returns	Provision for litigation except for tax issues	Other provisions	Total
Balance as at 1 January	5	4	17	26
Provisions created during the year	2	5	32	39
Provisions used during the year	(3)	(2)	(21)	(26)
Provisions released during the year	(2)	(2)	-	(4)
Disposals resulting from business combinations	(3)	-	-	(3)
Effect of movements in exchange rates	1	1	(1)	1
Balance as at 31 December	-	6	27	33
Non-current (> 1 year)	-	1	14	15
Current (< 1 year)	-	5	13	18
Total provisions	-	6	27	33

Provisions for goods returns related to the retail business disposed in 2016.

E.19.1. Insurance provisions

Insurance provisions comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Non-life insurance provisions	29	49
Provisions for unearned premiums	27	44
Provisions for outstanding claims	2	5
RBNS provisions	2	5
Life insurance provisions	118	109
Provisions for outstanding claims	4	4
Mathematical provisions	106	97
Provisions for profit participation allocated to policyholders	8	8
Total insurance provisions	147	158

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

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

	Gross amount	Reinsurers' share	Net amount
Balance as at 1 January 2017	44	-	44
Premiums written during the year	32	(1)	31
Premiums earned during the year	(46)	1	(45)
Effect of movements in exchange rates	(3)	-	(3)
Balance as at 31 December 2017	27	-	27

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

	Gross amount	Reinsurers' share	Net amount
Balance as at 1 January 2016	72	-	72
Premiums written during the year	22	-	22
Premiums earned during the year	(62)	-	(62)
Effect of movements in exchange rates	12	-	12
Balance as at 31 December 2016	44	-	44

Movements in provisions for outstanding claims were as follows:

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

	Gross amount	Reinsurers' share	Net amount
Balance as at 1 January 2017	5	-	5
Claims incurred in the current year	3	(1)	2
Adjustments for losses incurred in previous years	(3)	-	(3)
Claims paid during the year	(3)	1	(2)
Balance as at 31 December 2017	2	-	2

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

	Gross amount	Reinsurers' share	Net amount
Balance as at 1 January 2016	6	(1)	5
Claims incurred in the current year	4	-	4
Adjustments for losses incurred in previous years	(2)	-	(2)
Claims paid during the year	(3)	1	(2)
Balance as at 31 December 2016	5	-	5

Movements in selected life insurance provisions (gross amount) were as follows:

In millions of EUR, for the year ended 31 December

	2017	2016
Balance as at 1 January	105	71
Mathematical provision for contracts concluded in previous years, and cancelled in the current reporting year	(5)	(5)
Mathematical provision for contracts maturing in the current reporting year	(5)	(3)
Increase in mathematical provision for active contracts concluded in previous years	23	19
Provision for insurance contracts concluded in the current period	3	2
Bonuses (profit) credited to policyholders	2	2
Effect of movements in exchange rates	(9)	19
Balance as at 31 December	114	105

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The estimated timing of the net cash outflows resulting from recognised insurance liabilities is as follows:

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

	Less than 1 year	1 to 3 years	3 to 5 years	5 to 15 years	More than 15 years	Non specified	Total
Non-life insurance provisions	18	9	2	-	-	-	29
Life insurance provisions	11	13	15	52	27	-	118

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

	Less than 1 year	1 to 3 years	3 to 5 years	5 to 15 years	More than 15 years	Non specified	Total
Non-life insurance provisions	40	8	1	-	-	-	49
Life insurance provisions	10	12	11	49	27	-	109

The following table shows the roll-forward of policyholder claims (RBNS and IBNR):

In millions of EUR

	before 2012	2012	2013	2014	2015	2016	2017	Total
Estimated ultimate cumulative claims costs								
at the end of underwriting year	8	5	11	7	6	3	2	
one year later	8	6	10	6	5	3		
two years later	9	6	10	6	6			
three years later	6	5	8	5				
four years later	6	5	9					
five years later	6	5						
six years later	14							
Estimated ultimate cumulative claims costs at the end of the reporting period	8	5	9	5	6	3	2	38
Cumulative claim payments								
at the end of underwriting year	5	3	5	3	3	2	1	
one year later	6	5	8	4	4	3		
two years later	6	5	8	4	5			
three years later	6	5	8	5				
four years later	6	5	9					
five years later	6	5						
six years later	14							
Cumulative payments to date	8	5	9	5	5	3	1	36
Provision recognised in the statement of financial position	-	-	-	-	1	-	1	2
Provisions for outstanding claims								2

E.20. Trade and other payables

Other liabilities comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Settlements with suppliers	672	549
Wages and salaries	188	158
Social security and health insurance	27	36
Other taxes payable	68	56
Accrued expenses	83	61
Deferred income	91	69
Advance received	27	17
Customer loan overpayments	41	31
Other	362	117
Total other liabilities	1,559	1,094

The “Other” category includes blocked accounts of PPF banka amounting to MEUR 300 (2016: MEUR 61) consisting mainly of collateral deposits for derivatives totalling MEUR 223 (2016: MEUR 57) and clearing accounts of PPF banka amounting to MEUR 20 (2016: MEUR 19).

E.21. Capital issued and share premium

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

The following table provides details of authorised and issued shares:

	2017	2016
Number of shares authorised	250,000	250,000
Number of shares issued and fully paid	62,401	62,401
Par value per share	EUR 10	EUR 10

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

In 2017, share premium representing the excess received by the Parent Company over the par value of its shares amounted to MEUR 677 (2016: MEUR 677).

E.22. Reserves**E.22.1. Available-for-sale reserve**

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

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E.22.2. Legal and statutory reserves

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

E.22.3. Currency translation reserve

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

E.23. Non-controlling interests

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

Name of subsidiary*	Abbr.	Applicable	Country of incorporation
O2 Czech Republic a.s. (subgroup)	O2 CR	2017/2016	Czech Republic
Home Credit B.V. (subgroup)	HC	2017/2016	Netherlands
PPF banka, a.s.	PPFB	2017/2016	Czech Republic
Facipero Investments Ltd. (subgroup)	FACI	2016	Cyprus
Velthemia Ltd. (subgroup)	VELT	2017/2016	Cyprus
Home Credit Indonesia PT	HCID	2017/2016	Indonesia
Investitsionny Trust CJSC	INTR	2017/2016	Russia

*For the place of business, refer to B.1.

The following table summarises the information relating to these subsidiaries:

In millions of EUR

2017	O2 CR	HC	PPFB	VELT	HCID	INTR	Other	Total
NCI percentage (ownership)	16.60%	11.38%	7.04%	39.93%	24.67%	21.25%		
Total assets	1,682	21,526	9,437	302	187	99		
Total liabilities	(850)	(19,498)	(9,026)	(186)	(156)	(84)		
Net assets	832	2,028	411	116	31	15		
Net assets attributable to NCI of the sub-group	-	(15)	-	-	-	-		
Net assets attributable to owners of the Parent	832	2,013	411	116	31	15		
Carrying amount of NCI	138	229	29	46	5	3	20	470
NCI percentage during the period*	16.83%	11.38%	7.04%	39.93%	24.67%	21.25%		
Revenue	1,432	4,334	160	53	77	15		
Profit/(loss)	160	256	64	1	(19)	8		
Other comprehensive income	-	(166)	-	-	-	-		
Total comprehensive income	160	90	64	1	(19)	8		
Profit/(loss) allocated to NCI	27	29	5	-	(3)	2	(12)	48
OCI allocated to NCI	-	(19)	-	-	-	-	(2)	(21)
Dividends paid to NCI	(34)	-	-	-	-	-	-	(34)

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In millions of EUR

2016	O2 CR	HC	PPFB	FACI	VELT	HCID	INTR	Other	Total
NCI percentage (ownership)	14.60	11.38	7.04%	-	39.93	24.67	21.25		
	%	%			%	%	%		
Total assets	1,605	14,704	5,063	-	336	56	203		
Total liabilities	(684)	(13,203)	(4,735)	-	(205)	(32)	(142)		
Net assets	921	1,501	328	-	131	24	61		
Net assets attributable to NCI of the sub-group	-	(6)	-	-	-	-	-		
Net assets attributable to owners of the Parent	921	1,495	328	-	131	24	61		
Carrying amount of NCI	134	170	23	-	52	4	13	6	402
NCI percentage during the period*	15.39	11.38	7.04%	20.00	39.93	24.67	21.25		
	%	%		%	%	%	%		
Revenue	1,388	2,733	128	1,284	67	28	13		
Profit/(loss)	143	213	50	285	(49)	(19)	9		
Other comprehensive income	-	94	1	20	-	-	-		
Total comprehensive income	143	307	51	305	(49)	(19)	9		
Profit/(loss) allocated to NCI**	22	24	4	57	(20)	(3)	2	(2)	84
OCI allocated to NCI	-	11	-	4	-	-	-	(2)	13
Dividends paid to NCI	(29)	-	-	-	-	-	-	-	(29)

* The NCI for O2 CR changed during the period due to several transactions. The average NCI percentage during the period was used;

** Facipero – the NCI on profit applies up to the sale of Eldorado in December 2016 (refer to B.2.11).

E.24. Reconciliation of movements of liabilities to cash flows arising from financing activities

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

In millions of EUR, for the year 2017

	Debt securities and subordinated liabilities	Due to banks, other financial institution and holding companies	Share premium	Total
Balance as at 1 January	1,545	8,111	677	10,333
Changes from financing cash flows:				
Proceeds from the issue of debt securities	1,742	-	-	1,742
Proceeds from due to banks, other financial institutions and holding companies	-	13,648	-	13,648
Repayment of debt securities	(1,197)	-	-	(1,197)
Repayment of due to banks, other financial institutions and holding companies	-	(7,255)	-	(7,255)
Total changes from financing cash flows	2,090	14,504	677	17,271
The effect of changes in foreign exchange rates and transfers	(46)	(414)	-	(460)
Interest expense	100	807	-	907
Interest paid	(96)	(970)	-	(1,066)
Balance as at 31 December	2,048	13,927	677	16,652

E.25. Net interest income

Interest income comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Financial instruments at FVTPL	6	8
Financial instruments available for sale	72	61
Financial instruments held to maturity	-	2
Due from banks and other financial institutions	51	30
Cash loan receivables	2,439	1,310
Consumer loan receivables	843	666
Revolving loan receivables	130	141
Car loan receivables	18	20
Mortgage loan receivables	4	5
Loans to corporations	83	76
Other	3	4
Total interest income	3,649	2,323

Interest expense comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Due to customers	229	218
Due to banks and other financial institutions	807	451
Debt securities issued	74	33
Subordinated liabilities	26	27
Other	5	7
Total interest expenses	1,141	736
Total net interest income	2,508	1,587

E.26. Net fee and commission income

Fee and commission income comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Insurance commissions	528	330
Penalty fees	172	107
Cash transactions	21	18
Customer payment processing and account maintenance	39	37
Retailers' commissions	9	10
Other	28	20
Total fee and commission income	797	522

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Fee and commission expense comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Commissions to retailers	20	24
Cash transactions	18	16
Payment processing and account maintenance	41	29
Payments to deposit insurance agencies	19	16
Credit and other register expense	26	16
Other	9	3
Total fee and commission expense	133	104
Total net fee and commission income	664	418

E.27. Net gain/loss on financial assets

In millions of EUR, for the year ended 31 December

	2017	2016
Net trading income	71	(44)
Debt securities trading	4	8
FX trading	67	(14)
Derivatives	-	(38)
Net gains on financial assets at FVTPL	(20)	(3)
Debt securities	-	4
Other	(20)	(7)
Net realised gains/(losses)	(4)	20
AFS financial assets	(4)	21
Loans and receivables	-	(1)
Dividends	16	8
Other income/(expenses) from financial assets	(2)	3
Total net gain/(loss) on financial assets	61	(16)

E.28. Net impairment losses on financial assets

In millions of EUR, for the year ended 31 December

	2017	2016
Cash loan receivables	704	296
Consumer loan receivables	408	225
Revolving loan receivables	6	43
Car loan receivables	-	2
Mortgage loan receivables	(1)	4
Loans to corporations	27	3
Total net impairment losses on financial assets	1,144	573

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E.29. Insurance income

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

	Non-life	Life	Total
Gross earned premiums	46	47	93
Gross premiums written	32	47	79
Change in the provisions for unearned premiums	14	-	14
Earned premiums ceded	(1)	-	(1)
Ceded reinsurance premiums	(1)	-	(1)
Net insurance benefits and claims	-	(31)	(31)
Claims paid	(2)	(14)	(16)
Change in provisions for outstanding claims	2	-	2
Change in mathematical provisions	-	(16)	(16)
Change in life provisions for profit participation allocated to policyholders	-	(1)	(1)
Acquisition cost	(15)	(11)	(26)
Total insurance income	30	5	35

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

	Non-life	Life	Total
Gross earned premiums	62	38	100
Gross premiums written	23	38	61
Change in the provisions for unearned premiums	39	-	39
Earned premiums ceded	(1)	-	(1)
Ceded reinsurance premiums	(1)	-	(1)
Net insurance benefits and claims	(1)	(26)	(27)
Claims paid	(3)	(10)	(13)
Change in provisions for outstanding claims	2	(1)	1
Change in mathematical provisions	-	(14)	(14)
Change in life provisions for profit participation allocated to policyholders	-	(1)	(1)
Acquisition cost	(24)	(8)	(32)
Total insurance income	36	4	40

E.30. Net rental and related income

In millions of EUR, for the year ended 31 December

	2017	2016
Gross rental income	120	120
Service income	13	13
Service charge income	22	16
Service charge expense	(15)	(12)
Total net rental and related income	140	137

E.31. Net telecommunication income

Telecommunication income comprises the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Revenues from voice services	912	897
Revenues from data services	487	451
Other telecommunication services	423	394
Telecommunication income	1,822	1,742

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Telecommunication expenses comprise the following:

In millions of EUR, for the year ended 31 December

	2017	2016
Interconnection and roaming	461	424
Cost of goods sold	121	100
Commissions	37	42
Sub-deliveries	33	39
Other costs	41	39
Telecommunication expenses	693	644
Net telecommunication income	1,129	1,098

E.32. Net agricultural income

In millions of EUR, for the year ended 31 December

	2017	2016
Sales of goods	31	22
Cost of sales	(26)	(15)
Other revenue	1	1
Change in fair value of biological assets	(1)	(1)
Total net agriculture income	5	7

E.33. Other income

In millions of EUR, for the year ended 31 December

	2017	2016
Rental income	11	11
Gain on disposal of property, plant, equipment and intangible assets	3	3
Foreign currency gains	-	170
Gain on a bargain purchase	3	-
Other	51	62
Total other income	68	246

E.34. General administrative expenses

In millions of EUR, for the year ended 31 December

	2017	2016
Employee compensation	1,065	764
Payroll related taxes (including pension contribution)	261	166
Rental, maintenance and repair expense	174	156
Information technologies	108	95
Advertising and marketing	103	71
Professional services	112	92
Telecommunication and postage	75	58
Travel expenses	29	27
Taxes other than income tax	55	57
Collection agency fee	37	32
Distribution, transport and storage of goods	2	2
Other	89	78
Total general administrative expenses	2,110	1,598

The average rounded number of employees during the year 2017 was 154,000 (2016: 102,000); 12 of the employees were employed in the Netherlands (2016: seven employees).

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E.35. Other operating expenses

In millions of EUR, for the year ended 31 December

	2017	2016
Depreciation of property, plant and equipment	230	214
Amortisation of intangible assets	212	216
Net impairment losses on property, plant and equipment	1	32
Net impairment losses on other assets	16	13
Net impairment losses on trading property	3	10
Loss on disposal of property, plant, equipment, and intangible assets	4	8
Net impairment losses on other intangible assets	2	6
Net impairment losses on goodwill	-	3
Foreign currency losses	76	-
Total other operating expenses	544	502

E.36. Discontinued operations

Discontinued operations represents the financial performance of Eldorado business. 2016 figures only include the eleven-month period up to its disposal.

In millions of EUR

	2016
Sales of goods	1,260
Cost of goods sold	(981)
Other income on retail operations	18
Net income on retail operations	297
Interest income	1
Interest expense	(14)
Fee and commission income	29
Fee and commission expense	(10)
Other income	14
General administrative expenses	(299)
<i>Out of which</i>	
Employee compensation	(87)
Payroll related taxes (including pension contribution)	(20)
Advertising and marketing	(30)
Rental, maintenance and repair expense	(81)
Distribution, transport and storage of goods	(22)
Information technologies	(9)
Professional services	(4)
Telecommunication and postage	(1)
Travel expenses	(3)
Taxes other than income tax	(2)
Other	(40)
Other operating expenses	(20)
<i>Out of which</i>	
Depreciation on property, plant and equipment	(16)
Amortisation of intangible assets	(4)
Profit/(loss) before tax	(2)
Income tax expense	3
Net profit from discontinued operations	1
Net profit from discontinued operations attributable to NCI	-
Net profit from discontinued operations attributable to owners of the parent	1

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

	2016
Cash flows from/(used in) operating activities	32

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Cash flows from/(used in) investing activities	(30)
Cash flows from/(used in) financing activities	(35)
Net cash flow used in discontinued operations	(33)

E.37. Operating leases

E.37.1. Lessee

Under operating leases, the Group mainly leased shops within the operations of Eldorado (up to its disposal), as well as several office buildings. The leases typically run for an initial period of between one and five years, with an option to renew the lease after that date. Rents are adjusted annually to reflect prevailing market rates.

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

In millions of EUR, as at 31 December

	2017	2016
Less than one year	69	59
Between one and five years	133	129
More than five years	133	144
Total payables in respect of non-cancellable operating leases	335	332

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

In millions of EUR, as at 31 December

	2017	2016
Minimum lease payments	78	80
Contingent rent	-	-
Sublease payments	-	-
Total lease and sublease payments	78	80

E.37.2. Lessor

As a lessor, the Group leases mainly office and retail premises. The following table shows minimum lease payments under non-cancellable operating leases:

In millions of EUR, as at 31 December

	2017	2016
Less than one year	114	122
Between one and five years	344	468
More than five years	330	286
Future minimum lease payments under non-cancellable operating leases	788	876

E.38. Repurchase agreements and reverse repurchase agreements

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

In millions of EUR, as at 31 December

	2017	2017	2016	2016
	Fair value of	Carrying	Fair value of	Carrying

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	underlying assets	amount of corresponding liabilities	underlying assets	amount of corresponding liabilities
Financial assets at FVTPL	211	175	293	252
Financial assets available for sale	524	418	410	196
Financial assets received in reverse repos	3,020	2,939	-	-
Total assets	3,755	3,532	703	448

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

In millions of EUR, as at 31 December

	2017 Fair value of assets received as collateral (total)	2017 of which: Fair value of assets repledged or sold	2017 Carrying amount of receivables	2016 Fair value of assets received as collateral (total)	2016 of which: Fair value of assets repledged or sold	2016 Carrying amount of receivables
Loans and advances to banks	7,301	3,020	7,407	431	-	426
Loans and advances to non-banks	-	-	-	84	-	59
Total loans and advances	7,301	3,020	7,407	515	-	485

E.39. Off-balance sheet items

E.39.1. Commitments and contingent liabilities

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

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

In millions of EUR, as at 31 December

	2017	2016
Loan commitments	691	756
Revolving loan commitments	379	528
Consumer loan commitments	80	58
Cash loan commitments	33	18

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Undrawn overdraft facilities	66	34
Term loan facilities	133	118
Capital expenditure commitments	114	42
Guarantees provided	76	93
Non-payment guarantees	31	35
Non-revocable letters of credit	1	1
Payment guarantees	44	57
Total commitments and contingent liabilities	881	891

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

The following table shows secured liabilities:

In millions of EUR, as at 31 December

	2017	2016
Secured bank loans	8,251	6,742
Secured non-bank loans	15	-
Loans received under repos	3,531	448
Debt securities issued	388	-
Total secured liabilities	12,185	7,190

The secured non-bank loans comprises a loan to the Ryazan project (secured bank loan in 2016; refer to E.16) which is not fully covered by the investment property pledged: the fair value of the property in 2017 was MEUR 56 lower (2016: MEUR 54 lower).

The assets pledged as security were as follows:

In millions of EUR, as at 31 December

	2017	2016
Cash and cash equivalents	846	986
Financial assets at fair value through profit and loss (repos)	211	293
Financial assets available for sale (repos)	525	410
Financial assets available for sale (other)	-	11
Loans and receivables due from banks and other financial institutions	47	22
Loans and receivables due from customers	8,043	4,364
Trade and other receivables	2	-
Investment property (incl. assets held for sale)	1,333	1,228
Property, plant and equipment	146	80
Financial assets in off balance sheet (repo operations)	3,020	-
Total assets pledged as security	14,173	7,394

As of 31 December 2017, cash and cash equivalents of MEUR 834 (2016: MEUR 985) were restricted by borrowing agreements with the creditors in Chinese Home Credit either to the disbursement of loans to retail clients or to the repayment of loans received from creditors. If the cash was used to provide loans to retail clients, the loans were pledged as collateral. Thus, the restriction on the cash effectively increases the creditors' security.

In addition, the Group pledges certain shares in O2 CR and CETIN. As of 31 December 2017, a 62.01% share in O2 CR (2016: 85.40%) and a 10.27% share in CETIN (2016: 43.27%) were used as collateral for several funding facilities (refer to E.16).

E.39.2. Other contingencies

E.39.2.1. Litigation

The Group (as a former sole shareholder of Česká pojišťovna a.s.) is involved in litigation (formally consisting of five disputes merged procedurally into one) in which the adequacy of the consideration paid to minority shareholders arising from the decision of the general meeting of Česká pojišťovna a.s. adopted in July 2005 approving a squeeze-out of minority shareholders, is being challenged in court. On 13 June 2016, the Municipal Court in Prague fully dismissed the action of the ex-minority shareholders, however, some of them have appealed against the dismissal. Based on legal analyses carried out by external legal counsel, management believes that it is unlikely that this case will be concluded in favour of the plaintiffs.

Furthermore, the Group (through its subsidiary PPF A4 B.V.) is involved in litigations connected to a squeeze-out of minority shareholders in Česká telekomunikační infrastruktura a.s. ("CETIN"), approved by general meeting of this company on 3 December 2015. Several former minority shareholders filed their actions with the relevant court and asked the court to decide on adequate consideration (i.e. higher than that originally paid by PPF A4 B.V.) for their shares in CETIN. The first hearing took place on 1 March 2018.

Based on the analyses carried out by external advisors, management believes that it is unlikely that both cases above will be concluded in favour of the plaintiffs.

The following legal cases related to O2 CR are significant from the Group's perspective:

On 28 March 2011, VOLNÝ, a.s. filed a legal action with the Municipal Court in Prague against O2 CR for an amount exceeding MEUR 157 for an alleged abuse of a dominant position on the market of Internet broadband connection provided to households via ADSL. The amount is meant to represent the lost profit for years 2004 to 2010. VOLNÝ, a.s. claims to have had 30% share on the dial-up Internet market in 2003 and thus implies in its legal action that it should automatically have the same result on the broadband market, which it does not. Allegedly, it is due to the margin squeeze applied by O2 CR on the fix broadband market. O2 CR replied to the petition in July 2011 by noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and by pointing at discrepancies in the petition claims. The court has already started the proceeding in the matter and further oral hearings took place during the year 2013 and 2014. Another hearing took place on 30 March 2016, where the court considered the possibility of the revision expert opinion, which would review the opinion filed by VOLNÝ and by the Company as well. VOLNÝ proposed the expert which eventually turned out to be biased, because of the merit, thus O2 CR filed the protest. Subsequently the court appointed other expert and defined the set of questions. The revision expert opinion has confirmed the statement of the Company. The expert opinion stated that any anti-competition practice of O2 CR was not proved and also pointed on the question of absence of the dominant position on the market of Internet broadband connection. The latest oral hearing was ordered on February 2018 but it was postponed for the purpose of the statement of the independent expert. On final hearing, after independent expert witnessed his opinion the Municipal court in Prague dismissed the legal action against O2 CR. Written decision is not available yet.

The legal action under which Vodafone Czech Republic a.s. claims amount MEUR 15 was served on O2 CR on 2 April 2015. Vodafone Czech Republic a.s. claims that O2 CR allegedly breached the competition rules regarding broadband internet connection via xDSL technology during the years 2009 to 2014. The legal action was filed less than a week after the two-page

pre-litigation letter had been delivered to O2 CR. According to O2 CR, the legal action is an artificially created case primarily aimed at damaging O2 CR with adverse media coverage. Vodafone Czech Republic a.s. claims that lost profit was caused by the failure to acquire 200,000 xDSL customers. O2 CR has provided the court with its statement pointing out of the groundlessness of the claim. An oral hearing has not yet taken place.

In the wake of a ruling handed down by the Constitutional Court, on 14 March 2016 BELL TRADE s.r.o. applied to the District Court in Malacky for O2 CR to be restored as a defendant in proceedings held solely between Slovak entities – BELL TRADE and PET PACK SK s.r.o. – with respect to MEUR 1. BELL TRADE is seeking to base a new claim and new attempt to establish the jurisdiction of the District Court in Malacky on a letter of 8 June 2015, in which it stated that it was “withdrawing from all agreements concluded between RVI, a.s. and O2 CR” and reserved the right to seek compensation for damage caused by such withdrawal. The new claim raised against O2 CR amounts to MEUR 192, including interest as of 14 March 2016. In a ruling of 16 May 2016, the District Court in Malacky rejected BELL TRADE’s application for O2 CR to be restored as a defendant. BELL TRADE appealed to the Regional Court in Bratislava.

In 2017, O2 CR filed the legal action to the Municipal Court in Prague as a reaction to the repeated attempts organised by the connected companies BELL TRADE and PET-PACK SK s.r.o. O2 CR claims that no contracts have ever been concluded and that O2 CR has no obligations under these unconcluded contracts. The Municipal Court in Prague confirmed O2 CR’s arguments and upheld the legal action on the hearing on 26 June 2017. BELL TRADE and PET-PACK SK s.r.o. filed the appeal to the High Court in Prague but the decision has not been issued yet.

No provision has been created with respect to the legal disputes discussed above. The Group believes that all litigation risks have been faithfully reflected in the consolidated financial statements.

E.39.2.2. Regulatory investigation

In October 2016, the European Commission initiated the formal phase of an investigation in respect of a network sharing agreement between O2 CR, CETIN and T-Mobile Czech Republic. The investigation’s objective is to review if such cooperation does not harm free business competition in the Czech market and whether there are no obstructions to innovations that would be in contrast to EU antitrust rules. Currently, there is no indication that this investigation could result in potentially negative effects for the Group.

E.39.2.3. Taxation

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

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

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

E.39.3. Guarantee received and off-balance sheet assets

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

In millions of EUR, as at 31 December

	2017	2016
Guarantees received	169	202
Loan commitments received	292	268
Value of assets received as collateral (including repos)	8,647	1,745
Total contingent assets	9,108	2,215

E.40. Related parties

E.40.1. Identity of related parties

The Group has a related party relationship with its associates, joint ventures and non-consolidated subsidiaries.

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

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

E.40.2. Transactions with governing bodies and executive officers

Income of the governing bodies and key executive officers received from the Group:

In millions of EUR, for the year ended 31 December

	2017	2016
Board of Directors of the Parent Company	0.5	0.5
Key executive officers	25	28

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

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

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

E.40.3. Transactions with associates

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

In millions of EUR, for the year ended 31 December

	2017	2016
Interest income	11	2
Total revenue	11	2

At the reporting date the Group had the following balances with associates and joint ventures:

In millions of EUR, as at 31 December

	2017	2016
Loans due from customers	152	40
Total assets	152	40
Due to non-banks	(26)	(2)
Total liabilities	(26)	(2)

E.40.4. Other related parties including key management personnel

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

In millions of EUR, for the year ended 31 December

	2017	2016
Interest income	17	19
Other income	3	1
Total revenue	20	20
Interest expense	-	(2)
General administrative expenses	(16)	(14)
Total expenses	(16)	(16)

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

In millions of EUR, as at 31 December

	2017	2016
Loans due from customers	280	254
Trade and other receivables	1	15
Intangible assets	3	4
Other assets	-	1
Total assets	284	274
Due to non-banks	(7)	(4)
Trade and other payables	(5)	(5)
Total liabilities	(12)	(9)

F. Significant accounting policies

F.1. Significant accounting policies

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

F.1.1. Foreign currency

F.1.1.1. Foreign currency transactions

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

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

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

F.1.1.2. Foreign operations

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

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

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

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

When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

F.1.2. Cash and cash equivalents

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

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

F.1.3. Financial assets

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

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

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

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

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

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

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

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

F.1.3.2. Financial assets available for sale

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

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

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

F.1.3.3. Financial assets held to maturity

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

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

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

F.1.3.4. Loans and receivables

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

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

F.1.3.5. Repurchase agreements

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price (“repos”). Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or non-banks. The receivables are shown as collateralised by the underlying security. Investments sold under repos continue to be

recognised in the statement of financial position and are measured in accordance with the accounting policy as either assets held for trading or available for sale, as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or non-banks.

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

F.1.3.6. Lease transactions

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

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

F.1.4. Derivatives and hedge accounting

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

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

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

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

- a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
- a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge).

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

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

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

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

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

F.1.5. Impairment

F.1.5.1. Non-derivative financial assets

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

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

F.1.5.2. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, deferred acquisition costs, the present value of future profits on acquired insurance portfolio and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's

recoverable amount is estimated. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

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

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

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

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

F.1.6. Inventories

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

Trading property is a special kind of inventory comprising land and buildings constructed or acquired by the Group for future sale. Trading property is measured at the lower of cost and net realisable value.

F.1.7. Biological assets

Biological assets are measured at fair value less estimated point-of-sale costs, with any change therein recognised as profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. The fair value of biological assets is determined based on market prices of similar biological assets in local areas.

Agricultural produce is transferred to inventory at its fair value less estimated point-of-sale costs at the date of harvest.

F.1.8. Assets held for sale

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

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

F.1.9. Deferred acquisition costs of insurance contracts

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

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

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

F.1.10. Investment property

Investment properties are properties that are held either to earn rental income or for capital appreciation or for both. A property owned by the Group is treated as an investment property if it is not occupied by a Group company or if only an insignificant portion of the property is occupied by a Group company.

Subsequent to initial recognition all investment properties are measured at fair value. The fair value is determined annually based on appraisals by an independent external expert or based on internal valuations in the case of projects with immaterial value.

The external valuations are always obtained from leading market experts such as Colliers International, Cushman & Wakefield or CBRE. All the valuation reports are based on a generally worldwide accepted RICS (Royal Institute of Chartered Surveyors) valuation methodology, which is one of the best methods used to obtain the fair market valuation of the given property, especially in the absence of any actual transactions. All the valuation reports

produced by external experts are then subject to several rounds of discussions and challenges before the final figures are obtained and agreed.

When the Group applies internal valuations the fair value of investment property is determined using the discounted cash flow or comparable method. Such valuations require the use of judgment and assumptions about future market conditions.

Property that is being built or developed for future use as investment property is classified as investment property and recognised at fair value. In case the fair value is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for over the lease term.

When an item of property, plant and equipment becomes an investment property following a change in its use, any gain arising at the date of transfer between the carrying amount of the item and its fair value, and the related deferred tax thereon, is recognised directly in equity. Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement immediately.

Subsequent expenditures relating to investment properties are capitalised if they extend the useful life of the assets; otherwise, they are recognised as an expense.

F.1.11. Property, plant and equipment

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

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

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

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

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

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

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

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

F.1.12. Intangible assets

F.1.12.1. Goodwill and negative goodwill

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

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

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

F.1.12.2. Trademarks

Trademarks that were acquired separately are initially measured at cost, while trademarks acquired through a business combination are measured at fair value. Trademarks with finite useful life are depreciated on a straight-line basis over their useful life. Trademarks with infinite useful life are not amortised but they are tested for impairment annually or whenever there is an indication that the trademark may be impaired.

F.1.12.3. Present value of future profits from portfolio acquired

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

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

F.1.12.4. In-process research and development assets

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are

probable and the Group intends, and has sufficient resources, to complete development and use or sell the asset. In-process research and development (“IPRD”) assets consist of biotech licence deals acquired in a business combination. These assets are measured at fair value on initial recognition.

Subsequent IPRD expenditures are capitalised on the basis of technical feasibility as indefinite-lived intangible assets and remain in the balance sheet, subject to impairment, until completion. Amortisation over their useful life commences when research and development is complete. Alternatively, if the project in question is abandoned, the carrying value of the associated IPRD assets is expensed.

F.1.12.5. Other intangible assets

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

Software	up to 8 years
Trademark	indefinite/4 years
Licences	12–20 years
Customer relationships	5-12 years
PVFP	5/35 years (non-life/life portfolio)
Other	up to 20 years

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

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

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

F.1.13. Income tax

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

F.1.13.1. Current tax

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

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

F.1.13.2. Deferred tax

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

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

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

F.1.13.3. Tax exposure

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

F.1.14. Deposits, loans, debt securities issued and subordinated liabilities

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

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

F.1.15. Other liabilities and provisions

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

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

F.1.16. Insurance provisions

F.1.16.1. Provisions for unearned premiums

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

F.1.16.2. Life insurance provisions

Life insurance provisions comprise the actuarially estimated value of the liabilities under life insurance contracts. The provisions remain unchanged unless a liability inadequacy arises. A liability adequacy test (“LAT”) is performed at each reporting date by the Group’s actuaries using current estimates of the future cash flows under the insurance contracts.

F.1.16.3. Provisions for outstanding claims

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

F.1.16.4. Other insurance provisions

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

F.1.17. Equity

F.1.17.1. Repurchase of share capital

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

F.1.17.2. Dividends

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

F.1.17.3. Non-controlling interests

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

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

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

F.1.18. Interest income and interest expense

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

F.1.19. Net fee and commission income

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

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

F.1.20. Net gain/loss on financial assets

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

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

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

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

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

F.1.21. Net insurance premium revenue

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

F.1.22. Net insurance benefits and claims

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

F.1.23. Acquisition costs

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

F.1.24. Net real estate income

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income. Rent increases calculated with reference to an underlying index are recognised in income as they are determined. Rental income from investment properties is included in the net rental income, while rental income from other operating leases is included in other income.

Property operating expenses include expenses directly attributable to rental income and other expenses related to investment property.

F.1.25. Net income on retail operations

Sales of goods consist of retail and wholesale revenues from sales of goods and from related services such as loyalty programmes and an additional service programme. Revenue from the sale of goods and the associated cost of sales are recognised in the income statement when the significant risks and rewards of ownership are transferred to the buyer. Sales of goods are decreased by the value of returned goods provided the customers have a right to return the goods during the warranty period. The Group creates provisions for returns of goods.

The Group uses customer loyalty programmes in the retail business. Customers are awarded bonuses (points) for buying goods in the Group's shops. The bonus points are initially recorded

at fair value as a decrease in sales of goods and an increase in deferred income. The fair value is based on the discount that the customers will obtain upon redemption of the points in exchange for goods and also reflects the proportion of points expected to be redeemed.

Cost of goods sold includes:

- the value of inventories expensed in the period when revenue from sales is recognised; goods are measured using the weighted average method;
- inventory losses and inventory surpluses;
- changes in allowances for slow-moving and damaged items;
- supplier bonuses received (reduction of cost of goods sold); supplier bonuses are allocated between inventories and cost of goods sold on pro rata basis; and
- repair cost to be incurred after sales (shipment) of goods.

Other income on retail operations includes income specific to the retail business, such as franchise fees and revenues from services rendered to customers.

F.1.26. Net telecommunication income

Telecommunication revenue, shown net of value added tax and any discounts, comprises goods sold and services provided. Revenue is measured at the fair value of the consideration received or receivable.

Revenue and expenses are recognised on an accrual basis; i.e. when the flow of goods or services takes place, regardless of when the payment or collection is made.

Revenue from voice, data and internet services includes a tariff fee component as well as a variable rate. Both wireline and wireless traffic is recognised as revenue as the related service is provided.

The Group offers customers free minutes with their choice of price plan. At the end of the month, unused free minutes can be rolled over to the following month. The Group is not obliged to reimburse the customer for unused minutes and the option of rolling over any unused minutes is valid for only one month.

The Group recognises revenue for free minutes in the period when the related services are provided and consumed, if material. Any rollover minutes are deferred and recognised when the minutes are used or the option expires.

Revenue arising from prepaid call cards is deferred until the customer uses the credit on the card to pay for calls or other services. Revenue from prepaid cards is recognised at the time of usage of airtime and other services.

The mobile segment generates roaming revenue when airtime and other services are used by the mobile segment's customers roaming on partners' networks in other countries and vice versa. Amounts receivable from and payable to roaming partners are netted and settled on a regular basis. Revenue is recognised when services are provided.

Interconnection revenue results from calls and other traffic that originate in other domestic and foreign operators' networks but terminate in or transit the Group's network. Such revenue is recognised in the income statement at the time when the relevant calls are received in the Group's network. The Group pays a proportion of the call revenue it collects from its customers

to the other domestic and foreign operators for calls and other traffic originating in the Group's network that use other domestic and foreign operators' networks. Amounts receivable from and payable to other domestic and foreign operators are netted and settled on a regular basis.

F.1.27. Net agriculture income

Net agriculture income comprises sales of agricultural produce, related cost of sales, other revenue from services provided in agriculture, and any change in the fair value of biological assets.

Sales of goods are presented net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Cost of goods includes:

- the value of agricultural inventories expensed in the period when the revenue from sales is recognised; these inventories are accounted for on a first-in, first-out basis;
- personnel expenses;
- depreciation of property, plant and equipment used in the agricultural production and amortisation of land lease rights; and
- other expenses such as repairs, utilities, agricultural services and other services.

F.1.28. Other income and other expenses

F.1.28.1. Income for services rendered

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

F.1.28.2. Operating lease payments

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

F.1.29. General administrative expenses

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

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

F.1.30. Pensions

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

salaries is made by the Group to the governments to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

F.2. Changes in accounting policies and accounting pronouncements adopted since 1 January 2017

The following revised standard and annual improvements to IFRSs effective from 1 January 2017 are mandatory and relevant for the Group and have been applied by the Group since 1 January 2017.

Amendments to IAS 7 Statement of Cash Flows (effective from 1 January 2017)

The amendments are part of the IASB's disclosure initiative project and introduce additional disclosure requirements intended to address investors' concerns that financial statements do not currently enable them to understand the entity's cash flows; particularly in respect to the management of financing activities.

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

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective from 1 January 2017)

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

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

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

In November 2015, the IASB published Annual Improvements to IFRSs 2014-2016 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. Out of the amendments contained in the 2014-2016 Cycle, the amendment to IFRS 12 is effective from 1 January 2017.

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

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

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 December 2017 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, the following will have potentially an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group is in the process of analysing the likely impact on its financial statements.

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

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

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

IFRS 9 Financial Instruments (effective from 1 January 2018)

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

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Based on assessments undertaken to date, the estimated adjustment of the adoption of IFRS 9 on the opening balance of the Group's equity at 1 January 2018 related to impairment requirements is a reduction in the range of MEUR 260-315. The related deferred tax impact is estimated to result in an increase of retained earnings by approximately MEUR 50-70. A substantial part of this impact would be reflected in the consolidated income statement for the year ended 31 December 2017 should the standard be adopted retrospectively.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Group is refining and finalising its models for expected credit loss ("ECL") calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

Classification – financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are held as well as the characteristics of its cash flows.

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

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

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

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

- 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 any subsequent changes in fair value in OCI. This choice 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. On initial recognition, the Group may also 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 the section on the transitions below for the transition requirements relating to the classification of financial assets.

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

Business model assessment

The Group assessed 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 policies and objectives stated for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to Group management;
- the risks affecting 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 activities. However, information about sales activities 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 held neither to collect contractual cash flows nor to both collect contractual cash flows and 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 contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider:

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

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

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

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9;
- loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9;
- held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9;
- debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances;
- loans and advances to customers and investment securities that are designated as at FVTPL under IAS 39 will in general continue to be measured at FVTPL under IFRS 9;
- equity investment securities that are classified as available-for-sale under IAS 39 will be designated as at FVOCI under IFRS 9 as they are held for long-term strategic purposes.

The Group has estimated that upon the adoption of IFRS 9 as of 1 January 2018, these changes will not have any impact on the Group's equity.

Impairment – financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' model. This model is forward-looking and 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 that needs to be provided about expected credit losses.

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

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

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

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

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

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

Measurement of ECLs

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

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

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

Definition of default

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

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

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

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

Inputs into a financial instrument's default assessment and their significance may vary over time to reflect changes in circumstances.

Credit risk grades

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

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

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

The Group will employ statistical models to analyse the data collected and generate estimates on the remaining lifetime PD of exposures and on their expected change over time.

This analysis is planned to include – where reasonable and supportable information is available – the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include variables such as GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly

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

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

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining probability of default (“PD”) as at the reporting date with
- the PD that was estimated upon the exposure’s initial recognition.

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

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

Using its expert credit judgement and relevant historical experience, the Group in certain instances may determine that an exposure has undergone a significant increase in credit risk if indicated by particular qualitative factors. Such indicators may not be fully captured by an exposure’s timely quantitative analysis.

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

Modified financial assets

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

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

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

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

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

Generally, forbearance is a qualitative indicator of default and credit impairment. Expectations of forbearance are relevant 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 sufficiently for the loss allowance to revert to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

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

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

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

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

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

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

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

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

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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

Forward-looking information

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

Depending on data availability and the credibility of sources, the Group plans to analyse historical data to estimate relationships between macro-economic variables and credit risk and credit losses. Key drivers may include variables such as interest rates, unemployment rates, GDP forecasts and other.

Impact assessment

The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Group has estimated that upon the adoption of IFRS 9 as of 1 January 2018 the impact of the increase in loss allowances (before tax) will be in the range of MEUR 260-315.

Classification – financial liabilities

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

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

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

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate. It will recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Group does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Group expects the adoption of these new requirements to have an immaterial impact.

Hedge accounting

PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 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 currently designated by the Group meet the requirements of IFRS 9, and are aligned with the entity's risk management strategy and objectives. The Group expects that the application of the IFRS 9 hedge accounting requirements will have no impact on its financial statements.

Disclosures

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

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

Based on the facts and circumstances that exist at the date of initial application, the following assessments have to be made:

- the determination of the business model within which a financial asset is held.
- the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- the designation of certain investments in equity instruments not held for trading as at FVOCI.
- for a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt investment security has low credit risk as of 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

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

In May 2014, the IASB and the Financial Accounting Standards Board (FASB), responsible for US Generally Accepted Accounting Principles (US GAAP), jointly issued a converged standard on the recognition of revenue from contracts with customers. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (i.e. payment) to which the company expects

to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

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

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

Given the nature of the Group's operations, this standard is expected to have significant impact only on the Group's telecommunication business represented by O2 CR (see below).

Estimated impact

The adoption of the new standard will result in minor changes in the financial statements of the Group, primarily in respect of the timing of revenue recognition and in respect of capitalisation of costs of obtaining a contract with a customer. Management has reviewed the Group's current offering in all business areas and identified expected adjustments (impact study).

The timing of revenue recognition and the classification of the Group's revenues as either service or equipment revenue will be affected due to the allocation of consideration in multiple element arrangements. Considering the current business models, the impact of applying the new standard would result in allocating more revenues upfront from sales of equipment. Service revenue is expected to decrease. There is also expected classification impact between particular service lines.

As a result of the front-loading revenue and capitalisation of costs to obtain contracts, management estimates that net assets of the Group will increase due to implementation of IFRS 15. The estimated impact of the adoption of the standard on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standard at 1 January 2018 may change due to post-implementation phase of the project, performance of final control procedures and evaluations.

The total estimated adjustment (net of tax) to the opening balance of the Group's equity at 1 January 2018 is MEUR 25. The principal components of the estimated adjustments are as follows:

- Contracts containing bundle of telecommunication service and equipment are driving an increase of MEUR 7 in retained earnings, due to earlier recognition of equipment revenue from contracts with residential or corporate customers.
- Capitalisation of cost to obtain contracts effect is estimated to increase retained earnings by MEUR 17, due to deferral of these costs at the transition to IFRS 15.

Key areas of application

Bundles of telecommunication service and equipment

The core principle of the new standard is for the Group to recognise revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Group expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for instance customers' material rights, principal versus agent considerations, etc.) and new guidance for multiple-element arrangements.

Under current framework, the Group's accounting treatment of several bundles of telecommunication service and equipment for residential segment is in accordance with the contingent revenue cap, which is required to be applied for such type of legal contracts. As this treatment was fully replaced by the new standard, the pool of such offerings which are subject to re-allocation of revenues will increase. The estimated impact on retained earnings at 1 January 2018 as a result of changes in accounting for contracts that have not been completed at that date is an increase of MEUR 3. The impact of these changes on other items in the consolidated statement of financial position is a recognition of contract assets in the amount of MEUR 9.

Other type of contract which will be subject to adjustment under the new standard are corporate contracts where telecommunication service is incentivised by the equipment budget. The estimated impact on retained earnings at 1 January 2018 as a result of changes in accounting for contracts that have not been completed at that date is an increase of MEUR 4. In comparison to residential segment, where equipment is transferred to customer at the inception of the contract, corporate contracts usually allow customers to utilise the budget during the whole duration of the contract. Transition adjustment on other items in the consolidated statement of financial position is hence depending on real progress of utilisation of the budget and is estimated at 1 January 2018 as MEUR 8.

Promises to transfer distinct goods or services are defined as performance obligations in the standard. The Group provides telecommunication services which are offered on stand-alone basis and do represent separate performance obligations. Most of services or goods which are sold in bundles is a separate performance obligation as far as a customer can benefit from that performance obligation also on stand-alone basis.

In accordance with the requirements of the new standard the transaction price will be allocated to separate performance obligations within a contract based on relative stand-alone selling prices of the goods or services promised in accordance with the requirements of the new standard. Stand-alone selling price is the price at which the Group would sell a promised good or service separately to a customer. In majority cases the Group is considering list prices for goods and services to be the stand-alone selling prices.

The Group will recognise revenue when a good or service is transferred to the customer and the customer obtains control of that good or service. The Group will first assess whether the performance obligation is satisfied over time or at a point in time. Most services are provided over time because customers benefit from those services as the services are rendered.

Within the business models used by the Group, the financing element is not expected to be material for the Group's portfolio of offerings. Therefore neither operating profit nor finance costs are expected to be affected significantly.

Portfolio approach

The Group enters into contracts with a large number of customers with similar contractual terms. The Group will apply a portfolio approach to contracts that can be grouped to portfolios with similar terms as other telecommunication peers, as it reasonably expects that the effect of applying a portfolio approach will not differ materially from considering each contract separately. The Group adopts portfolio approach principally to majority of contracts with customers. On contrary, contracts with customers from corporate segment with unique terms that do not fit into any portfolio will be assessed for accounting treatment individually.

Commissions: incremental cost to obtain contracts

Capitalised contract acquisition incremental costs represent mainly external sales commissions which are directly attributable to the acquisition of the contract and are incremental. Amortisation period of such capitalised costs will vary between the estimated average contract duration period for business customers and the estimated average customer life-time period for residential customers. The amortisation of those costs will be presented within the line depreciation and amortisation in the income statement.

Transition

The Group decided to adopt IFRS 15 using the modified cumulative retrospective transition method, which means that the Group will use the new guidance only to contracts that are not completed at the adoption date of 1 January 2018. The cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance of retained earnings as of 1 January 2018. Disclosures will cover required information regarding contracts with customers, significant estimates and judgments, contract acquisition costs and the relevant exemptions used under the standard. Comparative prior year periods will not be adjusted.

The Group does not expect this standard to have a significant impact on other Group non-telco operations.

IFRS 16 Leases (effective from 1 January 2019)

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

Applying IFRS 16, a lessee will:

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. However, it expects significant increase of assets and liabilities as a result of the recognition of most operating leases on the balance sheet and classification impact on the consolidated income statement, mainly in the telecommunication segment.

IFRS 17 Insurance Contracts (effective from 1 January 2021)

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to 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 provides a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IFRS 17 has not yet been adopted by the EU.

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

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

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

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

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

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

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

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

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

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 an 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.

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

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

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

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

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

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

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.

PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 2017

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

G. Subsequent events

G.1. Acquisition of Škoda Transportation

In November 2017, the Group signed an agreement for the acquisition of a 100% stake in Škoda Transportation and other related assets. Škoda Transportation is a group focusing mainly on the development and manufacture of vehicles for public municipal transport and railways. Škoda Transportation's main products include low-floor trams, electric locomotives, metro trains, suburban train units, trolleybuses, and electric buses, as well as traction engines and complete powertrains for transport systems. The majority of its operations are located in the Czech Republic, but the group also has subsidiaries in Germany, Poland, Hungary, Finland and Russia.

The transaction was completed on 24 April 2018, subsequent to the receipt of all necessary regulatory approvals. The total acquisition price amounted to approx. MEUR 326 and included consideration for shares and assigned loans.

G.2. Acquisition of Bulgarian Nova Group

In February 2018, the Group signed an agreement for the acquisition of a 100% stake in Nova Broadcasting Group JSC, a Bulgarian media company. Nova is Bulgaria's largest commercial media group and comprises seven TV channels and 19 online businesses. The total acquisition price amounts to approx. MEUR 167. The closing of the transaction is subject to regulatory approvals and is expected in several months.

G.3. Acquisition of Telenor's telecommunications assets in CEE countries

In March 2018, the Group entered into an agreement with Telenor for the acquisition of its telecommunications assets in Central and Eastern Europe, specifically in Hungary, Bulgaria, Serbia and Montenegro. Through this transaction, the Group will gain full control over Telenor's mobile operators in the aforementioned countries, the rights to use the Telenor brand through the first half of 2021, and the property used for the companies' operations. The total purchase price for 100% of the shares is approx. MEUR 2,766. The completion of the transaction is expected in several months, and is subject to the relevant regulatory approvals.

In connection with the deal, MEUR 3,025 acquisition and revolving facilities supporting the acquisition and refinancing of existing loans have been fully underwritten by BNP Paribas Fortis SA/NV, Crédit Agricole CIB, Erste Group Bank, HSBC Bank plc, Societe Generale and UniCredit Bank Czech Republic and Slovakia, a.s.

G.4. Changes in real estate office portfolio

In March 2018, the Group sold the Wilhelminaplein real estate project, an up-and-running office building located in Rotterdam. The sale price for the asset amounted to MEUR 46.

In April 2018, the Group acquired a 90% share in the Metropolis 2 real estate project. It comprises an up-and-running office building located in Moscow. The acquisition price paid for the entity holding the building amounted to approximately MEUR 22.

In April 2018, the Group acquired a 100% share in the Westferry real estate project comprising an up-and-running office building located in London. The total consideration paid for the entity holding the building amounted to MEUR 122, including the price for the shares and the repayment of existing loans.

1 June 2018

Board of Directors:

Aleš Minx
Chairman of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Jan Cornelis Jansen
Member of the Board of Directors

Supervisory Board:

František Dostálek
Chairman of the Supervisory Board

Lubomír Král
Member of the Supervisory Board

Kamil Ziegler
Member of the Supervisory Board

PPF Group N.V.

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Company financial statements for the year ended 31 December 2017

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COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December

In millions of EUR

	Note	2017	2016
Assets			
Investments in subsidiaries, associates and joint ventures	A1	5,475	5,058
Cash and cash equivalents	A2	346	43
Receivables and other assets	A3	1,333	1,546
Total assets		7,154	6,647
Shareholders' equity and liabilities			
Issued capital		1	1
Share premium		677	677
Other reserves		6,229	5,683
Total shareholders' equity	A4	6,907	6,361
Liabilities			
Loans and other liabilities	A5	247	286
Total liabilities		247	286
Total shareholders' equity and liabilities		7,154	6,647

PPF Group N.V.

Company financial statements for the year ended 31 December 2017

COMPANY INCOME STATEMENT

For the year ended 31 December

In millions of EUR

	2017	2016
Result of group companies after taxation	650	983
Other results after taxation	(8)	48
Net profit for the year	642	1,031

GENERAL INFORMATION

The company financial statements of PPF Group N.V. (the “Company”) should be read in conjunction with the consolidated financial statements.

Accounting principles

To set the principles for the recognition and measurement of assets and liabilities and the determination of the result for its company financial statements, the Company makes use of the option provided in Section 2:362 (8) of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result of the Company are the same as those applied for the consolidated EU-IFRS financial statements. Participating interests over which significant influence is exercised are stated based on the equity method. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and endorsed by the European Union. Please refer to section A.3 of the consolidated financial statements.

With regard to presentation and disclosures, the Company’s accounting policies are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. With reference to the income statement of the Company, use has been made of the exemption pursuant to Section 402 of Book 2 of the Dutch Civil Code.

The Company’s Board of Directors authorised the company financial statements for issue on 1 June 2018.

Identification

PPF Group N.V. was incorporated on 29 December 1994. The objectives of the Company are to manage, finance and participate in other companies.

Basis of presentation

All amount are stated in euros (“EUR”) and rounded to the nearest million, unless stated otherwise.

Result from participating interest

The result from participating interest consists of the share of the Company on the result of the participating interests. Unrealised results from transactions with transfer of assets and liabilities between the Company and its participating interests and among participating interests are not recorded.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

A.1 Investments in subsidiaries, associates and joint ventures

Movements in subsidiaries, associates and joint ventures comprise the following:

In millions of EUR, for the period ended 31 December

	2017	2016
Opening balance	5,058	4,261
Additional investments in group companies, including restructuring	171	872
Decrease of investments in group companies	(136)	(1,123)
Dividend distribution	(213)	(101)
Other movements in shareholders' equity, other income and expense	(55)	148
Result of group companies	650	1,001
Closing balance	5,475	5,058

For details of the Company's financial interests and statutory locations refer to Note B.1 of the consolidated financial statements.

A.2 Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Bank accounts	346	43
Total cash and cash equivalents	346	43

The availability of cash and cash equivalents bears no restrictions.

A.3 Receivables and other assets

The other assets comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Receivables from the group companies	858	949
Other loans and receivables	278	179
Financial assets AFS – Intercompany debt securities	192	-
Receivable arising from decrease of capital in subsidiary	-	418
Other assets	5	-
Total other assets	1,333	1,546

The intercompany debt securities (financial assets AFS) amounting to MEUR 192 (2016: nil) all represent the group companies' long-term subordinated liabilities towards the Company.

PPF Group N.V.

Notes to the company financial statements for the year ended 31 December 2017

In 2016, the receivable amounting to MEUR 418 related to a decrease in the share premium of Facipero Investments Ltd. that was subject to court approval in Cyprus. During 2017, this receivable was fully collected.

The following table shows the maturity of receivables and loans:

In millions of EUR, as at 31 December

	Receivables from group companies		Other loans and receivables		Receivable arising from decrease of capital in subsidiary	
	2017	2016	2017	2016	2017	2016
Less than 1 year	778	795	247	179	-	418
More than one year	80	154	31	-	-	-
Total	858	949	278	179	-	418

A.4 Capital and reserves

Capital and reserves comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Issued capital	1	1
Share premium	677	677
Other reserves	6,229	5,683
<i>Of which</i>		
Legal and statutory reserves	90	65
Available-for-sale reserve	(44)	(40)
Translation reserve	(548)	(473)
(Statutory) revaluation reserve	488	398
Other	(7)	-
Retained earnings	6,250	5,733
Total shareholders' equity	6,907	6,361

Information on legal, revaluation and translation reserves is included in Note E.22 of the consolidated financial statements. Those categories of equity arise on the consolidated level and are non-distributable.

The revaluation reserve relates to real estate investments and consists of the cumulative positive (unrealised) revaluations of these investments. The (statutory) revaluation reserve is a non-distributable reserve in accordance with the Dutch Civil Code. As at 31 December 2017 and 2016, the revaluation reserve was determined at the property level.

Retained earnings also include a part related to PPF Financial Holdings B.V., which is subject to consolidated prudential requirements based on Regulation No 575/2013 of the European Parliament and of the Council. Hence, this part is distributable only to the extent that this regulated subgroup fulfils the regulation's minimum capital requirements.

PPF Group N.V.

Notes to the company financial statements for the year ended 31 December 2017

The following tables show the roll-forward of shareholders' equity:

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

	Issued capital	Share premium	Other reserves	Total
Balance as at 1 January	1	677	5,683	6,361
Change in revaluation of subsidiaries	-	-	(56)	(56)
Total gains/(losses) recognised directly in equity	-	-	(56)	(56)
Dividends to shareholders	-	-	(40)	(40)
Net profit for the year	-	-	642	642
Balance as at 31 December	1	677	6,229	6,907

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

	Issued capital	Share premium	Other reserves	Total
Balance as at 1 January	1	677	4,485	5,163
Change in revaluation of subsidiaries	-	-	167	167
Total gains/(losses) recognised directly in equity	-	-	167	167
Net profit for the year	-	-	1,031	1,031
Balance as at 31 December	1	677	5,683	6,361

The reconciliation of shareholders' equity to the consolidated equity is as follows:

In millions of EUR, as at 31 December

	2017	2016
Shareholder's equity	6,907	6,361
Non-controlling interests:		
O2 Czech Republic a.s.	138	135
Home Credit B.V.	229	176
Home Credit US, LLC	11	3
Velthemia Ltd.	46	52
PPF banka a.s.	28	23
Sotio N.V.	1	3
Other (mainly real estate projects)	17	10
Total consolidated equity	7,377	6,763

PPF Group N.V.

Notes to the company financial statements for the year ended 31 December 2017

In millions of EUR, for the period ended 31 December

	2017	2016
Group's net profit	642	1,031
Net profit attributable to non-controlling interests:		
O2 Czech Republic a.s.	27	22
Home Credit B.V.	29	21
Home Credit US, LLC	(9)	-
Velthemia Ltd.	-	(20)
PPF banka, a.s.	5	4
Facipero Investments Ltd.	-	57
Sotio N.V.	(2)	(1)
Home Credit Indonesia PT	(3)	(3)
Other	1	4
Consolidated net profit	690	1,115

A.5 Loans and other liabilities

The category comprises the following:

In millions of EUR, as at 31 December

	2017	2016
Loans from group companies (including associates)	224	257
Financial liabilities at fair value through profit or loss	19	15
Other	4	14
Total other liabilities	247	286

The following table shows the maturity of loans from group companies:

In millions of EUR, as at 31 December

	2017	2016
Less than one year	224	10
More than one year	-	247
Total	224	257

The "Other" category comprises only liabilities payable within one year.

A.6 Commitments and contingent liabilities

Commitments and contingent liabilities comprise the following:

In millions of EUR, as at 31 December

	2017	2016
Revocable loan commitments (within the Group)	24	20
Total commitments and contingent liabilities	24	20

PPF Group N.V.

Notes to the company financial statements for the year ended 31 December 2017

A.7 Audit and related services

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

In thousands of EUR, as at 31 December

	2017 KPMG Netherlands	2016 KPMG Netherlands	2017 Other KPMG	2016 Other KPMG
Audit services	801	806	2,285	2,189
Audit related services	475	165	542	597
Tax advisory	-	-	697	205
Other services	-	-	469	799
Total expenses	1,276	971	3,993	3,790

A.8 Financial instruments

The Group is exposed to the following risks from its use of financial instruments:

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

In the notes to the consolidated financial statements information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

These risks, objectives, policies and processes for measuring and managing risk, and the management of capital also apply to the company financial statements of PPF Group N.V.

Fair value

The fair value of most of the financial instruments stated on the balance sheet, including accounts receivable, securities, cash and cash equivalents, and current liabilities, is close to the carrying amount. For details on fair value principles, refer to Note C.7 of the consolidated financial statements.

A.9 Share in results from participating interests

MEUR 94 (2016: MEUR 237) of the share in results from participating interests relate to the group companies.

A.10 Related parties

For details of the related parties transactions of the Company, refer to Note E.40 of the consolidated financial statements.

PPF Group N.V.

Notes to the company financial statements for the year ended 31 December 2017

A.11 Transactions with key management personnel

For details of transactions with key management personnel, refer to Note E.40.2 of the consolidated financial statements.

A.12 Profit appropriation for 2017

The Board of Directors proposes to distribute a MEUR 40 dividend from the profit for 2017.

A.13 Post balance sheet events

For post balance sheet events, refer to Section G of the consolidated financial statements of PPF Group N.V. for the year ended 31 December 2017.

PPF Group N.V.

Other information

OTHER INFORMATION

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Independent auditor's report

To: the Board of Directors of PPF Group N.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2017 of PPF Group N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of PPF Group N.V. as at 31 December 2017 and of its result and its cash flows for 2017 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;
- the accompanying company financial statements give a true and fair view of the financial position of PPF Group N.V. as at 31 December 2017 and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- 1 the consolidated statement of financial position as at 31 December 2017;
- 2 the following consolidated statements for 2017: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- 1 the company statement of financial position as at 31 December 2017;
- 2 the company income statement for 2017; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of PPF Group N.V. in accordance with 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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:

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

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

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

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

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

The Board of Directors is responsible for the preparation of the other information, including the report of the board of directors, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors 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 the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors 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 assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

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

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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_algemeen_01
This description forms part of our independent auditor's report.

Amstelveen, 1 June 2018

KPMG Accountants N.V.

M. Frikkee RA

PPF Group N.V.

Other information

Profit appropriation

Profits and distribution are specified in Article 21 of the Company's articles of associations.

The allocation of profits accrued in a financial year shall be determined by the general meeting. The distribution of profits shall be made after the adoption of the annual accounts if permissible under the law, given the contents of the annual accounts. The general meeting may resolve to make interim distributions and/or to make distributions at the expense of any reserve of the Company. Distributions may be made only up to an amount not exceeding distributable equity. If concerning an interim distribution, compliance with the requirement must be evidenced by an interim statement of assets and liabilities as referred to in Section 2:105 Subsection 4, of the Dutch Civil Code.

Number of employees

The Company had average number of 11 employees during 2017.

Subsidiaries

The main statutory offices of the Company are in the Netherlands, the Czech Republic, Cyprus, Russia and other Eastern European countries. For details in this respect, please refer to Section B.1 of the consolidated statements.

PPF Group has a 100% shareholding in both PPF Advisory (UK) Limited, a company registered in England and Wales under company registration number 05539859 and Home Credit Europe Plc., a company registered in England and Wales under company registration number 07744459. Both entities are entitled to and have opted to take, an exemption from the requirement to have an audit of its financial statements for the year ended 31 December 2017 under Section 479A of the Companies Act 2006 (UK) relating to subsidiary companies.

Cautionary statement with respect to forward-looking statements

Certain statements contained in this annual report are statements of future expectations and other forward-looking statements that are based on management's current view, estimates and assumptions about future events.

These forward-looking statements are subject to certain risks, uncertainties and special circumstances or events that may cause results to differ materially from those expressed or implied in such statements.