



# PPF GROUP N.V.

## *Annual accounts 2016*

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# **Board of Directors report**

## **Description of the Company**

PPF Group N.V.

Date of inception: 29 December 1994

Seat: Netherlands, Strawinskylaan 933, 1077XX Amsterdam

Identification number: 33264887

Basic share capital: EUR 624,010

Principal business: Holding company activities and financing thereof

## **Board of Directors**

Aleš Minx, Chairman of the Board of Directors

Jan Cornelis Jansen, Director

Rudolf Bosveld, Director

## **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 2016, PPF Group owns assets amounting to BEUR 27.

PPF Group N.V., with its registered office in Amsterdam, is the key holding company of the Group that makes the strategic decisions governing the entire Group’s activity. The company owns a 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. The Group’s focus in corporate banking is represented by PPF banka a.s., in which the Group holds a 92.96% share. It also owns 100% of PPF Real Estate Holding B.V., a Group company specialised in real estate projects.

In January 2014 the Group acquired a 65.93% shareholding in Telefónica Czech Republic a.s. (subsequently renamed to O2 Czech Republic), a Czech publicly listed telecommunication company operating also in the Slovak Republic. In April 2015, the Annual General Meeting of O2 Czech Republic (“O2 CR”) approved the company’s demerger into O2 Czech Republic a.s. and Česká telekomunikační infrastruktura, a.s. (“CETIN”). As of 31 December 2016, the Group holds a 85.4% share in O2 CR and a 100% share in CETIN.

Until December 2016, the Group was a 80% shareholder of Eldorado LLC, Russia’s consumer electronic and domestic appliances retailer.

## **Significant events in 2016**

### ***January***

The Group became the sole shareholder of CETIN as a result of a squeeze-out process of minority shareholders.

### ***June***

In June 2016, the Group acquired a 34.58% stake in The Culture Trip Ltd., the UK start-up company dealing with online publishing and book selling. Following the acquisition the Group increased its share to 43.69% through capital contribution. With offices in London, NYC and Tel Aviv and a global

hub of editorial contributors hailing from all over the world, Culture Trip is one of the internet's fastest-growing media start-ups, attracting nearly 6 million monthly readers and 2 million followers on social media around the world.

### ***September***

On 23 September 2016, the Group sold a 3.05% share in Polymetal after which the Group's effective share in the company fell below 13%.

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 which is 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. Gemcol Ltd. is an investment vehicle in which the Group is the investor.

The group was subsequently renamed to LEAG. From the Group's perspective, the acquisition of LEAG is considered a long-term financial investment that enables better risk diversification by entering a different industry with the partner which 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.

### ***December***

On 8 December 2016, the Group, acting through its subsidiary Facipero Investments Ltd. sold its stake in Eldorado LLC. Eldorado is the Russian retailer of consumer electronic and domestic appliances in which the Group held an 80% effective share.

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

## **Financial performance and capital management**

At the end of 2016 the consolidated shareholders' equity of PPF Group N.V. amounted to MEUR 6,361 (31 December 2015: MEUR 5,163).

The consolidated profit attributable to equity shareholders of the Group for 2016 reached MEUR 1,031 (2015: MEUR 315).

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 the new holding entity PPF Financial Holdings B.V. ("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 consolidating supervisor. PPF banka was appointed as a responsible reporting entity for this Subgroup.

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.

## **Workforce**

The rounded average number of employees during the year 2016 was 102,000 (2015: 85,000).

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 fit, as closely as possible, the profile and strategy of the company. This aim for the best fit, in combination with the availability of qualifying candidates, has resulted in PPF Group currently having a Board of Directors in which all three members are male. In order to increase gender diversity on the Board of Directors, in accordance with article 2:276 section 2 of the Dutch Civil Code, PPF Group pays close attention to gender diversity in the process of recruiting and appointing new members of the Board of Directors. PPF Group will retain an active and open attitude as regards selecting female candidates.

## **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, 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 2016 the Group held financial instruments in an amount of MEUR 15,938 (excluding cash and cash equivalents). Of this amount, financial assets at fair value through profit or loss amounted to MEUR 545, financial assets available for sale MEUR 2,848 and loans and receivables MEUR 12,545. The financial liabilities held by the Group include, in particular, liabilities due to non-banks totalling MEUR 8,373, liabilities due to banks of MEUR 8,111, debt securities issued amounting to MEUR 1,237, subordinated liabilities of MEUR 308 and financial liabilities at fair value through profit or loss of MEUR 411.

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 notes to the consolidated financial statements.

## **Description of core business segments and their development in 2016**

### ***Home Credit Group***

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.

The company, set up in the Czech Republic in 1997, specialises in the responsible lending of consumer credit. It is successfully developing the concept of inclusive financial services for clients who have been unable to access any bank loans. This approach has earned Home Credit leader status in a host of rapidly developing Asian markets.

Today, Home Credit offers services to customers in the Czech Republic, Slovakia, Russia, Kazakhstan, Belarus, China, India, Indonesia, the Philippines and Vietnam. In 2015, it also entered the US market.

In those places where the HC Group has obtained a banking licence, it also offers transactional banking for non-business individuals and accepts deposits. These are a major source of financing on those markets. In the past year, the deposits of Home Credit’s clients rose by 10% to BEUR 5.4.

The HC Group offers its services to customers in a far-reaching network of shops, bank branches, special credit counters and post offices. Last year, the number of Home Credit service points shot up by 45.5% to 270,537 worldwide. It is also increasingly offering its services online and via social networks on all markets.

The HC Group’s net profit was MEUR 210.2, a stark rise on the previous year’s loss of MEUR 41.6. Home Credit saw its income climb steadily throughout the year. The final quarter was the most successful, reporting a profit of MEUR 78.6.

Home Credit managed to drive up its profit mainly on the back of a sharp fall in risk coverage costs, the spread of financing sources and service provision growth on all key markets. The results achieved on Asian markets were the single largest factor behind the upswing in profit. The HC Group also returned to profit in Russia, where it successfully adapted Home Credit and Finance Bank to new economic conditions.

The profit was increased substantially by the fact that results were in the black in Russia again combined with prudent risk management throughout the Group. The reduction in the volume of low-quality loans to 6.1% – the lowest level in five years – also played a significant role. The use of Big Data systems was a major influence here.

The volume of lending expanded by 69% year on year to MEUR 9,866, spearheaded by the rapid growth in loans on Asian markets. Home Credit granted BEUR 11.5 in new credit to customers over the year, up 75.9% on the previous year. At the end of 2016, the HC Group was employing more than 100,000 people.

Home Credit's business success in Asia can be put down to its expansion into a string of countries, good-value credit with 0% financing deals, and growth in the cash credit segment. Its services are now used by 20.1 million clients – 60% more than a year ago – in 11 countries. Since its inception, the Group has provided credit to 70 million customers. This success is mainly rooted in the fact that Home Credit offers its services to clients who have not previously had access to bank loans. Consequently, it has become a partner of choice for manufacturers of consumer goods, including mobile phones (e.g. OPPO in China and Samsung in South Korea).

### *Home Credit B.V. consolidated financial highlights*

*In millions of EUR*

|                   | 2016   | 2015   |
|-------------------|--------|--------|
| PPF Group's share | 88.62% | 88.62% |
| Operating income  | 2,000  | 1,619  |
| Net profit/(loss) | 210    | (42)   |
| Total assets      | 14,704 | 9,656  |
| Total equity      | 1,501  | 1,196  |

### **Air Bank**

Air Bank is a new-generation retail bank. Since launching in November 2011, it has competed with traditional banks by offering simple, innovative services and a friendly approach to clients.

In 2016, the bank made a net profit of MCZK 244, with operating costs of MCZK 1,484 and revenues of MCZK 1,786. Total assets climbed by 14% year on year to BCZK 86.8, placing it among the medium-sized financial institutions on the Czech market. The bank's equity rose by 3% to BCZK 5.4. Total profit shrank by 47% year on year, pushed down primarily by the generally low interest rates, which narrowed the opportunities available to make money on deposits. The bank also invested heavily in new infrastructure, especially its expanding network of branches and new ATMs.

At the end of 2016, five years after its inception, Air Bank had 515,000 customers, served by 730 employees at 34 branches distributed among the Czech Republic's largest towns and cities. Last year, Air Bank attracted 90,000 new customers, tantamount to 17.4% year-on-year growth. It was named Most Dynamic Bank of the Year for the fourth time in a row in the Bank of the Year competition. According to comparative surveys, its customers are the happiest of any of the Czech banks.

Current-account and savings-account deposits went up by 14% to BCZK 78.6 in 2016. Lending expanded by 21% to BCZK 32.6. The bank managed to generate a lot more income from retail operations courtesy of the rapid growth in deposits and consumer credit.

Most investment targeted improvements in infrastructure, particularly ATMs, as a satisfaction survey showed that easier cash machine access topped customers' wish list. The ATM network doubled in size during the year to 152 machines. Air Bank is planning further expansion in the coming years. Clients can point out on a special online map where they would most like to see new cash machines. Last year, Air Bank also became the first financial institution in the Czech Republic to start offering faster, more convenient contactless withdrawals.

In 2016, the bank opened three new branches and offered customers several innovations, including safer payment confirmation via a mobile app, new account movement and balance notifications, an improved Šanon (Binder) service, and the travel insurance that customers had been longing for.

## Consolidated financial highlights

*In millions of EUR*

|                   | 2016   | 2015   |
|-------------------|--------|--------|
| PPF Group's share | 88.62% | 88.62% |
| Operating income  | 92     | 91     |
| Net profit/(loss) | 16.6   | 9.8    |
| Total assets      | 3,236  | 2,859  |
| Total equity      | 204    | 189    |

### **PPF banka**

PPF banka offers all banking and financial services, primarily for companies and municipalities. It specialises in trading on the 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 plays a key role as the PPF Group's treasury bank.

In 2016, PPF banka continued along the path of rising profits. It reported a net profit of BCZK 1.2. Total assets rose to BCZK 136.6. The volume of lending climbed by 15% to BCZK 29.6. The return on equity (ROE) in 2016 was 14.75% and the total capital adequacy ratio was 15.86%.

Last year, PPF banka became the most active dealer on the primary market in Czech government bonds and was ranked top in an evaluation conducted by the Ministry of Finance. It helped the Czech state to sell most government bonds, which are used to service the sovereign debt. In the overall evaluation of the primary and secondary market together, it came second. This is an exceptionally good result considering that, based on total assets, it is incomparably smaller than other players on the bond market. In 2016, 12 primary traders from the ranks of the largest world and local banks were trading on the Czech bond market.

Last year, PPF banka provided comprehensive services on the capital market. It acted as an agent, for example, in the squeeze-out of CETIN's minority shareholders. This was the largest operation in the Czech Republic, affecting 33,000 shareholders, with BCZK 2.7 distributed among them. All of this played out in the space of just three days.

PPF banka was also involved in an issue of international CETIN bonds. It took part in financial operations with major PPF Group assets, such as the Russian Home Credit and Finance Bank. It also played the role of settlement bank for a joint project between O2 and Wildcard entailing a solution for electronic sales registration.

## Unconsolidated financial highlights

*In millions of EUR*

|                   | 2016   | 2015   |
|-------------------|--------|--------|
| PPF Group's share | 92.96% | 92.96% |
| Net profit        | 44.5   | 47.5   |
| Total assets      | 5,056  | 3,815  |
| Total equity      | 324    | 273    |

### ***PPF Life Insurance (Russia)***

PPF Life Insurance is one of the largest players on the life insurance market in Russia. In 2016, it reported written premiums amounting to BRUB 2.9, tantamount to 5.2% year-on-year growth.

The biggest contributor to earned premiums was the company's own agency network, the development of which is PPF Life Insurance's top priority. The company continued to optimise its regional network. Today, it has 75 branches in Russia and a network comprising almost 4,000 family finance consultants. PPF Life Insurance takes the view that networks of agents and brokers are the best channels for sales of long-term life insurance, requiring confidential personal negotiation with the client and built-to-suit solutions.

The company posted annual growth in all key products, spearheaded by long-term endowment insurance schemes, which rose by 6% and account for BRUB 2.4 billion of total premiums written. Pension-based life insurance schemes increased by 1% to yield MRUB 461. In 2016, the company remained the leader in annuity life insurance. Its market share was 33.5%.

Last year, the company paid out almost MRUB 852 in claims (a 16% decrease). Insurance provisions amount to approximately eight billion roubles. The company's total assets came to almost BRUB 10.

PPF Life Insurance posted a net profit of MRUB 250.8 in 2016 (according to IFRS).

PPF Life Insurance has steadfastly earned an A++ rating from the RAEX domestic rating agency, illustrating how exceptionally reliable it is. (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.)

### ***Individual financial highlights***

*In millions of EUR*

|                           | 2016 | 2015 |
|---------------------------|------|------|
| PPF Group's share         | 100% | 100% |
| Insurance premium revenue | 63.2 | 91.6 |
| Net profit                | 3.4  | 2.4  |
| Total equity              | 30.9 | 17.5 |

### ***Real Estate***

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

In 2016, it entered another market when it acquired an office building in Bucharest. In the Czech Republic, it purchased an office building in the heart of Prague and successfully rounded off the sale of a fully up-valued project.

PPF Real Estate Holding actively consolidated the property portfolio. It sold a string of projects that were at the preparation stage to other investors and focused on the long-term stabilisation of assets on all markets.

The PPF Group's real estate investments in the Netherlands comprise nine office buildings and one shopping centre. Altogether, it offers more than 200,000 m<sup>2</sup> to let in prestigious locations such as the Millennium Tower and the Wilhelmina Tower in Rotterdam. These sites on the – highly competitive –



Dutch market are appealing to very affluent clients. Last year, the company started renovating one of these structures, where it will offer a further 13,000 m<sup>2</sup> of attractive office space.

In Russia, PPF Real Estate offers offices, commercial properties and logistics complexes, which it either owns on its own or together with other leading investors, including the Hines Russia & Poland Fund. Together with Hines, PPF owns two office buildings in Moscow's popular Metropolis centre, which is on the way from Sheremetyevo Airport to the city centre. Here, there are 55,000 m<sup>2</sup> available for lease. It owns and runs two large shopping centres, one in Ryazan, the other in Astrakhan, with a total area of more than 100,000 m<sup>2</sup>.

At the Comcity business park in "New Moscow", just off the main ring road, the company completed the initial stage of this project, offering 107,500 m<sup>2</sup> for lease to telecommunication and IT companies in particular. More than 80% of the premises were let in the initial stage at Comcity. The Comcity concept, where there are plans to prepare up to 430,000 m<sup>2</sup> for customers, also incorporates green rest areas and a large shopping gallery, which includes a supermarket, restaurants, cafés and a gym.

In tandem with its partner of many years, 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 its overall capacity of 653,000 m<sup>2</sup>, it is an industry leader. In 2016, Radius Group successfully completed the certification of a 100,000 m<sup>2</sup> 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, 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 m<sup>2</sup>. The centre will open in 2018 on a piece of land across the road from the current site of the South Gate logistics park.

Last year, the reconstruction of one of several particularly high-end residential buildings in the Georgian style at the prestigious Queen Anne's Gate address in London was completed. It has now been put up for sale by the Group. Work also continued on overhauling buildings in Bishopswood Road, which have retained their Victorian façade but have been modernised as high-quality housing. Each of them has approximately 1,000 m<sup>2</sup> of living space.

The ArtGen Project in Prague offers modern offices and retail units over approximately 26,000 m<sup>2</sup> spread over two buildings. Since the buildings were put into service in 2014, they have successfully been more than 80% occupied. The ArtGen project exemplifies the transformation of what was originally one of Prague's industrial districts into a modern administrative, retail and residential site. In September 2016, PPF Real Estate obtained an 8000 m<sup>2</sup> office building in the centre of Prague. Since then, it has increased its occupancy from 15% to almost half. Negotiations are successfully progressing with parties interested in occupying other parts of the building.

PPF Real Estate's property portfolio in Germany numbers three office buildings with an area of 43,000 m<sup>2</sup>, situated in the centre of Berlin and in the regions of Monheim/Düsseldorf and Langen/Frankfurt. All three boast eminent and prestigious tenants and are 95% occupied.

In October 2016, the company expanded its international portfolio when it acquired an 18,000 m<sup>2</sup> office building in the central business district in the Romanian capital of Bucharest. The Metropolis Centre is a complex of modern offices built around a historical printworks building preserved from 1919. The premises have been refurbished according to Class A standards and are a good example of how to reconcile modern and classic architectural styles.

## ***O2 Czech Republic***

O2 is the largest telecommunications operator on the Czech market. Last year, its customers made use of almost eight million landlines and mobile lines, making it one of the largest operators in Europe. The company offers mobile-connection customers the latest HPSA+ and LTE technologies. O2 also provides its clients with the comprehensive IT services of housing, hosting and cloud services in data centres covering a total area of 7,300 m<sup>2</sup>. By broadcasting its O2 TV service, the company is also the largest internet television provider in the Czech Republic.

2016 was a landmark year in the company's history. It was the first full year after the fixed and mobile infrastructure had been spun off to CETIN. Last year, virtually all of the Czech Republic was successfully covered with the signal of the fourth-generation high-speed mobile network, LTE.

O2 embarked on new lines of business. As traditional telecommunications services are increasingly turning into a commodity, telecommunication companies need to seek out new areas where they can leverage their skills and technological superiority. O2 will focus on developing services delivering high added value, which are its main competitive edge.

With its fixed voice services, O2 took the bold step of introducing a new tariff at the start of the year that offered unlimited calls from a landline to all networks throughout the Czech Republic. During the year, all landline customers gradually switched to this new tariff, and they now average 40% more calls than before.

This goes hand in hand with the O2 TV digital television service, one of the company's main growth pillars. It introduced numerous innovations to customers last year. Thanks to the new platform, it can now be used by anyone in the Czech Republic with either an O2 internet connection or internet provided in any other way. Customers can watch O2 TV on the web or in an app on up to four mobile devices. O2 TV bought additional exclusive sports programmes and will continue its purchases. In August, the company launched a new channel, O2 TV Fotbal, and in early 2017 became the first in the Czech Republic to offer a purely tennis channel, O2 TV Tenis. More than 250,000 customers watch O2 TV via a set-top box; on top of that, more than 360,000 watch it via a mobile app and on the internet.

O2 also focused on the development of completely new services that appeared in telecommunications in the Czech Republic for the first time last year. It introduced a host of innovations in insurance and electronic sales registration. As early as the preparations for the first wave of electronic sales registration, which involved restaurants and hotels, its eKasa product made it the biggest player on the market in solutions for electronic sales registration. It built on this in the second wave of registration, when the majority of shops had to start taking part.

Mobile data is another field on which the company placed a major emphasis last year. By the end of the year, it had increased 4G LTE network coverage to 99% of the population. In Prague and Brno, it increased the speed and capacity of the data network by merging all of the frequency bands. Consequently, it was the first operator in the country able to launch a 4.5G network in a real setting. The construction of the 4G LTE network in Slovakia also made significant progress. It is now accessible to 70% of the population there. O2 also invested heavily in a state-of-the-art national backbone fibre-optic network.

In both the Czech Republic and Slovakia, the company now only sells telephones supporting LTE technology. This means that, in both countries, almost 60% of its customers use smartphones. More

than 30% enjoy all the benefits of LTE technology. The specialised company O2 IT Services concentrated on innovative projects and solutions that mainly encompassed Smart Cities. Last year, O2 also supported several promising start-ups as part of its new BOLT innovation incubator.

The following table breaks down the operating indicators:

*In thousands*

|                                        | 2016  | 2015  |
|----------------------------------------|-------|-------|
| Fixed voice lines                      | 699   | 840   |
| xDSL connections – retail              | 765   | 795   |
| Pay TV – O2 TV                         | 221   | 202   |
| Mobile customers in the Czech Republic | 4,941 | 4,896 |
| – of this contract customers           | 3,356 | 3,237 |
| prepaid customers                      | 1,585 | 1,659 |
| Mobile customers in Slovakia           | 1,892 | 1,809 |

### *Consolidated financial highlights*

*In millions of EUR*

|                                       | 2016  | 2015   |
|---------------------------------------|-------|--------|
| PPF Group's share (voting)            | 85.4% | 84.06% |
| Total revenues                        | 1,388 | 1,370  |
| Net profit from continuing operations | 195   | 186    |
| Total assets                          | 1,233 | 1,120  |
| Total equity                          | 648   | 679    |

### **CETIN**

CETIN was formed when it was spun off from the telecommunication company O2 Czech Republic a.s., on 1 June 2015. It is purely an infrastructure company that is not tied to any business offering services to final customers. Its clients are telecommunications operators and firms offering internet connections that, through CETIN, deliver services to final customers.

CETIN is a technology company that keeps track of trends in its sector and 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 99.6% of the population via fixed technologies and a set of mobile technologies disseminated by almost 6,000 base stations. CETIN contributes to a network sharing project and provides its mobile infrastructure to O2 and T-Mobile. In 2016, it put 725 new LTE stations – used by both operators – into operation. The network sharing project will be completed in 2017. A second capacity layer was added to the more than 500 base stations in Prague. This is able to secure increased data consumption, which, in the capital, accounts for a quarter of the total data volume in the Czech Republic as a whole.

CETIN's national network comprises 20 million pairs of copper cables and 38,000 km of fibre-optic cables, though this length is increasing all the time thanks to extensive investment in the Fibre-to-the-Cabinet (FTTC) programme. In 2016, the company built 1,020 FTTC street cabinets. This speeded up the connection considerably for 449,000 households, with more than 70% of them having access to speeds of at least 50 Mbps. In 2016, the entire CETIN network started offering a speed of 80 Mbps, which is now available to almost half a million 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 16,892 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 wafer-thin margins. However, they only require very low operating costs.

In November, the subsidiary CETIN Finance B.V. successfully sold bonds in two currencies, for which CETIN, as the parent company, acts as guarantor. This was one of the largest issues in the Czech Republic and Central Europe at large. CETIN will use the proceeds to refinance a bank loan. The company currently has two investment ratings. Fitch gave it a BBB rating with a stable outlook in October 2016, following on from Moody's July Baa2 rating with a stable outlook.

### *Consolidated financial highlights*

*In millions of EUR*

|                            | 2016  | 2015   |
|----------------------------|-------|--------|
| PPF Group's share (voting) | 100%  | 94.90% |
| Total revenues             | 754   | 700    |
| Net profit                 | 83    | 71     |
| Total assets               | 2,028 | 3,286  |
| Total equity               | 665   | 1,777  |

### **Polymetal**

Polymetal is a leading precious metal producer. The PPF Group currently holds a 12.9% stake in Polymetal. In 2016, Polymetal made a profit of MUSD 395. Polymetal is set to consolidate its market position even further in the future thanks to the progress it has made in its largest project, Kyzyl (in Kazakhstan), and a string of other development projects.

In 2016, the company's total output was the equivalent of 890 Koz of gold. Despite being faced with shrinking gold and silver prices and economic instability, Polymetal has outstripped planned annual production for the past five years. Gold production was up by 3% year on year, while silver production fell by 9%.

During the year, Polymetal expanded its portfolio of projects for the advanced exploration of brownfield sites (places where deposits of mineral resources had already been found in the past). It obtained the Tarutinskoe copper-bearing deposit and a platinum site in the north-west of Russia. These new projects help to diversify the range of production.

In 2016, Polymetal paid out MUSD 158 in dividends.

### *Consolidated financial and production highlights*

|                                    | 2016  | 2015  |
|------------------------------------|-------|-------|
| PPF Group's legal share            | 12.9% | 17.9% |
| Gold production (Koz)              | 890   | 861   |
| Silver production (Moz)            | 29.2  | 32.1  |
| Revenues (USD millions)            | 1,583 | 1,441 |
| Net profit/(loss) (USD millions)   | 395   | 221   |
| Number of employees (in thousands) | 10.8  | 9.3   |

#### **Research and development**

SOTIO is a biotechnology company that is developing new medical therapies, focusing on the treatment of cancer and autoimmunity diseases. SOTIO became part of PPF Group at the end of 2012.

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

A key Phase III international clinical trial focused on prostate cancer patients (VIABLE) was launched in 2014. This was the first time in modern history that a company from the Czech Republic has 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 2016 ten clinical studies were running in Europe and in the USA, focusing on patients with prostate, ovarian and lung cancer. Several other clinical trials are also being prepared. The company also conducts several joint research projects with leading hospitals in China, two key projects were launched in 2016. SOTIO's pivotal clinical trial VIABLE is currently recruiting patients from 21 European countries and the US. The majority of enrolled patients came from the United States, Czech Republic, Germany and Poland in 2016.

Phase I/II clinical trial using active cellular immunotherapy for lung cancer patients (DCVAC/LuCa) successfully finalised enrolment of patients in the Czech and Slovak Republic in November 2016. Last year the recruitment to Phase II ovarian cancer clinical trials was completed according to plan as well.

SOTIO is always looking to partner with other companies and institutions that develop promising oncology therapeutics. Working with its sister company Accord Research, SOTIO is responsible for pre-clinical and clinical development for the other biotechnology companies that are affiliated with PPF Group or SOTIO through equity or contracts. These currently include France-based Cytune Pharma and Switzerland-based NBE-Therapeutics and Cellestia Biotech. In cooperation with partnering companies and within its own research activities, SOTIO is actively working on several preclinical stage projects with the aim to advance several lead products and to conduct Phase I clinical trials.

The company also carries out and finances independent scientific research – the most extensive of its kind in the Czech Republic. SOTIO puts into practice discoveries of Czech scientists who are 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 2011, SOTIO built its own state of the art production and research facility in Holešovice, Prague, 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 opened similar laboratories in Beijing, China, in 2014. The SOTIO Group employs around 340 professionals (as of December 31, 2016).

## **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 – constantly seeking out 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 excellent management.

Beside 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.

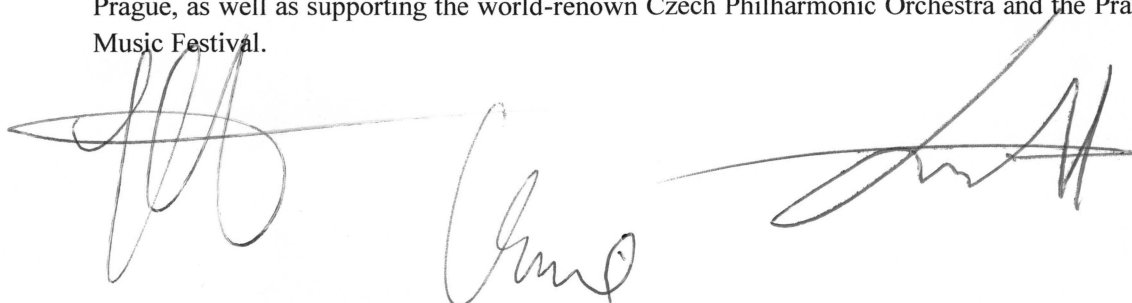
We aim to continue to grow, innovate and leverage the extensive background of our knowledge and experience to achieve success. Over the 26 years of its existence, PPF Group has gained a proven track record in business restructuring in Central and Eastern Europe, Russia and Asia, and we will continue 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 a large private photographic collection and an art collection which includes works both by classical Czech painters as well as modern artists. PPF Group operates two art galleries in Prague and supports many top-ranked cultural events and. For example, it is behind the Summer Shakespeare Festival, also contributing every year to the operation of the Jára Cimrman Theatre in Prague, as well as supporting the world-renown Czech Philharmonic Orchestra and the Prague Spring Music Festival.





# **PPF GROUP N.V.**

*Consolidated financial statements for the year ended 31 December 2016*

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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 | 2016          | 2015          |
|-----------------------------------------------------------------------|------|---------------|---------------|
| <b>ASSETS</b>                                                         |      |               |               |
| Cash and cash equivalents                                             | E1   | 4,389         | 2,732         |
| Investment securities                                                 | E2   | 3,393         | 3,032         |
| Positive fair value of hedging derivatives                            | E3   | -             | 96            |
| Loans and receivables due from banks and other financial institutions | E4   | 840           | 549           |
| Loans due from customers                                              | E5   | 11,337        | 7,153         |
| Trade and other receivables                                           | E6   | 368           | 432           |
| Current tax assets                                                    |      | 9             | 11            |
| Inventories                                                           | E8   | 91            | 481           |
| Assets held for sale                                                  | E9   | 31            | 12            |
| Investments in associates and joint ventures                          | E10  | 377           | 617           |
| Investment property                                                   | E11  | 1,505         | 1,507         |
| Property, plant and equipment                                         | E12  | 2,269         | 2,417         |
| Intangible assets                                                     | E13  | 1,935         | 2,157         |
| Deferred tax assets                                                   | E7.2 | 226           | 180           |
| Other assets                                                          | E14  | 271           | 235           |
| <b>TOTAL ASSETS</b>                                                   |      | <b>27,041</b> | <b>21,611</b> |
| <b>LIABILITIES</b>                                                    |      |               |               |
| Financial liabilities at fair value through profit or loss            | E2.2 | 411           | 299           |
| Due to non-banks                                                      | E15  | 8,373         | 6,756         |
| Due to banks and other financial institutions                         | E16  | 8,111         | 5,342         |
| Debt securities issued                                                | E17  | 1,237         | 1,056         |
| Subordinated liabilities                                              | E18  | 308           | 335           |
| Liabilities held for sale                                             | E9   | -             | 5             |
| Current tax liabilities                                               |      | 122           | 59            |
| Trade and other payables                                              | E20  | 1,094         | 1,436         |
| Provisions                                                            | E19  | 191           | 178           |
| Deferred tax liabilities                                              | E7.2 | 431           | 465           |
| <b>TOTAL LIABILITIES</b>                                              |      | <b>20,278</b> | <b>15,931</b> |
| <b>CONSOLIDATED EQUITY</b>                                            |      |               |               |
| Capital issued                                                        | E21  | 1             | 1             |
| Share premium                                                         |      | 677           | 677           |
| Other reserves                                                        | E22  | (448)         | (737)         |
| Retained earnings                                                     |      | 6,131         | 5,222         |
| Total equity attributable to owners of the Parent                     |      | 6,361         | 5,163         |
| Non-controlling interests                                             | E23  | 402           | 517           |
| <b>Total consolidated equity</b>                                      |      | <b>6,763</b>  | <b>5,680</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                   |      | <b>27,041</b> | <b>21,611</b> |

## Consolidated income statement

For the year ended 31 December

*In millions of EUR*

|                                                        | Note       | 2016           | 2015           |
|--------------------------------------------------------|------------|----------------|----------------|
| Interest income                                        |            | 2,323          | 2,081          |
| Interest expense                                       |            | (736)          | (786)          |
| <b>Net interest income</b>                             | <b>E24</b> | <b>1,587</b>   | <b>1,295</b>   |
| Fee and commission income                              |            | 522            | 421            |
| Fee and commission expense                             |            | (104)          | (110)          |
| <b>Net fee and commission income</b>                   | <b>E25</b> | <b>418</b>     | <b>311</b>     |
| Net gain on financial assets                           | E26        | (16)           | 34             |
| Net impairment losses on financial assets              | E27        | (573)          | (758)          |
| <b>Other banking result</b>                            |            | <b>(589)</b>   | <b>(724)</b>   |
| <b>NET BANKING INCOME</b>                              |            | <b>1,416</b>   | <b>882</b>     |
| Net earned premiums                                    |            | 99             | 147            |
| Net insurance benefits and claims                      |            | (27)           | (32)           |
| Acquisition costs                                      |            | (32)           | (60)           |
| <b>NET INSURANCE INCOME</b>                            | <b>E28</b> | <b>40</b>      | <b>55</b>      |
| Net rental and related income                          | E29        | 137            | 147            |
| Property operating expenses                            |            | (31)           | (46)           |
| Net valuation gain/(loss) on investment property       | E11        | (45)           | 16             |
| Net income related to construction contracts           |            | 5              | 2              |
| Profit on disposal of investment property              |            | -              | 27             |
| <b>NET REAL ESTATE INCOME</b>                          |            | <b>66</b>      | <b>146</b>     |
| Sales of goods                                         |            | 2              | 2              |
| Cost of goods sold                                     |            | (1)            | (1)            |
| <b>NET INCOME ON RETAIL OPERATIONS</b>                 |            | <b>1</b>       | <b>1</b>       |
| Telecommunication income                               |            | 1,742          | 1,670          |
| Telecommunication expenses                             |            | (644)          | (583)          |
| <b>NET TELECOMMUNICATION INCOME</b>                    | <b>E30</b> | <b>1,098</b>   | <b>1,087</b>   |
| Net agriculture income                                 | E31        | 7              | 7              |
| Other income                                           | E32        | 246            | 60             |
| <b>OTHER OPERATING INCOME</b>                          |            | <b>253</b>     | <b>67</b>      |
| General administrative expenses                        | E33        | (1,598)        | (1,369)        |
| Other operating expenses                               | E34        | (502)          | (624)          |
| <b>OPERATING EXPENSES</b>                              |            | <b>(2,100)</b> | <b>(1,993)</b> |
| Net gain from sale of subsidiaries and associates      |            | 62             | 103            |
| Share of earnings of associates/joint ventures         | E10        | 491            | 93             |
| <b>PROFIT BEFORE TAX</b>                               |            | <b>1,327</b>   | <b>441</b>     |
| Income tax expense                                     | E7.1       | (213)          | (133)          |
| <b>NET PROFIT FROM CONTINUING OPERATIONS</b>           |            | <b>1,114</b>   | <b>308</b>     |
| Profit from discontinued operations                    | E35        | 1              | 44             |
| <b>NET PROFIT FOR THE PERIOD</b>                       |            | <b>1,115</b>   | <b>352</b>     |
| Net profit attributable to non-controlling interests   | E23        | 84             | 37             |
| <b>NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT</b> |            | <b>1,031</b>   | <b>315</b>     |

## Consolidated statement of comprehensive income

For the year ended 31 December

*In millions of EUR*

|                                                                            | 2016         | 2015        |
|----------------------------------------------------------------------------|--------------|-------------|
| <b>NET PROFIT FOR THE PERIOD</b>                                           | <b>1,115</b> | <b>352</b>  |
| <b>Other comprehensive income*</b>                                         |              |             |
| Valuation gains/(losses) on available-for-sale financial assets            | (41)         | 19          |
| AFS revaluation gains/(losses) transferred to income statement             | (12)         | 7           |
| Currency translation differences                                           | 336          | (156)       |
| Effect of movement in equity of associates                                 | -            | 38          |
| Disposal of associates                                                     | -            | 23          |
| Cash flow hedge - effective portion of changes in fair value               | -            | (19)        |
| Cash flow hedge - net amount transferred to profit or loss                 | -            | 8           |
| Income tax relating to components of other comprehensive income            | (2)          | (3)         |
| <b>Other comprehensive income/(loss) for the period (net of tax)</b>       | <b>281</b>   | <b>(83)</b> |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>                           | <b>1,396</b> | <b>269</b>  |
| Total comprehensive income attributable to non-controlling interests       | 97           | 38          |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT</b> | <b>1,299</b> | <b>231</b>  |

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

The consolidated financial statements were approved by the Board of Directors on 26 May 2017.

## Consolidated statement of changes in equity

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

|                                                           | Capital<br>issued | Share<br>premium | Available-<br>for-sale<br>reserve | Legal and<br>statutory<br>reserves | Translation<br>reserve | Hedging<br>reserve | Retained<br>earnings | Attributable<br>to owners of<br>the Parent | Attributable to<br>non-<br>controlling<br>interests | Total        |
|-----------------------------------------------------------|-------------------|------------------|-----------------------------------|------------------------------------|------------------------|--------------------|----------------------|--------------------------------------------|-----------------------------------------------------|--------------|
| <b>Balance at 1 January 2016</b>                          | <b>1</b>          | <b>677</b>       | <b>15</b>                         | <b>44</b>                          | <b>(794)</b>           | <b>(2)</b>         | <b>5,222</b>         | <b>5,163</b>                               | <b>517</b>                                          | <b>5,680</b> |
| 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)          |
| <b>Total comprehensive income</b>                         | <b>-</b>          | <b>-</b>         | <b>(55)</b>                       | <b>-</b>                           | <b>321</b>             | <b>2</b>           | <b>1,031</b>         | <b>1,299</b>                               | <b>97</b>                                           | <b>1,396</b> |
| 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)        |
| <b>Total transactions with owners of the Company</b>      | <b>-</b>          | <b>-</b>         | <b>-</b>                          | <b>21</b>                          | <b>-</b>               | <b>-</b>           | <b>(122)</b>         | <b>(101)</b>                               | <b>(212)</b>                                        | <b>(313)</b> |
| <b>Balance at 31 December 2016</b>                        | <b>1</b>          | <b>677</b>       | <b>(40)</b>                       | <b>65</b>                          | <b>(473)</b>           | <b>-</b>           | <b>6,131</b>         | <b>6,361</b>                               | <b>402</b>                                          | <b>6,763</b> |

## Consolidated statement of changes in equity

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

|                                                           | Capital<br>issued | Share<br>premium | Available-<br>for-sale<br>reserve | Legal and<br>statutory<br>reserves | Translation<br>reserve | Treasury<br>share<br>reserve | Hedging<br>reserve | Retained<br>earnings | Attributable<br>to owners<br>of the<br>Parent | Attributable<br>to non-<br>controlling<br>interests | Total        |
|-----------------------------------------------------------|-------------------|------------------|-----------------------------------|------------------------------------|------------------------|------------------------------|--------------------|----------------------|-----------------------------------------------|-----------------------------------------------------|--------------|
| <b>Balance at 1 January 2015</b>                          | <b>1</b>          | <b>677</b>       | <b>21</b>                         | <b>28</b>                          | <b>(704)</b>           | <b>(567)</b>                 | <b>6</b>           | <b>5,417</b>         | <b>4,879</b>                                  | <b>815</b>                                          | <b>5,694</b> |
| Profit for the period                                     | -                 | -                | -                                 | -                                  | -                      | -                            | -                  | 315                  | 315                                           | 37                                                  | 352          |
| Currency translation differences                          | -                 | -                | -                                 | -                                  | (158)                  | -                            | 1                  | -                    | (157)                                         | 1                                                   | (156)        |
| Valuation gains taken to equity for AFS                   | -                 | -                | 19                                | -                                  | -                      | -                            | -                  | -                    | 19                                            | -                                                   | 19           |
| AFS revaluation gains transferred to income statement     | -                 | -                | 7                                 | -                                  | -                      | -                            | -                  | -                    | 7                                             | -                                                   | 7            |
| Effect of hedge accounting                                | -                 | -                | -                                 | -                                  | -                      | -                            | (11)               | -                    | (11)                                          | -                                                   | (11)         |
| Effect of movement in equity of associates                | -                 | -                | -                                 | -                                  | -                      | -                            | -                  | 38                   | 38                                            | -                                                   | 38           |
| Disposal of associates                                    | -                 | -                | (27)                              | -                                  | 50                     | -                            | -                  | -                    | 23                                            | -                                                   | 23           |
| Tax on items taken directly to or transferred from equity | -                 | -                | (5)                               | -                                  | -                      | -                            | 2                  | -                    | (3)                                           | -                                                   | (3)          |
| <b>Total comprehensive income</b>                         | <b>-</b>          | <b>-</b>         | <b>(6)</b>                        | <b>-</b>                           | <b>(108)</b>           | <b>-</b>                     | <b>(8)</b>         | <b>353</b>           | <b>231</b>                                    | <b>38</b>                                           | <b>269</b>   |
| Net allocation to legal and statutory reserves            | -                 | -                | -                                 | 16                                 | -                      | -                            | -                  | (16)                 | -                                             | -                                                   | -            |
| Acquisition of NCI in HCBV and Air Bank                   | -                 | -                | -                                 | -                                  | -                      | -                            | -                  | (49)                 | (49)                                          | (29)                                                | (78)         |
| Sale of NCI in Eldorado                                   | -                 | -                | -                                 | -                                  | 18                     | -                            | -                  | 59                   | 77                                            | 21                                                  | 98           |
| Dividends paid to NCI                                     | -                 | -                | -                                 | -                                  | -                      | -                            | -                  | -                    | -                                             | (36)                                                | (36)         |
| Other changes in NCI                                      | -                 | -                | -                                 | -                                  | -                      | -                            | -                  | 25                   | 25                                            | (292)                                               | (267)        |
| Cancellation of treasury shares                           | -                 | -                | -                                 | -                                  | -                      | 567                          | -                  | (567)                | -                                             | -                                                   | -            |
| <b>Total transactions with owners of the Company</b>      | <b>-</b>          | <b>-</b>         | <b>-</b>                          | <b>16</b>                          | <b>18</b>              | <b>567</b>                   | <b>-</b>           | <b>(548)</b>         | <b>53</b>                                     | <b>(336)</b>                                        | <b>(283)</b> |
| <b>Balance at 31 December 2015</b>                        | <b>1</b>          | <b>677</b>       | <b>15</b>                         | <b>44</b>                          | <b>(794)</b>           | <b>-</b>                     | <b>(2)</b>         | <b>5,222</b>         | <b>5,163</b>                                  | <b>517</b>                                          | <b>5,680</b> |

## Consolidated statement of cash flows

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

*In millions of EUR*

|                                                                                 | 2016           | 2015       |
|---------------------------------------------------------------------------------|----------------|------------|
| <b>Cash flows from operating activities</b>                                     |                |            |
| Profit before tax (including discontinued operations)                           | 1,325          | 496        |
| Adjustments for:                                                                |                |            |
| Depreciation and amortisation                                                   | 450            | 484        |
| Impairment losses on goodwill                                                   | 3              | -          |
| Impairment and reversal of impairment of current and non-current assets         | 637            | 754        |
| Profit/loss on disposal of PPE, intangible assets and investment property       | 5              | (18)       |
| Profit/loss on sale of investment securities                                    | 79             | 48         |
| Gains on disposal of consolidated subsidiaries and associates                   | (62)           | (104)      |
| Interest expense                                                                | 737            | 802        |
| Interest income                                                                 | (2,337)        | (2,083)    |
| Other income/expenses not involving movements of cash                           | (248)          | (865)      |
| Gain on bargain purchase of joint ventures                                      | (254)          | -          |
| Interest received                                                               | 2,381          | 2,102      |
| Change in loans and receivables due from banks and other financial institutions | (335)          | 148        |
| Change in loans due from customers                                              | (4,839)        | (820)      |
| Change in trade and other receivables                                           | (16)           | (77)       |
| Change in other assets                                                          | (239)          | (93)       |
| Change in liabilities due to non-banks                                          | 1,184          | 478        |
| Change in trade and other payables                                              | 335            | (329)      |
| Income tax paid                                                                 | (202)          | (182)      |
| <b>Net cash from/(used in) operating activities</b>                             | <b>(1,396)</b> | <b>741</b> |
| <b>Cash flows from investing activities</b>                                     |                |            |
| Dividends received                                                              | 16             | 53         |
| Purchase of tangible assets and intangible assets                               | (486)          | (404)      |
| Purchase of financial assets at FVTPL                                           | (439)          | (19,085)   |
| Proceeds from financial assets at FVTPL                                         | 667            | 19,018     |
| Proceeds from sale of financial assets at FVTPL not held for trading            | -              | 22         |
| Purchase of financial assets at FVTPL not held for trading                      | (22)           | -          |
| Purchase of financial assets held to maturity                                   | (5)            | (6)        |
| Purchase of financial assets available for sale                                 | (1,633)        | (2,226)    |
| Purchase of investment property                                                 | (33)           | (54)       |
| Acquisition of subsidiaries and associates, net of cash acquired                | (330)          | (126)      |
| Proceeds from disposals of PPE and intangible assets                            | 168            | 16         |
| Proceeds from financial assets held to maturity                                 | 9              | 18         |
| Proceeds from sale of financial assets available for sale                       | 1,733          | 1,942      |
| Proceeds from sale of investment property                                       | 3              | 98         |
| Proceeds from disposal of subsidiaries and associates, net of cash disposed     | 783            | 1,359      |
| <b>Net cash from/(used in) investing activities</b>                             | <b>431</b>     | <b>625</b> |

**PPF Group N.V.***Notes to the consolidated financial statements for the year ended 31 December 2016*

|                                                                   | 2016         | 2015         |
|-------------------------------------------------------------------|--------------|--------------|
| <b>Cash flows from financing activities</b>                       |              |              |
| Proceeds from the issue of debt securities                        | 1,148        | 1,258        |
| Proceeds from loans due to banks and other financial institutions | 12,969       | 18,414       |
| Repayment of debt securities                                      | (979)        | (1,432)      |
| Repayment of loans due to banks and other financial institutions  | (9,950)      | (18,037)     |
| Interest paid                                                     | (780)        | (902)        |
| Dividends paid to non-controlling interests                       | (29)         | (36)         |
| <b>Cash flow from/(used in) financing activities</b>              | <b>2,379</b> | <b>(735)</b> |
| <b>Net increase in cash and cash equivalents</b>                  | <b>1,414</b> | <b>631</b>   |
| <b>Cash and cash equivalents as at 1 January</b>                  | <b>2,732</b> | <b>2,148</b> |
| Effect of exchange rate movements on cash and cash equivalents    | 243          | (47)         |
| <b>Cash and cash equivalents as at 31 December</b>                | <b>4,389</b> | <b>2,732</b> |

Cash flow lines directly attributable to the income statement comprise both continuing and discontinued operations.

In 2016, the Group changed the presentation of interest received from investment to operating activities. The comparative figures have been restated accordingly.



# **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 2016 comprise the Parent Company and its subsidiaries (together referred to as “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 2016 and 2015, please refer to Section B of these consolidated financial statements.

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

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

Petr Kellner - 98.92% (directly and indirectly)

Ladislav Bartoniček - 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 Netherlands 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, which are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments designated upon initial recognition as financial instruments at fair value through profit or loss, financial

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

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

#### **A.4. Use of judgements and estimates**

In preparing these consolidated 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:

- initial value of goodwill for each business combination (refer to B);
- the fair value of tangible and intangible assets identified during the purchase price allocation exercise (refer to B);
- 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 that have the most significant effects on the amounts recognised in the consolidated financial statements are described as follows:

##### Classification of investment in Polymetal Plc. as an associate/an asset available for sale

Since 2014, the investment in Polymetal has decreased below 20%, mainly due to capital increases in which the Group did not participate. The Group continuously assessed the significant qualitative features of the ability to apply significant control such as representation on the board of directors and concentration of other shareholders. Based on this assessment, the Group retained the initial classification of Polymetal as an investment in associate. During 2016, the Group steadily decreased its stake in Polymetal which culminated in the sale of a 3% stake in September, after which the Group held a 12.92% share in Polymetal. At that moment the Group reassessed and changed the classification to available-for-sale asset.

##### Classification of retail business as discontinued operations

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 consolidated financial statements as discontinued operations. The 2015 consolidated income statement was restated accordingly. Refer to E.35 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.

**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.

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. 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 2016 and 2015.

| Company                                                                              | Domicile       | Effective proportion of ownership interest 2016 | Effective proportion of ownership interest 2015 |
|--------------------------------------------------------------------------------------|----------------|-------------------------------------------------|-------------------------------------------------|
| PPF Group N.V.                                                                       | Netherlands    | Parent Company                                  | Parent Company                                  |
| <i>Home Credit subgroup - subsidiaries</i>                                           |                |                                                 |                                                 |
| Home Credit B.V.                                                                     | Netherlands    | 88.62%                                          | 88.62%                                          |
| AB 2 B.V.                                                                            | Netherlands    | 88.62%                                          | 88.62%                                          |
| AB 4 B.V.                                                                            | Netherlands    | 88.62%                                          | 88.62%                                          |
| AB 7 B.V.                                                                            | Netherlands    | 88.62%                                          | 88.62%                                          |
| Air Bank a.s.                                                                        | Czech Republic | 88.62%                                          | 88.62%                                          |
| Asnova Insurance CJSIC ( <i>renamed</i> )                                            | Belarus        | 88.62%                                          | 88.62%                                          |
| Bank Home Credit SB JSC                                                              | Kazakhstan     | 88.62%                                          | 88.62%                                          |
| CF Commercial Consulting (Beijing) Co., Ltd.                                         | China          | 88.62%                                          | 88.62%                                          |
| Favour Ocean Ltd.                                                                    | Hong Kong      | 88.62%                                          | 88.62%                                          |
| Guangdong Home Credit Number Two Information Consulting Co., Ltd. ( <i>renamed</i> ) | China          | 88.62%                                          | 88.62%                                          |
| HC Consumer Finance Philippines, Inc.                                                | Philippines    | 87.99%                                          | 87.32%                                          |
| Home Credit a.s.                                                                     | Czech Republic | 88.62%                                          | 88.62%                                          |
| Home Credit and Finance Bank LLC                                                     | Russia         | 88.62%                                          | 88.62%                                          |
| Home Credit Asia Ltd.                                                                | Hong Kong      | 88.62%                                          | 88.62%                                          |
| Home Credit Consumer Finance China Ltd.                                              | China          | 88.62%                                          | 88.62%                                          |
| 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 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 ( <i>renamed</i> )    | Belarus        | 88.62%                                          | 88.62%                                          |
| Shenzhen Home Credit Financial Service Co., Ltd.                                     | China          | 88.62%                                          | 88.62%                                          |
| Shenzhen Home Credit Number One Consulting Co., Ltd.                                 | China          | 88.62%                                          | 88.62%                                          |
| Sichuan Home Credit Financing Guarantee Co. Ltd.                                     | China          | 88.62%                                          | 88.62%                                          |
| Zonky, s. r. o.                                                                      | Czech Republic | 88.62%                                          | 88.62%                                          |
| AB 1 B.V. ( <i>merged with AB 2 B.V.</i> )                                           | Netherlands    | -                                               | 88.62%                                          |
| AB 3 B.V. ( <i>merged with AB 2 B.V.</i> )                                           | Netherlands    | -                                               | 88.62%                                          |
| AB 5 B.V. ( <i>merged with AB 4 B.V.</i> )                                           | Netherlands    | -                                               | 88.62%                                          |
| AB 6 B.V. ( <i>merged with AB 4 B.V.</i> )                                           | Netherlands    | -                                               | 88.62%                                          |
| <i>Other banking subgroup - subsidiaries</i>                                         |                |                                                 |                                                 |
| PPF banka, a.s.                                                                      | Czech Republic | 92.96%                                          | 92.96%                                          |
| Ruconfin B.V.                                                                        | Netherlands    | 92.96%                                          | 92.96%                                          |
| PPF Co3 B.V.*                                                                        | Netherlands    | 92.96%                                          | 100.00%                                         |
| <i>Real estate subgroup - subsidiaries</i>                                           |                |                                                 |                                                 |
| PPF Real Estate Holding B.V.                                                         | Netherlands    | 100.00%                                         | 100.00%                                         |

**PPF Group N.V.***Notes to the consolidated financial statements for the year ended 31 December 2016*

|                                                            |                |         |         |
|------------------------------------------------------------|----------------|---------|---------|
| Alrik Ventures Ltd.                                        | Cyprus         | 100.00% | 100.00% |
| Anthemona Ltd.                                             | Cyprus         | 100.00% | 100.00% |
| Areál Ďáblice s.r.o.                                       | Czech Republic | 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% |
| Celestial Holdings Group Ltd.                              | BVI            | 100.00% | 100.00% |
| Dadrin Ltd.                                                | Cyprus         | 100.00% | 100.00% |
| De Reling (Dronten) B.V.                                   | Netherlands    | 100.00% | 100.00% |
| Donskoe LLC                                                | Russia         | 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% |
| Intrust NN CJSC                                            | Russia         | 66.67%  | 66.67%  |
| Investitsionny Trust CJSC                                  | Russia         | 78.75%  | 75.24%  |
| ISK Klokovo LLC                                            | Russia         | 100.00% | 100.00% |
| Johan H (Amsterdam) B.V.                                   | Netherlands    | 100.00% | 100.00% |
| Karta Realty Ltd.                                          | Cayman Islands | 60.07%  | 60.07%  |
| Kateřinská Office Building s.r.o.                          | Czech Republic | 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% |
| 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% |
| Monchyplein (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% |
| RC Properties S.R.L.                                       | Romania        | 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% |
| Skolkovo Gate LLC                                          | Russian        | 100.00% | 100.00% |
| Slovak Trade Company, s.r.o.                               | Slovakia       | 57.50%  | 57.50%  |
| Spektr LLC                                                 | Russia         | 100.00% | 100.00% |
| Tanaina Holdings Ltd.                                      | Cyprus         | 100.00% | 100.00% |
| Telistan Ltd.                                              | Cyprus         | 99.90%  | 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% |
| BTC-Invest LLC                                             | Russia         | -       | 100.00% |
| City Tower a.s.                                            | Czech Republic | -       | 100.00% |
| In Vino LLC                                                | Russia         | -       | 99.90%  |
| In Vino Natukhaevskoe LLC                                  | Russia         | -       | 64.94%  |
| Office Star Five spol. s r. o.                             | Czech Republic | -       | 100.00% |
| Office Star Two spol. s r. o.                              | Czech Republic | -       | 100.00% |
| Vítězné náměstí a.s.                                       | Czech Republic | -       | 100.00% |
| <i>Real estate subgroup – associates</i>                   |                |         |         |
| Bohemia LLC                                                | Russia         | 35.00%  | 35.00%  |
| Flowermills Holding B.V.                                   | Netherlands    | 49.94%  | 49.94%  |

# PPF Group N.V.

## Notes to the consolidated financial statements for the year ended 31 December 2016

|                                                         |                |         |         |
|---------------------------------------------------------|----------------|---------|---------|
| Gilbey Ltd.                                             | Cyprus         | 40.00%  | 40.00%  |
| Komodor LLC                                             | Ukraine        | 40.00%  | 40.00%  |
| Marisana Enterprises Ltd.                               | Cyprus         | 49.94%  | 49.94%  |
| Moravia LLC                                             | Russia         | 35.00%  | 35.00%  |
| Sigurno Ltd.                                            | Cyprus         | 40.00%  | 40.00%  |
| 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. (renamed)                               | Czech Republic | 100.00% | 100.00% |
| CETIN Finance B.V.                                      | Netherlands    | 100.00% | -       |
| Česká telekomunikační infrastruktura a.s. ("CETIN")     | Czech Republic | 100.00% | 94.90%  |
| Facipero Investments Ltd.                               | Cyprus         | 100.00% | 80.00%  |
| Fodina B.V.                                             | Netherlands    | 100.00% | 100.00% |
| GEMCOL Ltd.                                             | Cyprus         | 100.00% | -       |
| Lindus Services Ltd.                                    | Cyprus         | 100.00% | 100.00% |
| Moranda a.s.                                            | Czech Republic | 100.00% | 100.00% |
| O2 Czech Republic a.s.**                                | Czech Republic | 85.40%  | 84.06%  |
| O2 IT Services s.r.o. (renamed)                         | Czech Republic | 85.40%  | 84.06%  |
| O2 Slovakia, s.r.o.                                     | Slovakia       | 85.40%  | 84.06%  |
| Oribase Pharma SAS                                      | France         | 52.32%  | 52.32%  |
| 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 Capital Partners Fund B.V.                          | Netherlands    | 96.00%  | 96.00%  |
| PPF Financial Holdings B.V.                             | Netherlands    | 100.00% | 100.00% |
| PPF Infrastructure B.V. (successor of PPF Arena 2 B.V.) | Netherlands    | 100.00% | -       |
| PPF Life Insurance LLC                                  | Russia         | 100.00% | 100.00% |
| PPF Telco B.V. (successor of PPF Arena 2 B.V.)          | Netherlands    | 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%  | 88.32%  |
| Sotio Medical Research (Beijing) Co., Ltd.              | China          | 96.00%  | 92.00%  |
| Sotio N.V.                                              | Netherlands    | 96.00%  | 92.00%  |
| Vox Ventures B.V.                                       | Netherlands    | 100.00% | -       |
| Bestsport Services, a.s.                                | Czech Republic | -       | 88.03%  |
| Eldorado Licensing Ltd.                                 | Cyprus         | -       | 80.00%  |
| Eldorado LLC                                            | Russia         | -       | 80.00%  |
| Invest-Realty LLC                                       | Russia         | -       | 80.00%  |
| PPF Arena 2 B.V.                                        | Netherlands    | -       | 100.00% |
| Rentol LLC                                              | Russia         | -       | 80.00%  |
| <i>Other significant associates/joint ventures</i>      |                |         |         |
| ClearBank Ltd.                                          | United Kingdom | 35.10%  | -       |
| The Culture Trip Ltd.                                   | United Kingdom | 43.69%  | -       |
| Cytune Pharma SAS                                       | France         | 22.96%  | 23.17%  |
| LEAG Holding a.s.                                       | Czech Republic | 50.00%  | -       |
| Lausitz Energie Verwaltungs GmbH***                     | Germany        | 50.00%  | -       |
| Polymetal International Plc****                         | Jersey         | -       | 17.86%  |

\* As of 31 December 2015 the entity was part of Other significant subsidiaries.

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

\*\*\* This joint venture comprises a group of entities.

\*\*\*\* This former associate comprises a group of entities and was reclassified to AFS asset in 2016.

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

| Place of business | Entity                                                                                         |
|-------------------|------------------------------------------------------------------------------------------------|
| Russia            | Anthemona 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 2016/2015**

### **B.2.1. Acquisition of minority stake in The Culture Trip**

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%.

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.2.2. Acquisition of minority stake in ClearBank**

Throughout 2016, the Group invested into a newly incorporated company in the UK, which was authorised to operate as a credit institution in December 2016 by the competent domestic authorities. The bank is jointly regulated by the Prudential Regulation Authority and the Financial Conduct Authority, and plans to focus on providing clearing and settlement services to non-retail customers as part of its core business model. As of 31 December 2016, the Group holds a 35% share, entailing an investment of MEUR 7.

### **B.2.3. New real estate projects (2016/2015)**

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.

In July 2015, the Group acquired a 49.99% stake in entities holding two up-and-running Moscow office buildings (the Metropolis project). The investment is classified as an associate.

The following table summarises the financial aspect of the transaction:

|                                    | RC Properties S.R.L. | Flowermills Holding B.V.,<br>Marisana Enterprises Ltd. |
|------------------------------------|----------------------|--------------------------------------------------------|
| Transaction date                   | October 2016         | July 2015                                              |
| Type of investment property        | office complex       | 2 office buildings                                     |
| Location                           | Romania              | Russia                                                 |
| Stake acquired                     | 100%                 | 49.99%*                                                |
| <i>In millions of EUR</i>          |                      |                                                        |
| Consideration                      | 5                    | 37                                                     |
| Fair value of assets acquired      | 48                   | 360                                                    |
| of which:                          |                      |                                                        |
| Investment property                | 43                   | 339                                                    |
| Fair value of liabilities acquired | (43)                 | (285)                                                  |

\*The Group's effective ownership is 49.94%.

#### **B.2.4. Sale of City Tower**

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.2.5. Sale of Eldorado**

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 Pemskey 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:

|                                                                          |       |
|--------------------------------------------------------------------------|-------|
| <i>In millions of EUR</i>                                                |       |
| 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     |

#### **B.2.6. Sale of a 20% share in Eldorado in 2015 and subsequent acquisition**

On 17 June 2015, the Group sold a 20% stake in Facipero Investments Ltd., the sole shareholder of Eldorado LLC, to Mr Šmejč's affiliate. The difference between the sale price and the net asset value attributable to non-controlling interests sold was recognised directly in equity.



The following table summarises the financial aspect of the transaction:

|                                                          |      |
|----------------------------------------------------------|------|
| Consideration                                            | 98   |
| Effective ownership sold                                 | 20%  |
| Net asset attributable to non-controlling interests sold | 21   |
| Currency translation reserve (attributable to NCI)       | (18) |
| Effect recorded in retained earnings (gain)              | 59   |

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.2.7. Acquisition of LEAG**

In 2016, the Group became the 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 (refer to E.10).

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 (“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 fair values of identified assets and liabilities over the purchase price resulted in the recognition of gain on a bargain purchase.

## **PPF Group N.V.**

### *Notes to the consolidated financial statements for the year ended 31 December 2016*

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*

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

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 is 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. Gain on a bargain purchase is presented in the consolidated income statement under Share of earnings of associates/joint ventures.

## **B.2.8. O2 Czech Republic/CETIN – telecommunication business**

### *B.2.8.1. Business restructuring in 2015*

On 28 April 2015, the Annual General Meeting of O2 Czech Republic approved the company's demerger into O2 Czech Republic a.s. ("O2 CR") and Česká telekomunikační infrastruktura, a.s. ("CETIN"). The infrastructure part of the current business, including both fixed and mobile networks, was spun-off to CETIN, while O2 CR remained a publicly listed operator providing voice, data and TV services. Having been approved by the court of registration, the demerger took effect as at 1 June 2015. The main business purpose of this step was to separate the telecommunication operator from the regulated infrastructure provider, which can then also offer its services to other clients on the market in a more efficient way. Since the demerger, O2 CR and CETIN have acted as two independent business partners with no benefits accruing from PPF Group's common control. The Group also ceased to apply its active shareholder role in O2 CR and considers its position to be that of a financial investor not interfering in the running of the company. Nevertheless, this has not curbed the Group's ability to control O2 CR, hence O2 CR is still fully consolidated in accordance with IFRS requirements.

The restructuring process has no impact on the Group's consolidated financial statements. As the whole telecommunication business was acquired in January 2014, the fair values of acquired assets and assumed liabilities were allocated to the respective entities and no revaluation was performed.

## **PPF Group N.V.**

### *Notes to the consolidated financial statements for the year ended 31 December 2016*

#### **B.2.8.2. Increase in shareholding after the spin-off in 2015**

Since 1 June 2015, the Group has made several acquisition and sale transactions, on aggregate selling 2.1 million shares in O2 CR, which resulted in a net decrease of 0.67% in voting rights in O2 CR, and purchasing 31.5 million shares in CETIN, equal to 10.17% of voting rights in CETIN. The O2 CR shares were sold to increase the free float and support their market liquidity on the Prague Stock Exchange, which is in line with the Group strategy described above.

The following tables summarise the financial aspects of the transactions described above:

#### *In millions of EUR*

|                                                                |        |
|----------------------------------------------------------------|--------|
| Total net consideration received                               | 58     |
| Net effective ownership in O2 CR decreased                     | 0.67%  |
| Net asset value attributable to non-controlling interests sold | 6      |
| Effect recorded in retained earnings (gain)                    | 52     |
| Total consideration (paid in cash)                             | 205    |
| Effective ownership acquired in CETIN                          | 10.17% |
| Net asset attributable to non-controlling interests acquired   | (171)  |
| Effect recorded in retained earnings (decrease)                | (34)   |

#### **B.2.8.3. 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 a 2% share in Home Credit and Air Bank (in 2015)**

On 17 June 2015, the Group acquired a 2% stake in Home Credit B.V. and Air Bank a.s. from former PPF Group shareholder Mr Šmejč's affiliate. The Group increased its shareholding in both companies from 86.62 to 88.62%. The difference between the purchase price and the net asset value attributable to non-controlling interests acquired was recognised directly in equity.

The following tables summarise the financial aspect of the transaction:

#### *In millions of EUR*

|                                                              |      |
|--------------------------------------------------------------|------|
| Consideration                                                | 74   |
| Effective ownership acquired in Home Credit                  | 2%   |
| Net asset attributable to non-controlling interests acquired | 25   |
| Effect recorded in retained earnings (decrease)              | (49) |
| Consideration                                                | 4    |
| Effective ownership acquired in Air Bank                     | 2%   |
| Net asset attributable to non-controlling interests acquired | 4    |
| Effect recorded in retained earnings                         | -    |

**B.2.10. Sale of Generali PPF Holding in 2015**

On 8 January 2013, the Group, acting through its subsidiary PPF Co1 B.V., signed an agreement with Assicurazioni Generali for the future sale of its 49% stake in Generali PPF Holding B.V. ("GPH") through two partial disposals. On 28 March 2013, Assicurazioni Generali acquired a 25% shareholding in GPH, then held by the Group. At the same moment the Group repaid a 51% portion of the Calyon facility (a syndicated bank loan facility of MEUR 2,099 obtained in January 2008) in an amount of MEUR 1,071 and redeemed MEUR 192 of a MEUR 400 bond issued in November 2009.

On 16 January 2015, the Group sold its residual 24% shareholding in Generali PPF Holding B.V. for consideration of MEUR 1,246. At the same moment the outstanding amount of the Calyon facility (MEUR 1,028) and the bond notes (MEUR 208) were repaid. During 2015 (in January and June), the Group received dividend payments of MEUR 18, which are included in the net profit from the sale. The impact of the transaction on the 2015 income statement is the following:

*In millions of EUR*

|                                                                     |       |
|---------------------------------------------------------------------|-------|
| Consideration                                                       | 1,246 |
| Carrying value of GPH stake as of 31 December 2014                  | 1,144 |
| Dividend received during 2015                                       | (18)  |
| Carrying value of GPH stake at disposal                             | 1,126 |
| AFS reserve (reclassified to the income statement)                  | 27    |
| Currency translation reserve (reclassified to the income statement) | (50)  |
| Net profit from the sale                                            | 97    |

**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. As at 31 December 2016, it acquired a total of 4.9 million treasury shares for the total acquisition price of MEUR 43. The acquisition of treasury shares resulted in an increase of the Group's effective ownership to 85.4%.

**B.3.2. Sale of Polymetal shares and change in classification of the remaining stake**

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 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    |

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### **B.3.3. Change in shareholding structure of Air Bank (in 2015)**

On 30 June 2015, the Group and Mr Šmejč's affiliate (as the non-controlling shareholder) contributed their Air Bank shares to Home Credit B.V. Home Credit B.V. became the sole direct shareholder of Air Bank a.s. whereas the effective ownership of both ultimate shareholders did not change (88.62%/11.38%). The transaction has no impact on the Group's consolidated financial statements.

## **C. Risk exposures, risk management objectives and procedures**

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

The Home Credit subgroup, as the most significant part of the Group's financial operations, has established an Asset Liability Committee (ALCO) and a Group Risk Management Department, which are responsible for developing and monitoring risk management policies in their specified areas. A similar structure is used by other Group banks – PPF banka a.s. and Air Bank a.s. O2 CR has its own separate unit called the 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 changes in the products and services offered. Through its training and management standards and procedures, the Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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 are determined by the controlling shareholder(s) and/or other major shareholders. The Group regularly monitors and analyses the situation at said associates 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 retail banking (Air Bank), 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.

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



Credit underwriting process

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

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

Fraud prevention

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

General loan collection

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

Pre-collection measures

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

Early collection

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

Administrative and personal collection

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

Late collection

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

Legal collection, debt sale

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

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

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

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

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

**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 a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

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

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

Concentration of credit risks (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 that exceeds 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 was not exceeded in relation to individual debtors and to related parties.

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

**PPF Group N.V.***Notes to the consolidated financial statements for the year ended 31 December 2016*

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

*In millions of EUR, as at 31 December*

|                                                                       | 2016          | 2016           | 2015          | 2015           |
|-----------------------------------------------------------------------|---------------|----------------|---------------|----------------|
| <b><u>Economic concentration</u></b>                                  |               |                |               |                |
| Households/individuals                                                | 10,417        | 64.48%         | 6,522         | 53.91%         |
| Financial services                                                    | 1,665         | 10.31%         | 1,485         | 12.27%         |
| Public sector                                                         | 2,149         | 13.30%         | 2,116         | 17.49%         |
| Corporate sector                                                      | 1,659         | 10.27%         | 1,577         | 13.03%         |
| Construction and real estate                                          | 235           | 1.45%          | 287           | 2.37%          |
| Other                                                                 | 31            | 0.19%          | 112           | 0.93%          |
| <b>Total</b>                                                          | <b>16,156</b> | <b>100.00%</b> | <b>12,099</b> | <b>100.00%</b> |
| <b><u>Geographic concentration</u></b>                                |               |                |               |                |
| China                                                                 | 5,371         | 33.24%         | 2,320         | 19.18%         |
| Czech Republic                                                        | 4,143         | 25.64%         | 3,848         | 31.81%         |
| Russia                                                                | 3,382         | 20.93%         | 3,130         | 25.87%         |
| Slovak Republic                                                       | 501           | 3.10%          | 745           | 6.16%          |
| Kazakhstan                                                            | 372           | 2.30%          | 280           | 2.31%          |
| Cyprus                                                                | 449           | 2.78%          | 413           | 3.41%          |
| Vietnam                                                               | 476           | 2.95%          | 286           | 2.36%          |
| Netherlands                                                           | 224           | 1.39%          | 109           | 0.90%          |
| Other EU countries                                                    | 594           | 3.68%          | 590           | 4.88%          |
| Other                                                                 | 644           | 3.99%          | 378           | 3.12%          |
| <b>Total</b>                                                          | <b>16,156</b> | <b>100.00%</b> | <b>12,099</b> | <b>100.00%</b> |
| Of which:                                                             |               |                |               |                |
| Investment securities (except for equity securities)                  | 2,762         | 17.09%         | 2,964         | 24.50%         |
| Positive fair value of hedging derivatives                            | -             | -              | 96            | 0.79%          |
| Loans and receivables due from banks and other financial institutions | 840           | 5.20%          | 549           | 4.54%          |
| Loans due from customers                                              | 11,337        | 70.17%         | 7,153         | 59.12%         |
| Trade and other receivables                                           | 368           | 2.28%          | 432           | 3.57%          |
| Loan commitments and guarantees                                       | 849           | 5.26%          | 905           | 7.48%          |

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.38.1) and financial assets, except equity securities.

# PPF Group N.V.

## Notes to the consolidated financial statements for the year ended 31 December 2016

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

*In millions of EUR, as at 31 December*

|                              | Loans due from customers |              | Trade and other receivables |            |
|------------------------------|--------------------------|--------------|-----------------------------|------------|
|                              | 2016                     | 2015         | 2016                        | 2015       |
| <b>Individually impaired</b> |                          |              |                             |            |
| Gross amount                 | 188                      | 268          | 58                          | 58         |
| Allowance for impairment     | (83)                     | (79)         | (37)                        | (25)       |
| <b>Carrying amount</b>       | <b>105</b>               | <b>189</b>   | <b>21</b>                   | <b>33</b>  |
| <b>Collectively impaired</b> |                          |              |                             |            |
| Current                      | 9,427                    | 5,597        | -                           | -          |
| 1-90 days past due           | 487                      | 389          | -                           | -          |
| 91-365 past due              | 505                      | 555          | -                           | -          |
| >365 past due                | 145                      | 128          | -                           | -          |
| Gross amount                 | 10,564                   | 6,669        | -                           | -          |
| Allowance for impairment     | (847)                    | (788)        | -                           | -          |
| <b>Carrying amount</b>       | <b>9,717</b>             | <b>5,881</b> | <b>-</b>                    | <b>-</b>   |
| <b>Unimpaired</b>            |                          |              |                             |            |
| Current                      | 1,498                    | 1,070        | 313                         | 371        |
| 1-90 days past due           | 15                       | 13           | 24                          | 25         |
| 91-365 past due              | 2                        | -            | 10                          | 3          |
| <b>Carrying amount</b>       | <b>1,515</b>             | <b>1,083</b> | <b>347</b>                  | <b>399</b> |
| <b>Total carrying amount</b> | <b>11,337</b>            | <b>7,153</b> | <b>368</b>                  | <b>432</b> |

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

All these transactions are conducted at arm's length.

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

*In millions of EUR, as at 31 December*

|                                        | Loans and receivables due from banks |            | Loans and receivables due from customers |            |
|----------------------------------------|--------------------------------------|------------|------------------------------------------|------------|
|                                        | 2016                                 | 2015       | 2016                                     | 2015       |
| Against individually impaired          | -                                    | -          | 13                                       | 93         |
| Property                               | -                                    | -          | 10                                       | 81         |
| Debt securities                        | -                                    | -          | -                                        | 5          |
| Deposits with banks                    | -                                    | -          | 2                                        | 2          |
| Other                                  | -                                    | -          | 1                                        | 5          |
| Against collectively impaired          | -                                    | -          | 461                                      | 314        |
| Property                               | -                                    | -          | 442                                      | 314        |
| Equity securities                      | -                                    | -          | 19                                       | -          |
| Against neither past due nor impaired  | 431                                  | 161        | 753                                      | 446        |
| Securities received under reverse repo | 431                                  | 161        | 84                                       | 38         |
| Property                               | -                                    | -          | 283                                      | 108        |
| Debt securities                        | -                                    | -          | 22                                       | 21         |
| Equity securities                      | -                                    | -          | 332                                      | 262        |
| Deposits with banks                    | -                                    | -          | 14                                       | 6          |
| Other                                  | -                                    | -          | 18                                       | 11         |
| <b>Total collateral received</b>       | <b>431</b>                           | <b>161</b> | <b>1,227</b>                             | <b>853</b> |

The total value of assets held as collateral is MEUR 1,745 (2015: MEUR 1,011; refer to E.38.3) and consists of the collateral stated above (2016: MEUR 1,658; 2015: MEUR 1,014) less securities received under reverse repos that were repledged or sold (2016: nil; 2015: MEUR 68), plus collateral received for the guarantees provided (2016: MEUR 87; 2015: MEUR 65).

No collateral is held for trade and other receivables.

### **C.3. Liquidity risk**

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

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

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

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

The following tables show exposure to liquidity risk:

*In millions of EUR, as at 31 December 2016*

|                                                                          | Less than<br>3 months | Between<br>3 months<br>and 1 year | Between<br>1 and 5<br>years | More than<br>5 years | Non-<br>specified | Total         |
|--------------------------------------------------------------------------|-----------------------|-----------------------------------|-----------------------------|----------------------|-------------------|---------------|
| Cash and cash equivalents                                                | 4,389                 | -                                 | -                           | -                    | -                 | 4,389         |
| 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<br>banks and other financial institutions | 727                   | 56                                | 29                          | -                    | 28                | 840           |
| Loans due from customers                                                 | 2,938                 | 3,860                             | 4,089                       | 412                  | 38                | 11,337        |
| Trade and other receivables                                              | 315                   | 48                                | 5                           | -                    | -                 | 368           |
| <b>Total financial assets</b>                                            | <b>8,484</b>          | <b>4,474</b>                      | <b>4,747</b>                | <b>1,924</b>         | <b>698</b>        | <b>20,327</b> |

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## Notes to the consolidated financial statements for the year ended 31 December 2016

*In millions of EUR, as at 31 December 2016*

|                                               | Less than<br>3 months | Between<br>3 months<br>and 1 year | Between<br>1 and 5<br>years | More than<br>5 years | Non-<br>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         |
| <b>Total financial liabilities</b>            | <b>7,844</b>          | <b>6,335</b>                      | <b>4,589</b>                | <b>720</b>           | <b>46</b>         | <b>19,534</b> |

|                                    |            |                |            |              |            |            |
|------------------------------------|------------|----------------|------------|--------------|------------|------------|
| <b>Net liquidity position 2016</b> | <b>640</b> | <b>(1,861)</b> | <b>158</b> | <b>1,204</b> | <b>652</b> | <b>793</b> |
|------------------------------------|------------|----------------|------------|--------------|------------|------------|

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

*In millions of EUR, as at 31 December 2015*

|                                                                       | Less than<br>3 months | Between<br>3 months<br>and 1 year | Between<br>1 and 5<br>years | More than<br>5 years | Non-<br>specified | Total         |
|-----------------------------------------------------------------------|-----------------------|-----------------------------------|-----------------------------|----------------------|-------------------|---------------|
| Cash and cash equivalents                                             | 2,732                 | -                                 | -                           | -                    | -                 | 2,732         |
| Investment securities                                                 | 139                   | 406                               | 951                         | 1,467                | 69                | 3,032         |
| Financial assets at FVTPL                                             | 17                    | 78                                | 368                         | 264                  | 12                | 739           |
| Financial assets AFS                                                  | 116                   | 328                               | 583                         | 1,203                | 57                | 2,287         |
| Financial assets HTM                                                  | 6                     | -                                 | -                           | -                    | -                 | 6             |
| Positive FV of hedging derivatives                                    | 96                    | -                                 | -                           | -                    | -                 | 96            |
| Loans and receivables due from banks and other financial institutions | 357                   | 115                               | -                           | 12                   | 65                | 549           |
| Loans due from customers                                              | 3,047                 | 1,783                             | 2,022                       | 301                  | -                 | 7,153         |
| Trade and other receivables                                           | 373                   | 40                                | 2                           | -                    | 17                | 432           |
| <b>Total financial assets</b>                                         | <b>6,744</b>          | <b>2,344</b>                      | <b>2,975</b>                | <b>1,780</b>         | <b>151</b>        | <b>13,994</b> |

*In millions of EUR, as at 31 December 2015*

|                                               | Less than<br>3 months | Between<br>3 months<br>and 1 year | Between<br>1 and 5<br>years | More than<br>5 years | Non-<br>specified | Total         |
|-----------------------------------------------|-----------------------|-----------------------------------|-----------------------------|----------------------|-------------------|---------------|
| Financial liabilities at FVTPL                | 7                     | 6                                 | 17                          | 260                  | 9                 | 299           |
| Due to non-banks                              | 5,261                 | 1,086                             | 409                         | -                    | -                 | 6,756         |
| Due to banks and other financial institutions | 1,014                 | 1,038                             | 2,101                       | 1,189                | -                 | 5,342         |
| Debt securities issued                        | 227                   | 711                               | 118                         | -                    | -                 | 1,056         |
| Subordinated liabilities                      | -                     | 8                                 | 275                         | 52                   | -                 | 335           |
| Trade and other payables                      | 1,132                 | 219                               | 29                          | 26                   | 30                | 1,436         |
| <b>Total financial liabilities</b>            | <b>7,641</b>          | <b>3,068</b>                      | <b>2,949</b>                | <b>1,527</b>         | <b>39</b>         | <b>15,224</b> |

|                                    |              |              |           |            |            |                |
|------------------------------------|--------------|--------------|-----------|------------|------------|----------------|
| <b>Net liquidity position 2015</b> | <b>(897)</b> | <b>(724)</b> | <b>26</b> | <b>253</b> | <b>112</b> | <b>(1,230)</b> |
|------------------------------------|--------------|--------------|-----------|------------|------------|----------------|

The negative excess of financial liabilities over financial assets 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.

# PPF Group N.V.

## Notes to the consolidated financial statements for the year ended 31 December 2016

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

*In millions of EUR, as at 31 December 2016*

|                                               | Less than<br>3 months | Between<br>3 months<br>and 1 year | Between<br>1 and 5<br>years | More than<br>5 years | Non-<br>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            |
| <b>Total</b>                                  | <b>8,349</b>          | <b>6,778</b>                      | <b>5,046</b>                | <b>563</b>           | <b>247</b>        | <b>20,983</b> |

*In millions of EUR, as at 31 December 2015*

|                                               | Less than<br>3 months | Between<br>3 months<br>and 1 year | Between<br>1 and 5<br>years | More than<br>5 years | Non-<br>specified | Total         |
|-----------------------------------------------|-----------------------|-----------------------------------|-----------------------------|----------------------|-------------------|---------------|
| Due to non-banks                              | 5,271                 | 1,140                             | 477                         | -                    | -                 | 6,888         |
| Due to banks and other financial institutions | 1,114                 | 1,191                             | 2,408                       | 1,249                | -                 | 5,962         |
| Debt securities issued                        | 230                   | 727                               | 151                         | -                    | -                 | 1,108         |
| Subordinated liabilities                      | -                     | 29                                | 334                         | 65                   | -                 | 428           |
| Trade and other payables                      | 1,132                 | 220                               | 30                          | 37                   | 30                | 1,449         |
| Loan commitments                              | 352                   | 18                                | 174                         | 15                   | 211               | 770           |
| Payment guarantees provided                   | 16                    | 5                                 | 26                          | 35                   | -                 | 82            |
| <b>Total</b>                                  | <b>8,115</b>          | <b>3,330</b>                      | <b>3,600</b>                | <b>1,401</b>         | <b>241</b>        | <b>16,687</b> |

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

*In millions of EUR, as at 31 December 2016*

|                                            | Less than 3<br>months | Between<br>3 months<br>and 1 year | Between<br>1 and 5<br>years | More than<br>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    |
| <b>Net position</b>                        | <b>22</b>             | <b>(5)</b>                        | <b>(9)</b>                  | <b>(2)</b>           | <b>6</b> |



## PPF Group N.V.

### Notes to the consolidated financial statements for the year ended 31 December 2016

In millions of EUR, as at 31 December 2015

|                                            | Less than 3 months | Between 3 months and 1 year | Between 1 and 5 years | More than 5 years | Total      |
|--------------------------------------------|--------------------|-----------------------------|-----------------------|-------------------|------------|
| <i>Outflows</i>                            |                    |                             |                       |                   |            |
| Interest rate derivatives held for trading | (3)                | (98)                        | (159)                 | (68)              | (328)      |
| Currency derivatives held for trading      | (1,774)            | (519)                       | (2,039)               | -                 | (4,332)    |
| Hedging derivatives                        | (89)               | -                           | -                     | -                 | (89)       |
| <i>Inflows</i>                             |                    |                             |                       |                   |            |
| IR derivatives held for trading            | 3                  | 95                          | 153                   | 79                | 330        |
| Currency derivatives held for trading      | 1,777              | 519                         | 2,042                 | -                 | 4,338      |
| Hedging derivatives                        | 183                | -                           | -                     | -                 | 183        |
| <b>Net position</b>                        | <b>97</b>          | <b>(3)</b>                  | <b>(3)</b>            | <b>11</b>         | <b>102</b> |

#### C.4. Market risk

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

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

##### C.4.1. Interest rate risk

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

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

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring of the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100-basis-point parallel fall or rise in all yield curves worldwide. In such a case, the net interest income for the year ended 31 December 2016 would be approximately MEUR 85 higher/lower (2015: MEUR 56).

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## Notes to the consolidated financial statements for the year ended 31 December 2016

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

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

*In millions of EUR, as at 31 December 2016*

|                                                                          | Effective<br>interest<br>rate | Less<br>than 3<br>months | Between<br>3 months<br>and<br>1 year | Between<br>1 and 5<br>years | More<br>than 5<br>years | Non-<br>specified | Total         |
|--------------------------------------------------------------------------|-------------------------------|--------------------------|--------------------------------------|-----------------------------|-------------------------|-------------------|---------------|
| Cash and cash equivalents                                                | 0.4%                          | 4,389                    | -                                    | -                           | -                       | -                 | 4,389         |
| 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<br>banks and other financial institutions | 1.5%                          | 749                      | 45                                   | 19                          | -                       | 27                | 840           |
| Loans due from customers                                                 | 32.1%                         | 3,499                    | 3,973                                | 3,711                       | 116                     | 38                | 11,337        |
| Trade and other receivables                                              | -                             | 315                      | 48                                   | 5                           | -                       | -                 | 368           |
| <b>Total financial assets</b>                                            | <b>-</b>                      | <b>9,231</b>             | <b>5,389</b>                         | <b>4,264</b>                | <b>698</b>              | <b>745</b>        | <b>20,327</b> |

*In millions of EUR, as at 31 December 2016*

|                                                  | Effective<br>interest<br>rate | Less<br>than 3<br>months | Between<br>3 months<br>and<br>1 year | Between<br>1 and 5<br>years | More<br>than 5<br>years | Non-<br>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<br>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         |
| <b>Total financial liabilities</b>               | <b>-</b>                      | <b>8,779</b>             | <b>6,685</b>                         | <b>3,346</b>                | <b>605</b>              | <b>119</b>        | <b>19,534</b> |
| <b>Net position 2016</b>                         |                               | <b>452</b>               | <b>(1,296)</b>                       | <b>918</b>                  | <b>93</b>               | <b>626</b>        | <b>793</b>    |

*In millions of EUR, as at 31 December 2015*

|                                                                          | Effective<br>interest<br>rate | Less<br>than 3<br>months | Between<br>3 months<br>and<br>1 year | Between<br>1 and 5<br>years | More<br>than 5<br>years | Non-<br>specified | Total         |
|--------------------------------------------------------------------------|-------------------------------|--------------------------|--------------------------------------|-----------------------------|-------------------------|-------------------|---------------|
| Cash and cash equivalents                                                | 0.5%                          | 2,732                    | -                                    | -                           | -                       | -                 | 2,732         |
| Investment securities                                                    | 2.1%                          | 269                      | 1,477                                | 789                         | 386                     | 111               | 3,032         |
| Financial assets at FVTPL                                                | 1.7%                          | 22                       | 69                                   | 337                         | 257                     | 54                | 739           |
| Financial assets AFS                                                     | 2.3%                          | 241                      | 1,408                                | 452                         | 129                     | 57                | 2,287         |
| Financial assets HTM                                                     | 8.1%                          | 6                        | -                                    | -                           | -                       | -                 | 6             |
| Positive FV of hedging derivatives                                       | -                             | -                        | -                                    | -                           | -                       | 96                | 96            |
| Loans and receivables due from<br>banks and other financial institutions | 3.7%                          | 372                      | 115                                  | -                           | 1                       | 61                | 549           |
| Loans due from customers                                                 | 30.7%                         | 3,477                    | 1,895                                | 1,674                       | 69                      | 38                | 7,153         |
| Trade and other receivables                                              | -                             | 373                      | 40                                   | 3                           | -                       | 16                | 432           |
| <b>Total financial assets</b>                                            | <b>-</b>                      | <b>7,223</b>             | <b>3,527</b>                         | <b>2,466</b>                | <b>456</b>              | <b>322</b>        | <b>13,994</b> |

## PPF Group N.V.

### Notes to the consolidated financial statements for the year ended 31 December 2016

In millions of EUR, as at 31 December 2015

|                                               | Effective<br>interest<br>rate | Less<br>than 3<br>months | Between<br>3 months<br>and<br>1 year | Between<br>1 and 5<br>years | More<br>than 5<br>years | Non-<br>specified | Total          |
|-----------------------------------------------|-------------------------------|--------------------------|--------------------------------------|-----------------------------|-------------------------|-------------------|----------------|
| Financial liabilities at FVTPL                | -                             | 12                       | 1                                    | 6                           | 244                     | 36                | 299            |
| Due to non-banks                              | 5.0%                          | 5,261                    | 1,086                                | 409                         | -                       | -                 | 6,756          |
| Due to banks and other financial institutions | 6.2%                          | 2,896                    | 1,402                                | 882                         | 162                     | -                 | 5,342          |
| Debt securities issued                        | 3.0%                          | 227                      | 711                                  | 118                         | -                       | -                 | 1,056          |
| Subordinated liabilities                      | 9.2%                          | -                        | 8                                    | 275                         | 52                      | -                 | 335            |
| Trade and other payables                      | -                             | 1,132                    | 219                                  | 29                          | 26                      | 30                | 1,436          |
| <b>Total financial liabilities</b>            | <b>-</b>                      | <b>9,528</b>             | <b>3,427</b>                         | <b>1,719</b>                | <b>484</b>              | <b>66</b>         | <b>15,224</b>  |
| <b>Net position 2015</b>                      |                               | <b>(2,305)</b>           | <b>100</b>                           | <b>747</b>                  | <b>(28)</b>             | <b>256</b>        | <b>(1,230)</b> |

#### C.4.2. Equity price risk

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

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

#### C.4.3. Currency risk

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

The Group's main foreign exposures are to European and Asian countries in which the Group operates. Its exposures are measured mainly in Czech crowns, Chinese yuan, Russian roubles and US dollars. As the currency in which the Group presents its consolidated 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 Group also has investments in foreign operations whose net assets are exposed to foreign currency translation risk.

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

# PPF Group N.V.

## Notes to the consolidated financial statements for the year ended 31 December 2016

*In millions of EUR, as at 31 December 2016*

|                                                                       | EUR          | CZK          | CNY          | RUB          | USD          | KZT        | Other      | Total         |
|-----------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|------------|------------|---------------|
| Cash and cash equivalents                                             | 81           | 2,841        | 1,122        | 187          | 42           | 37         | 79         | 4,389         |
| Investment securities                                                 | 747          | 1,810        | -            | 337          | 499          | -          | -          | 3,393         |
| Loans and receivables due from banks and other financial institutions | 73           | 457          | 40           | 73           | 190          | 2          | 5          | 840           |
| 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           |
| <b>Total financial assets</b>                                         | <b>1,974</b> | <b>6,554</b> | <b>6,485</b> | <b>2,952</b> | <b>1,111</b> | <b>377</b> | <b>874</b> | <b>20,327</b> |

*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         |
| <b>Total financial liabilities</b>            | <b>2,156</b> | <b>7,655</b> | <b>5,510</b> | <b>2,276</b> | <b>1,057</b> | <b>271</b> | <b>609</b> | <b>19,534</b> |

|                                               |            |             |          |             |          |             |              |             |
|-----------------------------------------------|------------|-------------|----------|-------------|----------|-------------|--------------|-------------|
| <b>Effect of foreign currency derivatives</b> | <b>313</b> | <b>(85)</b> | <b>-</b> | <b>(30)</b> | <b>1</b> | <b>(20)</b> | <b>(190)</b> | <b>(11)</b> |
|-----------------------------------------------|------------|-------------|----------|-------------|----------|-------------|--------------|-------------|

|                                      |            |                |            |            |           |           |           |            |
|--------------------------------------|------------|----------------|------------|------------|-----------|-----------|-----------|------------|
| <b>Net foreign currency position</b> | <b>131</b> | <b>(1,186)</b> | <b>975</b> | <b>646</b> | <b>55</b> | <b>86</b> | <b>75</b> | <b>782</b> |
|--------------------------------------|------------|----------------|------------|------------|-----------|-----------|-----------|------------|

*In millions of EUR, as at 31 December 2015*

|                                                                       | EUR          | CZK          | CNY          | RUB          | USD        | KZT        | Other      | Total         |
|-----------------------------------------------------------------------|--------------|--------------|--------------|--------------|------------|------------|------------|---------------|
| Cash and cash equivalents                                             | 201          | 1,749        | 314          | 301          | 93         | 6          | 68         | 2,732         |
| Investment securities                                                 | 382          | 2,047        | -            | 284          | 319        | -          | -          | 3,032         |
| Positive FV of hedging derivatives                                    | -            | -            | -            | 96           | -          | -          | -          | 96            |
| Loans and receivables due from banks and other financial institutions | 79           | 176          | 92           | 146          | 50         | 1          | 5          | 549           |
| Loans due from customers                                              | 780          | 998          | 2,219        | 2,054        | 418        | 260        | 424        | 7,153         |
| Trade and other receivables                                           | 122          | 198          | 7            | 62           | 30         | 2          | 11         | 432           |
| <b>Total financial assets</b>                                         | <b>1,564</b> | <b>5,168</b> | <b>2,632</b> | <b>2,943</b> | <b>910</b> | <b>269</b> | <b>508</b> | <b>13,994</b> |

*In millions of EUR, as at 31 December 2015*

|                                               | EUR          | CZK          | CNY          | RUB          | USD          | KZT        | Other      | Total         |
|-----------------------------------------------|--------------|--------------|--------------|--------------|--------------|------------|------------|---------------|
| Financial liabilities at FVTPL                | 9            | 289          | -            | -            | -            | -          | 1          | 299           |
| Due to non-banks                              | 587          | 3,620        | -            | 2,048        | 361          | 62         | 78         | 6,756         |
| Due to banks and other financial institutions | 764          | 1,906        | 1,848        | 99           | 550          | 4          | 171        | 5,342         |
| Debt securities issued                        | 9            | 855          | -            | 99           | 4            | 37         | 52         | 1,056         |
| Subordinated liabilities                      | -            | 83           | -            | 9            | 243          | -          | -          | 335           |
| Trade and other payables                      | 217          | 474          | 133          | 547          | 23           | 8          | 34         | 1,436         |
| <b>Total financial liabilities</b>            | <b>1,586</b> | <b>7,227</b> | <b>1,981</b> | <b>2,802</b> | <b>1,181</b> | <b>111</b> | <b>336</b> | <b>15,224</b> |

|                                               |              |            |           |              |            |             |             |           |
|-----------------------------------------------|--------------|------------|-----------|--------------|------------|-------------|-------------|-----------|
| <b>Effect of foreign currency derivatives</b> | <b>(619)</b> | <b>763</b> | <b>71</b> | <b>(229)</b> | <b>109</b> | <b>(18)</b> | <b>(61)</b> | <b>16</b> |
|-----------------------------------------------|--------------|------------|-----------|--------------|------------|-------------|-------------|-----------|

|                                      |              |                |            |             |              |            |            |                |
|--------------------------------------|--------------|----------------|------------|-------------|--------------|------------|------------|----------------|
| <b>Net foreign currency position</b> | <b>(641)</b> | <b>(1,296)</b> | <b>722</b> | <b>(88)</b> | <b>(162)</b> | <b>140</b> | <b>111</b> | <b>(1,214)</b> |
|--------------------------------------|--------------|----------------|------------|-------------|--------------|------------|------------|----------------|

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

*In millions of EUR, as at 31 December 2016*

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

*In millions of EUR, as at 31 December 2015*

|                                                | CZK   | CNY  | RUB  | USD | KZT |
|------------------------------------------------|-------|------|------|-----|-----|
| Effect of 5% currency depreciation against EUR | (114) | (36) | (76) | (9) | (8) |
| Effect of 5% currency appreciation against EUR | 114   | 36   | 76   | 9   | 8   |

#### **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 2016, the mathematical provision for products with guaranteed interest of 4% amounted to MEUR 19 (2015: MEUR 16); for products with 3% guaranteed interest it was MEUR 78 (2015: MEUR 49).

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% – no changes in life insurance reserves

Morbidity – increase by 10% – 0.2% increase in life insurance reserves

Morbidity – decrease by 10% – 0.2% decrease in life insurance reserves

Technical interest rate – increase by 1% – 4.0% decrease in life insurance reserves

Technical interest rate – decrease by 1% – 6.1% 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. A 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. In order 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 and reserve deficiency risk. The Group's portfolio of accident insurance is not subject to catastrophe risk.

Price risk arises due to the fact that insurance premiums may not be sufficient to cover future losses and expenses on insurance contracts. To manage price risk, the Group regularly analyses profitability in the context of insurance products and makes appropriate adjustments in its pricing and underwriting policies. The Group also uses reinsurance contracts as a part of its risk management programme. The Group uses quota reinsurance for its higher-risk products.

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**

Historically, the Group might have been exposed to a geographical asset concentration risk ensuing predominantly from its primary focus on the Russian and Czech real estate markets. The real estate group started to invest in new geographic areas - the Netherlands, Germany and lately Romania - which led to better geographic diversification. The potential concentration risk is also managed through: careful selection of real estate projects; their segmentation into retail, logistics and office 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 2016*

|                                                                       | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 |
|-----------------------------------------------------------------------|-----------------|------------|---------|---------|---------|
| Loans and receivables due from banks and other financial institutions | 840             | 840        | -       | 840     | -       |
| 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) |

*In millions of EUR, as at 31 December 2015*

|                                                                       | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 |
|-----------------------------------------------------------------------|-----------------|------------|---------|---------|---------|
| Financial assets held to maturity                                     | 6               | 6          | -       | 6       | -       |
| Loans and receivables due from banks and other financial institutions | 549             | 549        | -       | 549     | -       |
| Loans due from customers                                              | 7,153           | 7,130      | -       | 617     | 6,513   |
| Trade and other receivables                                           | 432             | 432        | -       | -       | 432     |
| Due to non-banks                                                      | (6,756)         | (6,773)    | -       | (6,773) | -       |
| Due to banks and other financial institutions                         | (5,342)         | (5,344)    | -       | (5,344) | -       |
| Debt securities issued                                                | (1,056)         | (1,052)    | (99)    | (953)   | -       |
| Subordinated liabilities                                              | (335)           | (338)      | (243)   | (95)    | -       |
| Trade and other payables                                              | (1,436)         | (1,436)    | -       | -       | (1,436) |

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 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)        |
| <b>Total</b>                   | <b>2,663</b> | <b>319</b> | <b>-</b> | <b>2,982</b> |

*In millions of EUR, as at 31 December 2015*

|                                    | Level 1      | Level 2    | Level 3    | Total        |
|------------------------------------|--------------|------------|------------|--------------|
| Financial assets at FVTPL          | 559          | 105        | 75         | 739          |
| Financial assets AFS               | 2,059        | 144        | 84         | 2,287        |
| Positive FV of hedging derivatives | -            | 96         | -          | 96           |
| Financial liabilities at FVTPL     | (254)        | (36)       | (9)        | (299)        |
| <b>Total</b>                       | <b>2,364</b> | <b>309</b> | <b>150</b> | <b>2,823</b> |

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

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

|                                                                                                   | Financial assets at FVTPL | Financial assets AFS | Financial liabilities FVTPL | Total    |
|---------------------------------------------------------------------------------------------------|---------------------------|----------------------|-----------------------------|----------|
| Balance 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 into Level 3                                                                             | -                         | 2                    | -                           | 2        |
| <b>Balance at 31 December 2016</b>                                                                | <b>-</b>                  | <b>16</b>            | <b>(16)</b>                 | <b>-</b> |

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.

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

|                                                                                                   | Financial assets at FVTPL | Financial assets AFS | Financial liabilities FVTPL | Total      |
|---------------------------------------------------------------------------------------------------|---------------------------|----------------------|-----------------------------|------------|
| Balance at 1 January                                                                              | 4                         | 62                   | (9)                         | 57         |
| Net gains/(losses) recorded in profit or loss (included in "Net gain/(loss) on financial assets") | (3)                       | -                    | 1                           | (2)        |
| Purchases of financial assets                                                                     | 77                        | 75                   | -                           | 152        |
| Additions of financial liabilities                                                                | -                         | -                    | (1)                         | (1)        |
| Settlements                                                                                       | (3)                       | -                    | -                           | (3)        |
| Transfer out of Level 3                                                                           | -                         | (53)                 | -                           | (53)       |
| <b>Balance at 31 December 2015</b>                                                                | <b>75</b>                 | <b>84</b>            | <b>(9)</b>                  | <b>150</b> |

In 2015, certain available-for-sale assets were transferred out of Level 3 of the fair value hierarchy due to a change in the valuation model, where significant inputs used in their fair value measurements, such as certain credit spreads, that were not previously used, are observable.

In 2015, the financial assets at fair value through profit or loss presented in Level 3 above included corporate bonds of MEUR 75. The fair value of debt securities is sensitive to market interest rates.

The financial assets available for sale presented in Level 3 consist of debt securities of MEUR 1 (2015: MEUR 76) and equity securities of MEUR 15 (2015: MEUR 8). 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, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement transactions.

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

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

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

### ***C.9. 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 the new holding entity PPF Financial Holdings B.V. (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 a consolidating supervisor. PPF banka was appointed as a 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

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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, which is immaterial given the geographical placement of its assets.

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

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

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

*In millions of EUR, as at 31 December 2016*

|                                            | 2016         | 2015         |
|--------------------------------------------|--------------|--------------|
| Issued capital                             | 0.05         | 0.05         |
| Share premium                              | 2,233        | 1,888        |
| Retained earnings                          | (196)        | (179)        |
| Interim profit included into capital       | 96           | -            |
| Accumulated other comprehensive income     | (61)         | (118)        |
| Other reserves                             | 112          | 50           |
| Minority interests on CET 1                | 7            | 8            |
| (-) Additional valuation adjustment        | (3)          | (3)          |
| (-) Intangible assets                      | (166)        | (126)        |
| (-) Deferred tax assets carry loss forward | (4)          | (43)         |
| <b>Total Tier 1 capital</b>                | <b>2,018</b> | <b>1,477</b> |
| <b>Total Tier 2 capital</b>                | <b>49</b>    | <b>48</b>    |
| <b>Total capital</b>                       | <b>2,067</b> | <b>1,525</b> |

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, the additional valuation adjustment and deferred tax assets directly deductible from capital. The Subgroup has no additional Tier 1 capital.

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

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

The Group, 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                              |
|-----------------------|----------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------|
| Consumer finance      | Home Credit                            | Lending to private individual customers, deposit-taking                                            | Czech Republic, Slovak Republic, Russia, Asia |
|                       | subsidiaries of PPF banka and Air Bank | Lending to private individual customers                                                            | Czech Republic, Slovak Republic, Russia       |
| Other banking         | PPF banka                              | Loans, deposits and other transactions and balances with corporate customers, trading activities   | Czech Republic                                |
|                       | Air Bank                               | Deposits, loans and other transactions and balances with retail customers                          | Czech Republic                                |
|                       | ClearBank                              | Clearing and settlement services                                                                   | The United Kingdom                            |
| Real estate           | PPF Real Estate Holding                | Developing, investing and professional consulting in the property sector                           | Central and Western Europe, Russia, Ukraine   |
| Telecommunications    | O2                                     | Telecommunication operator providing a range of voice and data services (CZ), mobile operator (SK) | Czech Republic, Slovak Republic               |
|                       | CETIN                                  | Administration and operation of data and communication network                                     | Czech Republic                                |
| Insurance             | PPF Insurance                          | Provision of life insurance products                                                               | Russia                                        |
|                       | Generali PPF Holding (sold in 2015)    | Provision of life and non-life insurance products                                                  | Central and Eastern Europe                    |
| 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                                   | Extraction, processing, refining and sale of lignite, generation of electricity and heat           | Germany                                       |
|                       | Polymetal (associate until 2016)       | Gold and silver mining                                                                             | Russia, Kazakhstan                            |

Since 30 June 2015, Air Bank has legally been part of the Home Credit Group (refer to B.3.3), but continues to be presented within the other banking segment together with PPF banka.

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Subsidiaries of both banks are included in the consumer finance segment, based on their geographical focus.

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

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

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

|                                              | 2016         | 2016         | 2015         | 2015         |
|----------------------------------------------|--------------|--------------|--------------|--------------|
|                                              | Continuing   | Discontinued | Continuing   | Discontinued |
| Interest income                              | 2,323        | 1            | 2,081        | 2            |
| Fee and commission income                    | 522          | 29           | 421          | 16           |
| Net earned premiums                          | 99           | -            | 147          | -            |
| Net rental and related income                | 137          | -            | 147          | -            |
| Net income related to construction contracts | 5            | -            | 2            | -            |
| Sales of goods                               | 2            | 1,260        | 2            | 1,413        |
| Other income from retail operations          | -            | 18           | -            | 33           |
| Telecommunication income                     | 1,742        | -            | 1,670        | -            |
| Net agriculture income                       | 7            | -            | 7            | -            |
| <b>Total revenue from external customers</b> | <b>4,837</b> | <b>1,308</b> | <b>4,477</b> | <b>1,464</b> |

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

# PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 2016

In millions of EUR

| 2016                                               | Consumer<br>finance | Other<br>banking | Telecommu-<br>nications | Real Estate | Insurance | Retail       | Other      | Unallocated  | Eliminations | Consolidated  |
|----------------------------------------------------|---------------------|------------------|-------------------------|-------------|-----------|--------------|------------|--------------|--------------|---------------|
| Revenue from external customers                    | 2,719               | 123              | 1,743                   | 146         | 71        | 1,308        | 16         | 19           | -            | 6,145         |
| Inter-segment revenue                              | 9                   | 58               | 15                      | 1           | 3         | 2            | -          | 45           | (133)        | -             |
| <b>Total revenue from continuing operations</b>    | <b>2,728</b>        | <b>181</b>       | <b>1,758</b>            | <b>147</b>  | <b>74</b> | <b>-</b>     | <b>16</b>  | <b>64</b>    | <b>(131)</b> | <b>4,837</b>  |
| <b>Total revenue from discontinued operations</b>  |                     |                  |                         |             |           | <b>1,310</b> |            |              | <b>(2)</b>   | <b>1,308</b>  |
| Segment share of earnings of associates/JVs        | 2                   | (6)              | (1)                     | (32)        | -         | -            | 528        | -            | -            | 491           |
| <b>Net profit from continuing operations</b>       | <b>218</b>          | <b>51</b>        | <b>231</b>              | <b>34</b>   | <b>2</b>  | <b>67*</b>   | <b>513</b> | <b>4</b>     | <b>(6)</b>   | <b>1,114</b>  |
| <b>Segment result from discontinued operations</b> |                     |                  |                         |             |           | <b>1</b>     |            |              |              | <b>1</b>      |
| <b>Net profit for the year</b>                     |                     |                  |                         |             |           |              |            |              |              | <b>1,115</b>  |
| Capital expenditure                                | (119)               | (10)             | (294)                   | (4)         | -         | (21)         | (32)       | (1)          | 38           | (443)         |
| Depreciation and amortisation                      | (76)                | (9)              | (338)                   | (2)         | (2)       | 20           | (4)        | (1)          | 2            | (450)         |
| Other significant non-cash expenses                | (565)               | (9)              | (37)                    | (20)        | -         | -            | (2)        | (3)          | -            | (636)         |
| Segment assets                                     | 12,240              | 8,198            | 4,056                   | 1,807       | 178       | -            | 326        | 2,957        | (3,098)      | 26,664        |
| Investments in associates/JVs                      | 2                   | 9                | 2                       | 50          | -         | -            | 314        | -            | -            | 377           |
| <b>Total assets</b>                                |                     |                  |                         |             |           |              |            |              |              | <b>27,041</b> |
| Segment liabilities                                | 10,922              | 7,688            | 1,995                   | 1,448       | 136       | -            | 218        | 947          | (3,076)      | 20,278        |
| <b>Total liabilities</b>                           |                     |                  |                         |             |           |              |            |              |              | <b>20,278</b> |
| <b>Segment equity</b>                              | <b>1,320</b>        | <b>519</b>       | <b>2,063</b>            | <b>409</b>  | <b>42</b> | <b>-</b>     | <b>422</b> | <b>2,010</b> | <b>(22)</b>  | <b>6,763</b>  |

\* Profit from the sale of Eldorado

## PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 2016

In millions of EUR

| 2015                                               | Consumer finance | Other banking | Telecommunications | Real estate | Insurance  | Retail     | Other      | Unallocated  | Eliminations | Consolidated  |
|----------------------------------------------------|------------------|---------------|--------------------|-------------|------------|------------|------------|--------------|--------------|---------------|
| Revenue from external customers                    | 2,418            | 112           | 1,671              | 154         | 98         | 1,465      | 9          | 14           | -            | 5,941         |
| Inter-segment revenue                              | 10               | 77            | 10                 | 1           | 3          | 13         | -          | 36           | (150)        | -             |
| <b>Total revenue from continuing operations</b>    | <b>2,428</b>     | <b>189</b>    | <b>1,681</b>       | <b>155</b>  | <b>101</b> | <b>14</b>  | <b>9</b>   | <b>50</b>    | <b>(150)</b> | <b>4,477</b>  |
| <b>Total revenue from discontinued operations</b>  |                  |               |                    |             |            | 1,464      |            |              |              | <b>1,464</b>  |
| Segment share of earnings of associates/JVs        | 2                | -             | -                  | 53          | -          | -          | 38         | -            | -            | 93            |
| <b>Net profit from continuing operations</b>       | <b>(46)</b>      | <b>41</b>     | <b>224</b>         | <b>40</b>   | <b>98</b>  | <b>4</b>   | <b>36</b>  | <b>(89)</b>  | <b>-</b>     | <b>308</b>    |
| <b>Segment result from discontinued operations</b> |                  |               |                    |             |            | 44         |            |              |              | <b>44</b>     |
| <b>Net profit for the year</b>                     |                  |               |                    |             |            |            |            |              |              | <b>352</b>    |
| Capital expenditure                                | (106)            | (12)          | (236)              | (1)         | -          | (27)       | (33)       | (1)          | 26           | (390)         |
| Depreciation and amortisation                      | (76)             | (8)           | (369)              | (2)         | (3)        | (21)       | (5)        | (1)          | 1            | (484)         |
| Other significant non-cash expenses                | (770)            | 8             | (3)                | (5)         | -          | 19         | (3)        | -            | -            | (754)         |
| Segment assets                                     | 7,654            | 6,591         | 5,244              | 1,938       | 147        | 889        | 466        | 1,637        | (3,572)      | 20,994        |
| Investments in associates/JVs                      | 2                | -             | 2                  | 47          | -          | -          | 566        | -            | -            | 617           |
| <b>Total assets</b>                                |                  |               |                    |             |            |            |            |              |              | <b>21,611</b> |
| Segment liabilities                                | 6,650            | 6,141         | 1,993              | 1,534       | 120        | 661        | 315        | 2,074        | (3,557)      | 15,931        |
| <b>Total liabilities</b>                           |                  |               |                    |             |            |            |            |              |              | <b>15,931</b> |
| <b>Segment equity</b>                              | <b>1,006</b>     | <b>450</b>    | <b>3,253</b>       | <b>451</b>  | <b>27</b>  | <b>228</b> | <b>717</b> | <b>(437)</b> | <b>(15)</b>  | <b>5,680</b>  |

### D.1. Consumer finance segment

The Home Credit consumer finance business is divided into segments based on geographical regions corresponding to the geographical location of customers. The Group operates in the following principal geographical areas: China, the Russian Federation, the Czech Republic, Vietnam, Kazakhstan, the Slovak Republic, India, Indonesia, and the Philippines.

The following table supplements the information presented for the consumer finance business in the previous table. Eliminations represent intercompany balances among individual reporting segments within Home Credit. Inter-segment revenue represents revenue realised with other core segments outside the consumer finance segment.



**PPF Group N.V.**
*Notes to the consolidated financial statements for the year ended 31 December 2016*
*In millions of EUR*

| 2016                                         | China        | Russian Federation | Czech Republic | Vietnam    | Kazakhstan | Slovak Republic | India       | Other       | Unallocated  | Eliminations | <b>Consolidated</b> |
|----------------------------------------------|--------------|--------------------|----------------|------------|------------|-----------------|-------------|-------------|--------------|--------------|---------------------|
| Revenue from customers                       | 1,351        | 724                | 103            | 198        | 145        | 63              | 58          | 80          | 6            | -            | 2,728               |
| Inter-segment revenue                        | -            | 16                 | 2              | -          | -          | -               | -           | 1           | 1            | (20)         | -                   |
| <b>Total revenue</b>                         | <b>1,351</b> | <b>740</b>         | <b>105</b>     | <b>198</b> | <b>145</b> | <b>63</b>       | <b>58</b>   | <b>81</b>   | <b>7</b>     | <b>(20)</b>  | <b>2,728</b>        |
| Net interest income from external customers  | 783          | 331                | 64             | 129        | 75         | 42              | 42          | 48          | (25)         | -            | 1,489               |
| Inter-segment net interest income            | -            | 16                 | 2              | -          | (7)        | -               | (2)         | (1)         | (9)          | 2            | 1                   |
| <b>Total net interest income</b>             | <b>783</b>   | <b>347</b>         | <b>66</b>      | <b>129</b> | <b>68</b>  | <b>42</b>       | <b>40</b>   | <b>47</b>   | <b>(34)</b>  | <b>2</b>     | <b>1,490</b>        |
| Income tax expense                           | (58)         | (17)               | (3)            | (12)       | (12)       | -               | -           | (3)         | (2)          | -            | (107)               |
| <b>Net profit from continuing operations</b> | <b>196</b>   | <b>76</b>          | <b>22</b>      | <b>46</b>  | <b>46</b>  | <b>4</b>        | <b>(61)</b> | <b>(68)</b> | <b>(44)</b>  | <b>1</b>     | <b>218</b>          |
| Capital expenditure                          | (33)         | (8)                | (2)            | (5)        | (8)        | -               | (18)        | (24)        | (21)         | -            | (119)               |
| Depreciation and amortisation                | (11)         | (24)               | (1)            | (5)        | (5)        | -               | (7)         | (35)        | -            | 12           | (76)                |
| Other significant non-cash expenses          | (311)        | (161)              | 2              | (37)       | (3)        | (18)            | (26)        | (11)        | -            | -            | (565)               |
| Segment assets (incl. associates)            | 6,641        | 3,372              | 520            | 515        | 410        | 301             | 248         | 280         | 399          | (444)        | 12,242              |
| Segment liabilities                          | 5,673        | 2,776              | 514            | 398        | 304        | 296             | 203         | 248         | 945          | (435)        | 10,922              |
| <b>Segment equity</b>                        | <b>968</b>   | <b>596</b>         | <b>6</b>       | <b>117</b> | <b>106</b> | <b>5</b>        | <b>45</b>   | <b>32</b>   | <b>(546)</b> | <b>(9)</b>   | <b>1,320</b>        |

**PPF Group N.V.**

Notes to the consolidated financial statements for the year ended 31 December 2016

*In millions of EUR*

| 2015                                         | China      | Russian Federation | Czech Republic | Vietnam    | Kazakhstan | Slovak Republic | India       | Other       | Unallocated  | Eliminations | Consolidated |
|----------------------------------------------|------------|--------------------|----------------|------------|------------|-----------------|-------------|-------------|--------------|--------------|--------------|
| Revenue from customers                       | 774        | 1,020              | 110            | 156        | 198        | 65              | 23          | 73          | 9            | -            | 2,428        |
| Inter-segment revenue                        | -          | 15                 | -              | -          | -          | -               | -           | 1           | 1            | (17)         | -            |
| <b>Total revenue</b>                         | <b>774</b> | <b>1,035</b>       | <b>110</b>     | <b>156</b> | <b>198</b> | <b>65</b>       | <b>23</b>   | <b>74</b>   | <b>10</b>    | <b>(17)</b>  | <b>2,428</b> |
| Net interest income from external customers  | 529        | 365                | 69             | 105        | 106        | 43              | 13          | 38          | (12)         | -            | 1,256        |
| Inter-segment net interest income            | -          | 15                 | -              | (1)        | (3)        | -               | -           | (1)         | (12)         | 2            | -            |
| <b>Total net interest income</b>             | <b>529</b> | <b>380</b>         | <b>69</b>      | <b>104</b> | <b>103</b> | <b>43</b>       | <b>13</b>   | <b>37</b>   | <b>(24)</b>  | <b>2</b>     | <b>1,256</b> |
| Income tax expense                           | (59)       | 32                 | (6)            | (8)        | (14)       | (1)             | -           | (1)         | (2)          | -            | (59)         |
| <b>Net profit from continuing operations</b> | <b>124</b> | <b>(148)</b>       | <b>19</b>      | <b>26</b>  | <b>34</b>  | <b>5</b>        | <b>(26)</b> | <b>(32)</b> | <b>(46)</b>  | <b>(2)</b>   | <b>(46)</b>  |
| Capital expenditure                          | (17)       | (16)               | (1)            | (3)        | (10)       | -               | (11)        | (20)        | (28)         | -            | (106)        |
| Depreciation and amortisation                | (9)        | (32)               | (1)            | (5)        | (6)        | -               | (3)         | (6)         | (26)         | 12           | (76)         |
| Other significant non-cash expenses          | (163)      | (494)              | (8)            | (34)       | (40)       | (17)            | (7)         | (7)         | -            | -            | (770)        |
| Segment assets (incl. associates)            | 2,701      | 3,289              | 485            | 305        | 319        | 288             | 92          | 240         | 212          | (275)        | 7,656        |
| Segment liabilities                          | 2,040      | 2,875              | 485            | 222        | 230        | 283             | 61          | 135         | 584          | (265)        | 6,650        |
| <b>Segment equity</b>                        | <b>661</b> | <b>414</b>         | <b>-</b>       | <b>83</b>  | <b>89</b>  | <b>5</b>        | <b>31</b>   | <b>105</b>  | <b>(372)</b> | <b>(10)</b>  | <b>1,006</b> |

**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 core segments outside the telecommunication segment.

*In millions of EUR*

| 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)        | -            |
| <b>Total revenue</b>                       | <b>766</b> | <b>1,136</b>      | <b>252</b>         | <b>(396)</b> | <b>1,758</b> |
| Cost related to telecommunication business | (318)      | (614)             | (110)              | 398          | (644)        |
| Segment share of earnings of associates    | -          | (1)               | -                  | -            | (1)          |
| Net telecommunication income               | <b>45</b>  | <b>516</b>        | <b>140</b>         | <b>398</b>   | <b>1,099</b> |
| <b>Segment result</b>                      | <b>88</b>  | <b>161</b>        | <b>23</b>          | <b>(41)</b>  | <b>231</b>   |
| 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        |
| <b>Segment equity</b>                      | <b>726</b> | <b>1,222</b>      | <b>342</b>         | <b>(227)</b> | <b>2,063</b> |

| 2015                                       | CETIN        | O2 Czech Republic | O2 Slovak Republic | Eliminations | Consolidated |
|--------------------------------------------|--------------|-------------------|--------------------|--------------|--------------|
| Revenue from customers                     | 322          | 1,118             | 241                | -            | 1,681        |
| Inter-segment revenue                      | 392          | 27                | 4                  | (423)        | -            |
| <b>Total revenue</b>                       | <b>714</b>   | <b>1,145</b>      | <b>245</b>         | <b>(423)</b> | <b>1,681</b> |
| Cost related to telecommunication business | (263)        | (614)             | (104)              | 398          | (583)        |
| Net telecommunication income               | 49           | 504               | 137                | 398          | 1,088        |
| <b>Segment result</b>                      | <b>113</b>   | <b>117</b>        | <b>29</b>          | <b>(35)</b>  | <b>224</b>   |
| Capital expenditure                        | (115)        | (102)             | (19)               | -            | (236)        |
| Depreciation and amortisation              | (152)        | (172)             | (45)               | -            | (369)        |
| Other significant non-cash expenses        | (1)          | -                 | (2)                | -            | (3)          |
| Segment assets (incl. associates)          | 3,332        | 1,736             | 475                | (297)        | 5,246        |
| Segment liabilities                        | 1,497        | 474               | 115                | (93)         | 1,993        |
| <b>Segment equity</b>                      | <b>1,835</b> | <b>1,262</b>      | <b>360</b>         | <b>(204)</b> | <b>3,253</b> |

## 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*

|                                                             | 2016         | 2015         |
|-------------------------------------------------------------|--------------|--------------|
| Cash on hand                                                | 93           | 137          |
| Current accounts                                            | 1,407        | 698          |
| Balances with central banks                                 | 2,007        | 1,252        |
| Placements with financial institutions due within one month | 882          | 645          |
| <b>Total cash and cash equivalents</b>                      | <b>4,389</b> | <b>2,732</b> |

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

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

### E.2. Investment securities

Investment securities comprise the following:

*In millions of EUR, as at 31 December*

|                                                       | 2016         | 2015         |
|-------------------------------------------------------|--------------|--------------|
| Financial assets at fair value through profit or loss | 545          | 739          |
| Financial assets available for sale                   | 2,848        | 2,287        |
| Financial assets held to maturity                     | -            | 6            |
| <b>Total investment securities</b>                    | <b>3,393</b> | <b>3,032</b> |

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

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

*In millions of EUR, as at 31 December*

|                                          | 2016       | 2015       |
|------------------------------------------|------------|------------|
| Government and other public-sector bonds | 479        | 585        |
| Corporate bonds                          | 18         | 100        |
| Shares                                   | -          | 2          |
| Mutual fund investments                  | -          | 9          |
| Interest rate derivatives                | 24         | 15         |
| Currency derivatives                     | 24         | 28         |
| <b>Total financial assets at FVTPL</b>   | <b>545</b> | <b>739</b> |

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

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Notes to the consolidated financial statements for the year ended 31 December 2016

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

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

*In millions of EUR, as at 31 December*

|                                             | 2016       | 2015       |
|---------------------------------------------|------------|------------|
| Negative fair values of derivatives         | 73         | 37         |
| Interest rate derivatives                   | 35         | 23         |
| Currency derivatives                        | 38         | 14         |
| Liabilities from short sales of securities  | 322        | 253        |
| Other                                       | 16         | 9          |
| <b>Total financial liabilities at FVTPL</b> | <b>411</b> | <b>299</b> |

Details of derivatives are provided in the following tables:

*In millions of EUR, as at 31 December 2016*

| Interest rate derivatives        | Notional amount | Positive fair values | Negative fair values |
|----------------------------------|-----------------|----------------------|----------------------|
| <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                    |                      |
| <b>Total</b>                     | <b>3,390</b>    | <b>24</b>            | <b>(35)</b>          |
| Currency derivatives             |                 |                      |                      |
| <i>OTC products:</i>             |                 |                      |                      |
| Forward exchange contracts       | 598             | -                    | (8)                  |
| Currency/cross currency swaps    | 4,174           | 24                   | (30)                 |
| <b>Total</b>                     | <b>4,772</b>    | <b>24</b>            | <b>(38)</b>          |

*In millions of EUR, as at 31 December 2015*

| Interest rate derivatives     | Notional amount | Positive fair values | Negative fair values |
|-------------------------------|-----------------|----------------------|----------------------|
| <i>OTC products:</i>          |                 |                      |                      |
| Interest rate swaps           | 2,085           | 12                   | (23)                 |
| Other interest rate contracts | 347             | 3                    | -                    |
| <b>Total</b>                  | <b>2,432</b>    | <b>15</b>            | <b>(23)</b>          |
| Currency derivatives          |                 |                      |                      |
| <i>OTC products:</i>          |                 |                      |                      |
| Forward exchange contracts    | 1,031           | 8                    | -                    |
| Currency/cross currency swaps | 3,362           | 20                   | (14)                 |
| <b>Total</b>                  | <b>4,393</b>    | <b>28</b>            | <b>(14)</b>          |

### E.2.3. Financial assets available for sale

Financial assets available for sale comprise the following:

*In millions of EUR, as at 31 December 2016*

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

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### *Notes to the consolidated financial statements for the year ended 31 December 2016*

In September 2016, the Group reclassified its 12.92% share in Polymetal from investment in associate to AFS asset, the share was subsequently diluted to 12.88%. Upon reclassification, a MEUR 143 gain was recognised in the income statement as a 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 2016, the Group holds 55.2 million shares. The fair value amounted to MEUR 551 and a MEUR 68 loss was recognised as AFS reserve in equity.

*In millions of EUR, as at 31 December 2015*

|                         | Carrying amount | Amortised cost |
|-------------------------|-----------------|----------------|
| Debt securities         | 2,230           | 2,192          |
| Government bonds        | 1,485           | 1,433          |
| Corporate bonds         | 671             | 683            |
| Other debt securities   | 74              | 76             |
| Equity securities       | 57              | 75             |
| Shares                  | 57              | 74             |
| Mutual fund investments | -               | 1              |
| Loans and receivables   | -               | 7              |
| <b>Total AFS assets</b> | <b>2,287</b>    | <b>2,274</b>   |

Movements in allowances for impairment may be broken as follows:

*In millions of EUR*

|                                               | 2016      | 2015      |
|-----------------------------------------------|-----------|-----------|
| Balance at 1 January                          | 16        | 21        |
| Impairment recognised in the income statement | -         | (4)       |
| Amount related to assets disposed of          | -         | (1)       |
| <b>Balance at 31 December</b>                 | <b>16</b> | <b>16</b> |

### **E.3. Hedging derivative instruments**

The following table shows details of the hedging derivatives in 2015:

*In millions of EUR, as at 31 December 2015*

|                                    | Sell/Buy | Notional amount | Positive fair values | Negative fair values |
|------------------------------------|----------|-----------------|----------------------|----------------------|
| Foreign currency swap contracts    | RUB/USD  | 174             | 91                   | -                    |
| Cross currency interest rate swaps |          | 9               | 5                    | -                    |
| <b>Total</b>                       |          | <b>183</b>      | <b>96</b>            | <b>-</b>             |

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

### **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*

|                                                                                    | 2016       | 2015       |
|------------------------------------------------------------------------------------|------------|------------|
| Term deposits at banks                                                             | 133        | 130        |
| Minimum reserve deposits with central banks                                        | 141        | 124        |
| Loans to banks                                                                     | 9          | 11         |
| Loans and advances provided under repos                                            | 426        | 149        |
| Cash collateral for derivative instruments                                         | 92         | 41         |
| Other                                                                              | 39         | 94         |
| <b>Total loans and receivables due from banks and other financial institutions</b> | <b>840</b> | <b>549</b> |

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*

|                                             | 2016          | 2015         |
|---------------------------------------------|---------------|--------------|
| <b>Gross amount</b>                         |               |              |
| Cash loan receivables                       | 5,487         | 3,363        |
| Consumer loan receivables                   | 4,265         | 2,440        |
| Revolving loan receivables                  | 585           | 678          |
| Car loan receivables                        | 117           | 113          |
| Mortgage loan receivables                   | 111           | 74           |
| Loans to corporations                       | 1,599         | 1,277        |
| Loans and advances provided under repos     | 59            | 25           |
| Loans to associates                         | 40            | 36           |
| Other                                       | 4             | 14           |
| <b>Total gross amount</b>                   | <b>12,267</b> | <b>8,020</b> |
| <b>Collective allowances for impairment</b> |               |              |
| Cash loan receivables                       | (465)         | (460)        |
| Consumer loans receivables                  | (265)         | (175)        |
| Revolving loan receivables                  | (86)          | (124)        |
| Car loan receivables                        | (23)          | (22)         |
| Mortgage loan receivables                   | (8)           | (6)          |
| Other                                       | -             | (1)          |
| <b>Total collective impairment</b>          | <b>(847)</b>  | <b>(788)</b> |
| <b>Individual allowances for impairment</b> |               |              |
| Loans to corporations                       | (45)          | (45)         |
| Loans to associates                         | (38)          | (34)         |
| <b>Total individual impairment</b>          | <b>(83)</b>   | <b>(79)</b>  |
| <b>Total carrying amount</b>                | <b>11,337</b> | <b>7,153</b> |

Loans to associates represent mainly the provision of funds used to finance several real estate projects. Of the associates, two small real estate projects have a negative net asset value. The impairment of loans to associates contains a negative share in the associates attributable to the Parent. The share in the associates in question is presented at nil.

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

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

|                                                              | 2016       | 2015       |
|--------------------------------------------------------------|------------|------------|
| Balance as at 1 January                                      | 867        | 1,186      |
| Impairment losses recognised in the income statement         | 573        | 762        |
| Change in impairment of loans to associates (negative share) | 2          | 11         |
| Amount related to loans written off and disposed of          | (566)      | (1,022)    |
| Disposals from business combinations                         | (2)        | -          |
| Translation difference                                       | 56         | (70)       |
| <b>Balance as at 31 December</b>                             | <b>930</b> | <b>867</b> |

**E.6. Trade and other receivables**

Trade and other receivables comprise the following:

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

|                                  | 2016       | 2015       |
|----------------------------------|------------|------------|
| Gross amount                     |            |            |
| Trade receivables                | 397        | 456        |
| Accrued income                   | 8          | 1          |
| Individual impairment            | (37)       | (25)       |
| <b>Balance as at 31 December</b> | <b>368</b> | <b>432</b> |

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

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

|                                                      | 2016        | 2015        |
|------------------------------------------------------|-------------|-------------|
| Balance as at 1 January                              | (25)        | (14)        |
| Disposals resulting from business combination        | 1           | -           |
| Impairment losses recognised in the income statement | (5)         | (8)         |
| Amount related to receivable written off             | (8)         | (4)         |
| Release of impairment losses on written off items    | 2           | 1           |
| Net FX difference                                    | (2)         | -           |
| <b>Balance as at 31 December</b>                     | <b>(37)</b> | <b>(25)</b> |

**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*

|                                 | 2016         | 2015         |
|---------------------------------|--------------|--------------|
| Current tax expense             | (261)        | (195)        |
| Deferred tax expense            | 48           | 51           |
| <b>Total income tax expense</b> | <b>(213)</b> | <b>(144)</b> |

The following table reconciles the tax expense:

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

|                                                     | 2016         | 2015         |
|-----------------------------------------------------|--------------|--------------|
| Tax rate                                            | 25.0%        | 25.0%        |
| Profit from continuing operations (before taxation) | 1,327        | 496          |
| Computed taxation using applicable tax rate         | (332)        | (124)        |
| Tax non-deductible expenses                         | (63)         | (47)         |
| Non-taxable income                                  | 177          | 80           |
| Non-taxable share of earnings of associates         | 59           | 23           |
| Tax rate differences on foreign results             | (27)         | (23)         |
| Utilised tax loss not previously recognised         | 15           | 3            |
| Tax loss carry forward not recognised               | (57)         | (59)         |
| Withholding tax on intra-group dividends            | (3)          | (3)          |
| Other                                               | 18           | 6            |
| <b>Total income tax expense/income</b>              | <b>(213)</b> | <b>(144)</b> |



**E.7.2. Deferred tax**

Deferred tax assets and liabilities comprise the following:

*In millions of EUR, as at 31 December*

|                                              | 2016<br>Deferred<br>tax<br>liabilities | 2016<br>Deferred<br>tax assets | 2015<br>Deferred<br>tax<br>liabilities | 2015<br>Deferred<br>tax<br>assets |
|----------------------------------------------|----------------------------------------|--------------------------------|----------------------------------------|-----------------------------------|
| Investment securities                        | (12)                                   | 2                              | (34)                                   | 1                                 |
| Loans                                        | (1)                                    | 161                            | (17)                                   | 95                                |
| Inventories                                  | -                                      | 1                              | -                                      | 5                                 |
| Investment property                          | (104)                                  | 3                              | (100)                                  | -                                 |
| Property, plant and equipment                | (235)                                  | 5                              | (249)                                  | 9                                 |
| Intangible assets                            | (135)                                  | 1                              | (162)                                  | 1                                 |
| Other assets                                 | (6)                                    | 13                             | (7)                                    | 17                                |
| Trade and other payables                     | -                                      | 21                             | (2)                                    | 20                                |
| Provisions                                   | (3)                                    | 8                              | (3)                                    | 8                                 |
| Other temporary differences                  | (8)                                    | 37                             | (6)                                    | 50                                |
| Value of loss carry-forwards recognised      | -                                      | 47                             | -                                      | 89                                |
| <b>Deferred tax assets/(liabilities)</b>     | <b>(504)</b>                           | <b>299</b>                     | <b>(580)</b>                           | <b>295</b>                        |
| <b>Net deferred tax assets/(liabilities)</b> | <b>(431)</b>                           | <b>226</b>                     | <b>(465)</b>                           | <b>180</b>                        |

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

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

|                                                             | 2016         | 2015         |
|-------------------------------------------------------------|--------------|--------------|
| Net deferred tax assets/(liabilities) at 1 January          | (285)        | (323)        |
| Deferred tax (expense)/income for the period                | 48           | 51           |
| Deferred tax recognised directly in equity                  | (2)          | (3)          |
| Additions from business combinations                        | 4            | (2)          |
| Disposals resulting from business combinations              | 29           | 2            |
| Net exchange differences                                    | 1            | (10)         |
| <b>Net deferred tax assets/(liabilities) at 31 December</b> | <b>(205)</b> | <b>(285)</b> |

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

**E.7.3. Tax losses**

As at 31 December 2016 the Group incurred tax losses from recent years of MEUR 2,101 (2015: MEUR 2,175) 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 445 (2015: MEUR 425). The unutilised tax losses can be claimed in the period from 2016 to 2024 in the Netherlands (2017 to 2021 in the Czech Republic and Cyprus, and for an indefinite time in Hong Kong and newly in the Russian Federation) and they expire as follows:

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*In millions of EUR, as at 31 December 2016*

|                                                     | 2016         | 2015         |
|-----------------------------------------------------|--------------|--------------|
| 2016                                                | -            | 34           |
| 2017                                                | 15           | 28           |
| 2018                                                | 60           | 124          |
| 2019                                                | 249          | 267          |
| 2020                                                | 370          | 373          |
| 2021                                                | 287          | 252          |
| 2022                                                | 416          | 409          |
| 2023                                                | 122          | 209          |
| 2024                                                | 104          | 292          |
| 2025                                                | 90           | 22           |
| 2026                                                | 1            | -            |
| Tax losses that can be carried forward indefinitely | 387          | 165          |
| <b>Total</b>                                        | <b>2,101</b> | <b>2,175</b> |

## **E.8. Inventories**

Inventories comprise the following:

*In millions of EUR, as at 31 December*

|                              | 2016      | 2015       |
|------------------------------|-----------|------------|
| Goods/merchandise for resale | 24        | 405        |
| Trading property             | 55        | 71         |
| Agricultural inventories     | 10        | 4          |
| Other inventory              | 2         | 1          |
| <b>Total inventories</b>     | <b>91</b> | <b>481</b> |

In 2015, goods were attributable mainly to the Eldorado retail business that was sold in 2016 (refer to B.2.5.).

## **E.9. Assets and liabilities held for sale**

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

*In millions of EUR, as at 31 December*

|                                               | 2016      | 2015      |
|-----------------------------------------------|-----------|-----------|
| Cash and cash equivalents                     | 1         | 1         |
| Investments in associates                     | -         | 1         |
| Investment property                           | 4         | 8         |
| Property, plant and equipment                 | 25        | -         |
| Other assets                                  | 1         | 2         |
| <b>Total assets held for sale</b>             | <b>31</b> | <b>12</b> |
| Due to banks and other financial institutions | -         | 4         |
| Other liabilities                             | -         | 1         |
| <b>Total liabilities held for sale</b>        | <b>-</b>  | <b>5</b>  |

**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*

|                                                       | 2016       | 2015       |
|-------------------------------------------------------|------------|------------|
| LEAG                                                  | 281        | -          |
| Metropolis (Russia)                                   | 50         | 47         |
| The Culture Trip                                      | 26         | -          |
| ClearBank                                             | 9          | -          |
| Polymetal                                             | -          | 561        |
| Other                                                 | 11         | 9          |
| <b>Total investments in associates/joint ventures</b> | <b>377</b> | <b>617</b> |

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*

|                                                             | 2016       | 2015      |
|-------------------------------------------------------------|------------|-----------|
| Polymetal                                                   | 255        | 37        |
| LEAG                                                        | 274        | -         |
| Metropolis (Russia)                                         | (29)       | 58        |
| ClearBank                                                   | (6)        | -         |
| Other real estate projects                                  | (3)        | (5)       |
| Other                                                       | -          | 3         |
| <b>Total share of earnings in associates/joint ventures</b> | <b>491</b> | <b>93</b> |

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

**Polymetal**

Since 2008 the Group has held a stake in Polymetal International Plc, the Russian precious metals mining company. As of 31 December 2015, the Group held 17.85%. 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. As of 31 December 2016, the share price of Polymetal was GBP 8.55 (2015: GBP 5.85).

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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          | 2015          |
|------------------------------------------------------------------------|---------------|---------------|
| <b>Percentage ownership interest</b>                                   | <b>12.92%</b> | <b>17.85%</b> |
| Non-current assets                                                     | -             | 1,418         |
| Current assets                                                         | -             | 494           |
| Non-current liabilities                                                | -             | (1,078)       |
| Current liabilities                                                    | -             | (387)         |
| Net assets (100%)                                                      | -             | 447           |
| Adjustment for share-based compensation reserve                        | -             | (6)           |
| Adjusted net assets (100%)                                             | -             | 441           |
| Group's share of net assets (2015: 17.85%)                             | -             | 79            |
| Goodwill included in carrying amount                                   | -             | 482           |
| <b>Carrying amount of investment in associate</b>                      | <b>-</b>      | <b>561</b>    |
| Total revenue                                                          | 949           | 1,299         |
| Total net profit/(loss) for the period (100%)                          | 284           | 199           |
| Group's share of profit/(loss)                                         | 48            | 36            |
| (inclusive changes in ownership interest and changes in FX rates)      |               |               |
| Dilution gain, profit on sale and other changes in equity of Polymetal | 64            | 1             |
| Gain on reclassification to AFS asset                                  | 143           | -             |
| <b>Total share in profit/(loss)</b>                                    | <b>255</b>    | <b>37</b>     |
| Dividends received by the Group (full period)                          | 22            | 35            |

### 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 2016 LEAG's performance in the three months since its acquisition:

*In millions of EUR, as at 31 December*

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

### Metropolis (Russia)

In July 2015, the Group acquired a 49.99% stake in entities holding two up-and-running Moscow office buildings (the Metropolis project; refer to B.2.3). Since the acquisition in 2015, the project has made a significant profit due to the revaluation of the investment property in Russian roubles, although the EUR value of the property has not changed significantly. In 2016, due to the reversed development of the exchange rate, the project has

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made a revaluation loss compensated by a translation gain of MEUR 69 recorded directly in equity.

*In millions of EUR, as at 31 December*

|                                                            | 2016          | 2015          |
|------------------------------------------------------------|---------------|---------------|
| <b>Percentage ownership interest</b>                       | <b>49.99%</b> | <b>49.99%</b> |
| Non-current assets                                         | 366           | 363           |
| Current assets                                             | 15            | 14            |
| Non-current liabilities                                    | (122)         | (268)         |
| Current liabilities                                        | (158)         | (15)          |
| Net assets (100%)                                          | 101           | 94            |
| <b>Carrying amount of investment in associate (49.99%)</b> | <b>50</b>     | <b>47</b>     |
| Total revenue                                              | 43            | 125           |
| Total net profit/(loss) for the period (100%)              | (59)          | 116           |
| <b>Total share in profit/(loss) (49.99%)</b>               | <b>(29)</b>   | <b>58</b>     |
| Dividends received by the Group                            | 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 2016 the Group holds a 43.69% share with a net asset value of MEUR 14.

#### The ClearBank

ClearBank is a newly established UK bank that plans to provide clearing and settlement services from 2017. As of 31 December 2016, the Group holds a 35% share with net asset value of MEUR 21.

#### Other real estate projects

The Group invests in several real estate projects, with ownership participations ranging from 35% to 50%. Two small projects with a negative net asset value of MEUR 29 (2015: MEUR 26) are valued at nil.

## **E.11. Investment property**

Investment property includes all projects acquired through several acquisitions during the last three 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 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           |
| <b>Total investment property</b> | <b>982</b> | <b>82</b>      | <b>291</b>  | <b>97</b> | <b>53</b> | <b>1,505</b> |

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*In millions of EUR, as at 31 December 2015*

|                                  | Russia     | Czech Republic | Netherlands | Germany   | Total        |
|----------------------------------|------------|----------------|-------------|-----------|--------------|
| Land plot                        | 140        | 1              | -           | -         | 141          |
| Office                           | 269        | 180            | 245         | 88        | 782          |
| Office under development         | -          | 2              | -           | -         | 2            |
| Warehouse                        | 400        | -              | -           | -         | 400          |
| Retail                           | 111        | 14             | 34          | -         | 159          |
| Other                            | 22         | 1              | -           | -         | 23           |
| <b>Total investment property</b> | <b>942</b> | <b>198</b>     | <b>279</b>  | <b>88</b> | <b>1,507</b> |

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

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

|                                                   | 2016         | 2015         |
|---------------------------------------------------|--------------|--------------|
| Balance at 1 January                              | 1,507        | 1,596        |
| Additions resulting from business combination     | 43           | -            |
| Disposals resulting from business combination     | (174)        | (26)         |
| Additions - acquisition through asset deal        | 12           | 21           |
| Additions - capitalised costs                     | 21           | 30           |
| Disposals                                         | (4)          | (71)         |
| Transfer to/from non-current assets held for sale | (4)          | (5)          |
| Transfer to/from PPE                              | 4            | -            |
| Unrealised gains from investment property         | 74           | 95           |
| Unrealised losses from investment property        | (119)        | (78)         |
| Net FX differences                                | 145          | (55)         |
| <b>Balance at 31 December</b>                     | <b>1,505</b> | <b>1,507</b> |

Except for the acquisitions and disposals commented on in sections B.2.3, the most significant developments in the real estate segment in 2016 and 2015 were as follows:

- acquisition of an office building in the Czech Republic (Prague) in 2016;
- acquisition of an office building in the Netherlands (Rotterdam) in 2015;
- sale of an office building in the Netherlands (Amsterdam), a building rented in the retail business segment and land plots (all located in Prague) in 2015.

#### 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  |
| Czech Republic | office under development                | Residual         |
| 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 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                |

For the year ended 31 December 2015

|                | Current income per sqm | Market rent per sqm | Initial yield  | Reversionary yield |
|----------------|------------------------|---------------------|----------------|--------------------|
| Germany        | EUR 10.09-12.82        | EUR 8.5-16.0        | 4.7%-9.19%     | 5.01%-7.36%        |
| Netherlands    | EUR 0.37-17.76         | EUR 9.58-16.18      | 6%-10.75%      | 7.97%-24.39%       |
| Czech Republic | EUR 9.37-16.80         | EUR 8.14-25         | (1.29%)-13.06% | 5.67%-9.74%        |
| Russia         | EUR 7-25.1             | EUR 7.67-24         | 2.7%-11.1%     | 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 2016

|                                                      | Land and buildings | Ducts, cables and related plant | Telecom technology and related equipment | Other tangible assets and equipment | Total        |
|------------------------------------------------------|--------------------|---------------------------------|------------------------------------------|-------------------------------------|--------------|
| Carrying amount                                      |                    |                                 |                                          |                                     |              |
| Balance 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            |
| Net FX differences                                   | 19                 | 1                               | -                                        | 6                                   | 26           |
| <b>Total</b>                                         | <b>455</b>         | <b>1,334</b>                    | <b>329</b>                               | <b>151</b>                          | <b>2,269</b> |
| Cost                                                 | 571                | 1,554                           | 557                                      | 378                                 | 3,060        |
| Accumulated depreciation and impairment              | (116)              | (220)                           | (228)                                    | (227)                               | (791)        |
| Of which: Not in use                                 | 5                  | 17                              | 75                                       | 6                                   | 103          |

\*Depreciation includes discontinued operations.



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### Notes to the consolidated financial statements for the year ended 31 December 2016

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

|                                                      | Land and buildings | Ducts, cables and related plant | Telecom technology and related equipment | Other tangible assets and equipment | Total        |
|------------------------------------------------------|--------------------|---------------------------------|------------------------------------------|-------------------------------------|--------------|
| Carrying amount                                      |                    |                                 |                                          |                                     |              |
| Balance at 1 January                                 | 625                | 1,385                           | 259                                      | 189                                 | 2,458        |
| Additions                                            | 12                 | 22                              | 101                                      | 84                                  | 219          |
| Disposals                                            | (1)                | -                               | (6)                                      | (15)                                | (22)         |
| Other movements                                      | 1                  | -                               | 9                                        | (13)                                | (3)          |
| Depreciation charge*                                 | (33)               | (77)                            | (71)                                     | (68)                                | (249)        |
| Depreciation included in cost of sales (agriculture) | -                  | -                               | -                                        | (2)                                 | (2)          |
| Impairment charge                                    | (2)                | -                               | (1)                                      | (6)                                 | (9)          |
| Impairment reversal                                  | -                  | -                               | -                                        | 3                                   | 3            |
| Net FX differences                                   | (11)               | 36                              | 7                                        | (10)                                | 22           |
| <b>Total</b>                                         | <b>591</b>         | <b>1,366</b>                    | <b>298</b>                               | <b>162</b>                          | <b>2,417</b> |
| Cost                                                 | 685                | 1,511                           | 478                                      | 399                                 | 3,073        |
| Accumulated depreciation and impairment              | (94)               | (145)                           | (180)                                    | (237)                               | (656)        |
| <i>Of which: Not in use</i>                          | 6                  | 11                              | 61                                       | 10                                  | 88           |

\*Depreciation includes discontinued operations.

### E.13. Intangible assets

Intangible assets comprise the following:

*In millions of EUR, as at 31 December*

|                                                          | 2016         | 2015         |
|----------------------------------------------------------|--------------|--------------|
| Goodwill                                                 | 540          | 680          |
| Software                                                 | 342          | 294          |
| Licences                                                 | 360          | 341          |
| Customer relationships                                   | 445          | 501          |
| In-process research and development                      | 158          | 127          |
| Trademark                                                | 68           | 194          |
| Present value of future profits from portfolios acquired | 13           | 12           |
| Other                                                    | 9            | 8            |
| <b>Total intangible assets</b>                           | <b>1,935</b> | <b>2,157</b> |

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*

|                               | 2016       | 2015       |
|-------------------------------|------------|------------|
| Balance at 1 January          | 680        | 690        |
| Disposals (Eldorado)          | (159)      | -          |
| Impairment losses recognised  | (3)        | -          |
| Net FX differences            | 22         | (10)       |
| <b>Balance at 31 December</b> | <b>540</b> | <b>680</b> |

Goodwill consists of two significant items arising from the acquisition of O2 CR in 2014. Following the demerger of O2 CR in 2015 (refer to B.2.8.1) 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 2015, goodwill also included MEUR 138 related to the acquisition of Eldorado in 2009.

As of 31 December 2016, the carrying amount of O2 CR goodwill was MEUR 417 (2015: MEUR 416) and the carrying amount of CETIN goodwill was MEUR 104 (2015: 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 2017 to 2020). Cash flows beyond the forecast period were extrapolated (for 2021 to 2023) 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 2016 will be subject to regular reassessment and, potentially, adjustment.

Discounted cash flow valuation was supported by valuation using a market approach based on publicly traded guideline 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 guideline public companies for 2016.

### 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 six years, 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.

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 2016 will be subject to regular reassessment and, potentially, adjustment.

Discounted cash flow valuation was supported by valuation using a market approach based on publicly traded guideline 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 guideline public companies for 2016.

### **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 2016*

|                                                | Software   | Licences   | Customer<br>relation-<br>ships | IPRD       | Trade-<br>marks | PVFP      | Other<br>intangi-<br>ble<br>assets | Total        |
|------------------------------------------------|------------|------------|--------------------------------|------------|-----------------|-----------|------------------------------------|--------------|
| <b>Carrying amount</b>                         |            |            |                                |            |                 |           |                                    |              |
| Balance 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                            | -          | -          | -                              | -          | -               | -         | -                                  | -            |
| Net FX differences                             | 8          | -          | -                              | -          | 15              | 3         | -                                  | 26           |
| <b>Balance at 31 December</b>                  | <b>342</b> | <b>360</b> | <b>445</b>                     | <b>158</b> | <b>68</b>       | <b>13</b> | <b>9</b>                           | <b>1,395</b> |
| 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.

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

|                                                | Software   | Licences   | Customer<br>relation-<br>ships | IPRD       | Trade-<br>marks | PVFP      | Other<br>intangi-<br>ble<br>assets | Total        |
|------------------------------------------------|------------|------------|--------------------------------|------------|-----------------|-----------|------------------------------------|--------------|
| <b>Carrying amount</b>                         |            |            |                                |            |                 |           |                                    |              |
| Balance at 1 January                           | 266        | 365        | 544                            | 93         | 217             | 18        | 6                                  | 1,509        |
| Additions                                      | 120        | 18         | 1                              | 25         | -               | -         | 7                                  | 171          |
| Additions from internal development            | 8          | -          | -                              | 6          | -               | -         | -                                  | 14           |
| Disposal                                       | (3)        | -          | -                              | -          | -               | -         | -                                  | (3)          |
| Other changes                                  | 5          | 1          | 1                              | -          | -               | -         | (4)                                | 3            |
| Amortisation charge*                           | (94)       | (48)       | (56)                           | -          | (32)            | (4)       | (1)                                | (235)        |
| Impairment charge                              | (6)        | -          | -                              | -          | -               | -         | -                                  | (6)          |
| Impairment reversal                            | -          | -          | -                              | -          | 23              | -         | -                                  | 23           |
| Net FX differences                             | (2)        | 5          | 11                             | 3          | (14)            | (2)       | -                                  | 1            |
| <b>Balance at 31 December</b>                  | <b>294</b> | <b>341</b> | <b>501</b>                     | <b>127</b> | <b>194</b>      | <b>12</b> | <b>8</b>                           | <b>1,477</b> |
| Cost                                           | 585        | 419        | 610                            | 127        | 234             | 26        | 10                                 | 2,011        |
| Accumulated amortisation and impairment losses | (291)      | (78)       | (109)                          | -          | (40)            | (14)      | (2)                                | (534)        |
| <i>Of which: Not in use</i>                    | 49         | 18         | -                              | -          | -               | -         | -                                  | 67           |

\* Amortisation includes discontinued operations.

**E.14. Other assets**

Other assets comprise the following:

*In millions of EUR, as at 31 December*

|                                                                | 2016       | 2015       |
|----------------------------------------------------------------|------------|------------|
| Prepaid expenses and advances                                  | 133        | 104        |
| Other taxes receivable                                         | 22         | 52         |
| Biological assets                                              | 8          | 6          |
| Insurance related other assets                                 | 17         | 31         |
| Deferred acquisition costs – insurance business                | 14         | 28         |
| Non-life amounts ceded to reinsurers from insurance provisions | 1          | 1          |
| Receivables arising out of direct insurance operations         | 2          | 2          |
| Other                                                          | 97         | 47         |
| <b>Subtotal other assets (gross)</b>                           | <b>277</b> | <b>240</b> |
| Individual allowances for impairment                           |            |            |
| Prepaid expenses and advances                                  | (5)        | (2)        |
| Other                                                          | (1)        | (3)        |
| <b>Total other assets (net)</b>                                | <b>271</b> | <b>235</b> |

**E.14.1. Deferred acquisition costs – insurance business**

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

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

|                                                | 2016      | 2015      |
|------------------------------------------------|-----------|-----------|
| Balance at 1 January                           | 28        | 79        |
| Disposal resulting from business combinations  | 4         | -         |
| Acquisition costs incurred during the period   | 12        | 14        |
| Amortisation (charged in the income statement) | (32)      | (60)      |
| Net FX differences                             | 2         | (5)       |
| <b>Balance at 31 December</b>                  | <b>14</b> | <b>28</b> |

**E.15. Liabilities to non-banks**

Liabilities to non-banks comprise the following:

*In millions of EUR, as at 31 December*

|                                       | 2016         | 2015         |
|---------------------------------------|--------------|--------------|
| Current accounts and demand deposits  | 5,486        | 4,170        |
| Term deposits                         | 2,791        | 2,347        |
| Loans                                 | 29           | 17           |
| Loans received under repos            | 59           | 215          |
| Other                                 | 8            | 7            |
| <b>Total liabilities to non-banks</b> | <b>8,373</b> | <b>6,756</b> |

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

**E.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*

|                                   | 2016         | 2015         |
|-----------------------------------|--------------|--------------|
| Repayable on demand               | 15           | 3            |
| Loans received under repos        | 389          | 206          |
| Secured loans (other than repos)  | 6,742        | 4,522        |
| Unsecured loans                   | 885          | 580          |
| Other                             | 80           | 31           |
| <b>Total liabilities to banks</b> | <b>8,111</b> | <b>5,342</b> |

Secured loans include following significant loan facilities.

The 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 (following the demerger of O2 CR) 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.38.1).

As of 31 December 2016 the Group complied with all covenants related to the loan facilities with the exception of several projects in Russia. In general, 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 ruble in 2016. This has influenced the underlying market values of individual assets. While all assets are doing fine in terms of cash flow performance and loans are properly serviced, the Group is facing LTV (loan-to-value) covenant issues with some of the Russian projects. The Group is in ongoing discussions with the banks and is actively trying to find a mutually acceptable solution. The most likely solution is a LTV waiver provided by the banks; however discussions remain open.

As of 31 December 2016, the LTV covenants for the Ryazan shopping mall and Tomilino projects had not been fulfilled. In case of the Ryazan shopping mall, a temporary waiver for any breach of covenants was granted in September 2016 by the financing bank. Within the ongoing active discussions with the financing bank to address this temporary valuation matter, the bank also approved a LTV waiver for the Tomilino project.

**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 | 2016         | 2015         |
|-------------------------------------------------------------------|---------------|----------|--------------|--------------|
| Unsecured CZK bond issue of MCZK 920                              | Fixed         | 2017     | 2            | 32           |
| Unsecured CZK bond issue of MCZK 3,000                            | Fixed         | 2017     | 111          | -            |
| Unsecured bond issue of MKZT 6,769                                | Fixed         | 2019     | 20           | 19           |
| Stock exchange RUB bond issue of MRUB 1,500                       | Fixed         | 2019     | 8            | -            |
| Unsecured EUR bond issue of MEUR 625                              | Fixed         | 2021     | 623          | -            |
| Unsecured CZK bond issue of MCZK 4,866                            | Fixed         | 2023     | 178          | -            |
| Deposit certificate of MKZT 315                                   | Fixed         | 2017     | 1            | -            |
| Unsecured RUB bond issue 2 of MRUB 3,000                          | Variable      | 2016     | -            | 37           |
| Unsecured CZK bond issue 5 of MCZK 3,750                          | Fixed         | 2016     | -            | 125          |
| Cash loan receivables backed note issue of MRUB 5,000             | Variable      | 2016     | -            | 62           |
| Unsecured bond issue of MKZT 7,000                                | Fixed         | 2016     | -            | 19           |
| Long-term registered certificate of deposit; rate (8.7 - 13.5%)   | Fixed         | 2017     | 82           | 20           |
| Deposit bill of exchange; rate (0.20 - 0.71%)                     | Fixed         | 2017     | 10           | 4            |
| Long-term registered certificate of deposit; rate (9.7 - 11.0%)   | Fixed         | 2018     | 90           | -            |
| Deposit bill of exchange; rate (0% - 0.47%)                       | Fixed         | 2018     | 50           | 22           |
| Long-term registered certificate of deposit; rate (10.5 - 11.25%) | Fixed         | 2019     | 25           | -            |
| Deposit bill of exchange; zero-coupon rate                        | Fixed         | 2020     | 37           | -            |
| Deposit bill of exchange; zero coupon rate                        | Fixed         | 2016     | -            | 684          |
| Long-term registered certificate of deposit; rate 14%             | Fixed         | 2016     | -            | 32           |
| <b>Total debt securities issued</b>                               |               |          | <b>1,237</b> | <b>1,056</b> |

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

**E.18. Subordinated liabilities**

Subordinated liabilities comprise the following:

*In millions of EUR, as at 31 December*

|                                              | Interest rate | Maturity | 2016       | 2015       |
|----------------------------------------------|---------------|----------|------------|------------|
| Loan participation notes issue 7 of MUSD 500 | Fixed         | 2020     | 95         | 94         |
| Loan participation notes issue 8 of MUSD 200 | Fixed         | 2021     | 121        | 149        |
| Bond issue of MCZK 1,400                     | Fixed         | 2023     | 54         | 54         |
| Bond issue of MCZK 1,000                     | Fixed         | 2024     | 38         | 29         |
| Loan of MRUB 681                             | Fixed         | 2017     | -          | 9          |
| <b>Total subordinated liabilities</b>        |               |          | <b>308</b> | <b>335</b> |

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

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

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

The bond issue of MCZK 1,000 was issued in April 2014. The Group has an early redemption option exercisable on 30 April 2019.

### **E.19. Provisions**

Provisions comprise the following:

*In millions of EUR, as at 31 December*

|                                                            | 2016       | 2015       |
|------------------------------------------------------------|------------|------------|
| Insurance provisions                                       | 158        | 152        |
| Goods returns                                              | -          | 5          |
| Provision for litigation except for tax-related litigation | 6          | 4          |
| Other provisions                                           | 27         | 17         |
| <b>Total provisions</b>                                    | <b>191</b> | <b>178</b> |

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

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

|                                                | Goods returns | Provision for<br>litigation<br>except for tax<br>issues | Other<br>provisions | Total     |
|------------------------------------------------|---------------|---------------------------------------------------------|---------------------|-----------|
| Balance 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)       |
| Net FX differences                             | 1             | 1                                                       | (1)                 | 1         |
| <b>Balance at 31 December</b>                  | <b>-</b>      | <b>6</b>                                                | <b>27</b>           | <b>33</b> |
| Non-current (> 1 year)                         | -             | 1                                                       | 14                  | 15        |
| Current (< 1 year)                             | -             | 5                                                       | 13                  | 18        |
| <b>Total provisions</b>                        | <b>-</b>      | <b>6</b>                                                | <b>27</b>           | <b>33</b> |



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

|                                     | Goods returns | Provision for litigation except for tax issues | Other provisions | Total     |
|-------------------------------------|---------------|------------------------------------------------|------------------|-----------|
| Balance at 1 January                | 7             | 5                                              | 16               | 28        |
| Provisions created during the year  | 4             | 4                                              | 22               | 30        |
| Provisions used during the year     | (4)           | (2)                                            | (19)             | (25)      |
| Provisions released during the year | -             | (3)                                            | (2)              | (5)       |
| Net FX differences                  | (2)           | -                                              | -                | (2)       |
| <b>Balance at 31 December</b>       | <b>5</b>      | <b>4</b>                                       | <b>17</b>        | <b>26</b> |
| Non-current (> 1 year)              | -             | 1                                              | 10               | 11        |
| Current (< 1 year)                  | 5             | 3                                              | 7                | 15        |
| <b>Total provisions</b>             | <b>5</b>      | <b>4</b>                                       | <b>17</b>        | <b>26</b> |

Provisions for goods returns related to the retail business disposed in 2016. The Group had assessed that it is more likely than not that it will have to pay back sales revenues with respect to a certain number of products returned by customers either within two weeks after the sale date unconditionally, or later due to quality issues with the goods. The Group created a provision for such returns of goods based on historical information on returns, on average accounting for 0.4% of sales for the years ended 31 December 2015.

### E.19.1. Insurance provisions

Insurance provisions comprise the following:

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

|                                                                | Direct insurance | Accepted reinsurance | Total      |
|----------------------------------------------------------------|------------------|----------------------|------------|
| Non-life insurance provisions                                  | 49               | -                    | 49         |
| Provisions for unearned premiums                               | 44               | -                    | 44         |
| Provisions for outstanding claims                              | 5                | -                    | 5          |
| RBNS provisions                                                | 5                | -                    | 5          |
| Life insurance provisions                                      | 109              | -                    | 109        |
| Provisions for outstanding claims                              | 4                | -                    | 4          |
| Mathematical provisions                                        | 97               | -                    | 97         |
| Provisions for profit participation allocated to policyholders | 8                | -                    | 8          |
| <b>Total insurance provisions</b>                              | <b>158</b>       | <b>-</b>             | <b>158</b> |

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

|                                                                | Direct insurance | Accepted reinsurance | Total      |
|----------------------------------------------------------------|------------------|----------------------|------------|
| Non-life insurance provisions                                  | 78               | (1)                  | 77         |
| Provisions for unearned premiums                               | 72               | -                    | 72         |
| Provisions for outstanding claims                              | 6                | (1)                  | 5          |
| RBNS provisions                                                | 6                | (1)                  | 5          |
| Life insurance provisions                                      | 74               | -                    | 74         |
| Provisions for outstanding claims                              | 3                | -                    | 3          |
| Mathematical provisions                                        | 65               | -                    | 65         |
| Provisions for profit participation allocated to policyholders | 6                | -                    | 6          |
| <b>Total insurance provisions</b>                              | <b>152</b>       | <b>(1)</b>           | <b>151</b> |

**PPF Group N.V.***Notes to the consolidated financial statements for the year ended 31 December 2016*

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

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

|                                    | Gross amount | Reinsurers' share | Net amount |
|------------------------------------|--------------|-------------------|------------|
| Balance at 1 January 2016          | 72           | -                 | 72         |
| Premiums written during the year   | 22           | -                 | 22         |
| Premiums earned during the year    | (62)         | -                 | (62)       |
| Net FX differences                 | 12           | -                 | 12         |
| <b>Balance at 31 December 2016</b> | <b>44</b>    | <b>-</b>          | <b>44</b>  |

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

|                                    | Gross amount | Reinsurers' share | Net amount |
|------------------------------------|--------------|-------------------|------------|
| Balance at 1 January 2015          | 162          | -                 | 162        |
| Premiums written during the year   | 32           | -                 | 32         |
| Premiums earned during the year    | (108)        | -                 | (108)      |
| Net FX differences                 | (14)         | -                 | (14)       |
| <b>Balance at 31 December 2015</b> | <b>72</b>    | <b>-</b>          | <b>72</b>  |

Movements in provisions for outstanding claims were as follows:

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

|                                                   | Gross amount | Reinsurers' share | Net amount |
|---------------------------------------------------|--------------|-------------------|------------|
| Balance 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)        |
| Net FX differences                                | -            | -                 | -          |
| <b>Balance at 31 December 2016</b>                | <b>5</b>     | <b>-</b>          | <b>5</b>   |

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

|                                                   | Gross amount | Reinsurers' share | Net amount |
|---------------------------------------------------|--------------|-------------------|------------|
| Balance at 1 January 2015                         | 8            | (1)               | 7          |
| Claims incurred in the current year               | 6            | (1)               | 5          |
| Adjustments for losses incurred in previous years | (2)          | -                 | (2)        |
| Claims paid during the year                       | (5)          | 1                 | (4)        |
| Net FX differences                                | (1)          | -                 | (1)        |
| <b>Balance at 31 December 2015</b>                | <b>6</b>     | <b>(1)</b>        | <b>5</b>   |

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

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

|                                                                                                               | 2016       | 2015      |
|---------------------------------------------------------------------------------------------------------------|------------|-----------|
| Balance at 1 January                                                                                          | 71         | 67        |
| Mathematical provision for contracts concluded in previous years, and cancelled in the current reporting year | (5)        | (8)       |
| Mathematical provision for contracts maturing in the current reporting year                                   | (3)        | (3)       |
| Increase in mathematical provision for active contracts concluded in previous years                           | 19         | 18        |
| Provision for insurance contracts concluded in the current period                                             | 2          | 3         |
| Bonuses (profit) credited to policyholders                                                                    | 2          | 4         |
| Net FX differences                                                                                            | 19         | (10)      |
| <b>Balance at 31 December</b>                                                                                 | <b>105</b> | <b>71</b> |

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## Notes to the consolidated financial statements for the year ended 31 December 2016

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 2016*

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

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

|                               | Less than<br>1 year | 1 to 3<br>years | 3 to 5<br>years | 5 to 15<br>years | More<br>than 15<br>years | Non<br>specified | Total |
|-------------------------------|---------------------|-----------------|-----------------|------------------|--------------------------|------------------|-------|
| Non-life insurance provisions | 52                  | 24              | 1               | -                | -                        | 1                | 78    |
| Life insurance provisions     | 6                   | 9               | 8               | 33               | 18                       | -                | 74    |

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

*In millions of EUR*

|                                                                                      | before 2012 | 2012     | 2013     | 2014     | 2015     | 2016     | Total     |
|--------------------------------------------------------------------------------------|-------------|----------|----------|----------|----------|----------|-----------|
| Estimated ultimate cumulative claims costs                                           |             |          |          |          |          |          |           |
| at the end of underwriting year                                                      | 9           | 5        | 12       | 7        | 6        | 3        |           |
| one year later                                                                       | 9           | 7        | 11       | 7        | 6        |          |           |
| two years later                                                                      | 9           | 6        | 11       | 6        |          |          |           |
| three years later                                                                    | 8           | 6        | 8        |          |          |          |           |
| four years later                                                                     | 8           | 5        |          |          |          |          |           |
| five years later                                                                     | 14          |          |          |          |          |          |           |
| <b>Estimated ultimate cumulative claims costs at the end of the reporting period</b> | <b>6</b>    | <b>5</b> | <b>8</b> | <b>6</b> | <b>6</b> | <b>3</b> | <b>34</b> |
| Cumulative claim payments                                                            |             |          |          |          |          |          |           |
| at the end of underwriting year                                                      | 6           | 3        | 6        | 3        | 4        | 2        |           |
| one year later                                                                       | 7           | 5        | 9        | 5        | 4        |          |           |
| two years later                                                                      | 8           | 5        | 9        | 4        |          |          |           |
| three years later                                                                    | 8           | 5        | 8        |          |          |          |           |
| four years later                                                                     | 8           | 5        |          |          |          |          |           |
| five years later                                                                     | 14          |          |          |          |          |          |           |
| six years later                                                                      |             |          |          |          |          |          |           |
| <b>Cumulative payments to date</b>                                                   | <b>6</b>    | <b>5</b> | <b>8</b> | <b>4</b> | <b>4</b> | <b>2</b> | <b>29</b> |
| Provision recognised in the statement of financial position                          |             |          |          | 2        | 2        | 1        | 5         |
| Provisions for outstanding claims                                                    |             |          |          |          |          |          | 5         |

**E.20. Trade and other payables**

Other liabilities comprise the following:

*In millions of EUR, as at 31 December*

|                                      | 2016         | 2015         |
|--------------------------------------|--------------|--------------|
| Settlements with suppliers           | 549          | 902          |
| Wages and salaries                   | 158          | 112          |
| Social security and health insurance | 36           | 28           |
| Other taxes payable                  | 56           | 68           |
| Accrued expenses                     | 61           | 44           |
| Deferred income                      | 69           | 88           |
| Advance received                     | 17           | 33           |
| Customer loan overpayments           | 31           | 30           |
| Other                                | 117          | 131          |
| <b>Total other liabilities</b>       | <b>1,094</b> | <b>1,436</b> |

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

**E.20.1. Finance lease liabilities**

Finance lease liabilities comprise the following:

*In millions of EUR, as at 31 December 2016*

|                                        | Payments | Interest | Finance lease liabilities |
|----------------------------------------|----------|----------|---------------------------|
| Finance lease liabilities:             |          |          |                           |
| between one and five years             | 1        | -        | 1                         |
| <b>Total finance lease liabilities</b> | <b>1</b> | <b>-</b> | <b>1</b>                  |

*In millions of EUR, as at 31 December 2015*

|                                        | Payments  | Interest  | Finance lease liabilities |
|----------------------------------------|-----------|-----------|---------------------------|
| Finance lease liabilities:             |           |           |                           |
| less than one year                     | 2         | 1         | 1                         |
| between one and five years             | 3         | 2         | 1                         |
| more than five years                   | 13        | 10        | 3                         |
| <b>Total finance lease liabilities</b> | <b>18</b> | <b>13</b> | <b>5</b>                  |

**E.21. Capital issued**

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

The following table provides details of authorised and issued shares:

|                                        | 2016    | 2015    |
|----------------------------------------|---------|---------|
| Number of shares authorised            | 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.

On 1 May 2015, the Group cancelled 6.5% shares held as treasury shares. The effective ownership stake of the Group's shareholders, as stated in section A, did not change.

## **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 the shareholders.

### **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 the 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 the shareholders.

### **E.22.4. Cash flow hedge reserve**

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

## **E.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 | 2016/2015  | Czech Republic           |
| Česká telekomunikační infrastruktura a.s. | CETIN | 2015       | Czech Republic           |
| Home Credit B.V. (subgroup)               | HC    | 2016/2015  | Netherlands              |
| PPF banka, a.s.                           | PPFB  | 2016/2015  | Czech Republic           |
| Facipero Investments Ltd. (subgroup)      | FACI  | 2016/2015  | Cyprus                   |
| Velthemia Ltd. (subgroup)                 | VELT  | 2016/2015  | Cyprus                   |
| Investitsionny Trust CJSC                 | INTR  | 2016/2015  | Russia                   |

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

# PPF Group N.V.

Notes to the consolidated financial statements for the year ended 31 December 2016

The following table summarises the information relating to these subsidiaries:

*In millions of EUR*

| 2016                                                   | O2 CR         | HC            | PPFB         | FACI          | VELT          | INTR          | Other | Total       |
|--------------------------------------------------------|---------------|---------------|--------------|---------------|---------------|---------------|-------|-------------|
| <b>NCI percentage (ownership)</b>                      | <b>14.60%</b> | <b>11.38%</b> | <b>7.04%</b> | -             | <b>39.93%</b> | <b>21.25%</b> |       |             |
| Total assets                                           | 1,605         | 14,704        | 5,063        | -             | 336           | 203           |       |             |
| Total liabilities                                      | (684)         | (13,203)      | (4,735)      | -             | (205)         | (142)         |       |             |
| <b>Net assets</b>                                      | <b>921</b>    | <b>1,501</b>  | <b>328</b>   | -             | <b>131</b>    | <b>61</b>     |       |             |
| Net assets attributable to NCI of the sub-group        | -             | (6)           | -            | -             | -             | -             |       |             |
| <b>Net assets attributable to owners of the Parent</b> | <b>921</b>    | <b>1,495</b>  | <b>328</b>   | -             | <b>131</b>    | <b>61</b>     |       |             |
| Carrying amount of NCI                                 | 134           | 170           | 23           | -             | 52            | 13            | 10    | <b>402</b>  |
| <b>NCI percentage during the period*</b>               | <b>15.39%</b> | <b>11.38%</b> | <b>7.04%</b> | <b>20.00%</b> | <b>39.93%</b> | <b>21.25%</b> |       |             |
| Revenue                                                | 1,388         | 2,733         | 128          | 1,284         | 67            | 13            |       |             |
| Profit/(loss)                                          | 143           | 213           | 50           | 285           | (49)          | 9             |       |             |
| Other comprehensive income                             | -             | 94            | 1            | 20            | -             | -             |       |             |
| Total comprehensive income                             | 143           | 307           | 51           | 305           | (49)          | 9             |       |             |
| Profit/(loss) allocated to NCI**                       | 22            | 24            | 4            | 57            | (20)          | 2             | (5)   | <b>84</b>   |
| OCI allocated to NCI                                   | -             | 11            | -            | 4             | -             | -             | (2)   | <b>13</b>   |
| <b>Dividends paid to NCI</b>                           | <b>(29)</b>   | -             | -            | -             | -             | -             | -     | <b>(29)</b> |

\* 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.2.5).

*In millions of EUR*

| 2015                                                   | O2 CR         | CETIN         | HC                   | PPFB         | FACI          | VELT          | INTR          | Other | Total       |
|--------------------------------------------------------|---------------|---------------|----------------------|--------------|---------------|---------------|---------------|-------|-------------|
| <b>NCI percentage (ownership)</b>                      | <b>15.94%</b> | <b>5.10%</b>  | <b>11.38%</b>        | <b>7.04%</b> | <b>20.00%</b> | <b>39.93%</b> | <b>21.25%</b> |       |             |
| Total assets                                           | 1,555         | 3,227         | 9,656                | 3,813        | 767           | 395           | 191           |       |             |
| Total liabilities                                      | (552)         | (1,497)       | (8,460)              | (3,542)      | (661)         | (218)         | (138)         |       |             |
| <b>Net assets</b>                                      | <b>1,003</b>  | <b>1,730</b>  | <b>1,196</b>         | <b>271</b>   | <b>106</b>    | <b>177</b>    | <b>53</b>     |       |             |
| Net assets attributable to NCI of the sub-group        | -             | -             | (5)                  | -            | -             | -             | 1             |       |             |
| <b>Net assets attributable to owners of the Parent</b> | <b>1,003</b>  | <b>1,730</b>  | <b>1,191</b>         | <b>271</b>   | <b>106</b>    | <b>177</b>    | <b>54</b>     |       |             |
| Carrying amount of NCI                                 | 160           | 88            | 136                  | 19           | 21            | 71            | 11            | 11    | <b>517</b>  |
| <b>NCI percentage during the period*</b>               | <b>15.27%</b> | <b>11.22%</b> | <b>13.38%/11.38%</b> | <b>7.04%</b> | <b>20.00%</b> | <b>39.93%</b> | <b>21.25%</b> |       |             |
| Revenue                                                | 1,373         | 701           | 2,286                | 148          | 852           | 57            | 14            |       |             |
| Profit/(loss)                                          | 115           | 113           | (42)                 | 42           | 30            | 5             | 27            |       |             |
| Other comprehensive income                             | -             | -             | (83)                 | 7            | -             | -             | -             |       |             |
| Total comprehensive income                             | 115           | 113           | (125)                | 49           | 30            | 5             | 27            |       |             |
| Profit/(loss) allocated to NCI**                       | 18            | 13            | (6)                  | 3            | 6             | 2             | 6             | (5)   | <b>37</b>   |
| OCI allocated to NCI                                   | -             | -             | 2                    | -            | -             | -             | -             | (1)   | <b>1</b>    |
| <b>Dividends paid to NCI</b>                           | <b>(22)</b>   | -             | -                    | -            | -             | <b>(14)</b>   | -             | -     | <b>(36)</b> |

\* The NCIs for some subsidiaries changed during the period as follows: O2 CR and CETIN – due to several transactions the average NCI percentage during the period was used; the HC – NCI percentage decreased on 17 June 2015;

\*\* Facipero – the NCI on profit applies from 17 June 2015.

**E.24. Net interest income**

Interest income comprises the following:

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

|                                                 | 2016         | 2015         |
|-------------------------------------------------|--------------|--------------|
| Financial instruments at FVTPL                  | 8            | 14           |
| Financial instruments available for sale        | 61           | 60           |
| Financial instruments held to maturity          | 2            | -            |
| Due from banks and other financial institutions | 30           | 46           |
| Cash loan receivables                           | 1,310        | 1,143        |
| Consumer loan receivables                       | 666          | 520          |
| Revolving loan receivables                      | 141          | 207          |
| Car loan receivables                            | 20           | 21           |
| Mortgage loan receivables                       | 5            | 7            |
| Loans to corporations                           | 76           | 59           |
| Other                                           | 4            | 4            |
| <b>Total interest income</b>                    | <b>2,323</b> | <b>2,081</b> |

Interest expense comprises the following:

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

|                                               | 2016         | 2015         |
|-----------------------------------------------|--------------|--------------|
| Due to customers                              | 218          | 411          |
| Due to banks and other financial institutions | 451          | 284          |
| Debt securities issued                        | 33           | 42           |
| Subordinated liabilities                      | 27           | 35           |
| Other                                         | 7            | 14           |
| <b>Total interest expenses</b>                | <b>736</b>   | <b>786</b>   |
| <b>Total net interest income</b>              | <b>1,587</b> | <b>1,295</b> |

**E.25. Net fee and commission income**

Fee and commission income comprises the following:

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

|                                                     | 2016       | 2015       |
|-----------------------------------------------------|------------|------------|
| Insurance commissions                               | 330        | 232        |
| Penalty fees                                        | 107        | 100        |
| Cash transactions                                   | 18         | 24         |
| Customer payment processing and account maintenance | 37         | 41         |
| Retailers' commissions                              | 10         | 15         |
| Other                                               | 20         | 9          |
| <b>Total fee and commission income</b>              | <b>522</b> | <b>421</b> |

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Fee and commission expense comprises the following:

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

|                                            | 2016       | 2015       |
|--------------------------------------------|------------|------------|
| Commissions to retailers                   | 24         | 30         |
| Cash transactions                          | 16         | 18         |
| Payment processing and account maintenance | 29         | 23         |
| Payments to deposit insurance agencies     | 16         | 18         |
| Credit and other register expense          | 16         | 10         |
| Other                                      | 3          | 11         |
| <b>Total fee and commission expense</b>    | <b>104</b> | <b>110</b> |
| <b>Total net fee and commission income</b> | <b>418</b> | <b>311</b> |

**E.26. Net gain/loss on financial assets**

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

|                                                  | 2016        | 2015      |
|--------------------------------------------------|-------------|-----------|
| Net trading income                               | (44)        | 36        |
| Debt securities trading                          | 8           | 18        |
| FX trading                                       | (14)        | 20        |
| Derivatives                                      | (38)        | (2)       |
| Net gains on financial assets at FVTPL           | (3)         | 6         |
| Debt securities                                  | 4           | 5         |
| Other                                            | (7)         | 1         |
| Net realised gains/(losses)                      | 20          | (6)       |
| AFS financial assets                             | 21          | 6         |
| Loans and receivables                            | (1)         | (12)      |
| Dividends                                        | 8           | 1         |
| Other income/(expenses) from financial assets    | 3           | (3)       |
| <b>Total net gain/(loss) on financial assets</b> | <b>(16)</b> | <b>34</b> |

**E.27. Net impairment losses on financial assets**

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

|                                                        | 2016       | 2015       |
|--------------------------------------------------------|------------|------------|
| Financial instruments available for sale               | -          | (4)        |
| Cash loan receivables                                  | 296        | 463        |
| Consumer loan receivables                              | 225        | 170        |
| Revolving loan receivables                             | 43         | 137        |
| Car loan receivables                                   | 2          | 2          |
| Mortgage loan receivables                              | 4          | 4          |
| Loans to corporations                                  | 3          | (14)       |
| <b>Total net impairment losses on financial assets</b> | <b>573</b> | <b>758</b> |



**E.28. Insurance income***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)      |
| <b>Total insurance income</b>                                                 | <b>36</b> | <b>4</b> | <b>40</b> |

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

|                                                                               | Non-life  | Life     | Total     |
|-------------------------------------------------------------------------------|-----------|----------|-----------|
| Gross earned premiums                                                         | 108       | 40       | 148       |
| Gross premiums written                                                        | 32        | 40       | 72        |
| Change in the provisions for unearned premiums                                | 76        | -        | 76        |
| Earned premiums ceded                                                         | (1)       | -        | (1)       |
| Ceded reinsurance premiums                                                    | (1)       | -        | (1)       |
| Net insurance benefits and claims                                             | (4)       | (28)     | (32)      |
| Claims paid                                                                   | (5)       | (12)     | (17)      |
| Change in provisions for outstanding claims                                   | 1         | (1)      | -         |
| Change in mathematical provisions                                             | -         | (11)     | (11)      |
| Change in life provisions for profit participation allocated to policyholders | -         | (4)      | (4)       |
| Acquisition cost                                                              | (50)      | (10)     | (60)      |
| <b>Total insurance income</b>                                                 | <b>53</b> | <b>2</b> | <b>55</b> |

**E.29. Net rental and related income***In millions of EUR, for the year ended 31 December*

|                                            | 2016       | 2015       |
|--------------------------------------------|------------|------------|
| Gross rental income                        | 120        | 131        |
| Service income                             | 13         | 10         |
| Service charge income                      | 16         | 17         |
| Service charge expense                     | (12)       | (11)       |
| <b>Total net rental and related income</b> | <b>137</b> | <b>147</b> |

**E.30. Net telecommunication income**

Telecommunication income comprises the following:

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

|                                  | 2016         | 2015         |
|----------------------------------|--------------|--------------|
| Revenues from voice services     | 897          | 865          |
| Revenues from data services      | 451          | 419          |
| Other telecommunication services | 394          | 386          |
| <b>Telecommunication income</b>  | <b>1,742</b> | <b>1,670</b> |

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Telecommunication expenses comprise the following:

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

|                                     | 2016         | 2015         |
|-------------------------------------|--------------|--------------|
| Interconnection and roaming         | 424          | 363          |
| Cost of goods sold                  | 100          | 104          |
| Commissions                         | 42           | 46           |
| Sub-deliveries                      | 39           | 35           |
| Other costs                         | 39           | 35           |
| <b>Telecommunication expenses</b>   | <b>644</b>   | <b>583</b>   |
| <b>Net telecommunication income</b> | <b>1,098</b> | <b>1,087</b> |

**E.31. Net agricultural income***In millions of EUR, for the year ended 31 December*

|                                           | 2016     | 2015     |
|-------------------------------------------|----------|----------|
| Sales of goods                            | 22       | 23       |
| Cost of sales                             | (15)     | (16)     |
| Other revenue                             | 1        | 1        |
| Change in fair value of biological assets | (1)      | (1)      |
| <b>Total net agriculture income</b>       | <b>7</b> | <b>7</b> |

**E.32. Other income***In millions of EUR, for the year ended 31 December*

|                                                                      | 2016       | 2015      |
|----------------------------------------------------------------------|------------|-----------|
| Rental income                                                        | 11         | 15        |
| Gain on disposal of property, plant, equipment and intangible assets | 3          | 3         |
| Foreign currency gains                                               | 170        | -         |
| Other                                                                | 62         | 42        |
| <b>Total other income</b>                                            | <b>246</b> | <b>60</b> |

**E.33. General administrative expenses***In millions of EUR, for the year ended 31 December*

|                                                        | 2016         | 2015         |
|--------------------------------------------------------|--------------|--------------|
| Employee compensation                                  | 764          | 590          |
| Payroll related taxes (including pension contribution) | 166          | 143          |
| Rental, maintenance and repair expense                 | 156          | 165          |
| Information technologies                               | 95           | 95           |
| Advertising and marketing                              | 71           | 57           |
| Professional services                                  | 92           | 76           |
| Telecommunication and postage                          | 58           | 57           |
| Travel expenses                                        | 27           | 21           |
| Taxes other than income tax                            | 57           | 70           |
| Collection agency fee                                  | 32           | 32           |
| Distribution, transport and storage of goods           | 2            | 2            |
| Other                                                  | 78           | 61           |
| <b>Total general administrative expenses</b>           | <b>1,598</b> | <b>1,369</b> |

The average rounded number of employees during the year 2016 was 102,000 (2015: 85,000), of which seven employees were employed in the Netherlands (2015: eight employees).

**E.34. Other operating expenses***In millions of EUR, for the year ended 31 December*

|                                                                       | 2016       | 2015       |
|-----------------------------------------------------------------------|------------|------------|
| Depreciation of property, plant and equipment                         | 214        | 232        |
| Amortisation of intangible assets                                     | 216        | 231        |
| Net impairment losses on property, plant and equipment                | 32         | 7          |
| Net impairment losses on other assets                                 | 13         | 10         |
| Net impairment losses on trading property                             | 10         | (1)        |
| Loss on disposal of property, plant, equipment, and intangible assets | 8          | 12         |
| Net impairment losses on other intangible assets                      | 6          | -          |
| Net impairment losses on goodwill                                     | 3          | -          |
| Foreign currency losses                                               | -          | 133        |
| <b>Total other operating expenses</b>                                 | <b>502</b> | <b>624</b> |

**E.35. 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       | 2015       |
|------------------------------------------------------------------------------|------------|------------|
| Sales of goods                                                               | 1,260      | 1,413      |
| Cost of goods sold                                                           | (981)      | (1,060)    |
| Other income on retail operations                                            | 18         | 33         |
| <b>Net income on retail operations</b>                                       | <b>297</b> | <b>386</b> |
| Interest income                                                              | 1          | 2          |
| Interest expense                                                             | (14)       | (16)       |
| Fee and commission income                                                    | 29         | 16         |
| Fee and commission expense                                                   | (10)       | (11)       |
| Net gain on financial assets                                                 | -          | 3          |
| Net valuation gain on investment property                                    | -          | 1          |
| Other income                                                                 | 14         | 13         |
| General administrative expenses                                              | (299)      | (333)      |
| <i>Out of which</i>                                                          |            |            |
| Employee compensation                                                        | (87)       | (93)       |
| Payroll related taxes (including pension contribution)                       | (20)       | (23)       |
| Advertising and marketing                                                    | (30)       | (35)       |
| Rental, maintenance and repair expense                                       | (81)       | (96)       |
| Distribution, transport and storage of goods                                 | (22)       | (24)       |
| Information technologies                                                     | (9)        | (10)       |
| Professional services                                                        | (4)        | (2)        |
| Telecommunication and postage                                                | (1)        | (2)        |
| Travel expenses                                                              | (3)        | (2)        |
| Taxes other than income tax                                                  | (2)        | (1)        |
| Other                                                                        | (40)       | (45)       |
| Other operating expenses                                                     | (20)       | (6)        |
| <i>Out of which</i>                                                          |            |            |
| Depreciation on property, plant and equipment                                | (16)       | (17)       |
| Amortisation of intangible assets                                            | (4)        | (4)        |
| Net impairment gains on PPE and intangible assets                            | -          | 18         |
| FX losses                                                                    | -          | (3)        |
| <b>Profit/(loss) before tax</b>                                              | <b>(2)</b> | <b>55</b>  |
| Income tax expense                                                           | 3          | (11)       |
| <b>Net profit from discontinued operations</b>                               | <b>1</b>   | <b>44</b>  |
| Net profit from discontinued operations attributable to NCI                  | -          | 6          |
| Net profit from discontinued operations attributable to owners of the parent | 1          | 38         |

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

|                                                      | 2016        | 2015        |
|------------------------------------------------------|-------------|-------------|
| Cash flows from/(used in) operating activities       | 32          | (131)       |
| Cash flows from/(used in) investing activities       | (30)        | (5)         |
| Cash flows from/(used in) financing activities       | (35)        | 98          |
| <b>Net cash flow used in discontinued operations</b> | <b>(33)</b> | <b>(38)</b> |

## **E.36. Operating leases**

### **E.36.1. Lessee**

Under operating leases, the Group mainly leases shops within the operations of Eldorado (until disposal), as well as a few 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 payables in respect of non-cancellable operating leases:

*In millions of EUR, as at 31 December*

|                                                                      | 2016       | 2015       |
|----------------------------------------------------------------------|------------|------------|
| Less than one year                                                   | 59         | 143        |
| Between one and five years                                           | 129        | 281        |
| More than five years                                                 | 144        | 165        |
| <b>Total payables in respect of non-cancellable operating leases</b> | <b>332</b> | <b>589</b> |

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

*In millions of EUR, as at 31 December*

|                                          | 2016      | 2015       |
|------------------------------------------|-----------|------------|
| Minimum lease payments                   | 80        | 173        |
| Contingent rent                          | -         | 1          |
| Sublease payments                        | -         | (1)        |
| <b>Total lease and sublease payments</b> | <b>80</b> | <b>173</b> |

### **E.36.2. 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*

|                                                                             | 2016       | 2015       |
|-----------------------------------------------------------------------------|------------|------------|
| Less than one year                                                          | 122        | 106        |
| Between one and five years                                                  | 468        | 437        |
| More than five years                                                        | 286        | 379        |
| <b>Future minimum lease payments under non-cancellable operating leases</b> | <b>876</b> | <b>922</b> |

## **E.37. 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:

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### Notes to the consolidated financial statements for the year ended 31 December 2016

*In millions of EUR, as at 31 December*

|                                     | 2016<br>Fair value of<br>underlying<br>assets | 2016<br>Carrying<br>amount of<br>corresponding<br>liabilities | 2015<br>Fair value of<br>underlying<br>assets | 2015<br>Carrying<br>amount of<br>corresponding<br>liabilities |
|-------------------------------------|-----------------------------------------------|---------------------------------------------------------------|-----------------------------------------------|---------------------------------------------------------------|
| Financial assets at FVTPL           | 293                                           | 252                                                           | 224                                           | 223                                                           |
| Financial assets available for sale | 410                                           | 196                                                           | 10                                            | 10                                                            |
| Financial assets held to maturity   | -                                             | -                                                             | 2                                             | 2                                                             |
| Investment in associates            | -                                             | -                                                             | 302                                           | 186                                                           |
| <b>Total assets</b>                 | <b>703</b>                                    | <b>448</b>                                                    | <b>538</b>                                    | <b>421</b>                                                    |

The change in the composition of underlying asset is affected by the reclassification of the Polymetal stake from associate to AFS asset.

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

*In millions of EUR, as at 31 December*

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

## E.38. Off-balance sheet items

### E.38.1. 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

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provided is recognised under “Fee and commission income” and is determined by applying the agreed rates to the nominal amount of the guarantees.

*In millions of EUR, as at 31 December*

|                                                     | 2016       | 2015       |
|-----------------------------------------------------|------------|------------|
| Loan commitments                                    | 756        | 770        |
| Revolving loan commitments                          | 528        | 525        |
| Consumer loan commitments                           | 58         | 42         |
| Cash loan commitments                               | 18         | 10         |
| Undrawn overdraft facilities                        | 34         | 60         |
| Term loan facilities                                | 118        | 133        |
| Capital expenditure commitments                     | 42         | 55         |
| Guarantees provided                                 | 93         | 135        |
| Non-payment guarantees                              | 35         | 52         |
| Non-revocable letters of credit                     | 1          | 1          |
| Payment guarantees                                  | 57         | 82         |
| <b>Total commitments and contingent liabilities</b> | <b>891</b> | <b>960</b> |

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

The following table shows secured liabilities:

*In millions of EUR, as at 31 December*

|                                  | 2016         | 2015         |
|----------------------------------|--------------|--------------|
| Secured bank loans               | 6,742        | 4,522        |
| Debt securities issued           | -            | 62           |
| <b>Total secured liabilities</b> | <b>6,742</b> | <b>4,584</b> |

The secured bank loans include a loan to the Ryazan project (refer to E.16) which is not fully covered by the investment property pledged: the fair value of the property in 2016 was MEUR 54 lower (2015: MEUR 53 lower).

The assets pledged as security were as follows:

*In millions of EUR, as at 31 December*

|                                                                       | 2016         | 2015         |
|-----------------------------------------------------------------------|--------------|--------------|
| Cash and cash equivalents                                             | 986          | 2            |
| Financial assets at fair value through profit and loss (repos)        | 293          | 224          |
| Financial assets available for sale (repos)                           | 410          | 10           |
| Financial assets available for sale (other)                           | 11           | -            |
| Financial assets held to maturity (repos)                             | -            | 2            |
| Loans and receivables due from banks and other financial institutions | 22           | 38           |
| Loans and receivables due from customers                              | 4,364        | 1,074        |
| Inventories                                                           | -            | 161          |
| Investment in associates (repos)                                      | -            | 302          |
| Investment property                                                   | 1,228        | 1,284        |
| Property, plant and equipment                                         | 80           | 1,056        |
| <b>Total assets pledged as security</b>                               | <b>7,394</b> | <b>4,153</b> |

As of 31 December 2016, cash and cash equivalents of MEUR 985 were restricted by borrowing agreements with the creditors in Chinese Home Credit either to the disbursement

of loans to retail clients or to the repayment of the loans received from creditors. If the cash was used to provide loans to retail clients, the loans were pledged as collateral. Thus, the restriction on the cash effectively increases the security of the creditors.

In addition, the Group pledges certain shares in O2 CR and CETIN. As of 31 December 2016, a 85.40% share in O2 CR (2015: 60.27%) and a 43.27% share in CETIN (2015: 84.73%) were used as collateral for several funding facilities. In January 2017, the pledge over a 24.17% share in O2 CR and a 33% share in CETIN was released due to cancelled loan facility negotiations. The residual decrease in the pledged share of CETIN is a consequence of a successful credit rating process (refer to E.16).

### **E.38.2. Other contingencies**

#### *E.38.2.1. 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 16 June 2016, the Municipal Court in Prague fully dismissed the action of the ex-minority shareholders; however, they are entitled to appeal this dismissal.

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. No hearing has been scheduled yet.

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 146, regarding alleged abuse of a dominant position in the market of broadband internet access for households via ADSL technology. Allegedly, this is due to a margin squeeze applied by O2 CR on the fixed broadband market. O2 CR replied to the petition in July 2011 by noting that both the claim and the calculations submitted by the claimant were unsubstantiated and by pointing at discrepancies in the petition claims. First hearings took place in 2013 and 2014. Another hearing took place on 30 March 2016, where the court again considered the option to nominate a revision expert, who would review the opinions filed by VOLNÝ and by O2 CR. VOLNÝ proposed an expert, who eventually turned out to be biased because of the merit; thus O2 CR filed a protest. Subsequently the court appointed other expert and defined a set of questions. The outcome of the expert's review is not yet known.

The legal action under which Vodafone Czech Republic a.s. claims amount MEUR 14 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. A ruling remains pending.

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.38.2.2. Taxation*

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

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

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



**E.38.3. Guarantee received and off-balance sheet assets**

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

*In millions of EUR, as at 31 December*

|                                                          | 2016         | 2015         |
|----------------------------------------------------------|--------------|--------------|
| Guarantees received                                      | 202          | 227          |
| Loan commitments received                                | 268          | 377          |
| Value of assets received as collateral (including repos) | 1,745        | 1,011        |
| <b>Total contingent assets</b>                           | <b>2,215</b> | <b>1,615</b> |

**E.39. Related parties****E.39.1. 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.39.2. 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*

|                                          | 2016 | 2015 |
|------------------------------------------|------|------|
| Board of Directors of the Parent Company | 0.5  | 0.5  |
| Key executive officers                   | 28   | 26   |

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

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

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

**E.39.3. 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*

|                              | 2016     | 2015     |
|------------------------------|----------|----------|
| Interest income              | 2        | 2        |
| Net loss on financial assets | -        | (1)      |
| <b>Total revenue</b>         | <b>2</b> | <b>1</b> |

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

*In millions of EUR, as at 31 December*

|                          | 2016       | 2015      |
|--------------------------|------------|-----------|
| Loans due from customers | 40         | 36        |
| <b>Total assets</b>      | <b>40</b>  | <b>36</b> |
| Due to non-banks         | (2)        | -         |
| <b>Total liabilities</b> | <b>(2)</b> | <b>-</b>  |

**E.39.4. 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*

|                                 | 2016        | 2015        |
|---------------------------------|-------------|-------------|
| Interest income                 | 19          | 21          |
| Other income                    | 1           | 1           |
| <b>Total revenue</b>            | <b>20</b>   | <b>22</b>   |
| Interest expense                | (2)         | -           |
| General administrative expenses | (14)        | (14)        |
| <b>Total expenses</b>           | <b>(16)</b> | <b>(14)</b> |

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

*In millions of EUR, as at 31 December*

|                             | 2016       | 2015       |
|-----------------------------|------------|------------|
| Loans due from customers    | 254        | 366        |
| Trade and other receivables | 15         | -          |
| Intangible assets           | 4          | 4          |
| Other assets                | 1          | -          |
| <b>Total assets</b>         | <b>274</b> | <b>370</b> |
| Due to non-banks            | (4)        | (4)        |
| Trade and other payables    | (5)        | (5)        |
| <b>Total liabilities</b>    | <b>(9)</b> | <b>(9)</b> |

## **F. Significant accounting policies**

### ***F.1. Significant accounting policies***

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

#### **F.1.1. Foreign currency**

##### ***F.1.1.1. Foreign currency transactions***

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

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

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

##### ***F.1.1.2. Foreign operations***

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

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

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

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

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

#### **F.1.2. Cash and cash equivalents**

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

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

#### **F.1.3. Financial assets**

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

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

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

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

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

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

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

value), as well as options written, are reported as financial liabilities at fair value through profit or loss.

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

*F.1.3.2. Financial assets available for sale*

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

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

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

*F.1.3.3. Financial assets held to maturity*

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

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

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

*F.1.3.4. Loans and receivables*

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

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

**F.1.3.5. Repurchase agreements**

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

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

**F.1.3.6. Lease transactions**

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

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

**F.1.4. Derivatives and hedge accounting**

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

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

- there is compliance with the Group’s risk management objective and strategy in undertaking the hedge;
- at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective at inception and throughout the period;
- the effectiveness of the hedge can be reliably measured; and

- changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

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

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

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

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

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

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

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

#### **F.1.5. Impairment**

##### *F.1.5.1. Non-derivative financial assets*

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

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

#### *F.1.5.2. Non-financial assets*

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



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

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

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

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

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

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

#### **F.1.6. Inventories**

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

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 2016***

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

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

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

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

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

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

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

In September 2014 the IASB published Annual Improvements to IFRSs 2012-2014 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. The new cycle of improvements contains amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

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

A number of new Standards, amendments to Standards and Interpretations are not yet effective as of 31 December 2016, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group is in the process of analysing the likely impact on its consolidated financial statements.

**IFRS 9 Financial Instruments (effective from 1 January 2018)**

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

**Classification and measurement**

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

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

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

**Impairment**

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

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

The measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available without undue cost or effort. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to

result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

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

#### Hedge accounting

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

#### Transition

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

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

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

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

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

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

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

In May 2014, IASB and the Financial Accounting Standards Board (FASB), responsible for US Generally Accepted Accounting Principles (US GAAP), jointly issued a converged standard on the recognition of revenue from contracts with customers. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (i.e. payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that

were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

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

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

Given the nature of the Group's operations, this standard is expected to have significant impact only on the Group's telecommunication business represented by O2 CR (see below).

O2 CR enters into contracts with a large number of customers with similar contractual terms. The Group is considering to apply a portfolio approach to contracts that can be grouped into 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. Contracts with unique terms that do not fit into any portfolio will be assessed for individually accounting treatment.

Promises to transfer distinct goods or services are defined as performance obligations in the standard. O2 CR provides telecommunication services which are offered on a stand-alone basis and do represent separate performance obligations. Most of the services or goods which are sold in bundles constitute a separate performance obligation as a customer can benefit from this performance obligation 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.

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 has been 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.

Management plans to elect the modified cumulative retrospective transition approach, which means that the Group will use the new guidance only in regards 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.

The adoption of the new standard will result in significant changes in the financial statements of the Group, primarily in respect of the timing of revenue recognition and in respect of the capitalisation of costs of obtaining a contract with a customer.

As a result of the front-loading revenue and capitalisation of costs to obtain contracts, management expects that the net assets of O2 CR will increase due to the implementation of IFRS 15.

O2 CR's operations and associated systems are complex and the necessary time and effort currently estimated to develop and implement the accounting policies, estimates, judgments and processes required to comply with the new standard are expected to take a substantial amount of time and attention. Management has hence launched an IFRS 15 implementation project.

The Group does not expect this standard to have a significant impact on other Group 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 recognising assets and liabilities: for (a) short-term leases (i.e. leases of 12 months or less); and (b) leases of low-value items (such as personal computers).

Applying IFRS 16, a lessee will:

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

IFRS 16 has not yet been adopted by the EU.

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

Amendments to IAS 7 Statement of Cash Flows (effective from 1 January 2017)

The amendments are part of the IASB's disclosure initiative project and introduce additional disclosure requirements intended to address investors' concerns that financial statements do not currently enable them to understand the entity's cash flows, particularly with respect to the management of financing activities. These amendments have not yet been adopted by the EU.

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

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective from 1 January 2017)



In January 2016, IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. These Amendments have not yet been adopted by the EU.

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

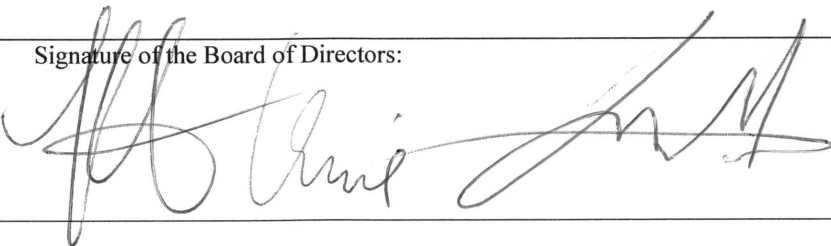
Annual Improvements 2014-2016 Cycle (effective from 1 January 2017 and 1 January 2018)

In November 2015 the IASB published annual improvements to the IFRS 2014-2016 cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. The new cycle of improvements contains amendments to IFRS 1, IFRS 12 and IAS 28.

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

## **G. Subsequent events**

There are no significant subsequent events.

|             |                                                                                      |
|-------------|--------------------------------------------------------------------------------------|
| Date:       | Signature of the Board of Directors:                                                 |
| 26 May 2017 |  |

***PPF Group N.V.***

*Unconsolidated financial statements for the year ended 31 December 2016*

**PPF GROUP N.V.**

*Unconsolidated financial statements for the year ended 31 December 2016*

# **PPF Group N.V.**

*Unconsolidated financial statements for the year ended 31 December 2016*

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# UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

*In millions of EUR*

|                                                            | <b>Note</b> | <b>2016</b>  | <b>2015</b>  |
|------------------------------------------------------------|-------------|--------------|--------------|
| <b>Assets</b>                                              |             |              |              |
| Investments in subsidiaries, associates and joint ventures | A1          | 5,058        | 4,261        |
| Cash and cash equivalents                                  | A2          | 43           | 77           |
| Receivables and other assets                               | A3          | 1,546        | 1,049        |
| <b>Total assets</b>                                        |             | <b>6,647</b> | <b>5,387</b> |
| <b>Shareholders' equity and liabilities</b>                |             |              |              |
| Issued capital                                             |             | 1            | 1            |
| Share premium                                              |             | 677          | 677          |
| Other reserves                                             |             | 5,683        | 4,485        |
| <b>Total shareholders' equity</b>                          | A4          | <b>6,361</b> | <b>5,163</b> |
| <b>Liabilities</b>                                         |             |              |              |
| Loans and other liabilities                                | A5          | 286          | 224          |
| <b>Total liabilities</b>                                   |             | <b>286</b>   | <b>224</b>   |
| <b>Total shareholders' equity and liabilities</b>          |             | <b>6,647</b> | <b>5,387</b> |

**PPF Group N.V.**

*Unconsolidated financial statements for the year ended 31 December 2016*

# UNCONSOLIDATED INCOME STATEMENT

For the year ended 31 December

*In millions of EUR*

|                                          | <b>2016</b>  | <b>2015</b> |
|------------------------------------------|--------------|-------------|
| Result of group companies after taxation | 983          | 310         |
| Other results after taxation             | 48           | 5           |
| <b>Net profit for the year</b>           | <b>1,031</b> | <b>315</b>  |

## **GENERAL INFORMATION**

The unconsolidated 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 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 unconsolidated financial statements for issue on 26 May 2016.

### **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”), rounded to the nearest million.

### **Result from participating interest**

The result from participating interest consists of the share of the Company in the result of the participating interests. Results on transactions with transfer of assets and liabilities between the Company and its participating interests and among participating interests are not recorded if unrealised.

# NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 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*

|                                                                    | 2016         | 2015         |
|--------------------------------------------------------------------|--------------|--------------|
| <b>Opening balance</b>                                             | <b>4,261</b> | <b>4,578</b> |
| Additional investments in group companies, including restructuring | 872          | 1,661        |
| Decrease of investments in group companies                         | (1,123)      | (670)        |
| Disposal of group companies                                        | -            | (297)        |
| Dividend distribution                                              | (101)        | (1,297)      |
| Other movements in shareholders' equity, other income and expense  | 148          | (24)         |
| Result of group companies                                          | 1,001        | 310          |
| <b>Closing balance</b>                                             | <b>5,058</b> | <b>4,261</b> |

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*

|                                        | 2016      | 2015      |
|----------------------------------------|-----------|-----------|
| Bank accounts                          | 43        | 77        |
| <b>Total cash and cash equivalents</b> | <b>43</b> | <b>77</b> |

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*

|                                                           | 2016         | 2015         |
|-----------------------------------------------------------|--------------|--------------|
| Receivables from the group companies                      | 949          | 898          |
| Other loans and receivables                               | 179          | 151          |
| Receivable arising from decrease of capital in subsidiary | 418          | -            |
| <b>Total other assets</b>                                 | <b>1,546</b> | <b>1,049</b> |

The receivable amounting to MEUR 418 relates to a decrease in the share premium of Facipero Investments Ltd. that is subject to court approval in Cyprus.

The following table shows the maturity of receivables and loans:



## PPF Group N.V.

### Notes to the unconsolidated financial statements for the year ended 31 December 2016

*In millions of EUR, as at 31 December*

|                    | Receivables from group companies |            | Other loans and receivables |            | Receivable arising from decrease of capital in subsidiary |          |
|--------------------|----------------------------------|------------|-----------------------------|------------|-----------------------------------------------------------|----------|
|                    | 2016                             | 2015       | 2016                        | 2015       | 2016                                                      | 2015     |
| Less than 1 year   | 795                              | 878        | 179                         | 34         | 418                                                       | -        |
| More than one year | 154                              | 20         | -                           | 117        | -                                                         | -        |
| <b>Total</b>       | <b>949</b>                       | <b>898</b> | <b>179</b>                  | <b>151</b> | <b>418</b>                                                | <b>-</b> |

#### A.4 Capital and reserves

The capital and reserves comprise the following:

*In millions of EUR, as at 31 December*

|                                   | 2016         | 2015         |
|-----------------------------------|--------------|--------------|
| Issued capital                    | 1            | 1            |
| Share premium                     | 677          | 677          |
| Other reserves                    | 5,683        | 4,485        |
| <i>Of which</i>                   |              |              |
| Legal and statutory reserves      | 65           | 44           |
| Hedging reserve                   | -            | (2)          |
| Available-for-sale reserve        | (40)         | 15           |
| Translation reserve               | (473)        | (794)        |
| (Statutory) revaluation reserve   | 398          | 416          |
| Retained earnings                 | 5,733        | 4,806        |
| <b>Total shareholders' equity</b> | <b>6,361</b> | <b>5,163</b> |

Information on legal, revaluation, cash flow hedge 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. At least MEUR 5,218 (2015: MEUR 4,012) of the retained earnings can be considered freely distributable. On 1 May 2015, the Company cancelled 6.5% shares held as treasury shares.

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 2016 and 2015, the revaluation reserve was determined at the property level.

## PPF Group N.V.

Notes to the unconsolidated financial statements for the year ended 31 December 2016

The following tables show the roll-forward of shareholders' equity:

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

|                                                  | Issued capital | Share premium | Other reserves | Total        |
|--------------------------------------------------|----------------|---------------|----------------|--------------|
| <b>Balance at 1 January</b>                      | <b>1</b>       | <b>677</b>    | <b>4,485</b>   | <b>5,163</b> |
| Change in revaluation of subsidiaries            | -              | -             | 167            | 167          |
| <b>Total gains recognised directly in equity</b> | <b>-</b>       | <b>-</b>      | <b>167</b>     | <b>167</b>   |
| Net profit for the year                          | -              | -             | 1,031          | 1,031        |
| <b>Balance at 31 December</b>                    | <b>1</b>       | <b>677</b>    | <b>5,683</b>   | <b>6,361</b> |

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

|                                                            | Issued capital | Share premium | Treasury shares | Other reserves | Total        |
|------------------------------------------------------------|----------------|---------------|-----------------|----------------|--------------|
| <b>Balance at 1 January</b>                                | <b>1</b>       | <b>677</b>    | <b>(567)</b>    | <b>4,768</b>   | <b>4,879</b> |
| Change in revaluation of subsidiaries                      | -              | -             | -               | (31)           | (31)         |
| Cancellation of treasury shares                            | -              | -             | 567             | (567)          | -            |
| <b>Total gains /(losses) recognised directly in equity</b> | <b>-</b>       | <b>-</b>      | <b>567</b>      | <b>(598)</b>   | <b>(31)</b>  |
| Net profit for the year                                    | -              | -             | -               | 315            | 315          |
| <b>Balance at 31 December</b>                              | <b>1</b>       | <b>677</b>    | <b>-</b>        | <b>4,485</b>   | <b>5,163</b> |

The reconciliation of shareholders' equity to the consolidated equity is as follows:

*In millions of EUR, as at 31 December*

|                                           | 2016         | 2015         |
|-------------------------------------------|--------------|--------------|
| Shareholder's equity                      | 6,361        | 5,163        |
| Non-controlling interests:                |              |              |
| O2 Czech Republic a.s.                    | 135          | 160          |
| Home Credit B.V.                          | 176          | 136          |
| Velthemia Ltd.                            | 52           | 71           |
| PPF banka a.s.                            | 23           | 19           |
| Česká telekomunikační infrastruktura a.s. | -            | 88           |
| Facipero Investments Ltd.                 | -            | 21           |
| Sotio N.V.                                | 3            | 4            |
| Other (mainly real estate projects)       | 13           | 18           |
| <b>Total consolidated equity</b>          | <b>6,763</b> | <b>5,680</b> |

## PPF Group N.V.

### Notes to the unconsolidated financial statements for the year ended 31 December 2016

*In millions of EUR, for the period ended 31 December*

|                                                       | 2016         | 2015       |
|-------------------------------------------------------|--------------|------------|
| Group's net profit                                    | 1,031        | 315        |
| Net profit attributable to non-controlling interests: |              |            |
| O2 Czech Republic a.s.                                | 22           | 18         |
| Home Credit B.V.                                      | 21           | (6)        |
| Velthemia Ltd.                                        | (20)         | 2          |
| PPF banka, a.s.                                       | 4            | 3          |
| Facipero Investments Ltd.                             | 57           | 6          |
| Sotio N.V.                                            | (1)          | (2)        |
| Home Credit Indonesia PT                              | (3)          | -          |
| Česká telekomunikační infrastruktura a.s.             | -            | 13         |
| Other                                                 | 4            | 3          |
| <b>Consolidated net profit</b>                        | <b>1,115</b> | <b>352</b> |

#### A.5 Loans and other liabilities

The category comprises the following:

*In millions of EUR, as at 31 December*

|                                                            | 2016       | 2015       |
|------------------------------------------------------------|------------|------------|
| Loans from group companies (including associates)          | 257        | 214        |
| Financial liabilities at fair value through profit or loss | 15         | 9          |
| Other                                                      | 14         | 1          |
| <b>Total other liabilities</b>                             | <b>286</b> | <b>224</b> |

The following table shows the maturity of loans from group companies:

*In millions of EUR, as at 31 December*

|                    | 2016       | 2015       |
|--------------------|------------|------------|
| Less than one year | 10         | 214        |
| More than one year | 247        | -          |
| <b>Total</b>       | <b>257</b> | <b>214</b> |

The category "Other" comprises only liabilities payable within one year.

## **PPF Group N.V.**

*Notes to the unconsolidated financial statements for the year ended 31 December 2016*

### **A.6 Commitments and contingent liabilities**

Commitments and contingent liabilities comprise the following:

*In millions of EUR, as at 31 December*

|                                                     | 2016      | 2015     |
|-----------------------------------------------------|-----------|----------|
| Revocable loan commitments (within the Group)       | 20        | -        |
| <b>Total commitments and contingent liabilities</b> | <b>20</b> | <b>-</b> |

### **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*

|                        | 2016<br>KPMG<br>Netherlands | 2015<br>KPMG<br>Netherlands | 2016<br>Other KPMG | 2015<br>Other KPMG |
|------------------------|-----------------------------|-----------------------------|--------------------|--------------------|
| Audit services         | 806                         | 944                         | 2,189              | 3,030              |
| Audit related services | 165                         | 188                         | 597                | 645                |
| Tax advisory           | -                           | -                           | 205                | 589                |
| Other services         | -                           | -                           | 799                | 702                |
| <b>Total expenses</b>  | <b>971</b>                  | <b>1,132</b>                | <b>3,790</b>       | <b>4,966</b>       |

### **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 C.7 of the consolidated financial statements.

## **PPF Group N.V.**

*Notes to the unconsolidated financial statements for the year ended 31 December 2016*

### **A.9 Share in results from participating interests**

MEUR 237 (2015: MEUR 93) of the share in results from participating interests relates to group companies.

### **A.10 Related parties**

For details of the related parties transactions of the Company, refer to Note E.39 of the consolidated financial statements.

### **A.11 Transactions with key management personnel**

For details of transactions with key management personnel, refer to Note E.39.2 of the consolidated financial statements.

### **A.12 Profit appropriation for 2016**

The Board of Directors proposes the profit for 2016 to be retained.

### **A.13 Post balance sheet events**

For post balance sheet events, refer to Note G of the consolidated financial statements of PPF Group N.V. for the year ended 31 December 2016.

***PPF Group N.V.***

*Other information*

# **OTHER INFORMATION**

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***PPF Group N.V.***

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**Auditor s' report**

## **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 2016 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 2016 and of its result and its cash flows 2016 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 2016 and of its result 2016 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 2016;
- 2 the following consolidated statements 2016: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- 1 the unconsolidated statement of financial position as at 31 December 2016;
- 2 the unconsolidated income statement 2016; 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 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:

- management board's report;
- 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.

Management is responsible for the preparation of the other information, including the management board's report, 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 management for the financial statements***

Management 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, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

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

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



### ***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.

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

[www.nba.nl/Engels\\_nietoob\\_2016](http://www.nba.nl/Engels_nietoob_2016)

Amstelveen, 26 May 2017

KPMG Accountants N.V.

B.M. Herengreen RA

## **PPF Group N.V.**

*Other information*

### **Profit appropriation**

Profits and distributions 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 and, 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 seven employees during 2016.

### **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 Note B.1 of the consolidated statements.

PPF Group has a 100% shareholding in 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 were 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 2016 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.

