PPF Financial Holdings

PPF FINANCIAL HOLDINGS B.V.

Annual accounts 2020

This document is the PDF/printed version of the 2020 Annual accounts of PPF Financial Holdings B.V. and has been prepared for ease of use. The ESEF package is available on the company's website at https://www.ppf.eu/cs/companies/ppf-financial-holdings-bv and includes a human readable XHTML version of the 2020 Annual accounts. In any case of discrepancies between this PDF version and the ESEF package, the latter prevails.

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Directors' report

Description of the Company

PPF Financial Holdings B.V.
Date of deed on incorporation: 13 November 2014
Seat: Netherlands, Strawinskylaan 933, 1077XX Amsterdam
Telephone: +31 (0) 208 812 120
Place of registration: Netherlands, Amsterdam
Register (registration authority): Commercial Register of Netherlands Chamber of Commerce
Registration number: 61880353
LEI: 31570014BNQ1Q99CNQ35
Authorised capital: EUR 45,000
Issued capital: EUR 45,000
Paid up capital: EUR 45,000
Principal business: Holding company activities and financing thereof

The management board of PPF Financial Holdings B.V. (the "Company"), is pleased to present to you the directors' report as part of the financial statements for 2020. This Directors' report aims to provide a comprehensive overview of significant events within the Company as well as within the group of companies with which it forms a group.

Board of Directors (the "Management Board")

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

General information

The Company is the parent holding company of a group of companies (the "Group") that operates in the field of financial services. The Group is composed of four main investments: Home Credit Group B.V., PPF banka a.s., Mobi Banka a.d. Beograd and ClearBank Ltd. The Company is a 100% subsidiary of PPF Group N.V. (together with its subsidiaries "PPF Group"). Except for the role of holding entity, the Company generates interest income from loans. The Company is not dependent on the dividend income from its subsidiaries.

Home Credit Group B.V. ("Home Credit" or "HC Group") is a leading global consumer credit provider with a focus on emerging markets. Home Credit is the parent which holds the equity stakes in leading consumer finance companies in nine key focus countries which are clustered across five regions: Central and Eastern Europe ("CEE") which includes businesses in the Czech Republic and Slovakia; the Commonwealth of Independent States ("CIS"), which includes businesses in Russia and Kazakhstan; China; South and South East Asia ("SSEA"), which includes businesses in India, Indonesia, Philippines and Vietnam and Other, which includes projects or specific entities in other countries. The operating entities are regulated companies, fully licensed by a national government regulatory body and compliant with respective local laws. Home Credit holds banking licences in the Czech Republic, Russia and Kazakhstan.

The HC Group's mission is to transform the way its customers purchase and make the things that matter in their lives affordable in a convenient way through its omni-channel distribution model, both online and offline. In 2020, Home Credit accelerated its digital strategy with a focus on building long-term customer relationships. Home Credit also offers ancillary products and services such as relevant potential protection products and insurance from third parties. In addition, the HC Group has grown marketplaces across the group to provide its existing customer with offers on a frequent basis. The HC Group´s inclusive approach to lending services is enabled by superior data analytics and technology to process high volumes of data concerning potential customers' behaviour patterns and to gain strong predictive powers for deciding on potential loans.

Home Credit operates in countries with high growth potential with a combined population of approximately 3.4 billion, an above average GDP growth rate and low consumer finance penetration rate.

As at 31 December 2020, the companies held by Home Credit Group B.V. served almost 19 million active customers across their operations: the Czech Republic (operational since 1997), Slovakia (1999), the Russian Federation (2002), Kazakhstan (2005), China (2007), Vietnam (2009), India (2012), Indonesia (2013) and the Philippines (2013).

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

PPF banka's business objects comprise all types of banking transactions and the provision of banking and financial services together with related services, on both domestic and international markets. The Bank's services are primarily tailored to Czech clients in the municipal and corporate segments. The Bank specialises in trading on financial and capital markets in accordance with applicable legislation and on the basis of licences granted by the Czech National Bank.

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

Mobi Banka a.d. Beograd, acquired in 2019, is a mobile and online bank based in Belgrade that provides its services primarily to retail customers in Serbia.

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

For more information, visit www.ppffinancialholdings.eu

Highlights

PPF Financial Holdings – holding level

The funding and debt structure of the Company did not change significantly in 2020.

The Home Credit Group

In 2020, Home Credit had to cope with a very challenging environment with the unprecedented ongoing Covid-19 global health crisis, lockdowns and regulatory measures affecting all of its markets. This challenging environment has significantly impacted the business, as it did many others around the world. During the year, measures were undertaken by governments across its countries restricting social and business activities. However, during this time, the HC Group remained fully operational and adapted to the reality of the pandemic. The primary focus was on the health and safety of its employees, and on supporting customers and partners during these challenging times. Business continuity plans were quickly activated with best practices shared across the HC Group.

The Home Credit business is subject to the general economic conditions in each of the countries where it operates. During 2020, the world and all of the HC Group markets (except China) had a significant GDP contraction due to the pandemic. In addition, consumption and retail patterns also influence the demand for its products. The lockdown measures imposed in various countries directly impacted consumer demand by limiting access to brick-and mortar stores across the HC Group markets as well as creating spending constraints but also impacted sentiment from its customer base during the year. While the impact was felt differently in each country, China was the first country impacted in February/March before other countries started seeing the impact of the pandemic. The HC Group was most impacted during the second quarter with April the worst month.

During 2020, the number of credit applications the HC Group received dropped from 6.6 million in the first quarter to 2.9 million in the second quarter. While Covid-19 pandemic continued to impact countries around the world at the end of 2020, the vaccine roll-out is expected to stabilise the economic recovery. Hence, customer sentiment continues to improve with increasing credit applications standing at 4.7 million in the last quarter of the year.

The pandemic severely impacted the HC Group's new loan volumes across its footprint as well as its financial performance. The HC Group quickly implemented stricter loan underwriting and stepped up initiatives to enhance cash collection, generating a strong liquidity cushion. On the operational side, Home Credit accelerated its global digital transformation by refining its physical distribution network and leveraging innovative technology and software to improve cost efficiency.

Home Credit reacted quickly to the observed risk volatility during this period by tightening its underwriting criteria. The approval rate decreased from a high 50 percent to a low 40 percent. In addition, as part of ongoing derisking efforts, products tenors were reduced from 20 months to 9 months and the average financed amount declined from EUR 910 to EUR 450 in the second half of the year. Due to these prompt actions, risk deterioration was contained and within one quarter new vintage early risk indicators reverted to pre-Covid-19 levels or improved beyond them.

During 2020, the HC Group also launched a number of new products in various markets such Buy Now, Pay Later, as well as a number of revolving products across markets. Their share increased from 8% in 2019 to 31% of the disbursement in the second half of 2020.

The HC Group accelerated the execution of its ongoing digitalisation strategy this year by leveraging on technology for customer lifecycle management, enabling us to right size its operations to the new business environment. As the group leveraged technology, Home Credit was able to reduce its employee base from approximately 120,000 at the end of 2019 to approximately 69,000 at the end of 2020. These adjustments delivered significant cost reductions and operational leverage for the future. Home Credit also focused on its online distribution through its applications as part of its distribution strategy with many of its POS (point of sale) becoming fully self-service. The HC Group also entered into collaborative of partnerships with telco and online marketplaces to deliver products to clients.

The HC Group continued to diversify its access to funding throughout the year. In 2020, the HC Group closed its first offshore syndicated loan in Indonesia while the onshore syndicated loans in the Philippines and China were rolled over. The syndicated loan contracted at the holding company level was refinanced for a lower amount as the group continued to deleverage. The HC Group confirmed its access to capital market by issuing 3 ABS in China, 2 in India, and CDs in Vietnam.

PPF banka

The year 2020, scarred by the Covid-19 pandemic, was one of the toughest in PPF banka's history.

An assessment by the Ministry of Finance of the Czech Republic ranked the Bank second among primary dealers of Czech government bonds. The Bank helped the Czech state to underwrite EUR 4 billion in government bonds. The Bank became a direct participant in the TARGET2 payment system. The Bank launched a new internet banking service for its clients, and we have a mobile application in the pipeline that we will be introducing in 2021. The Bank allocated EUR 208 million for business support under the COVID III and COVID Plus schemes. The Bank completed its CRM project and started developing its own applications.

The Bank´s results exceeded its expectations. Even in this very difficult year, the Bank managed to make a net profit of EUR 43 million and significantly strengthened the Bank's capitalisation by increasing the total capital ratio by 6.2 percentage points to 24.5%.

Mobi Banka

Mobi Banka's strategic commitment is to continue developing innovative digital products through the synergy of telco and banking solutions, which will be available to clients primarily through mobile and online banking in Serbia. Its business synergy with Telenor telecommunications services in Serbia held by PPF Group is also unique. At present, it offers a full range of financial services for retail clients. In the sixth year of doing business, it has a constantly growing base of more than 550,000 clients and it managed assets worth EUR 205 million.

While 2020 was a challenging year, Mobi Banka nonetheless managed to increase its total assets by 21% through loan portfolio growth of 60%. In 2020, the bank experienced a doubling of loan loss provisions caused by the Covid-19 pandemic which contributed to the aggregated net result. Nevertheless, the bank successfully managed to achieve a net result by 24% better than planed and finished the year with a EUR 5 million net loss. Mobi Banka founds its growth on a healthy basis and is fully self-funded by its retail deposit portfolio EUR 133 million, which grew by 16% in the previous year, and equity of EUR 35 million.

ClearBank

Since 2017, the Group has invested in ClearBank Ltd., a company incorporated in the UK and jointly regulated by the Prudential Regulation Authority and the Financial Conduct Authority. As at 31 December 2020, the Group's holding in ClearBank stood at 40.6%, representing a cumulative investment of MEUR 90. Authorised to accept deposits and operate as a credit institution, ClearBank is the UK's first new clearing bank in more than 250 years and currently provides state of the art clearing and settlement services to regulated financial institutions.

As at 31 December 2020, ClearBank had secured 118 financial regulated customers, up by 47 from the prior year and generating combined customer balances of EUR 1,037 million. ClearBank's balance sheet closed the period with net assets totalling EUR 65 million, this being 28% up from the start of 2020 and with robust regulatory metrics for both capital and liquidity.

In the 12 months of the year 2020 ClearBank has seen significant growth in transactional volumes and values. As at 31 December 2020, it was processing around 4 million transactions per month, including internal transfers, with the total value processed during 2020 of EUR 38.8 billion.

Key business and financial results

Consolidated financial highlights

	2020	2019
Total assets (EUR billions)	24.8	35.1
Gross loans (EUR billions)	15.9	22.9
Deposits (EUR billions)	11.6	14.0
Total equity (EUR billions)	2.9	3.8
Net profit/(loss) (EUR millions)	(555)	507

As of 31 December 2020, the total consolidated equity of the Group amounted to EUR 2,852 million (2019: EUR 3,777 million). The drop in equity related to two significant items: a net loss and a negative FX translation revaluation caused by devaluation of majority of the Group´s functional currencies against the Euro.

Total assets decreased from EUR 35,060 million to EUR 24,760 million, attributable mainly to the decrease in the Home Credit loan portfolio (approx. EUR 7 billion) as a direct impact of the Covid-19 pandemic. PPF banka´s total assets dropped down by another EUR 3 billion that was caused by a lower volume of repo operations with the central bank.

The consolidated net loss of the Group for 2020 reached EUR 555 million (2019: a EUR 507 million profit). The main source of the negative result is Home Credit being heavily impacted by the pandemic, whereas PPF banka remained profitable, albeit with a significantly lower profit compared to 2019.

The Home Credit Group

Consolidated financial highlights

	2020	2019
Total assets (EUR billions)	18.5	26.6
Gross loans (EUR billions)	14.5	21.8
Deposits (EUR billions)	6.7	7.3
Total equity (EUR billions)	1.9	2.9
Net profit/(loss) (EUR millions)	(584)	400
Net interest margin	13.9%	15.5%
Cost-of-risk ratio	12.9%	8.6%
Cost-to-income ratio	49.1%	42.6%
NPL ratio	6.4%	5.6%
Return on average equity (RoAE)	(25.7%)	15.8%
Number of distribution points (ths.)	333	478
Number of active customers (mil.)	18.8	26.9

The HC Group's total assets declined by 30% from EUR 26.6 billion at the end of 2019 to EUR 18.5 billion at the end of 2020, driven by a 37% decline in net loans from EUR 20.2 billion to EUR 12.7 billion. This evolution was driven by a decrease in new volume on the back of lower consumption and more conservative risk underwriting. During a difficult year, new volumes declined 51% year-on-year to EUR 10.6 billion in 2020. New volumes were at their lowest during 2Q20 when most countries experienced their first Covid-19 wave and lockdowns. The average number of loans per day increased by 21% from 39,600 in 2Q20 to 47,900 in 4Q20. As a result, volumes in subsequent quarters increased steadily.

The HC Group also increased its liquidity buffer during this challenging year with liquid assets increasing from 18% of total assets at the end of 2019 to 23% at the end of 2020. This increase is to help the HC Group be prepared for the post Covid-19 environment.

While the HC Group's consolidated equity declined from EUR 2.9 billion at the end of 2019 to EUR 1.9 billion at the end of 2020 due to the financial results and FX movements, the equity to net loans ratio increased from 14.2% to 15.3%.

Home Credit closed 2020 with a net loss of EUR 584 million but started seeing early signs of recovery during the second half of 2020 with a net profit of EUR 35 million in the six months to end-December. The second-half results contrasted with a EUR 619 million net loss in the January-June period driven primarily by a EUR 1.8 billion increase in impairments to cover expected credit losses due to the negative impacts of the pandemic. The HC Group was keen to put the past behind during 1H20 and set the foundations for the HC Group to focus on new business opportunities. Swift adjustment to product features and underwriting criteria resulted in a rapid improvement in new loan vintage quality during the second half of the year.

Under the circumstances, Home Credit's consolidated operating income was solid at EUR 3.2 billion, down 25% from EUR 4.2 billion in 2019 in line with the portfolio decrease, while the group's net interest margin declined, from 15.5% in 2019 to 13.9% in 2020 as the group focused on providing shorter tenor loan to better borrowers. The cost of funds decreased from 7.5% in 2019 to 6.7% in 2020 as the group deleveraged and optimised its funding sources as a demonstration of the resilience of the business.

The cost of risk ratio increased from 8.6% in 2019 to 12.9% during 2020 to manage the pandemic´s impact on the portfolio. Despite difficult circumstances, the NPL ratio increased slightly to 6.4% in 2020 from 5.6% in 2019. However, the NPL coverage ratio strengthened to 197.3% in 2020 from 130.6% in 2019 and the allowance to gross loans increased from 7.33% at the end of 2019 to 12.66% at the end of 2020.

Operational cost decreased by 13.1% from EUR 1.8 billion in 2019 to EUR 1.6 billion in 2020 including one-off costs. Quarterly operating expenses at the end of the year were more than 23% lower than a in the last quarter of the previous year.

The pandemic-induced economic stress first hit China, the HC Group´s biggest market, during 1Q20, with other countries following in 2Q20. While China was the only global economy to avoid a GDP contraction during 2020, growth in this market was driven by industrial production while consumer spending in the country was declining month-on-month until 4Q20. Therefore, Home Credit´s loan portfolio contracted by 44% from EUR 11.96 billion in 2019 to EUR 6.7 billion in 2020. Furthermore, the ongoing changes to regulations, including interest rate policies, also impacted the business in China. In the longer-term, we believe that these adjustments will benefit us and lay down a solid framework for the sustainable development of a transparent and sound consumer financing sector in China. Due to the HC Group´s swift de-risking measures through tighter underwriting rules, the share of NPL on the HC Group portfolio was 6.4% at the end of 2020, compared to 5.6% a year earlier.

The CIS countries suffered comparatively less from the pandemic-induced economic stress. In Russia and Kazakhstan, the HC Group offers standard banking services . For example, leveraging its digital prowess and established distribution network, Home Credit Bank Kazakhstan was awarded a contract by the government to disburse direct financial aid to the country's population via Home Credit's debit card.

Home Credit net loans remained stable year on year in the CEE, generating profit as the HC Group focused on long-term clients with proven creditworthiness. Home Credit continued to innovate and expand its distribution capacity both online and offline.

The results in South and South East Asia were affected by lockdown restrictions, reduced consumption and stricter underwriting in its countries throughout the year. At the same time, these markets benefited from the further rollout of the Group´s marketplace application (launched in previous years in Russia and China) to drive customer engagement leading to an increase in traffic and cross-sale potential. Home

Credit net loan portfolio decreased from EUR 2.6 billion in 2019 to EUR 1.7 billion in 2020, with NPLs increasing from 4.1% at the end of 2019 to 7.0% at the end of 2020.

PPF banka

Unconsolidated financial highlights

	2020	2019
Total assets (BEUR)	6.5	8.9
Gross loans (BEUR)	1.4	1.5
Deposits from customers (BEUR)	5.0	6.8
Total equity (MEUR)	588	563
Net profit (MEUR)	43	81
Adjusted NPL ratio	7.1%	5.4%
Unadjusted NPL ratio	8.3%	7.5%
Cost-to-income ratio	25.9%	33.3%
RoAE	7.5%	16.0%

The after-tax profit in 2020 came to EUR 43 million, while total comprehensive income was reported at EUR 42 million. The difference between the two results, other income, can mainly be attributed to the fair value reserve (debt instruments measured at fair value through equity).

Operating income in 2020 was a record high EUR 161 million, up on 2019 after benefiting considerably from dividend income paid out by a subsidiary (EUR 15 million). Even discounting incoming dividends, operating income was still slightly higher than in the year previous.

Shareholders' equity rose by almost 4.4% to EUR 588 million on the back of the total profit.

Total assets at the end of 2020 stood at EUR 6.5 billion, a drop by EUR 2.4 billion year on year. This change is mainly concentrated in reverse repo operations with the central bank. The main source of financing within total equity and liabilities, deposits from customers, is quite stable and is spread evenly between demand deposits and term deposits. The overall change in the volume of liabilities therefore mainly reflects a change in business opportunities after a fall in interest rates on repo business with financial institutions.

One of the most significant items in the result for 2020, compared to the previous period, is the impairment loss on assets of EUR 66 million. With operating expenses stable, this impairment loss is the main reason for the 45% decrease in profit. The sharp hike in the loss allowance is the result of the pandemic-driven deterioration in the macroeconomic environment. This was reflected equally both in performing and non-performing exposures to advances to customers and in the impairment of financial instruments measured at fair value through other comprehensive income.

Net interest income decreased by 19% year on year, down from EUR 160 million in 2019 to EUR 124 million in 2020, mainly on account of a reduction in interest rates. Net fee and commission income in 2020 increased by EUR 3 million on 2019, primarily due to new administration services for clients. As in the previous year, the securities trading result was excellent at EUR 17 million. Compared to the year, there was also an increase of almost EUR 8 million in proceeds from the disposal of financial assets measured at fair value through other comprehensive income. The total net profit from financial operations in 2020 was an outstanding EUR 13 million. Compared to the previous year, the result from derivative trading and exchange rate differences offset the decrease in interest income.

Total operating expenses amounted to EUR 46 million. The slight overall decrease compared to the previous period can be attributed in particular to a reduction in other administrative expenses as a result of the lower operating result. Other operating expenses and their main component, the payment to the resolution fund, nudged up to EUR 12 million. Personnel expenses came to EUR 16 million, rising by 10% in response to the Bank's staffing strategy of renewing and strengthening the quality of the team.

At the end of 2020, assets stood at almost EUR 6.5 billion. Deposits held with the central bank amounted to nearly EUR 0.3 billion. Advances to customers were EUR 1.4 billion. Financial assets measured at fair value through profit or loss rose by EUR 0.5 billion to almost EUR 0.7 billion, pushed up by government bonds. Financial assets measured at fair value through other comprehensive income well as grew slightly to EUR 0.7 billion.

The balance of adjustments to performing and non-performing exposures spiralled by almost EUR 46 million compared with the beginning of 2020, increasing to EUR 84 million because of uncertain future developments and the forbearance policy.

PPF banka's main sources of funding are deposits from customers. The balance at the end of 2020 was EUR 5 billion, EUR 1.8 billion lower than at the end of 2019 thanks to the downtrend in repo operations. The Bank's stable sources of funding are at the previous year's level.

The return on equity is very respectable despite the impact the pandemic had in 2020.

In 2020, PPF banka continued its charity work and considers corporate social responsibility to be one of its fundamental values.

Securities

In 2020, as in previous years, PPF banka was very active as a market maker for Czech government bonds. In the ranking of primary dealers compiled by the Ministry of Finance of the Czech Republic, the Bank was a leading primary dealer over 2020, placing second not only in terms of initial subscriptions of government bonds (the primary market), but also in the criterion of quoting activity on the secondary market (the MTS Czech Republic electronic trading platform).

Overview of PPF banka's securities trading volumes in billions of EUR:

	2020	2019
Domestic bonds	14.7	4.4
Foreign bonds	0.9	0.7
Foreign equities	0.7	0.3
Total securities trading volume	16.3	5.4

The Bank more than tripled its securities trading volume, mainly by actively providing clients with access to the Czech government bond market, including auctions. The steady provision of liquidity on the secondary market also helped us to achieve much higher volumes in these bonds.

PPF banka participated in many issue-related products, including:

- A bond issue by PPF Telecom Group (formerly PPF Arena 1) totalling EUR 1,000 million (role: joint co-manager);
- Heureka FinCo CZ bonds totalling EUR 122 million (role: arranger, joint lead manager, and security agent);
- investment certificates (public offering without the need for a prospectus) with underlying assets in the form of PPF Group members' debt totalling the equivalent of EUR 97 million (role: arranger, lead manager, and distributor); and
- bonds and investment certificates (private placement) totalling the equivalent of EUR 88 million (role: lead manager and arranger).

Foreign exchange and derivative markets

On the foreign exchange market, the Bank maintained high numbers of transactions and a broad product portfolio. In 2020, there was higher activity on the FX spot market, where the Bank reported its highest ever traded volume (measured at CZK equivalent). The FX derivative market recorded a slight year-on-year decline in volumes.

The distribution and timing of PPF banka's transactions in billions of EUR are as follows:

	2020	2019
FX spot	10.7	11.0
FX derivatives	18.5	20.8
Total securities trading volume	29.2	31.8

Note: Since the 2019 Annual Report new methodology has been used to count FX derivatives, which also include trades concluded in the investment portfolio of the Bank.

As far as interest-rate derivatives are concerned, PPF banka continued with its significant activity on FRA markets and provided liquidity for the market in CZK interest-rate swaps (2020: EUR 9 billion; 2019: EUR 9.1 billion).

Corporate banking and the public sector

In corporate banking, despite the turmoil caused by the Covid-19 pandemic in 2020, PPF banka continued to focus on maintaining business cooperation with a number of its key customers in sectors in which the Bank has long specialised. These primarily include manufacturing, energy (both in the Czech Republic and abroad), wholesale and retail, engineering, logging and wood processing. In select cases, the Bank drew on solutions made available under COVID III support schemes underpinned by the Czech-Moravian Guarantee and Development Bank, a.s. PPF banka was among the first banks whose clients were able to take out loans secured by the Export Guarantee and Insurance Corporation under the COVID Plus guarantee programme.

The Bank continues to provide a full export, structured and syndicated financing product range. PPF banka helps many clients who are industry leaders, supporting them in their acquisitions, the expansion and upgrading of their production capacity, and the further development of their business activities, both in the Czech Republic and other parts of the world. The largest transactions take the form of club financing in cooperation with other major Czech and international banks. The Bank always tries to seek out the optimal financing structure for the customer and, where appropriate, the Bank complements bank financing, for example, with the possibility of issuing bonds. The Bank successfully continued to seek out and promote new attractive real estate projects.

In the public sector, in 2020 the Bank successfully built on the active cooperation it had established in previous years with the Czech Republic's regions and statutory cities. In the pursuit of the strategy of being an active partner for the public sector, PPF banka offers its services to customers in which regions and municipalities have participating interests.

Private banking for individuals

PPF banka's private banking department specialises in serving its most demanding private clients and in providing investment services. Like everyone, the Bank found 2020 very challenging, but this was also a year that yielded a lot of new perspectives on the established order and made the Bank think about a wide range of opportunities and stimuli. The Bank believes that it met the clients' expectations and, even in this difficult period, it never stopped being a strong and stable partner for them.

Staff development

The Company has no employees and therefore no organisational structure. All Group employees are employed by the subsidiaries of the Company.

The average number of employees during 2020 was 88,000 (2019: 125,000). The adjustment in headcount was mostly driven by rightsizing sales forces as the digitalisation of HC Group´s products and distribution network generates increases in operational efficiency.

Social aspects of operating the business

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

Home Credit

The HC Group's corporate social responsibility philosophy is centred on promoting financial inclusion, and specifically on creating the conditions to facilitate financially inclusive societies. The HC Group understands that its place in the financial industry gives it an important role in enhancing financial inclusion since it is often the first touchpoint for people who encounter the regulated financial system. The group activities fall under three broad pillars: (i) education, and financial literacy in particular; (ii) poverty reduction; and (iii) direct aid to the communities where we operate. Each of these pillars makes a distinct contribution towards its CSR ambition. In 2020, the HC Group engaged in over 46 programs in various form and reached over 2.6 million people in its communities. The HC Group recognises that its employees may also have other topics close to their hearts – something that is particularly true in markets where charity has not yet been institutionalised. Home Credit encourages and supports its employees in their own charitable contributions, such as allowing them to devote work time for volunteer activities, matching employee donations for selected projects, and providing non-profit organizations with its professional expertise.

Financial literacy and education in a broader sense are prerequisites for customers in emerging markets to be able to make full and effective use of not just consumer lending but to lead financially secure lives while sustainably improving their living standards. The primary focus of these initiatives is to educate people about credit and promote responsible borrowing practices, teach communities the principles of managing money and household budgeting, and focus on children and students to help them become more responsible adults. To this end, each of the countries runs financial literacy programmes tailored to their cultural contexts. A few examples include: (i) the "Juan, Two, Three" roving series of workshops in 185 urban and rural communities in the Philippines, (ii) the "Blue Bird" scholarship program, which has already been running for 11 years, aimed at providing financial assistance to gifted orphans and children from low-income families so they can seek higher education, (iii) the "Dak Lak" scholarship program in Vietnam.

The Group's financial literacy education initiatives have won plaudits from governments and NGOs for their use of modern methods such gamification and targeted lessons on its customer mobile apps in the majority of Home Credit markets. Home Credit understands that economic development, including development necessary to support consumer-led economies, requires populations that have overcome poverty cycles inhibiting their ability to raise their living standards. Efforts in this area include (i) the integration of people with disabilities through series of vocational workshops as well as job openings in Home Credit Indonesia; (ii) sponsoring the construction of school facilities in an underdeveloped region of China; (iii) financial and digital literacy videos made more attractive through cooperation with celebrities and key opinion leaders; or (iv) a sophisticated financial literacy internet portal designed for children and parents in Russia, where parents can track their children´s results, find up-to-date information about financial education, and sponsor a game workshop for their children´s school.

In 2020, Home Credit strived to help local communities affected by the Covid-19 pandemic. In total, the HC Group distributed over 55 tonnes of emergency medical equipment, including 8.5 million pieces of respirators and masks, 300.000 test kits, 650.000 pairs of gloves, tens of thousands of coveralls, protective goggles and thermometers, with a value of over USD 4.5 million. In addition, the company donated and distributed food and financial aid to affected areas. The HC Group also assisted communities hit by natural disasters in the Philippines, India and Vietnam through donations.

In China, the Group´s key market, Home Credit acted early to aid in easing the impact of Covid-19 on its communities. In all, Home Credit donated RMB 1 million to the Hubei Province Charity Federation and provided RMB 1 million to support its employees and their families in Hubei Province. The Group also matched any additional employee contributions for this cause and donated 7.5 tonnes of emergency medical supplies jointly with Sotio (a PPF Group biotech company), with a value of approximately RMB 1.5 million. These supplies included protective masks, suits, gloves, goggles and respirators.

PPF banka

Every year, PPF banka contributes to numerous projects primarily geared towards the development of Czech education and culture. It supports the activities of The Kellner Family Foundation and the PPF Foundation. It helps to fund Pipan, a bilingual nursery school for the hearing impaired that is part of the Tamtam Children's Hearing Centre.

Together with other PPF Group companies, the Bank is a long-standing partner of major cultural projects in the Czech Republic. For many years, it has sponsored the Summer Shakespeare Festival, Europe's largest open-air theatre festival to specialise in staging William Shakespeare's works. This year, the festival was held during July and August in the summer holidays and took place on outdoor stages in Prague, Brno, Ostrava and Bratislava. Likewise, the Bank sponsors the Jára Cimrman Theatre, which is woven into the very fabric of the Czech theatre scene and has been entertaining audiences and inspiring other professional and amateur theatre ensembles for more than 50 years.

Environmental influence, research and development

The Group is aware of the importance of maintaining a healthy and undamaged environment for the current and future generations. Although the nature of its core activities does not have a major impact on the environment, the Group nevertheless strives to limit any negative environmental effects of its everyday activities through moving the majority of its loan contracts onto paperless or online carriers, as well as aiming to save energy and other resources in its offices.

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

Information supply and computerisation

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

In 2020, PPF banka implemented and initiated a whole raft of changes related to IT and security, leading to significant improvements in the Bank's operations. The Bank also implemented all regulatory requirements and expanded the functionality of the main banking system.

This system is stable, contains the latest functional and security updates, and has been successfully expanded to include two new modules. Other IT systems were also maintained on supported (secure) versions and we ensured that they were widely available.

In 2020, PPF banka successfully completed CRM 2.0. This project has made a significant contribution to the digitalisation of the Bank's internal customer relationship processes and armed us with effective tools to ensure a high standard of data purity. It was followed by a series of smaller projects designed to make full use of the Microsoft Dynamics platform, which is its central architectural pillar in this area. At the end of the year, the Bank launched new modern internet banking that meets the high demands of its private and corporate clients. The Bank is currently moving forward with preparations for a mobile version. The Bank concentrated on designing and implementing other solutions aimed at streamlining internal risk management processes, vendor management and internal HR management.

Corporate governance and internal controls

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

Shareholders meeting

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

Convocation of shareholders' meeting

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

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

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

Attendance at the shareholders' meeting

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

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

Procedures at the shareholders' meeting

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

Each person entitled to attend shareholders' meetings is entitled to address the meeting and – if voting rights are accrued to them – to exercise their voting rights.

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

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

Decision making at the shareholders' meeting

Each share confers the right to cast one vote. All resolutions shall be passed by an absolute majority, unless a greater majority is required by law or the articles of association. Pursuing the articles of association, a higher quorum is not required for any decision.

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

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

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

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

Management Board

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

The Management Board shall meet whenever required by a member of the Management Board.

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

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

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

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

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

In 2020, the Management Board had five members. All five members of the Management Board were executive. All directors have been members of the Management Board since 13 November 2014, i.e. there have not been any changes in the composition of the Management Board since the establishment of the Company.

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

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

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

Some directors of the Company also serve as members of the management or supervisory board of the parent company PPF Group N.V. or have group managerial roles at the PPF Group level. As of 31 December, 2020:

- Mr. Jansen (located in the Company seat) served as a member of the management board of PPF Group N.V.,
- Mr. Bosveld (located in the Company seat) served as a member of the management board of PPF Group N.V.,
- Mr. Král (located in the Czech Republic, Prague, Evropská 17) served as a member of the supervisory board of PPF Group N.V. and as General Counsel of PPF Group,
- Mrs. Jirásková (located in the Czech Republic, Prague, Evropská 17) served as Chief Financial Officer of PPF Group.

Mr. de Reijke (located at the Company´s registered office) did not serve as a member of the management board or of the supervisory board of PPF Group N.V. and did not have any managerial role at PPF Group level.

Apart from the above listed activities and the activities in the subsidiaries of the Company, the members of the Management Board do not perform any activities that are significant to the Company.

Diversity policy applicable to the Management Board

The Management Board approved the Company´s Internal Policy on the Suitability of the Directors, Role Profiles and Expectations in 2019 and reviewed the policy in 2020. The policy includes a subsection on diversity.

The Company is active across many geographical regions. Building a more diverse and inclusive workforce is a critical component to developing a sustainable and successful business. The Company is focuses on:

- improving the diversity of the workforce.
- fostering open, inclusive and, where appropriate, challenging discussion.
- leveraging diversity of thought.

The following diversity aspects are considered in the composition of the Management Board: educational and professional background, gender, age, and geographical provenance. However, the directors are not recruited with the sole purpose of increasing diversity to the detriment of the functioning and suitability of the Management Board collectively, or at the expense of the suitability of individual directors.

The Company formulated the targeted participation of the underrepresented gender on the Management Board at 20%. In 2020, the target of the policy was met.

<u>Audit committee</u>

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

The responsibilities of the audit committee include:

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

The audit committee was composed of three members:

- František Dostálek, chairperson
- Kamil Ziegler, member
- Lubomír Král, member

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

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

Principles of remuneration

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

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

The preparation of the remuneration framework was outsourced to PPF a.s. and the final framework was approved by the Management Board.

The Company did not establish a remuneration committee. The shareholders' meeting determines the absolute remuneration and further conditions of employment for each member of the Management Board.

The members of the Management Board did not receive any remuneration from the Company in 2020. The members of the Management Board received remuneration of EUR 132 thousand from the subsidiaries of the Company. The remuneration received from the subsidiaries was fixed and not linked to any performance indicators.

The directors did not receive any non-monetary remuneration from the Company and its subsidiaries.

On top of the remuneration described above, the directors are remunerated by the parent company and/or its subsidiaries outside of the Company and its subsidiaries.

The members of the Management Board neither own any shares of the Company nor have any option rights on the shares of the Company.

Code of conduct

PPF Group N.V. as the parent of the Company implemented a corporate compliance programme, which sets out the fundamental principles and rules of conduct for staff in the PPF Group and enables compliance checks and putting remedies in place when shortcomings are discovered or objectionable or illegal conduct is identified. An important part of the programme is the PPF Group Code of Ethics that among other topics deals with the protection of human rights and the prevention of corrupt conduct in all PPF Group activities. An internal PPF Group policy on internal investigations of corporate compliance further provides rules for the investigation of suspected breaches of legal regulations or of the PPF Group Code of Ethics.

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

Conflict of interest

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

Corporate governance code

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

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

Approach to risks associated with financial reporting

Pursuant to Dutch legislation, the Company keeps its books in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Regardless of the accounting standard they use to prepare their individual financial statements, all subsidiaries report data for PPF Financial Holdings consolidation purposes according to IFRS.

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

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

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

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

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

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

Information on regulated markets and rating of the Company

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

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

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

Financial instruments and risk management

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

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

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

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

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

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

Macroeconomic and regulatory development in countries where the Group operates

In 2020, the Group, especially Home Credit, faced challenging business conditions amid the pandemic-induced restrictions in all its markets, resulting in dampened consumer spending. Following decisive actions to create sufficient provisions against potentially non-performing loans in the first half, the HC Group's business model, including pivoting the focus on its loyal, proved resilient enough to tackle pandemic-related issues. As a result, Home Credit returned to profitability in the second half of 2020.

Various forms of social-distancing measures and financial reliefs in the form of loan payment moratoria affected all its markets simultaneously but their duration and types differed across the Group's countries of operation. The impact on China was the most intense in the first quarter, while other countries started to bear the brunt of the world's health crisis from April. Starting in mid-to-late May, restrictions in most of the Group's countries were gradually lifted. But in some countries, such as Russia, India and Indonesia, the pandemic-related problems lingered through July. This was evident in the Czech Republic and Slovakia where the government authorities fighting the second and third wave of Covid-19 infections re-introduced lockdowns in October and December 2020 and in early 2021.

Nevertheless, the Group's business recovery that began in July was buoyed by accelerating its digitalization strategy, launched prior to the pandemic. In China, the deployment of digital processes is evident through the universal use of paperless loan application procedures used regardless of whether our customers shop online or in physical stores.

The following chart summarises the lockdown situation in the markets where the Group operates:

	Jan.	**Feb.**	**Mar.**	**Apr.**	**May**	**Jun.**	**Jul.**	**Aug.**	**Sep.**	**Oct.**	**Nov.**	**Dec.**
China - Hubei	01/21 04/08											
China - Zhejiang		02/02 – 02/20										
China - Xinjiang							07/18 – 08/26					
Czech Republic			03/12 – 04/30							10/05 –		
Slovakia			03/11 – 05/19							10/01 –		
Kazakhstan			03/16 – 05/11				07/01 – 08/15					
Russia			03/30 – 06/08									
Philippines												
India			03/25 – 05/31			06/01 – 12/31 *						
Indonesia			03/17 – 06/12						09/14 – 09/27 **			
Vietnam				04/01 – 04/24			07/27 – 08/31 ***					

* varying intensity from June 1 onward
** Jakarta province
*** Da Nang region

As a reaction to the pandemic and its impact on the economy the local governments imposed new laws introducing payment holidays. See below a summary of country specifics:

Country	Opt in / Opt out	Eligibility criteria	Start date/end date	Maximum length
China	Opt in	Opt in for those impacted by Covid-19	1 February 2020 1 month, in Opt out 3-9 months	6 months
Czech Republic	Opt in	Opt in - Retail loans except Overdraft with DPD <= 30	1 April 2020 31 July 2020, poss. 31 October 2020	6 months
Slovakia	Opt in	Opt in – Retail loans with DPD <= 30	9 April 2020 Until the end of governmental preventive measures	6 months
Kazakhstan	Opt in Opt out	Opt in for clients who lost their job Opt out for socially vulnerable clients	15 March 2020 15 June 2020	3 months
Russia	Opt in	Clients who had paid duly before and who lost salaries for over 30% because of quarantine	3 April 2020 31 October 2020	6 months
Philippines	Opt out	Version 1: All contracts not paid during the moratorium and not 90+ DPD before moratorium eligible for up-to 3 months Payment Holiday Version 2: All contracts current at Sep 15 are eligible for 60 days Grace Period for all instalments until end of Dec'20	Version 1: 17 March to 31 May 2020 Version 2: 15 September to 31 December 2020	V1: 3 months V2: 60 days
IN	Opt out	Clients not delinquent as of March 1, 2020	1 March 2020 31 August 2020	6 months
ID	Opt in Opt out	Clients financially (max 10 DPD as of March 1) or medically affected by Covid-19	1 March 2020 December 2020	6 months
Vietnam	Opt in	Clients impacted by Covid-19 (max 10 DPD)	23 January 2020	3 months

Opt-in means that the clients have the right to apply for payment holidays. In some countries, Home Credit is obliged by regulation to approve payment holidays, in other countries, the decision is based on the Group's underwriting process.

Opt-out: In some countries (IN, PH), the Group provided payment holidays to all clients, who failed to pay their instalment on time. The Group does not ask for explicit client consent.

Recent events and outlook for 2021

In February 2021, PPF Group announced a plan to combine its retail banking and consumer finance units in the Czech Republic and Slovakia with Czech-based MONETA Money Bank. The aim is to create the country's top-three bank focused on retail and SME business segments.

On 16 March 2021, the Company filed with the Dutch trade register a cross-border conversion proposal to transfer its official seat to the Czech Republic and change from a Dutch law governed B.V. to a Czech law governed a.s. (a joint stock company). The conversion does not mean any disruption of the Company´s existence or operations. Based on the indicative timetable the registration of the Company with the Czech commercial register should be finalised in June 2021.

Following the initial shock during the first half of 2020 caused by the global Covid-19 pandemic, the Group's financial situation stabilised in the latter half of 2020 and the Group achieved a slight profit of

EUR 31 million. With regard to the unfavourable pandemic developments in the initial months of 2021, the management does not expect to see rapid growth in newly provided loans in 2021 or a return to the profitability levels achieved in 2018 and 2019 in many countries where the company operates. With that being said, unless there is a serious deterioration of the Covid-19 pandemic situation, causing strict lockdowns in the individual countries, the management does not expect the results for the first half of 2020 to reoccur. It is difficult to predict the bottom line for 2021 in a highly unstable environment, also considering the potential one-off effects related to the contemplated transaction involving MONETA Money Bank, for example.

Declaration

During the period covering at least the previous 12 months, no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware) have had in the recent past any significant effects on the Company and/or the Group's financial position or profitability.

No material contracts entered into in the ordinary course of the issuer's business could result in any group member being under an obligation or entitlement that would be material to the Company's ability to meet its obligations to security holders in respect of the securities being issued.

The Management Board hereby declares that, to its best knowledge, the consolidated annual report gives a true and faithful reflection of the financial situation, business and the results of the Company and its consolidated whole for the past accounting period, and of the outlook on the future development of the financial situation, business and results.

In Amsterdam on 22 April 2021,

The directors of PPF Financial Holdings B.V.

Appendix:

Alternative performance measures

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

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

Performance measure	**Purpose and definition**
Adjusted NPL ratio	**Purpose:** The NPL ratio is a measure of the portfolio credit quality. Usually, a higher NPL ratio is associated with lower portfolio quality. **Definition:** Gross non-performing loans and advances to customers less guarantee provided by EGAP (Exportní garanční a pojišťovací solečnost, a.s.) to these loans/gross performing loans and advances to customers **Reconciliation with financial statements:** This measure is used for the description of the performance of PPF banka a.s. It can neither be reconciled with the financial statements of the Company nor with the financial statements of PPF banka a.s.
Cost-of-risk ratio	**Purpose:** The cost-of-risk ratio is a measure of credit risk of a loan portfolio. A lower cost-of-risk ratio is associated with lower credit risk of a loan portfolio. **Definition:** Impairment losses on financial assets/average loans to customers The average loans to customers for a given year are calculated as the average of loans to customers at the end of Q4 of the previous year and Q1, Q2, Q3, and Q4 of the respective year.

	Reconciliation with financial statements: This measure is used for the description of the performance of Home Credit Group B.V. It can neither be reconciled with the financial statements of the Company nor with the financial statements of Home Credit Group B.V.
Cost-to-income ratio	**Purpose:** The cost-to-income ratio is a measure of a company´s operational effectiveness. A lower cost-to-income ratio is associated with better company performance. **Definition:** When used for Home Credit Group B.V.: (Personnel expenses and Other operating expenses + Rental, maintenance and repairs + Depreciation and amortisation) / Operating income When used for PPF banka a.s.: Operating expenses (including donations and excluding impairment (loss)/reversal)/operating income **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. and of PPF banka. It cannot be reconciled with the financial statements of the Company. However, it may be reconciled with the financial statements of Home Credit Group B.V. and with the financial statements of PPF banka.
Deposits	**Definition:** The term is used as a synonym for due to non-banks as used in the financial statements of the Company, as a synonym for current accounts and deposits from customers as used in the financial statements of Home Credit Group B.V., and as a synonym for deposits due to customers as used in the financial statements of PPF banka a.s.
Liquid assets	**Definition:** Liquid assets are calculated as sum of: Cash and cash equivalents Financial assets at fair value through other comprehensive income Due from banks, other financial institutions and holding companies Investment securities at amortised cost. as used in the financial statements of Home Credit Group B.V.

New volume	**Definition:** New volume represents amount of loans provided to customers during given period.
Net interest margin	**Purpose:** The net interest margin is a profitability measure. Although the net interest margin of various loan portfolios is not directly comparable (for example due to the credit risk or administrative costs), a higher net interest margin is usually associated with higher profit. **Definition:** Net interest income/average interest earning assets The average interest earning assets for a given year are calculated as an average of the interest earning assets at the end of Q4 of the previous year and Q1, Q2, Q3, and Q4 of the respective year. The interest earning assets are defined as assets for which interest is charged such as loans due from customers or loans and receivables due from banks and other financial institutions. **Reconciliation with financial statements:** This measure is used for the description of performance of Home Credit Group B.V. It can neither be reconciled with the financial statements of the Company nor with the financial statements of Home Credit Group B.V.
NPL coverage ratio	**Purpose:** The NPL coverage ratio is a measure of the portfolio credit quality. Usually, a higher NPL coverage ratio is associated with higher portfolio quality. **Definition:** Allowance for impairment – retail + Allowance for impairment – non-retail divided by Gross loans at Stage 3 – retail + Gross loans at Stage 3 – non-retail. as used in the financial statements of Home Credit Group B.V. Note 4. **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. on consolidated basis. It cannot be reconciled with the financial statements of the Company. However, it may be reconciled with the financial statements of Home Credit Group B.V. for the year ended 31 December 2020 and for the year ended 31 December 2019.

NPL ratio	**Purpose:** The NPL ratio is a measure of the portfolio credit quality. Usually, a higher NPL ratio is associated with lower portfolio quality. **Definition:** Gross loans at Stage 3 – retail + Gross loans at Stage 3 – non-retail divided by Gross loans – retail + Gross loans – non-retail as used in the financial statements of Home Credit Group B.V. Note 4. **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. on consolidated basis. It cannot be reconciled with the financial statements of the Company. However, it may be reconciled with the financial statements of Home Credit Group B.V. for the year ended 31 December 2020 and for the year ended 31 December 2019.
Unadjusted NPL ratio	**Purpose:** The NPL ratio is a measure of the portfolio credit quality. Usually, a higher NPL ratio is associated with lower portfolio quality. **Definition:** Gross non-performing loans and advances to customers / Gross performing loans and advances to customers **Reconciliation with financial statements:** This measure is used for the description of the performance of PPF banka a.s. It cannot be reconciled with the financial statements of the Company. However, it may be reconciled with the financial statements of PPF banka a.s.
Return on average equity (RoAE)	**Purpose:** The return on average equity is a performance measure. It measures how effectively a company uses its equity. Usually, a higher return on average performance is associated with better company performance. **Definition:** Net profit from continuing operations for the period/average equity. The average equity for a given year is calculated as the average of total equity at the end of Q4 of the previous year and Q1, Q2, Q3, and Q4 of the respective year. **Reconciliation with financial statements:**

	This measure is used for the description of the performance of Home Credit Group B.V. on a consolidated basis. It can neither be reconciled with the financial statements of the Company nor with the financial statements of Home Credit Group B.V.
Total volume of securities trading	**Purpose:** The total volume of securities trading is a measure which expresses the total amount of securities bought/sold as part of proprietary bank´s business and for customers. **Definition:** The total notional amount of securities bought/sold as part of proprietary bank´s business and for customers. **Reconciliation with financial statements:** This measure is used for the description of the performance of PPF banka a.s. It can neither be reconciled with the financial statements of the Company nor with the financial statements of PPF banka a.s.
Volume of foreign exchange market transactions	**Purpose:** The total volume of foreign exchange market transactions is a measure which expresses the total amount of foreign exchange market transactions traded as part of proprietary bank´s business and for customers. **Definition:** The total notional amount of foreign exchange market transactions traded as part of proprietary bank´s business and for customers. **Reconciliation with financial statements:** This measure is used for the description of the performance of PPF banka a.s. It can neither be reconciled with the financial statements of the Company nor with the financial statements of PPF banka a.s.
Equity to net loans	**Purpose:** The equity to net loans ratio measures what part of loans to clients is covered by equity. **Definition:** Total equity divided by Loans to customers. **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. on consolidated basis. It cannot be reconciled with

	the financial statements of the Company. However, it could be reconciled with the financial statements of Home Credit Group B.V.
Allowance to gross loans	**Purpose:** Allowance to gross loans ratio demonstrates what part of gross loans is covered by allowance. **Definition:** Allowance for impairment – retail + Allowance for impairment – non-retail divided by Gross loans – retail + Gross loans – non-retail. As used in the financial statements of Home Credit Group B.V. Note 4 **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. on consolidated basis. It cannot be reconciled with the financial statements of the Company. However, it may be reconciled with the financial statements of Home Credit Group B.V.
Cost of funds	**Purpose:** Cost of funds demonstrates for what price the Group is able to obtain financial sources. **Definition:** Interest expense/average interest bearing liabilities The average interest bearing liabilities for a given year are calculated as an average of the interest bearing liabilities at the end of Q4 of the previous year and Q1, Q2, Q3, and Q4 of the respective year. The interest bearing liabilities are defined as liabilities for which interest is charged such as loans due to banks, amounts due to customers or debt securities issued. **Reconciliation with financial statements:** This measure is used for the description of the performance of Home Credit Group B.V. on consolidated basis. It can neither be reconciled with the financial statements of the Company nor with the financial statements of Home Credit Group B.V.

PPF Financial Holdings

PPF Financial Holdings B.V.

Consolidated financial statements for the year ended 31 December 2020

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Glossary

AC	- amortised cost
CGU	- cash generating unit
EAD	- exposure at default
ECL	- expected credit losses
FLI	- forward-looking information
FVOCI	- fair value through other comprehensive income
FVTPL	- fair value through profit or loss
FX	- foreign exchange
LGD	- loss given default
NCI	- non-controlling interests
OCI	- other comprehensive income
OTC	- over-the-counter
PD	- probability of default
PL	- profit or loss
POCI	- purchased or originated credit impaired
PPE	- property, plant and equipment
ROU	- right-of-use assets
SICR	- significant increase in credit risk
UCC	- business combinations under common control

Consolidated statement of financial position

In millions of EUR

	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	E1	5,951	9,375
Investment securities	E2	2,775	2,105
Loans and receivables due from banks and other financial institutions	E3	466	553
Loans due from customers	E4	13,943	21,396
Trade and other receivables	E5	56	61
Current tax assets		16	26
Equity-accounted investees	E6	32	48
Property, plant and equipment	E7	229	327
Intangible assets and goodwill	E8	403	389
Deferred tax assets	E31.1	640	426
Other assets	E9	249	354
TOTAL ASSETS		**24,760**	**35,060**
LIABILITIES			
Financial liabilities at fair value through profit or loss	E10	635	353
Due to non-banks	E11	11,640	14,017
Due to banks and other financial institutions	E12	6,924	13,291
Debt securities issued	E13	1,683	2,389
Subordinated liabilities	E14	256	268
Current tax liabilities		15	39
Trade and other payables	E15	702	844
Provisions	E16	45	62
Deferred tax liabilities	E31.1	8	20
TOTAL LIABILITIES		**21,908**	**31,283**
EQUITY			
Issued capital*	E17	-	-
Share premium	E17	2,324	2,324
Additional paid-in capital	E18	80	80
Other reserves	E19	(879)	(542)
Retained earnings		1,121	1,609
Total equity attributable to owners of the Parent		2,646	3,471
Non-controlling interests	E20	206	306
Total equity		**2,852**	**3,777**
TOTAL LIABILITIES AND EQUITY		**24,760**	**35,060**

*Issued capital is EUR 45 thousand.

Consolidated income statement

For the year ended 31 December

In millions of EUR

	Note	2020	2019
Interest income		4,347	5,514
Interest expense		(1,316)	(1,665)
Net interest income	E23	**3,031**	**3,849**
Fee and commission income		447	675
Fee and commission expense		(185)	(197)
Net fee and commission income	E24	**262**	**478**
Net earned premiums		18	21
Net insurance benefits and claims		(1)	-
Acquisition costs		(3)	(4)
Net insurance income		**14**	**17**
Net gains/(losses) on financial assets/liabilities	E25	(28)	(18)
Other income	E26	83	143
TOTAL OPERATING INCOME		**3,362**	**4,469**
Net impairment losses on financial assets	E27	(2,406)	(1,816)
Personnel expenses	E28	(935)	(1,118)
Depreciation and amortisation	E29	(199)	(188)
Other operating expenses	E28	(489)	(569)
Net gains/(losses) on disposals/liquidations of subsidiaries and equity-accounted investees		(1)	(3)
Share of earnings of equity-accounted investees, net of tax	E6	(9)	(21)
PROFIT/(LOSS) BEFORE TAX		**(677)**	**754**
Income tax benefit/(expense)	E31.2	122	(247)
NET PROFIT/(LOSS) FOR THE PERIOD		**(555)**	**507**
Profit/(loss) attributable to:			
Owners of the Parent		(476)	481
Non-controlling interests	E20	(79)	26

Consolidated statement of comprehensive income

For the year ended 31 December

In millions of EUR

	2020	2019
NET PROFIT/(LOSS) FOR THE PERIOD	**(555)**	**507**
Other comprehensive income		
Valuation gains/(losses) on FVOCI equity instruments	3	-
Valuation gains/(losses) on FVOCI debt securities*	10	33
FVOCI revaluation (gains)/losses transferred to income statement*	(11)	(4)
Foreign operations - currency translation differences*	(381)	132
Cash flow hedge - effective portion of changes in fair value*	(1)	(2)
Disposal of subsidiaries*	7	-
Income tax relating to components of other comprehensive income*	1	(5)
Other comprehensive income/(expense) for the period (net of tax)	**(372)**	**154**
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	**(927)**	**661**
Total comprehensive income/(expense) attributable to:		
Owners of the Parent	(815)	624
Non-controlling interests	(112)	37

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

Consolidated statement of changes in equity

In millions of EUR

	Issued capital*	Share premium	Additional paid-in capital	Revaluation reserve	Legal and statutory reserves	Translation reserve	Reserve for UCC	Hedging reserve	Other equity instr.	Retained earnings	Attributable to owners of the Parent	Attributable to NCI	Total
Balance as at 1 January 2020	**-**	**2,324**	**80**	**22**	**143**	**(368)**	**(518)**	**(2)**	**181**	**1,609**	**3,471**	**306**	**3,777**
Profit for the period	-	-	-	-	-	-	-	-	-	**(476)**	**(476)**	**(79)**	**(555)**
Currency translation differences	-	-	-	-	-	(348)	-	-	-	-	(348)	(33)	(381)
FVOCI revaluation gains/(losses) taken to equity	-	-	-	13	-	-	-	-	-	-	13	-	13
FVOCI revaluation (gains)/losses transferred to income statement	-	-	-	(11)	-	-	-	-	-	-	(11)	-	(11)
FVOCI revaluation (gains)/losses transferred directly to retained earnings	-	-	-	(4)	-	-	-	-	-	4	-	-	-
Effect of hedge accounting	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Disposals and deconsolidation of subsidiaries	-	-	-	-	-	7	-	-	-	-	7	-	7
Tax on items taken directly to or transferred from equity	-	-	-	1	-	-	-	-	-	-	1	-	1
Other comprehensive expense for the period	-	-	-	**(1)**	-	**(341)**	-	**(1)**	-	**4**	**(339)**	**(33)**	**(372)**
Total comprehensive expense for the period	-	-	-	**(1)**	-	**(341)**	-	**(1)**	-	**(472)**	**(815)**	**(112)**	**(927)**
Net allocation to legal and statutory reserves	-	-	-	-	6	-	-	-	-	(6)	-	-	-
Dividends to shareholders	-	-	-	-	-	-	-	-	-	(5)	(5)	-	**(5)**
Contributions by NCI	-	-	-	-	-	-	-	-	-	-	-	13	13
Other changes in NCI	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Other	-	-	-	-	-	-	-	-	-	(5)	(5)	-	(5)
Total transactions with owners of the Company	-	-	-	-	**6**	-	-	-	-	**(16)**	**(10)**	**12**	**2**
Balance as at 31 December 2020	**-**	**2,324**	**80**	**21**	**149**	**(709)**	**(518)**	**(3)**	**181**	**1,121**	**2,646**	**206**	**2,852**

*Issued capital is EUR 45 thousand.

Consolidated statement of changes in equity

In millions of EUR

	Issued capital*	Share premium	Additional paid-in capital	Revaluation reserve	Legal and statutory reserves	Translation reserve	Reserve for UCC	Hedging reserve	Other equity instr.	Retained earnings	Attributable to owners of the Parent	Attributable to NCI	Total
Balance as at 1 January 2019	**-**	**2,324**	**80**	**1**	**114**	**(491)**	**(518)**	**-**	**-**	**1,221**	**2,731**	**239**	**2,970**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**481**	**481**	**26**	**507**
Currency translation differences	-	-	-	-	-	123	-	-	-	-	123	9	132
FVOCI revaluation gains/(losses) taken to equity	-	-	-	31	-	-	-	-	-	-	31	2	33
FVOCI revaluation (gains)/losses transferred to income statement	-	-	-	(4)	-	-	-	-	-	-	(4)	-	(4)
FVOCI revaluation (gains)/losses transferred directly to retained earnings	-	-	-	(1)	-	-	-	-	-	1	-	-	-
Effect of hedge accounting	-	-	-	-	-	-	-	(2)	-	-	(2)	-	(2)
Tax on items taken directly to or transferred from equity	-	-	-	(5)	-	-	-	-	-	-	(5)	-	(5)
Other comprehensive income for the period	**-**	**-**	**-**	**21**	**-**	**123**	**-**	**(2)**	**-**	**1**	**143**	**11**	**154**
Total comprehensive income	**-**	**-**	**-**	**21**	**-**	**123**	**-**	**(2)**	**-**	**482**	**624**	**37**	**661**
Net allocation to legal and statutory reserves	-	-	-	-	29	-	-	-	-	(29)	-	-	-
Dividends to shareholders	-	-	-	-	-	-	-	-	-	(5)	(5)	-	(5)
Contributions by NCI	-	-	-	-	-	-	-	-	-	-	-	25	25
Other changes in NCI	-	-	-	-	-	-	-	-	-	(60)	(60)	5	(55)
Issue of AT1 subordinated bond	-	-	-	-	-	-	-	-	181	-	181	-	181
Total transactions with owners of the Company	**-**	**-**	**-**	**-**	**29**	**-**	**-**	**-**	**181**	**(94)**	**116**	**30**	**146**
Balance as at 31 December 2019	**-**	**2,324**	**80**	**22**	**143**	**(368)**	**(518)**	**(2)**	**181**	**1,609**	**3,471**	**306**	**3,777**

*Issued capital is EUR 45 thousand.

Consolidated statement of cash flows

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

In millions of EUR

	Note	2020	2019
Cash flows from operating activities			
Profit before tax		(677)	754
Adjustments for:			
Depreciation and amortisation		199	188
Impairment/(reversal of impairment) of current and non-current assets	E.27	2,418	(1,816)
(Profit)/loss on disposal of PPE, intangible assets, and goodwill		1	2
(Profit)/loss on sale of investment securities		(24)	(8)
(Gains)/losses on disposal of subsidiaries		1	3
Interest expense		1,316	1,665
Interest income		(4,347)	(5,514)
Net foreign exchange (gains)/losses		280	1,018
Other (income)/expenses not involving movements of cash		17	(3)
Gains on bargain purchase		-	(38)
Interest received		4,343	5,942
Change in loans and receivables due from banks and other financial institutions		21	(222)
Change in loans due from customers		3,657	(1,859)
Change in trade and other receivables		5	5
Change in other assets		99	(75)
Change in financial liabilities at FVTPL		200	(269)
Change in liabilities due to non-banks		(1,410)	1,528
Change in trade and other payables		(185)	26
Income tax paid		(146)	(303)
Net cash from/(used in) operating activities		**5,768**	**1,024**
Cash flows from investing activities			
Purchase of tangible and intangible assets	E.7, E.8	(179)	(221)
Purchase of financial assets at FVTPL		(602)	(442)
Purchase of financial assets at AC		(374)	(47)
Purchase of financial assets FVOCI		(2,135)	(1,452)
Acquisition of subsidiaries and equity-acc. investees, net of cash acquired (incl. capital increase)		(23)	(84)
Dividends received from equity-acc. investees		5	-
Proceeds from disposals of PPE and intangible assets		16	5
Proceeds from financial assets at FVTPL		260	572
Proceeds from financial assets at AC		18	87
Proceeds from sale of financial assets FVOCI		2,120	1,685
Proceeds from disposal of subsidiaries and equity-acc. investees, net of cash disposed		5	-
Net cash from/(used in) investing activities		**(889)**	**103**

	Note	2020	2019
Cash flows from financing activities			
Proceeds from the issue of debt securities		1,204	2,047
Proceeds from loans due to banks and other financial institutions		7,010	16,972
Repayment of debt securities		(1,787)	(1,569)
Repayment of loans due to banks and other financial institutions		(12,961)	(17,656)
Interest paid		(1,345)	(1,553)
Cash payments for principal portion of lease liabilities		(45)	(45)
Dividends paid to a shareholder		(5)	(5)
Proceeds from issue of other equity instruments		-	181
Payments related to other equity instruments		(15)	-
Contribution by NCI		13	-
Net cash from/(used in) financing activities	**E.22**	**(7,931)**	**(1,628)**
Net increase/(decrease) in cash and cash equivalents		**(3,052)**	**(501)**
Cash and cash equivalents as at 1 January		**9,375**	**9,738**
Effect of exchange rate movements on cash and cash equivalents		(372)	138
Cash and cash equivalents as at 31 December		**5,951**	**9,375**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

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

The Parent Company was incorporated on 13 November 2014 as a 100% subsidiary of PPF Group N.V. and currently holds four main investments: Home Credit Group B.V., PPF banka, a.s., Mobi Banka a.d. Beograd, and Clear Bank Ltd.

The consolidated financial statements of the Parent Company for the year ended 31 December 2020 comprise the Parent Company and its subsidiaries (together the "PPF Financial Holdings Group" or the "Group") and the Group's interests in associates and affiliated entities. Refer to Section B of these consolidated financial statements for a list of significant Group entities and changes to the Group in 2020 and 2019.

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

As of 31 December 2020, the Parent was a 100% subsidiary of PPF Group N.V., the ultimate controlling party was Mr Petr Kellner.

A.2. Statement of compliance

The consolidated financial statements were authorised for issue by the board of directors on 22 April 2021.

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

The Company has also prepared separate financial statements for the year ended 31 December 2020, which have been prepared in accordance with IFRS-EU, including IASs, promulgated by the IASB and interpretations issued by the IFRIC of the IASB as adopted by the European Union and with Section 2:362(9) of the Dutch Civil Code.

A.3. Basis of measurement

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

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities stated at their fair value: derivative financial instruments, financial instruments at FVTPL (incl. those designated upon initial recognition as at FVTPL), and financial instruments at FVOCI. Financial assets and liabilities as well as non-financial assets and liabilities measured at historical cost are stated at AC using the effective interest method or historical cost, as appropriate, net of any relevant impairment.

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

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (refer to A.5). From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has the option to apply a ‘concentration test’ that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised immediately in profit or loss (refer to F.1.12). Transaction costs are expensed as incurred, expect if related to the issue of debt or equity securities.

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

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

A.4. Use of judgements and estimates

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

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

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

- the fair value of tangible and intangible assets identified during the purchase price allocation exercise and the value of gain on bargain purchase (refer to B);
- useful life of tangible and intangible fixed assets (refer to F.1.11 and F.1.12);
- provisions recognised under liabilities (refer to E.16);
- the fair value of financial instruments (refer to C.6);
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits (refer to E.31.1);
- impairment of investment securities, loans provided, other financial assets and non-financial assets (refer to E.2, E.3, E.4 and E.5);
- contingent assets/liabilities (refer to E.32);
- lease-term for the lessee accounting if the Group is reasonably certain to exercise extension options (refer to E.21).

A.5. Basis of consolidation

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

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

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

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

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

A.6. Presentation and functional currency

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

A.7. Change in presentation of collateral deposits for derivatives and certain bills of exchange

In 2019, the Group presented received collateral deposits for derivative instruments of EUR 68 million as other liabilities. In 2020, the Group decided to improve the presentation to better reflect the substance of these items and reclassified EUR 37 million as liabilities due to non-banks and EUR 31 million as liabilities due to banks in the presented comparative numbers as at 31 December 2019.

Further in 2019, the Group presented certain bills of exchange amounting to EUR 78 million as financial assets at AC (under investment securities caption of the consolidated statement of financial position). As the underlying assets of these bills of exchange are loans to corporations, to better reflect the substance, the Group reclassified these bills of exchange to loans due from customers in the presented comparative numbers as at 31 December 2019. The related impairment allowance was nil.

A.8. Change in the presentation of foreign exchange gains/losses in the statement of cash flows

Revising its consolidated statement of cash flows the Group decided to improve the presentation of net foreign exchange gains/losses in this statement. Therefore, the Group reclassified net foreign exchange losses of EUR 1,018 million, presented as other expenses not involving movements of cash in the consolidated financial statements for the period ending 31 December 2019, to a separate line item.

A.9. Covid-19 and its impact on the Group´s financial statements

On 11 March 2020, the World Health Organisation declared the coronavirus outbreak a pandemic. In the countries in which the Group operates, local governments imposed different restrictions on its citizens and businesses. Aiming to limit the effects of any possible operational risks, the Group has been following and observed business continuity protocols, as the health of the Group's employees and clients is its priority.

The slowdown in economic growth was substantial, and the adverse effects on new business were significant. Increased loss events had an impact on the quality of retail and corporate loan portfolios especially in early 2020, with the situation improving in the second half of the year. Limitations of opening hours and/or complete lock-downs of certain business premises in the countries the Group operates in have impacted the volume of new business and the renewal of existing business relationships.

The impact on the Group's risk evaluation, risk modelling techniques and accounting policies is described in section F.2.1.

The Group has sufficient available funds and does not expect to have issues in meeting its obligations when they come due. During 2020, the Group managed to raise various funding from external parties and also renewed the Group's syndicated bank loan, which shows the lending banks' confidence in the Group's future performance. The Group is closely monitoring the Covid-related development in countries of its operation to mitigate any potential breaches of covenants.

The Group is continuously monitoring the situation and, based on its current knowledge and available information, the Group does not expect Covid-19 to have an impact on its ability to continue as a going concern in the future.

B. Consolidated group and main changes for the period

B.1. Group entities

The following list only shows significant holding and operating entities that are subsidiaries or equity-accounted investees of the Parent Company as of 31 December 2020 and 2019.

Company	Domicile	Effective proportion of ownership interest	
		31 December 2020	31 December 2019
PPF Financial Holdings B.V.	Netherlands	Parent Company	Parent Company
Home Credit subgroup - subsidiaries			
Home Credit Group B.V.	Netherlands	91.12%	91.12%
AB 4 B.V.	Netherlands	91.12%	91.12%
Air Bank a.s.	Czech Republic	91.12%	91.12%
Bank Home Credit SB JSC	Kazakhstan	91.12%	91.12%
Benxy s.r.o.	Czech Republic	91.12%	91.12%
Favour Ocean Ltd.	Hong Kong	91.12%	91.12%
Guangdong Home Credit Number Two Information Consulting Co., Ltd.	China	91.12%	91.12%
HC Consumer Finance Philippines, Inc.	Philippines	91.12%	91.12%
HCPH Financing 1, Inc.	Philippines	91.12%	91.12%
Home Credit a.s.	Czech Republic	91.12%	91.12%
Home Credit and Finance Bank LLC	Russia	91.12%	91.12%
Home Credit Asia Ltd.	Hong Kong	91.12%	91.12%
Home Credit N.V.	Netherlands	91.12%	91.12%
Home Credit Consumer Finance Co. Ltd.	China	91.12%	91.12%
Home Credit India Finance Private Ltd.	India	91.12%	91.12%
Home Credit Indonesia PT	Indonesia	77.45%	77.45%
Home Credit Insurance LLC	Russia	91.12%	91.12%
Home Credit International a.s.	Czech Republic	91.12%	91.12%
Home Credit Slovakia, a.s.	Slovakia	91.12%	91.12%
Home Credit US, LLC	USA	45.65%	45.65%
Home Credit Vietnam Finance Company Ltd.	Vietnam	91.12%	91.12%
Shenzhen Home Credit Number One Consulting Co., Ltd.	China	91.12%	91.12%
Shenzhen Home Credit Xinchi Consulting Co., Ltd.	China	91.12%	91.12%
AB 2 B.V.*	Netherlands	-	91.12%
AB 7 B.V.*	Netherlands	-	91.12%
PPF banka subgroup - subsidiaries			
PPF banka a.s.	Czech Republic	92.96%	92.96%
PPF Co3 B.V.	Netherlands	92.96%	92.96%
Ruconfin B.V.**	Netherlands	-	92.96%
Other subsidiaries			
Mobi Banka a.d. Beograd	Serbia	100.00%	100.00%
Associates			
ClearBank Ltd.	United Kingdom	40.61%	39.31%
Eureka Analytics PTE. LTD.***	Singapore	-	22.32%
Nymbus, Inc.***	USA	-	12.68%

*merged with AB 4 B.V.
**merged with PPFCo3 B.V.
***reclassified to FVOCI (refer to C.6) – effective proportion of ownership interest as at 31 December 2020 in Eureka Analytics PTE. LTD. was 18.36%, in Nymbus, Inc. 12.68%

B.2. Changes through business combinations in 2020/2019

There were no significant changes in 2020.

B.2.1. Acquisition of a Serbian bank (2019)

In June 2018, the Parent signed an agreement for the acquisition of a 100% stake in Mobi Banka a.d. Beograd (formerly Telenor Banka a.d. Beograd), a Serbian bank providing consumer loans predominantly to the customers of Telenor Serbia, a telecommunication operator that PPF Group acquired in July 2018. The transaction was subject to regulatory approvals and closed in February 2019.

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

During the ten-month period ended 31 December 2019, the acquisition contributed revenue of EUR 11 million and a loss of EUR 3 million to the Group's results. If the acquisition had occurred on 1 January 2019, consolidated revenue and loss would have increased insignificantly.

In accordance with IFRS 3, the Group initiated a purchase price allocation (PPA) exercise to identify the fair value of assets and liabilities. The acquired business was identified as a cash-generating unit. Assets and liabilities denominated in foreign currencies were translated using the exchange rate valid as at the acquisition date and subsequently restated to their respective fair values. The difference between the allocated purchase price and the fair values of identified assets and liabilities resulted in the recognition of a gain on a bargain purchase.

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition.

In millions of EUR, as at 20 February 2019

Fair value of assets	**167**
Cash and cash equivalents	68
Investment securities	27
Loans and receivables due from banks and other financial institutions	11
Loans due from customers	54
Property, plant and equipment, intangible assets	7
Fair value of liabilities	**129**
Due to banks and other financial institutions	2
Due to non-banks	117
Subordinated liabilities	5
Other liabilities	5
Fair value of identifiable net assets	**38**

The gain on a bargain purchase arising from the acquisition has been recognised as follows:

In millions of EUR

Total consideration	Less than 0.1
Fair value of identifiable net assets	38
Gain on bargain purchase	38

B.2.2. Arrangements between Home Credit shareholders

With effect from 1 July 2019, PPF Financial Holdings B.V. and Emma Omega Ltd. as the direct shareholders of Home Credit Group B.V. entered into an agreement concerning certain transactions with Home Credit Group shares. The agreement was subsequently modified in September 2019 (the "Agreement").

Under the Agreement, the parties agreed on the following arrangements valid as of 31 December 2020:

PPF Financial Holdings and Emma Omega have agreed that PPF Financial Holdings will sell to Emma Omega a 2.5% shareholding interest in Home Credit Group at the nominal value of a share if PPF Financial Holdings is able to achieve a pre-agreed internal rate of return on its investment in Home Credit Group calculated for the period (a) from 31 December 2018 until 31 December 2023 if Home Credit is not listed, and (b) from the Home Credit listing date until 31 December 2023.

Upon the regular termination of the Agreement which shall occur on 31 December 2023, Emma Omega shall sell all its shares in Home Credit Group for their fair value derived entirely or partially from the average market price of any material listed subsidiary of Home Credit Group, if listed at that time. The contractual arrangements may also be terminated earlier than on the regular termination date (31 December 2023) under the agreed and specified circumstances. The acquirer of the shares is an affiliate of PPF Financial Holdings (outside the Group).

C. Risk exposures, risk management objectives and procedures

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

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors annually approves the risk appetite statement, the key risk limits, and the capital budget of the Group.

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

As the most significant part of the Group's financial operations, the Home Credit subgroup established the function of chief risk officer (CRO) who heads the Home Credit Group's risk management department. The Home Credit Group also established two risk-related committees: the asset liability committee (ALCO) and the group operational risk management committee. Home Credit Group's CRO and the committees are responsible for the development, implementation, and monitoring of risk management in their specified areas.

PPF banka a.s. and Air Bank a.s. established the function of chief risk officer who heads the independent risk management function in the respective bank.

The Group's risk management policies are designed to identify and analyse the risks faced by the Group, set appropriate risk limits and controls, and monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and changes in the offered products and services. Through training and management standards and procedures, the Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

C.1. Derivative financial instruments

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

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

C.1.1. Swaps

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

C.1.2. Futures and forwards

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

C.1.3. Options

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

C.2. Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers (Home Credit), including Air Bank and corporate banking (PPF banka).

C.2.1. Home Credit Group (including Air Bank)

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

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

- formulating credit risk policies in consultation with business units covering credit assessment, underwriting policies, collection policies, and risk reporting by business unit and loan classes;
- establishing the 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;
- approving counterparty limits for financial institutions;
- reviewing business units' compliance with agreed exposure limits;
- providing 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 several 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.

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

Credit underwriting process

The credit underwriting process involves the verification of customer data, combined with sophisticated scoring models that consider 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 partially delegated the responsibility for the management of credit risk to the credit committee. A separate credit risk management department, reporting to the Credit Committee, is responsible for the oversight of the Bank's credit risk similar to the Home Credit Group procedures mentioned above, but with business specifics representing limiting concentrations of exposure to counterparties, geographies and segments (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

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

Loans with renegotiated terms and the Group's forbearance policy

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

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

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

C.2.3. Concentration of credit risks

A concentration of credit risk arises as a result of the existence of loans with similar economic characteristics affecting the debtor's ability to meet its obligations. The Group treats a receivable from a debtor or an economically connected group of debtors exceeding 10% of the Group's eligible capital as a large exposure and applies a limit of 25% of the Group's eligible capital to such exposures. As at the balance sheet date, the Group did not have any significant concentration of credit risk with respect to any individual debtor and the limits were not exceeded in relation to individual debtors and to related parties.

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

The following tables show the economic and geographic concentration of credit risk. The figures for 2020 below and in the whole C section exclude the fair value hedge adjustments of positive EUR 14 million for Loans due from customers and negative EUR 10 million for bonds under Investment securities (refer to C.4.4):

In millions of EUR, as at 31 December

	2020	2020	2019	2019
Economic concentration				
Households/Individuals	14,074	56.93%	20,714	58.85%
Financial services	7,069	28.59%	11,765	33.43%
Public sector	2,287	9.25%	1,085	3.08%
Corporate sector	765	3.09%	1,071	3.04%
Construction and real estate	327	1.32%	369	1.05%
Mechanical engineering	192	0.78%	140	0.40%
Other	9	0.04%	54	0.15%
Total	**24,723**	**100.00%**	**35,198**	**100.00%**
Geographic concentration				
Czech Republic	9,817	39.71%	11,457	32.55%
China	7,453	30.15%	13,054	37.09%
Russia	2,875	11.63%	4,687	13.31%
Vietnam	830	3.36%	952	2.71%
Kazakhstan	777	3.14%	1,039	2.95%
Slovak Republic	459	1.86%	360	1.02%
Cyprus	118	0.48%	174	0.49%
Netherlands	108	0.44%	56	0.16%
Other EU countries	496	2.01%	640	1.82%
Other	1,790	7.24%	2,779	7.90%
Total	**24,723**	**100.00%**	**35,198**	**100.00%**
Of which:				
Loans due from customers*	13,929	56.34%	21,396	60.77%
Cash and cash equivalents (excl. cash on hand)	5,815	23.52%	9,209	26.17%
Investment securities**	2,747	11.11%	2,093	5.96%
Loan commitments and guarantees (off-balance sheet)	1,644	6.65%	1,814	5.15%
Loans and receivables due from banks and other financial institutions	466	1.88%	553	1.57%
Trade and other receivables***	112	0.46%	129	0.37%
Hedging derivatives	10	0.04%	4	0.01%

*in 2020, excl. total FV hedge adjustment of positive EUR 14 million (refer to C.4.4)
**excl. equity securities and hedging derivatives and, in 2020, FV hedge adjustment of negative EUR 10 million (refer to C.4.4)
***incl. cash collateral for payment cards

The amounts in the tables represent the maximum accounting loss that would be recognised at the reporting date if the counterparts failed completely to meet their obligations and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, if any, that are included in the allowance for uncollectibility. The table comprises off-balance sheet items (refer to E.32.1) and financial assets, except for equity securities.

Credit quality and collateral received

The following tables summarise the credit quality of the Group's loan exposure:

In millions of EUR, as at 31 December 2020

Loan exposure	Loans due from customers*	Loans and receivables due from banks and other financial institutions
Gross amount	15,837	466
Stage 1	11,547	466
Stage 2	3,232	-
Stage 3	1,058	-
Purchased or originated credit impaired	-	-
Loss allowance	(1,920)	-
Carrying amount	**13,917**	**466**

*Loans due from customers, excluding loans and advances provided under repo operations and others (applies hereinafter in this section) and, in 2020, excl. total FV hedge adjustment of positive EUR 14 million (refer to C.4.4).

In millions of EUR, as at 31 December 2019

Loan exposure	Loans due from customers*	Loans and receivables due from banks and other financial institutions
Gross amount	23,021	554
Stage 1	19,562	554
Stage 2	2,118	-
Stage 3	1,341	-
Purchased or originated credit impaired	-	-
Loss allowance	(1,638)	(1)
Carrying amount	**21,383**	**553**

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

The Group holds collateral for loans and advances to non-banks in the form of mortgage interests over property, debt and/or equity securities and received guarantees. Collateral for loans and advances to banks is held mainly under reverse repos and as a part of the Group's securities borrowing activity. It does not have any no overdue loans to banks.

All these transactions are conducted at arm's length.

In millions of EUR, as at 31 December 2020

Fair value of collateral received	Loans due from customers		Loans and receivables due from banks and other financial institutions	
	Stage 1-2	Stage 3	Stage 1-2	Stage 3
Secured by:				
Property	1,044	42	-	-
Deposits with banks	14	-	-	-
Securities received under reverse repo*	-	-	4,843	-
Equity securities	202	-	-	-
Other	252	19	-	-
Total collateral received	**1,512**	**61**	**4,843**	**-**

*incl. cash and cash equivalents with central banks

In millions of EUR, as at 31 December 2019

Fair value of collateral received	Loans due from customers		Loans and receivables due from banks and other financial institutions	
	Stage 1-2	Stage 3	Stage 1-2	Stage 3
Secured by:				
Property	896	52	-	-
Deposits with banks	25	-	-	-
Securities received under reverse repo*	19	-	7,426	-
Equity securities	183	-	96	-
Other	933	20	-	-
Total collateral received	**2,056**	**72**	**7,522**	**-**

*incl. cash and cash equivalents with central banks

The total value of assets held as collateral is EUR 6,488 million (2019: EUR 9,690 million; refer to E.32.3) and consists of the collateral stated above (2020: EUR 6,416 million; 2019: EUR 9,650 million) plus collateral in the form of guarantees received (2020: EUR 72 million; 2019: EUR 40 million).

No collateral was held for trade and other receivables in 2020 and 2019. For a detailed credit quality overview of financial assets refer to E.2-E.5.

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 the Group's exposure to liquidity risk:

In millions of EUR, as at 31 December 2020

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash and cash equivalents	5,951	-	-	-	-	5,951
Investment securities	169	92	145	1,068	1,282	2,756
Financial assets at FVTPL	25	40	58	80	510	713
Financial assets at FVOCI*	143	30	57	506	253	989
Financial assets at AC**	1	22	30	482	519	1,054
Loans and receivables due from banks and other financial institutions	401	42	4	12	7	466
Loans due from customers***	3,708	4,351	2,985	2,661	224	13,929
Trade and other receivables****	82	26	-	-	22	130
Total financial assets	**10,311**	**4,511**	**3,134**	**3,741**	**1,535**	**23,232**

*excluding equity instruments (refer to E.2.3)
**excl. FV hedge adjustment of negative EUR 10 million (refer to C.4.4)
***excl. total FV hedge adjustment of positive EUR 14 million (refer to C.4.4)
****incl. cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2020

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	27	40	22	131	415	635
Due to non-banks	10,347	933	124	236	-	11,640
Due to banks and other financial institutions	2,181	3,445	835	463	-	6,924
Debt securities issued	278	922	320	163	-	1,683
Subordinated liabilities	-	3	-	-	253	256
Trade and other payables*	367	3	1	3	2	376
Lease liabilities**	12	27	23	37	9	108
Total financial liabilities	**13,212**	**5,373**	**1,325**	**1,033**	**679**	**21,622**

*excl. tax and other non-financial liabilities
**presented under trade and other payables in the consolidated statement of financial position

Net liquidity position 2020	**(2,901)**	**(862)**	**1,809**	**2,708**	**856**	**1,610**

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

The following tables show the Group's exposure to liquidity risk:

In millions of EUR, as at 31 December 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash and cash equivalents	9,375	-	-	-	-	9,375
Investment securities	352	151	83	789	722	2,097
Financial assets at FVTPL	27	21	22	18	186	274
Financial assets at FVOCI*	323	89	56	374	228	1,070
Financial assets at AC	2	41	5	397	308	753
Loans and receivables due from banks and other financial institutions	457	68	25	1	2	553
Loans due from customers	4,659	6,596	4,947	4,936	258	21,396
Trade and other receivables**	76	33	-	-	23	132
Total financial assets	**14,919**	**6,848**	**5,055**	**5,726**	**1,005**	**33,553**

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

In millions of EUR, as at 31 December 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	27	40	22	52	212	353
Due to non-banks	11,280	1,820	753	164	-	14,017
Due to banks and other financial institutions	4,072	4,722	4,125	372	-	13,291
Debt securities issued	479	1,049	653	208	-	2,389
Subordinated liabilities	-	-	7	4	257	268
Trade and other payables*	447	59	9	2	7	524
Lease liabilities**	15	33	39	54	14	155
Total financial liabilities	**16,320**	**7,723**	**5,608**	**856**	**490**	**30,997**

*excl. tax and other non-financial liabilities
**presented under trade and other payables in the consolidated statement of financial position

Net liquidity position 2019	**(1,401)**	**(875)**	**(553)**	**4,870**	**515**	**2,556**

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 2020

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Due to non-banks	10,355	958	131	245	-	11,689
Due to banks and other financial institutions	2,315	3,652	886	481	-	7,334
Debt securities issued	288	995	346	177	-	1,806
Subordinated liabilities	-	11	8	24	271	314
Trade and other payables*	367	3	1	3	2	376
Lease liabilities**	13	30	26	42	11	122
Loan commitments (off-balance sheet)	819	46	625	111	4	1,605
Payment guarantees provided (off-balance sheet)	5	6	5	3	-	19
Total	**14,162**	**5,701**	**2,028**	**1,086**	**288**	**23,265**

*excl. tax and other non-financial liabilities
**presented under trade and other payables in the consolidated statement of financial position

In millions of EUR, as at 31 December 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Due to non-banks	11,400	1,889	811	171	-	14,271
Due to banks and other financial institutions	4,350	5,255	4,359	385	-	14,349
Debt securities issued	509	1,154	714	227	-	2,604
Subordinated liabilities	1	13	19	36	293	362
Trade and other payables*	450	59	9	2	7	527
Lease liabilities**	17	38	45	62	18	180
Loan commitments (off-balance sheet)	678	112	975	-	4	1,769
Payment guarantees provided (off-balance sheet)	6	4	13	-	-	23
Total	**17,411**	**8,524**	**6,945**	**883**	**322**	**34,085**

*excl. tax and other non-financial liabilities
**presented under trade and other payables in the consolidated statement of financial position

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

In millions of EUR, as at 31 December 2020

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Outflows						
Interest rate derivatives held for trading	(407)	(3,509)	(1,733)	(3,205)	(6,686)	(15,540)
Currency derivatives held for trading	(2,673)	(896)	(1,221)	(171)	-	(4,961)
Hedging derivatives	(2)	(96)	(3)	(8)	(28)	(137)
Inflows						
Interest rate derivatives held for trading	403	3,510	1,738	3,208	6,684	15,543
Currency derivatives held for trading	2,679	900	1,214	170	-	4,963
Hedging derivatives	1	91	2	9	32	135
Net position	**1**	**-**	**(3)**	**3**	**2**	**3**

In millions of EUR, as at 31 December 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Outflows						
Interest rate derivatives held for trading	(314)	(3,005)	(3,196)	-	(5,579)	(12,094)
Currency derivatives held for trading	(3,603)	(2,387)	(3,088)	-	-	(9,078)
Hedging derivatives	(2)	(67)	(3)	(7)	(15)	(94)
Inflows						
Interest rate derivatives held for trading	314	3,004	3,199	-	5,573	12,090
Currency derivatives held for trading	3,603	2,369	3,088	-	-	9,060
Hedging derivatives	2	65	3	9	16	95
Net position	**-**	**(21)**	**3**	**2**	**(5)**	**(21)**

C.4. Market risk

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

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

C.4.1. Interest rate risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating-rate assets and liabilities, the

Group is also exposed to interest rate cash-flow risk, which varies depending on the different repricing characteristics of the various floating-rate instruments.

Interest rate risk is managed principally by monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Group's senior management monitors compliance with these limits. Interest rate derivatives (refer to E.2.1 and E.10) are one of the tools the Group uses to manage this position.

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring of the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100-basis-point parallel fall or rise in all yield curves worldwide. In such a case, the net interest income for the year ended 31 December 2020 would be approximately EUR 113 million higher/lower (2019: EUR 177 million).

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

The following tables present an analysis of the interest rate gap position (excl. derivatives):

In millions of EUR, as at 31 December 2020

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash and cash equivalents	0.4%	5,951	-	-	-	-	5,951
Investment securities	1.5%	172	855	109	530	823	2,489
Financial assets at FVTPL	0.9%	1	194	40	10	201	446
Financial assets at FVOCI*	2.6%	165	224	36	423	141	989
Financial assets at AC**	0.7%	6	437	33	97	481	1,054
Loans and receivables due from banks and other financial institutions	1.0%	401	42	4	12	7	466
Loans due from customers***	24.3%	4,125	4,367	2,914	2,451	72	13,929
Trade and other receivables****	0.1%	103	27	-	-	-	130
Total financial assets		**10,752**	**5,291**	**3,027**	**2,993**	**902**	**22,965**

*excl. equity instruments (refer to E.2.3)
**excl. FV hedge adjustment of negative EUR 10 million (refer to C.4.4)
***excl. total FV hedge adjustment of positive EUR 14 million (refer to C.4.4)
****incl. cash collateral for payment cards and other financial assets

In millions of EUR, as at 31 December 2020

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	1.6%	-	2	-	88	266	356
Due to non-banks	0.9%	10,347	933	124	236	-	11,640
Due to banks and other financial institutions	9.0%	2,947	3,225	752	-	-	6,924
Debt securities issued	9.2%	278	922	320	163	-	1,683
Subordinated liabilities	3.2%	-	163	93	-	-	256
Trade and other payables*	0.0%	367	3	1	3	2	376
Lease liabilities**	5.8%	12	27	23	37	9	108
Total financial liabilities		**13,951**	**5,275**	**1,313**	**527**	**277**	**21,343**

*excl. tax and other non-financial liabilities
**presented under trade and other payables in the consolidated statement of financial position

Effect of interest rate derivatives	**190**	**230**	**(88)**	**(185)**	**(147)**	**-**
Net position 2020	**(3,009)**	**246**	**1,626**	**2,281**	**478**	**1,622**

In millions of EUR, as at 31 December 2019

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash and cash equivalents	1.9%	9,375	-	-	-	-	9,375
Investment securities	3.5%	355	779	42	282	461	1,919
Financial assets at FVTPL	2.5%	-	1	-	2	93	96
Financial assets at FVOCI*	4.5%	354	300	37	280	99	1,070
Financial assets at AC	2.2%	1	478	5	-	269	753
Loans and receivables due from banks and other financial institutions	2.5%	462	58	29	-	4	553
Loans due from customers	28.5%	5,275	6,452	4,783	4,832	54	21,396
Trade and other receivables**	0.3%	99	33	-	-	-	132
Total financial assets		**15,566**	**7,322**	**4,854**	**5,114**	**519**	**33,375**

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

In millions of EUR, as at 31 December 2019

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	3.4%	42	-	-	25	89	156
Due to non-banks	1.5%	11,209	1,891	753	164	-	14,017
Due to banks and other financial institutions	9.0%	4,865	4,720	3,568	138	-	13,291
Debt securities issued	9.2%	479	1,048	653	209	-	2,389
Subordinated liabilities	4.3%	4	165	99	-	-	268
Trade and other payables*	0.0%	447	59	9	2	7	524
Lease liabilities**	5.4%	17	47	35	46	10	155
Total financial liabilities		**17,063**	**7,930**	**5,117**	**584**	**106**	**30,800**

* excl. tax and other non-financial liabilities
** presented under trade and other payables in the consolidated statement of financial position

Effect of interest rate derivatives		**102**	**51**	**(33)**	**(61)**	**(59)**	**-**
Net position 2019		**(1,395)**	**(557)**	**(296)**	**4,469**	**354**	**2,575**

C.4.2. Equity price risk

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

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

C.4.3. Currency risk

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

The Group's main foreign exposures are to the European and Asian countries in which the Group operates. Its exposures are measured mainly in Czech crowns, Chinese yuan, Russian roubles, Vietnamese dong, Indian rupee, Kazakhstani tenge 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 following table summarises the Group's exposure in individual countries and respective local functional currencies. Any exposure in the individual country in other than the local currency is excluded.

In millions of EUR, as at 31 December 2020

	EUR	CZK	CNY	RUB	VND	INR	KZT	USD	Other	Total
Net investment in foreign operation	(418)	1,028	926	600	194	524	293	4	458	3,609

In millions of EUR, as at 31 December 2019

	EUR	CZK	CNY	RUB	VND	INR	KZT	USD	Other	Total
Net investment in foreign operation	141	1,463	1,481	462	344	890	385	96	431	5,693

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

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

In millions of EUR, as at 31 December 2020

	EUR	CZK	CNY	RUB	INR	KZT	USD	Other	Total
Financial assets	1,010	-	3	4	9	-	515	79	1,620
Financial liabilities	1,641	152	-	66	-	-	453	66	2,378
Effect of FX derivatives	418	-	-	62	(351)	(112)	147	(33)	131
Net FX position	**(213)**	**(152)**	**3**	**-**	**(342)**	**(112)**	**209**	**(20)**	**(627)**

In millions of EUR, as at 31 December 2019

	EUR	CZK	CNY	RUB	INR	KZT	USD	Other	Total
Financial assets	760	-	-	1	16	-	746	39	1,562
Financial liabilities	2,435	237	-	46	-	-	695	66	3,479
Effect of FX derivatives	1,451	-	-	28	(642)	(117)	148	(96)	772
Net FX position	**(224)**	**(237)**	**-**	**(17)**	**(626)**	**(117)**	**199**	**(123)**	**(1,145)**

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 2020 and 2019 and a simplified scenario of a 5% change in CZK, USD, RUB, KZT and CNY to EUR exchange rates:

In millions of EUR, as at 31 December 2020

	CZK	USD	RUB	KZT	CNY	INR
Effect of 5% currency depreciation against EUR	(43)	(10)	(30)	(9)	(46)	(9)
Effect of 5% currency appreciation against EUR	43	10	30	9	46	9

In millions of EUR, as at 31 December 2019

	CZK	USD	RUB	KZT	CNY	INR
Effect of 5% currency depreciation against EUR	(61)	(15)	(22)	(13)	(74)	(13)
Effect of 5% currency appreciation against EUR	61	15	22	13	74	13

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 economic 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.

Pursuant to its above interest rate risk management policy and with the objective to match the interest rate profile of its assets and liabilities, the Group started to apply hedge accounting to better align the internal risk management for interest rate driven changes in fair value of certain loan portfolios and bonds with external reporting. The hedged portfolios, represented by a part of retail (cash, consumer, revolving, car and mortgage loans receivables) and corporate loans receivables, and government bonds, are all denominated in CZK. The hedge of the retail loans was a portfolio hedge (terminated during the second half of 2020 as further described below). The hedge of the corporate loans and of the government bonds is either a hedge of a single loan or a single bond issue, or a hedge of a group of loans or bond issues (micro hedge).

The hedged government bonds, corporate loans and the hedged retail loans carry fixed interest rates. The mortgage loans carry fixed interest rates until the next repricing.

For the fair value hedge of the retail loans portfolios (portfolio hedging), the composition of the hedged portfolios was changed monthly. Existing retail loans are repaid, excluded from the hedged portfolio due to default, and newly originated retail loans are added to the portfolio. Additional interest rate swaps may be added to the group of hedging instruments to match the underlying position of the loans.

The common objective of the hedging of both loan portfolios and bonds is to offset the changes in the fair value of the CZK hedged items due to the changes in market interest rates by gains or losses on the hedging instruments (CZK interest rate swaps). In this way, the Group also matches its assets with its floating rate liabilities. The Group applies hedge accounting for these hedge relationships. The hedge effectiveness is measured either cumulatively (retail loans) or in each reporting period (bonds, corporate loans). The hedge effectiveness is measured for each hedge relationship separately with application of the dollar offset method. The hedge ineffectiveness may result from imperfect matching of the hedging instruments with the hedged items (volumes, timing of cash flows).

For the year ending 31 December 2020, all continuing fair value hedges were assessed as effective being in the range of 80-125%. A total loss of EUR 1 million from the hedge ineffectiveness is presented in the consolidated income statement under net gains/losses on financial assets/liabilities caption, where no PL effect relates to the portfolio hedge and a loss of EUR 1 million relates to the micro hedge.

During the second half of 2020, the Group decided to cease all its portfolio hedge relationships, with the effective date of this discontinuance of 1 October 2020. The hedged items in these portfolio hedge relationships were retail loans portfolios. Thus, all portfolio fair value hedges are presented as discontinued in the below tables.

Until the period ending 1 October 2020 (portfolio hedge discontinuation date), all discontinued fair value hedges were assessed as effective being in the range of 80-125%. No PL effect from the related hedge ineffectiveness is presented in profit or loss.

C.4.4.1. Portfolio hedge

The total notional amount of the interest rate swaps used as the hedging instruments for the discontinued fair value portfolio hedge relationships amounted to CZK 21,600 million (approx. EUR 823 million) as at the moment of discontinuation. The related changes in fair values used for calculating hedge ineffectiveness during the year 2020 resulted in a decrease of EUR 21 million.

The following table shows the details on the hedged items subject to the fair value portfolio hedge relationships (discontinued):

In millions of EUR, as at 31 December 2020

Fair value hedges - portfolio (disc.) (interest rate risk)	Carrying amount of the hedged assets	Accumulated amount of FV hedge adjustments on the hedged assets incl. in their carrying amount	Presentation in statement of financial position	Increase/(decrease) in FV used for calculating hedge ineffectiveness for the period
Cash loans (refer to E.4)	-	4	Loans due from customers (retail)	6
Revolving loans (refer to E.4)	-	2	Loans due from customers (retail)	3
Mortgage loans (refer to E.4)	-	7	Loans due from customers (retail)	10
Car loans (E.4)	-	1	Loans due from customers (retail)	2
Total	**-**	**14**		**21**

The accumulated amount of FV hedge adjustments are expected to be amortised within the following 5 years.

C.4.4.2. Micro hedge

The following table shows the details on the hedging derivatives used for the fair value hedge relationships (continuing):

In millions of EUR, as at 31 December 2020

Fair value hedges (interest rate risk)	Notional amount of the hedging instruments (MCZK)	Carrying amount of the hedging instruments		Presentation in statement of financial position	Increase/(decrease) in FV used for calculating hedge ineffectiveness for the period
		Assets (refer to E.2.1)	Liabilities (refer to E.10)		
Interest rate swaps	15,975*	10	(21)	Financial assets/(liabilities) at FVTPL	(1)

*approx. EUR 609 million

The following table shows the details on the hedged items subject to the fair value hedge relationships (continuing):

In millions of EUR, as at 31 December 2020

Fair value hedges (interest rate risk)	Carrying amount of the hedged assets	Accumulated amount of FV hedge adjustments on the hedged assets incl. in their carrying amount	Presentation in statement of financial position	Increase/(decrease) in FV used for calculating hedge ineffectiveness for the period
Corporate loans (refer to E.4)	30	-	Loans due from customers (non-retail)	1
Bonds (refer to E.2.2)	1,003	(10)	Investment securities	(1)
Total	**1,033**	**(10)**		**-**

The maturity and interest rate risk profiles of the Group's hedging instruments used in micro fair value hedge relationships is, as follows:

In EUR million, as at 31 December 2020

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Interest rate swaps						
Notional principal	-	31	-	78	500	609
Average interest rate	-	0.3%	-	1.2%	1.8%	-

C.5. Insurance risk

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

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

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

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

C.6. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

The fair values of debt securities, through other comprehensive income, and of foreign currency futures are based on their quoted market price. Other derivative contracts are not exchange traded and their fair value is estimated using an arbitrage pricing model whose key parameters 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 AC, including their levels in the fair value hierarchy:

In millions of EUR, as at 31 December 2020

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and receivables due from banks and other financial institutions	466	466	-	466	-
Loans due from customers*	13,929	13,993	-	9	13,984
Financial assets at AC (E.2.2)**	1,054	1,053	1,045	-	8
Trade and other receivables***	130	130	-	-	130
Due to non-banks	(11,640)	(11,645)	-	(11,645)	-
Due to banks and other financial institutions	(6,924)	(6,924)	-	(6,924)	-
Debt securities issued	(1,683)	(1,666)	(1,026)	(246)	(394)
Subordinated liabilities	(256)	(248)	-	-	(248)
Trade and other payables****	(484)	(484)	-	-	(484)

*excl. total FV hedge adjustment of positive EUR 14 million (refer to C.4.4)
**excl. FV hedge adjustment of negative EUR 10 million (refer to C.4.4)
***incl. cash collateral for payment cards and other financial assets
****excl. tax and other non-financial liabilities

In millions of EUR, as at 31 December 2019

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and receivables due from banks and other financial institutions	553	553	-	553	-
Loans due from customers	21,396	21,426	-	-	21,426
Financial assets at AC (E.2.2)	753	753	714	5	34
Trade and other receivables*	132	132	-	19	113
Due to non-banks	(14,017)	(14,082)	-	(13,963)	(119)
Due to banks and other financial institutions	(13,291)	(13,284)	-	(13,284)	-
Debt securities issued	(2,389)	(2,363)	(1,708)	(280)	(375)
Subordinated liabilities	(268)	(268)	-	-	(268)
Trade and other payables**	(679)	(679)	-	(87)	(592)

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

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

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

In millions of EUR, as at 31 December 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	444	269	-	713
Financial assets at FVOCI	866	138	14	1,018
Financial liabilities at FVTPL	(356)	(279)	-	(635)
Total	**954**	**128**	**14**	**1,096**

In millions of EUR, as at 31 December 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	95	179	-	274
Financial assets at FVOCI	938	140	-	1,078
Financial liabilities at FVTPL	(156)	(197)	-	(353)
Total	**877**	**122**	**-**	**999**

The Group uses the following techniques to determine fair value under Level 2 and Level 3:

Level 2 assets include mainly financial derivatives, corporate bonds and treasury bills. For derivative exposures the fair value is estimated using the present value of the cash flows resulting from the transactions taking into account market inputs like FX spot and forwards rates, benchmark interest rates, swap rates, etc. The fair value of corporate bonds, treasury bills is calculated as the present value of cash flows using the benchmark interest rates.

Level 3 assets include equity instruments not traded on the market where the fair value is calculated using the valuation techniques including expert appraisals.

Level 3 additions represent equity investments of EUR 10 million which were transferred from investments in associates due to a loss of significant influence (refer to B.1). The remaining additions are newly acquired assets. There was no movement in Level 3 in 2019.

There were no transfers between Level 1, 2 and 3 in 2020 and in 2019. There was no movement in Level 3 in 2020 and in 2019.

C.7. Offsetting financial assets and liabilities

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

ISDA 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 2020 and 31 December 2019 the reported balances of positive and negative fair values of derivatives do not include any offset amounts.

Loans and advances provided and received under repo operations are covered by global master repurchase agreements and similar agreements with terms similar to those of ISDA master netting agreements.

Such agreements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2020 and 31 December 2019 the reported balances of loans and advances provided under repo operations do not include any offset amounts. The remaining balances of liabilities due from banks and non-banks are not subject to any offsetting arrangements.

C.8. Operational risk

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

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

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

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

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

C.9. Capital management

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

The Group is required to fulfil the following capital requirements: a Tier 1 capital adequacy ratio of at least 6% and a total capital adequacy ratio of at least 8%. Moreover, the Group is required to maintain a capital conservation buffer amounting to 2.5% of its risk-weighted assets and an institution-specific countercyclical capital buffer that is currently 0.05% of its risk-weighted assets.

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

In the November 2015 decision of the Czech National Bank, the Group was identified as an other systemically important institution (O-SII). This classification has been confirmed every year since then. No additional capital requirement was imposed due to this classification.

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

In millions of EUR, as at 31 December

	2020	2019
Issued capital	0.05	0.05
Share premium	2,324	2,324
Retained earnings and other reserves	579	378
Full year profit/(loss) included into capital	(493)	55
Minority interests on CET 1	9	12
Adjustment to CET 1 due to IFRS 9	603	300
(-) Additional valuation adjustment	(2)	(2)
(-) Intangible assets	(203)	(363)
(-) Deferred tax assets (deductible part)	(174)	(79)
Total Tier 1 capital	**2,642**	**2,625**
Total Tier 2 capital	**347**	**255**
Total capital	**2,989**	**2,880**
Total capital adequacy ratio	**14.94%**	**11.10%**

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

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

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

The Group complied with all externally imposed capital requirements, large exposure requirements, liquidity requirements, and leverage requirements throughout the reporting period.

D. Segment reporting

The Group recognises reportable segments that are defined in sector terms. These segments offer different products and services and are managed separately because they operate in completely distinct business sectors. The Group's board of directors and shareholders (the chief operating decision maker) review the internal management reports of individual segments on a regular basis.

The following summary describes the operations and geographic focus of three reportable segments.

Reportable segment	Business name/brand	Operations	Geographic focus
Consumer lending	Home Credit	Lending to private individual customers, deposit-taking	Czech Republic, Slovakia, Russia, Asia
	Air Bank* and its subsidiaries	Deposits, loans and other transactions and balances with retail customers	Czech Republic, Slovakia
Corporate banking	PPF banka and its subsidiaries	Loans, deposits and other transactions and balances with corporate customers, trading activities	Czech Republic
	ClearBank *(associate)*	Clearing and settlement services	United Kingdom
Retail banking	Mobi Banka	Deposits, loans and other transactions and balances with retail customers	Serbia

*part of Home Credit Group

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

Mobi Banka (formerly Telenor Banka) constitutes a separate segment as it is not related to the Home Credit business.

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

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

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

In millions of EUR, for the year ended 31 December

	2020	2019
Interest income	4,347	5,514
Fee and commission income	447	675
Net earned premiums	18	21
Total revenue from external customers	**4,812**	**6,210**

The following table shows the main items from the financial statements broken down according to reportable segments for 2020 and 2019:

In millions of EUR

2020	Consumer lending						Corporate banking	Retail banking	Unallocated	Eliminations	**Consolidated**
		China	*CIS**	*SEA*	*CEE*	*Other*					
Revenue from customers	4,646	2,654	764	984	236	8	142	15	9	-	4,812
Inter-segment revenue	-	-	-	-	-	-	54	-	14	(68)	-
Total revenue	**4,646**	**2,654**	**764**	**984**	**236**	**8**	**196**	**15**	**23**	**(68)**	**4,812**
Net interest income from external customers	2,947	1,682	448	672	184	(39)	78	6	-	-	3,031
Inter-segment net interest income	(63)	-	(2)	(39)	(1)	(21)	53	(1)	14	(3)	-
Total net interest income	**2,884**	**1,682**	**446**	**633**	**183**	**(60)**	**131**	**5**	**14**	**(3)**	**3,031**
Income tax expense	133						(14)	-	3	-	122
Net profit from continuing operations	**(579)**						**37**	**(5)**	**(3)**	**(5)**	**(555)**
Capital expenditure	(119)						(3)	-	-	-	(122)
Depreciation and amortisation	(194)						(3)	(2)	-	-	(199)
Other significant non-cash expenses	(2,362)						(54)	(1)	(1)	-	(2,418)
Segment assets (incl. equity accounted investees)	18,526						6,474	205	517	(962)	24,760
Segment liabilities	16,585						5,868	169	246	(960)	21,908
Segment equity	**1,941**						**606**	**36**	**271**	**(2)**	**2,852**

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

In millions of EUR

2019	Consumer lending						Corporate banking	Retail banking	Unallocated	Eliminations	**Consolidated**
		China	*CIS**	*SEA*	*CEE*	*Other*					
Revenue from customers	6,004	3,672	971	1,083	255	23	188	11	7	-	6,210
Inter-segment revenue	3	-	-	-	3	-	65	-	23	(91)	-
Total revenue	**6,007**	**3,672**	**971**	**1,083**	**258**	**23**	**253**	**11**	**30**	**(91)**	**6,210**
Net interest income from external customers	3,745	2,290	550	736	192	(23)	103	4	(3)	-	3,849
Inter-segment net interest income	(82)	-	(4)	(52)	3	(29)	63	-	23	(4)	-
Total net interest income	**3,663**	**2,290**	**546**	**684**	**195**	**(52)**	**166**	**4**	**20**	**(4)**	**3,849**
Income tax expense	(212)						(27)	-	(8)	-	(247)
Net profit from continuing operations	**405**						**86**	**(3)**	**20**	**(1)**	**507**
Capital expenditure	(170)						(4)	(1)	-	-	(175)
Depreciation and amortisation	(183)						(3)	(2)	-	-	(188)
Other significant non-cash expenses	(1,825)						9	-	-	-	(1,816)
Segment assets (incl. equity accounted investees)	26,593						8,932	170	527	(1,162)	35,060
Segment liabilities	23,717						8,346	129	253	(1,162)	31,283
Segment equity	**2,876**						**586**	**41**	**274**	**-**	**3,777**

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

E. Notes to the consolidated financial statements

E.1. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Cash on hand	136	166
Current accounts	637	1,258
Balances with central banks	253	454
Placements with financial institutions due within one month	107	210
Reverse repo operations with central banks	4,818	7,287
Total cash and cash equivalents	**5,951**	**9,375**

As at 31 December 2020, cash and cash equivalents amounting to EUR 265 million (2019: EUR 809 million) are restricted by borrowing agreements contracted by Chinese Home Credit and Benxy with the creditors either to the disbursement of loans to retail clients or the repayment of loans received from the creditors. If cash is used to provide loans to retail clients, the loans are pledged as collateral. Thus, the restriction on cash effectively increases the security of the creditors.

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

	31 December 2020	31 December 2019
Financial assets at FVTPL	713	274
Financial assets at AC*	1,044	753
Financial assets at FVOCI	1,018	1,078
Total investment securities	**2,775**	**2,105**

*incl. FV hedge adjustment of negative EUR 10 million (refer to C.4.4)

E.2.1. Financial assets at FVTPL

Financial assets at FVTPL comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Government and other public-sector bonds*	443	90
Corporate bonds*	3	7
Positive fair values of trading derivatives (refer to E.10)	257	173
Interest rate derivatives	183	119
Currency derivatives	74	54
Positive fair values of hedging derivatives	10	4
Total financial assets at FVTPL	**713**	**274**

*held for trading

E.2.2. Financial assets at AC

In millions of EUR, as at 31 December 2020

	Gross amount	Amortised cost
Government bonds	1,038	1,038
Corporate bonds	16	16
Total financial assets at AC*	**1,054**	**1,054**

*excl. FV hedge adjustment of negative EUR 10 million (refer to C.4.4)

In millions of EUR, as at 31 December 2019

	Gross amount	Amortised cost
Government bonds	721	721
Corporate bonds	32	32
Total financial assets at AC	**753**	**753**

Credit quality analysis

No loss allowances on financial assets at AC were recognised during the years ended 31 December 2020 and 2019.

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

In millions of EUR, as at 31 December 2020

	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	1,038	-	-	-	1,038
Low risk	16	-	-	-	16
Medium risk	-	-	-	-	-
High risk	-	-	-	-	-
Default	-	-	-	-	-
Gross amount	**1,054**	**-**	**-**	**-**	**1,054**
Loss allowance	-	-	-	-	-
Total carrying amount	**1,054**	**-**	**-**	**-**	**1,054**

In millions of EUR, as at 31 December 2019

	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	721	-	-	-	721
Low risk	5	-	-	-	5
Medium risk	27	-	-	-	27
High risk	-		-	-	-
Default	-	-	-	-	-
Gross amount	**753**	**-**	**-**	**-**	**753**
Loss allowance	-	-	-	-	-
Total carrying amount	**753**	**-**	**-**	**-**	**753**

E.2.3. Financial assets at FVOCI

Financial assets at FVOCI comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Debt securities	989	1,070
Government bonds	651	571
Corporate bonds	338	499
Equity securities – shares	29	8
Total financial assets at FVOCI	**1,018**	**1,078**

Credit quality analysis

The following table shows the fair value of the Group's debt instruments (debt securities and loans) at FVOCI split by credit risk, based on the Group's internal rating system and year-end stage classification. Details of the Group's internal grading system are set out in Note F.1.7. ECL allowances for debt instruments at FVOCI are calculated on an individual basis.

In millions of EUR, as at 31 December 2020

Debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	515	-	-	-	515
Low risk	67	-	-	-	67
Medium risk	343	64	-	-	407
High risk	-	-	-	-	-
Default	-	-	-	-	-
Total carrying amount (fair value)	**925**	**64**	**-**	**-**	**989**

In millions of EUR, as at 31 December 2019

Debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	263	-	-	-	263
Low risk	580	-	-	-	580
Medium risk	176	44	-	-	220
High risk	7	-	-	-	7
Default	-	-	-	-	-
Total carrying amount (fair value)	**1,026**	**44**	**-**	**-**	**1,070**

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

In millions of EUR, for the year ended 31 December 2020

Loss allowance – debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	**(2)**	**(1)**	**-**	**-**	**(3)**
Change in loss allowances	-	(2)	-	-	(2)
Transfer to Stage 2	-	(2)	-	-	(2)
New originated or purchased	(1)	-	-	-	(1)
Change in PD/EAD/LGD, unwind of discount	(2)	-	-	-	(2)
Net change during the period	**(3)**	**(2)**	**-**	**-**	**(5)**
Loss allowance as at 31 December	**(5)**	**(3)**	**-**	**-**	**(8)**

In millions of EUR, for the year ended 31 December 2019

Loss allowance – debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	**(2)**	**(1)**	**-**	**-**	**(3)**
Change in PD/EAD/LGD, unwind of discount	-	(1)	-	-	(1)
Financial assets derecognised	-	1	-	-	1
Loss allowance as at 31 December	**(2)**	**(1)**	**-**	**-**	**(3)**

E.3. Loans and receivables due from banks and other financial institutions

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

In millions of EUR,

	31 December 2020	31 December 2019
Gross amount	466	554
Loss allowance	-	(1)
Total carrying amount	**466**	**553**
Term deposits at banks	41	68
Minimum reserve deposits with central banks	223	139
Loans to banks	39	55
Loans and advances provided under repos	104	198
Cash collateral for derivative instruments	59	93

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

Credit quality analysis

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

In millions of EUR, as at 31 December

					2020	2019
Loans to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Very low risk	231	-	-	-	231	146
Low risk	189	-	-	-	189	256
Medium risk	46	-	-	-	46	152
High risk	-	-	-	-	-	-
Default	-	-	-	-	-	-
Gross amount	**466**	**-**	**-**	**-**	**466**	**554**
Loss allowance	-	-	-	-	-	(1)
Total carrying amount	**466**	**-**	**-**	**-**	**466**	**553**

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

In millions of EUR, for the year ended 31 December 2020

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

In millions of EUR, for the year ended 31 December 2019

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

E.4. Loans due from customers

Loans due from customers comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Cash loans	8,930	13,930
Consumer loans	2,467	5,071
Revolving loans	901	806
Car loans	157	142
Mortgage loans	290	240
Loans due from customers – retail (carrying amounts)	**12,745**	**20,189**
Loans to corporations	1,186	1,194
Loans and advances provided under repo operations	-	10
Other	12	3
Loans due from customers – non-retail (carrying amounts)	**1,198**	**1,207**
Total loans due from customers (carrying amounts)*	**13,943**	**21,396**

*incl. total FV hedge adjustment of positive EUR 14 million (where EUR 4 million for cash loans, EUR 2 million for revolving loans, EUR 7 million for mortgage loans and EUR 1 million for car loans, refer to C.4.4).

E.4.1.1. Loans due from customers - retail

Loans due from customers – retail comprise the following:

In millions of EUR, as at 31 December 2020

	Cash loans	Consumer loans	Revolving loans	Other*	Total
Gross amount	**10,458**	**2,671**	**970**	**463**	**14,562**
Stage 1	7,267	2,127	736	406	10,536
Stage 2	2,549	345	170	36	3,100
Stage 3	642	199	64	21	926
POCI	-	-	-	-	-
Loss allowance	**(1,532)**	**(204)**	**(71)**	**(24)**	**(1,831)**
Stage 1	(273)	(55)	(17)	(1)	(346)
Stage 2	(993)	(69)	(12)	(3)	(1,077)
Stage 3	(266)	(80)	(42)	(20)	(408)
POCI	-	-	-	-	-
Total carrying amount**	**8,926**	**2,467**	**899**	**439**	**12,731**

*comprises mortgage loans and car loans.
**excl. total FV hedge adjustment of positive EUR 14 million (where EUR 4 million for cash loans, EUR 2 million for revolving loans, EUR 7 million for mortgage loans and EUR 1 million for car loans, refer to C.4.4).

In millions of EUR, as at 31 December 2019

	Cash loans	Consumer loans	Revolving loans	Other*	Total
Gross amount	**15,163**	**5,317**	**885**	**406**	**21,771**
Stage 1	12,624	4,869	644	340	18,477
Stage 2	1,623	239	177	44	2,083
Stage 3	916	209	64	22	1,211
POCI	-	-	-	-	-
Loss allowance	**(1,233)**	**(246)**	**(79)**	**(24)**	**(1,582)**
Stage 1	(462)	(97)	(18)	(1)	(578)
Stage 2	(364)	(50)	(11)	(2)	(427)
Stage 3	(407)	(99)	(50)	(21)	(577)
POCI	-	-	-	-	-
Total carrying amount	**13,930**	**5,071**	**806**	**382**	**20,189**

*comprises mortgage loans and car loans.

Credit quality analysis

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

As a result of Covid-19 pandemic the portfolio of the Home Credit subgroup retail loans was split into three parts (for details refer to Note F.2.1.)

In millions of EUR, as at 31 December 2020

	Stage 1	Stage 2	Stage 3	Total	Share
Gross amount					
nonCOVID portfolio	10,163	1,691	747	12,601	87.2%
PayHol portfolio	272	1,395	160	1,827	12.6%
COVID portfolio	1	9	13	23	0.2%
Total gross amount*	**10,436**	**3,095**	**920**	**14,451**	**100.0%**

*The difference between the Home Credit subgroup's and the Group's total gross amount of loans to customers of EUR 111 million consists of subsidiaries outside the Home Credit subgroup (Mobi Banka a.d. Beograd and PPF Co3 B.V.) that could be presented as a nonCOVID and Stage 1 portfolio.

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

In millions of EUR, for the year ended 31 December 2020

Loss allowance – Loans to customers - retail	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	**(578)**	**(427)**	**(577)**	**-**	**(1,582)**
Changes in the loss allowance	151	(719)	(347)	-	(915)
Transfer to Stage 1	(7)	18	-	-	11
Transfer to Stage 2	139	(864)	3	-	(722)
Transfer to Stage 3	19	127	(350)	-	(204)
New originated or purchased	(118)	(86)	(59)	-	(263)
Change in PD/EAD/LGD, unwind of discount	(520)	(455)	(723)	-	(1,698)
Modification of contractual cash flows of financial assets	(1)	-	-	-	(1)
Financial assets fully repaid	173	95	67	-	335
Write-offs	521	480	1,206	-	2,207
FX and other movements	26	35	25	-	86
Net change during the period	**232**	**(650)**	**169**	**-**	**(249)**
Loss allowance as at 31 December	**(346)**	**(1,077)**	**(408)**	**-**	**(1,831)**

In millions of EUR, for the year ended 31 December 2019

Loss allowance – Loans to customers - retail	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	**(504)**	**(362)**	**(1,225)**	**-**	**(2,091)**
Additions resulting from business combinations	-	-	(3)	-	(3)
Changes in the loss allowance	108	(4)	(918)	-	(814)
Transfer to Stage 1	(10)	17	-	-	7
Transfer to Stage 2	49	(222)	3	-	(170)
Transfer to Stage 3	69	201	(921)	-	(651)
New originated or purchased	(416)	(202)	(250)	-	(868)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	(31)	(345)	(420)	-	(796)
Financial assets fully repaid	202	101	115	-	418
Write-offs	71	392	2,150	-	2,613
FX and other movements	(8)	(7)	(26)	-	(41)
Net change during the period	**(74)**	**(65)**	**648**	**-**	**509**
Loss allowance as at 31 December	**(578)**	**(427)**	**(577)**	**-**	**(1,582)**

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

Loans to corporations comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Gross amount	1,275	1,250
Loss allowance	(89)	(56)
Total carrying amount*	**1,186**	**1,194**

*excl. loans and advances provided under repo operations and other.

Credit quality analysis

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

In millions of EUR, as at 31 December

					2020	2019
Loans to customers – non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Very low risk	177	-	-	-	177	143
Low risk	7	-	-	-	7	16
Medium risk	826	66	-	-	892	906
High risk	1	66	-	-	67	56
Default	-	-	132	-	132	129
Total gross amount	**1,011**	**132**	**132**	**-**	**1,275**	**1,250**
Loss allowance	(11)	(5)	(73)	-	(89)	(56)
Carrying amount	**1,000**	**127**	**59**	**-**	**1,186**	**1,194**

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

In millions of EUR, for the year ended 31 December 2020

Loss allowance - Loans to customers - non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	(6)	(1)	(49)	-	(56)
Change in loss allowance	2	(3)	(31)	-	(32)
Transfer to Stage 2	2	(3)	-	-	(1)
Transfer to Stage 3			(31)	-	(31)
New originated or purchased	(6)	-	-	-	(6)
Change in PD/EAD/LGD, unwind of discount	(3)	(2)	(17)	-	(22)
Financial assets fully repaid	2	1	1	-	4
Write-offs	-	-	18	-	18
FX and other movements	-	-	5	-	5
Net change during the period	**(5)**	**(4)**	**(24)**	**-**	**(33)**
Loss allowance as at 31 December	**(11)**	**(5)**	**(73)**	**-**	**(89)**

In millions of EUR, for the year ended 31 December 2019

Loss allowance - Loans to customers - non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	(6)	-	(60)	-	(66)
Change in loss allowance	-	-	(1)	-	(1)
Transfer to Stage 3	-	-	(1)	-	(1)
New originated or purchased	(2)	(1)	(1)		(4)
Change in PD/EAD/LGD, unwind of discount	(2)	-	-	-	(2)
Financial assets fully repaid	4	-	6	-	10
Write-offs	-	-	9	-	9
FX and other movements	-	-	(2)	-	(2)
Net change during the period	**-**	**(1)**	**11**	**-**	**10**
Loss allowance as at 31 December	**(6)**	**(1)**	**(49)**	**-**	**(56)**

E.5. Trade and other receivables

Trade and other receivables comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Trade receivables	52	55
Accrued income	6	7
Individual loss allowance	(2)	(1)
Total trade and other receivables	**56**	**61**

E.6. Equity-accounted investees

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

In millions of EUR

	31 December 2020	31 December 2019
ClearBank Ltd.	28	20
Other	4	28
Total equity-accounted investees	**32**	**48**

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

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

In millions of EUR, for the year ended 31 December

	2020	2019
ClearBank Ltd.	(15)	(22)
Other	6	1
Total share of earnings in equity-accounted investees	**(9)**	**(21)**

ClearBank Ltd. (associate)

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

In millions of EUR

	31 December 2020	31 December 2019
Non-current assets	28	28
Current assets	1,143	634
Current liabilities	(1,106)	(615)
Net assets (100%)	65	47
Group's share of net assets (40.61%; 2019: 39.31%)	26	18
Goodwill included in carrying amount	2	2
Carrying amount of investment in the associate	**28**	**20**
	2020	2019
Total net loss for the period (100%)	(33)	(39)
Group's share on the net loss (40.61%; 2019: 39.31%)	(13)	(15)
Dilution loss	(2)	(7)
Total share in loss (40.61%; 2019: 39.31%)	**(15)**	**(22)**

E.7. Property, plant and equipment

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

In millions of EUR, for the year ended 31 December 2020

	Buildings	Other tangible assets and equipment	Total
Carrying amount			
Balance as at 1 January	60	115	175
Additions	-	24	24
Disposals	(1)	(2)	(3)
Depreciation charge	(3)	(51)	(54)
Effects of movements in exchange rates	(10)	(9)	(19)
Balance as at 31 December	**46**	**77**	**123**
Cost	74	299	373
Accumulated depreciation and impairment	(28)	(222)	(250)

The roll-forward of right-of-use assets amounting to EUR 106 million as at 31 December 2020 (2019: EUR 152 million) is disclosed in Note E.21.1.

In millions of EUR, for the year ended 31 December 2019

	Buildings	Other tangible assets and equipment	Total
Carrying amount			
Balance as at 1 January	55	127	182
Additions resulting from business combinations	-	3	3
Additions	3	40	43
Disposals	-	(5)	(5)
Depreciation charge	(3)	(56)	(59)
Other movements	(2)	2	-
Effects of movements in exchange rates	7	4	11
Balance as at 31 December	**60**	**115**	**175**
Cost	93	340	433
Accumulated depreciation and impairment	(33)	(225)	(258)

E.8. Intangible assets and goodwill

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

In millions of EUR, for the year ended 31 December 2020

	Goodwill	Software	Other intangible assets	Work in progress	Total
Carrying amount					
Balance as at 1 January	3	335	39	12	389
Additions	-	68	25	5	98
Additions from internal development	-	35	-	23	58
Disposal	-	(14)	-	-	(14)
Other changes	-	6	-	(6)	-
Amortisation charge	-	(95)	(4)	-	(99)
Impairment charge		(5)	-	(5)	(10)
Effects of movements in exchange rates	-	(19)	(1)	1	(19)
Balance as at 31 December	**3**	**311**	**59**	**30**	**403**
Cost	3	746	66	35	850
Accumulated amortisation and impairment losses	-	(435)	(7)	(5)	(447)

In millions of EUR, for the year ended 31 December 2019

	Goodwill	Software	Other intangible assets	Work in progress	Total
Carrying amount					
Balance as at 1 January	3	269	15	5	292
Additions resulting from business combinations	-	2	-	-	2
Additions	-	113	18	-	131
Additions from internal development	-	15	23	9	47
Disposal	-	-	(1)	-	(1)
Other changes	-	16	(14)	(2)	-
Amortisation charge	-	(78)	(2)	-	(80)
Effects of movements in exchange rates	-	(2)	-	-	(2)
Balance as at 31 December	**3**	**335**	**39**	**12**	**389**
Cost	3	726	50	12	791
Accumulated amortisation and impairment losses	-	(391)	(11)	-	(402)

E.9. Other assets

Other assets comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Other settlement accounts	80	117
Cash collateral for payment cards	57	67
Prepaid expenses and advances	74	111
Insurance deposits	-	21
Other taxes receivable	8	6
Assets held for sale	1	2
Inventories	3	3
Other	26	27
Total other assets	**249**	**354**

E.10. Financial liabilities at FVTPL

Financial liabilities at FVTPL comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Negative fair values of trading derivatives	250	191
Interest rate derivatives	182	114
Currency derivatives	68	77
Liabilities from short sales of securities	356	156
Negative fair values of hedging derivatives	29	6
Total financial liabilities at FVTPL	**635**	**353**

Details of derivatives are provided in the following tables:

In millions of EUR, as at 31 December 2020

Interest rate derivatives	Notional amount	Positive fair values	Negative fair values
OTC products:			
Forward rate agreements	1,132	-	(1)
Interest rate swaps	10,460	183	(181)
Exchange-traded products:			
Interest rate futures	15	-	-
Total	**11,607**	**183**	**(182)**
Currency derivatives			
OTC products:			
Forward exchange contracts	802	11	(11)
Currency swap contracts	4,957	58	(52)
Foreign exchange options (purchase)	394	5	-
Foreign exchange options (sale)	394	-	(5)
Total	**6,547**	**74**	**(68)**
Hedging derivatives			
OTC products:			
Forward exchange contracts	24	-	(6)
Currency swap contracts	62	-	(2)
Interest rate swap contracts	609	10	(21)
Total	**695**	**10**	**(29)**

In millions of EUR, as at 31 December 2019

Interest rate derivatives	Notional amount	Positive fair values	Negative fair values
OTC products:			
Forward rate agreements	1,995	-	-
Interest rate swaps	9,101	119	(114)
Exchange-traded products:			
Interest rate futures	2	-	-
Total	**11,098**	**119**	**(114)**
Currency derivatives			
OTC products:			
Forward exchange contracts	1,078	2	(39)
Currency swap contracts	6,296	52	(38)
Total	**7,374**	**54**	**(77)**
Hedging derivatives			
OTC products:			
Forward exchange contracts	107	-	(4)
Currency swap contracts	58	-	(2)
Interest rate swap contracts	199	4	-
Total	**364**	**4**	**(6)**

E.11. Liabilities due to non-banks

Liabilities to non-banks comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Current accounts and demand deposits	8,471	7,843
Term deposits	2,032	3,652
Loans received under repos	1,111	2,474
Loans	5	10
Collateral deposits for derivatives	19	37
Other	2	1
Total liabilities to non-banks	**11,640**	**14,017**

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

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

Liabilities to banks and other financial institutions comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Secured loans (other than repos)	4,944	7,424
Unsecured loans	1,911	4,774
Collateral deposits for derivatives	42	31
Other	22	68
Repayable on demand	5	7
Loans received under repos	-	987
Total liabilities to banks	**6,924**	**13,291**

As at 31 December 2020 and 2019, the Group was in compliance with the financial covenants imposed by its loan facilities.

E.13. Debt securities issued

The maturities of the debt securities are as follows:

In millions of EUR

	31 December 2020	31 December 2019
Fixed rate debt securities		
Within 1 year	1,094	1,385
1-2 years	224	676
2-3 years	124	82
3-4 years	79	-
4-5 years	-	71
Variable rate debt securities		
Within 1 year	75	28
1-2 years	65	83
2-3 years	22	64
Total debt securities issued	**1,683**	**2,389**

As at 31 December 2020, debt securities issued of EUR 511 million (2019: EUR 1,165 million) were secured, of which EUR 82 million (2019: EUR 91 million) by cash loan receivables, EUR 261 million (2019: EUR 774 million) by consumer loan receivables, and EUR 168 million (2019: EUR 300 million) by cash and cash equivalents.

E.14. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of EUR

	Interest rate	Maturity	31 December 2020	31 December 2019
Bond issue of CZK 4,000 million	Variable	2027	151	157
Bond issue of EUR 92 million	Fixed	2028	93	92
Bond issue of CZK 253 million	Variable	2029	10	8
Loan of USD 7 million	Variable	2023	2	7
Loan of RSD 465 million	Variable	2023	-	4
Total subordinated liabilities			**256**	**268**

The bond issue of CZK 4,000 million was issued in December 2017. The interest rate was determined as a fixed rate for the first two years; subsequently, in 2020, it was changed to a floating rate. The Group has an early redemption option exercisable on or after 18 December 2022.

The bond issue of EUR 92 million was issued in September 2018. The interest rate of 3.6% p.a. is determined as a fixed rate with maturity in September 2028. The Group has an early redemption option exercisable in September 2023.

E.15. Trade and other payables

Trade and other payables comprise the following:

In millions of EUR

	31 December 2020	31 December 2019
Settlements with suppliers	123	177
Wages and salaries	85	106
Social security and health insurance	11	11
Other taxes payable	38	58
Accrued expenses	70	91
Customer loan overpayments	189	126
Lease liabilities	108	155
Financial settlement and other similar accounts	9	19
Deferred income	3	5
Other liabilities	66	96
Total trade and other payables	**702**	**844**

E.16. Insurance and other provisions

Provisions comprise the following:

In millions of EUR, as at 31 December

	31 December 2020	31 December 2019
Provisions for unearned premiums	27	37
Provisions for outstanding claims	1	-
Provisions for insurance commissions return	5	10
Provisions for expected credit losses from loan commitments and financial guarantees	4	3
Provision for litigation except for tax-related litigation	5	6
Other provisions	3	6
Total provisions	**45**	**62**

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

In millions of EUR, for the year ended 31 December 2020

	Provision for litigation except for tax issues	Provisions for insurance commissions return	Provision for expected credit losses from loan commitments and financial guarantees	Other provisions	Total
Balance as at 1 January	6	10	3	6	25
Provisions created during the year	-	34	8	2	44
Provisions used during the year	-	(37)	(1)	-	(38)
Provisions released during the year	-	-	(6)	(6)	(12)
Effects of movements in exchange rates	(1)	(2)	-	1	(2)
Balance as at 31 December	**5**	**5**	**4**	**3**	**17**
Non-current (> 1 year)	5	-	1	1	7
Current (< 1 year)	-	5	3	2	10
Total provisions	**5**	**5**	**4**	**3**	**17**

In millions of EUR, for the year ended 31 December 2019

	Provision for litigation except for tax issues	Provisions for insurance commissions return	Provision for expected credit losses from loan commitments and financial guarantees	Other provisions	Total
Balance as at 1 January	7	8	2	4	21
Additions resulting from business combinations	1	-	-	-	1
Provisions created during the year	1	48	4	3	56
Provisions used during the year	(2)	(47)	-	(1)	(50)
Provisions released during the year	(1)	-	(3)	-	(4)
Effects of movements in exchange rates	-	1	-	-	1
Balance as at 31 December	**6**	**10**	**3**	**6**	**25**
Non-current (> 1 year)	4	-	1	4	9
Current (< 1 year)	2	10	2	2	16
Total provisions	**6**	**10**	**3**	**6**	**25**

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

In millions of EUR, for the year ended 31 December

	2020	2019
Balance as at 1 January	37	30
Premiums written during the year	17	24
Premiums earned during the year	(18)	(21)
Effects of movements in exchange rates	(9)	4
Balance as at 31 December	**27**	**37**

E.17. Issued capital and share premium

Issued capital 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:

	31 December 2020	31 December 2019
Number of shares authorised	45 000	45 000
Number of shares issued and fully paid	45 000	45 000
Par value per share	EUR 1	EUR 1

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

During 2020 and 2019, the share premium did not increase.

E.18. Additional paid-in capital

In June 2018, PPF Financial Holdings B.V. issued additional Tier 1 capital (AT1 Notes) in EUR with a total nominal value of EUR 80 million, held by PPF Group N.V. These bonds are classified as equity instruments as, beside other characteristics, payments of interest to the investors and the redemption of the original principal amount is at the issuer's discretion. The bonds include non-cumulative coupon payments of 6%. The interest payment on the bonds is carried out once a year on 29 June. These interest payments are presented as dividends in these consolidated financial statements. During 2020, the Group paid dividends amounting to EUR 5 million (2019: EUR 5 million).

E.19. Reserves

E.19.1. Revaluation reserve

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

E.19.2. Legal and statutory reserves

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

E.19.3. Currency translation reserve

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

E.19.4. Reserve for UCC

The reserve for business combinations under common control was recognised on contribution of shareholdings in Home Credit N.V. and PPF banka a.s. The reserve is not available for distribution to the shareholders.

E.19.5. Hedging reserve

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

E.19.6. Other equity instruments

Other equity instruments comprise a balance of AT1 subordinated bonds issued by one of Home Credit's subgroup subsidiaries and is not available for distribution to shareholders.

E.20. Non-controlling interests

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

Name of subsidiary	Abbr.	Applicable	Country of incorporation
Home Credit Group B.V. (subgroup)	HC	2020/2019	Netherlands
PPF banka, a.s. (subgroup)	PPFB	2020/2019	Czech Republic
Home Credit Indonesia PT	HCID	2020/2019	Indonesia
Home Credit US, LLC	HCUS	2020/2019	USA

The following table summarises the information relating to these subsidiaries:

In millions of EUR

2020	HC	PPFB	HCID	HCUS	**Total**
NCI percentage (effective ownership)	**8.88%**	**7.04%**	**22.55%**	**54.35%**	
Total assets	18,518	6,474	267	13	
Total liabilities	(16,582)	(5,869)	(214)	(13)	
Net assets	**1,936**	**605**	**53**	**-**	
Net assets attributable to NCI of the sub-group	(8)	-	-	-	
Net assets attributable to owners of the Parent	**1,928**	**605**	**53**	**-**	
Carrying amount of NCI	155	43	8	-	**206**
NCI percentage during the period	**8.88%**	**7.04%**	**22.55%**	**54.35%**	
Revenue	4,642	208	184	7	
Profit/(loss)	(552)	37	(20)	(58)	
Other comprehensive income/(expense)	(364)	4	-	-	
Total comprehensive income/(expense)	(916)	41	(20)	(58)	
Profit/(loss) allocated to NCI	(49)	3	(3)	(30)	**(79)**
OCI allocated to NCI	(32)	(1)	-	-	**(33)**
Dividends paid to NCI	-	-	-	-	

In millions of EUR

2019	HC	PPFB	HCID	HCUS	**Total**
NCI percentage (effective ownership)	**8.88%**	**7.04%**	**22.55%**	**54.35%**	
Total assets	26,590	8,928	430	112	
Total liabilities	(23,717)	(8,345)	(350)	(79)	
Net assets	**2,873**	**583**	**80**	**33**	
Net assets attributable to NCI of the sub-group	(29)	-	-	-	
Net assets attributable to owners of the Parent	**2,844**	**583**	**80**	**33**	
Carrying amount of NCI	236	41	12	17	**306**
NCI percentage during the period	**8.88%**	**7.04%**	**22.55%**	**54.35%**	
Revenue	6,003	235	214	20	
Profit/(loss)	417	84	3	(35)	
Other comprehensive income	112	30	-	-	
Total comprehensive income/(expense)	529	114	3	(35)	
Profit/(loss) allocated to NCI	38	6	-	(18)	**26**
OCI allocated to NCI	9	2	-	-	**11**
Dividends paid to NCI	-	-	-	-	**-**

E.21. Leases

The Group acts as the lessee under lease contracts for stores and offices.

E.21.1. Right-of-use assets

The following table shows the roll-forward of right-of-use assets:

In millions of EUR, for the year ended 31 December 2020

	Land and buildings	Total
Carrying amount		
Balance as at 1 January 2020	152	152
Additions	27	27
Disposal	(17)	(17)
Depreciation charge	(46)	(46)
Effects of movements in exchange rates	(10)	(10)
Balance as at 31 December 2020	**106**	**106**
Cost	176	176
Accumulated depreciation and impairment	(70)	(70)

For the maturity analysis of lease liabilities refer to C.3

In millions of EUR, for the year ended 31 December 2019

	Land and buildings	Total
Carrying amount		
Balance as at 1 January 2019	173	173
Additions resulting from business combinations	2	2
Additions	25	25
Disposal	(4)	(4)
Depreciation charge	(49)	(49)
Effects of movements in exchange rates	5	5
Balance as at 31 December 2019	**152**	**152**
Cost	199	199
Accumulated depreciation and impairment	(47)	(47)

E.21.2. Amounts recognised in profit and loss

In millions of EUR, for the year ended 31 December

Leases under IFRS 16	2020	2019
Interest on lease liabilities	7	10
Expenses relating to short- term leases	5	7
Expenses relating to lease of low-value assets	1	1

Total cash outflow for leases in 2020 amounted to EUR 52 million (2019: EUR 50 million).

E.21.3. Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The held extension options are exercisable only by the Group and not by the lessors. At a lease's commencement date, the Group assesses whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if significant events or significant changes in circumstances within its control occur.

E.22. Reconciliation of movements of liabilities to cash flows arising from financing activities

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

In millions of EUR, for the year ended 31 December 2020

	Debt securities and subordinated liabilities	Due to banks, other financial institution and holding companies	Lease liabilities	Total
Balance as at 1 January	**2,657**	**13,260**	**155**	**16,072**
Changes from financing cash flows:				
Proceeds from the issue of debt securities	1,204	-	-	1,204
Proceeds from due to banks and other financial institutions	-	7,010	-	7,010
Repayment of debt securities	(1,787)	-	-	(1,787)
Repayment of due to banks and other financial institutions	-	(12,961)	-	(12,961)
Repayment of principal portion of lease liabilities	-	-	(45)	(45)
Total changes from financing cash flows	**(583)**	**(5,951)**	**(45)**	**(6,579)**
Effect of movements in exchange rates and transfers	(137)	(293)	(10)	(440)
New leases	-	-	8	8
Interest expense	165	948	7	1,120
Interest paid	(163)	(1,040)	(7)	(1,210)
Balance as at 31 December	**1,939**	**6,924**	**108**	**8,971**

For the years ended 31 December 2020 and 2019, both share premium and additional paid-in capital remained stable at EUR 2,324 million and at EUR 80 million, respectively.

In millions of EUR, for the year ended 31 December 2019

	Debt securities and subordinated liabilities	Due to banks, other financial institution and holding companies	Lease liabilities	Total
Balance as at 1 January	**2,147**	**13,849**	**173**	**16,169**
Changes from financing cash flows:				
Proceeds from the issue of debt securities	2,047	-	-	2,047
Proceeds from due to banks and other financial institutions	-	16,972	-	16,972
Repayment of debt securities	(1,569)	-	-	(1,569)
Repayment of due to banks and other financial institutions	-	(17,656)	-	(17,656)
Repayment of principal portion of lease liabilities	-	-	(45)	(45)
Total changes from financing cash flows	**478**	**(684)**	**(45)**	**(251)**
Effect of movements in exchange rates and transfers	23	106	-	129
New leases	-	-	22	22
Interest expense	158	1,198	10	1,366
Interest paid	(149)	(1,209)	(5)	(1,363)
Balance as at 31 December	**2,657**	**13,260**	**155**	**16,072**

E.23. Net interest income

Interest income comprises the following:

In millions of EUR, for the year ended 31 December

	2020	2019
Financial assets at FVTPL (refer to E.2.1)	8	7
Financial assets at FVOCI (refer to E.2.3)	39	45
Financial assets at AC (refer to E.2.2)	11	15
Due from banks and other financial institutions	97	177
Cash loan receivables	3,159	4,032
Consumer loan receivables	769	1,002
Revolving loan receivables	180	142
Car loan receivables	24	22
Mortgage loan receivables	6	6
Loans to corporations	52	66
Other	2	-
Total interest income	**4,347**	**5,514**

Interest expense comprises the following:

In millions of EUR, for the year ended 31 December

	2020	2019
Due to customers	192	286
Due to banks and other financial institutions	948	1,198
Debt securities issued	155	141
Lease liabilities	7	10
Subordinated liabilities	10	17
Other	4	13
Total interest expenses	**1,316**	**1,665**
Total net interest income	**3,031**	**3,849**

E.24. Net fee and commission income

Fee and commission income comprises the following:

In millions of EUR, for the year ended 31 December

	2020	2019
Insurance commissions	206	358
Penalty fees	65	129
Customer payment processing and account maintenance	53	57
Commission income from partners	55	57
Cash transactions	33	38
Retailers’ commissions	4	16
Other	31	20
Total fee and commission income	**447**	**675**

Fee and commission expense comprises the following:

In millions of EUR, for the year ended 31 December

	2020	2019
Commissions to retailers	24	21
Cash transactions	37	33
Payment processing and account maintenance	49	60
Payments to deposit insurance agencies	23	30
Credit and other register expense	29	39
Other	23	14
Total fee and commission expense	**185**	**197**

Total net fee and commission income	**262**	**478**

E.25. Net gain/loss on financial assets/liabilities

In millions of EUR, for the year ended 31 December

	2020	2019
Net trading income/(expense)	(53)	(30)
Debt securities trading	17	20
FX trading	(53)	14
Derivatives	6	(64)
Other	(23)	-
Net realised gains/(losses)	24	12
Financial assets at AC	(1)	2
Financial assets at FVOCI	11	4
Loans and receivables	14	6
Dividends	1	-
Total net gain/(loss) on financial assets	**(28)**	**(18)**

E.26. Other income

In millions of EUR, for the year ended 31 December

	2020	2019
Gain on bargain purchase (refer to B.2.1)	-	38
Net foreign currency gains	29	-
Provision of services to minority partner	21	13
Other	33	92
Total other income	**83**	**143**

E.27. Net impairment losses on other financial assets

In millions of EUR, for the year ended 31 December

	2020	2019
Cash loan receivables	1,987	1,546
Consumer loan receivables	307	246
Revolving loan receivables	49	25
Car loan receivables	3	2
Mortgage loan receivables	-	(2)
Loans to corporations	56	(3)
Due from banks and other financial institutions	(1)	-
Financial assets at FVOCI	4	-
Other financial assets*	1	2
Total net impairment losses on financial assets	**2,406**	**1,816**

*incl. impairment losses on undrawn credit limit

E.28. Personnel expenses and other operating expenses

In millions of EUR, for the year ended 31 December

	2020	2019
Employee compensation	820	912
Payroll related taxes (including pension contribution)	115	206
Total personnel expenses	**935**	**1,118**
Rental, maintenance and repair expense	29	35
Telecommunication and postage	74	90
Professional services	82	102
Information technologies	75	56
Advertising and marketing	48	69
Collection agency fee	66	65
Taxes other than income tax	42	51
Travel expenses	11	26
Net impairment losses on other assets	2	2
Net impairment losses on other intangible assets	10	-
Loss on disposal of PPE and intangible assets	1	2
Net foreign currency losses	-	16
Other	49	55
Total other operating expenses	**489**	**569**

The average rounded number of employees during 2020 was 88,000 (2019: 125,000); six of these employees were employed in the Netherlands (2019: three employees).

E.29. Depreciation and amortisation

In millions of EUR, for the year ended 31 December

	2020	2019
Depreciation of property, plant and equipment	54	59
Depreciation of property, plant and equipment – ROU (IFRS 16)	46	49
Amortisation of intangible assets	99	80
Total depreciation and amortisation	**199**	**188**

E.30. Repurchase agreements and reverse repurchase agreements

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

In millions of EUR, as at 31 December

	2020 Fair value of underlying assets	2020 Carrying amount of corresponding liabilities	2019 Fair value of underlying assets	2019 Carrying amount of corresponding liabilities
Financial assets at FVOCI	-	-	46	45
Financial assets received in reverse repos	1,090	1,111	3,475	3,415
Total	**1,090**	**1,111**	**3,521**	**3,460**

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

	2020 Fair value of assets received as collateral (total)	2020 of which: Fair value of assets repledged or sold	2020 Carrying amount of receivables	2019 Fair value of assets received as collateral (total)	2019 of which: Fair value of assets repledged or sold	2019 Carrying amount of receivables
Loans and advances to central banks	4,734	1,090	4,818	7,217	3,475	7,287
Loans and advances to banks	109	-	104	209	-	198
Loans and advances to non-banks	-	-	-	19	-	10
Total loans and advances	**4,843**	**1,090**	**4,922**	**7,445**	**3,475**	**7,495**

E.31. Income taxes

E.31.1. Deferred tax

Deferred tax assets and liabilities comprise the following:

In millions of EUR, as at 31 December

	2020 Deferred tax liabilities	2020 Deferred tax assets	2019 Deferred tax liabilities	2019 Deferred tax assets
Investment securities	(4)	1	(6)	-
Loans	-	488	(2)	345
Trade and other receivables	-	4	-	5
Property, plant and equipment	(5)	5	(8)	5
Intangible assets	(19)	38	(21)	1
Other assets	(5)	2	(6)	1
Debt securities issued	-	21	-	12
Financial liabilities at FVTPL	(2)	2	(1)	3
Lease liabilities	(2)	1	(1)	1
Other liabilities	-	22	-	19
Provisions	-	3	-	6
Other temporary differences	(5)	9	(3)	49
Value of loss carry-forwards recognised	-	78	-	7
Deferred tax assets/(liabilities)	**(42)**	**674**	**(48)**	**454**
Net deferred tax assets/(liabilities)	**(8)**	**640**	**(20)**	**426**

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

In millions of EUR, for the year ended 31 December

	2020	2019
Net deferred tax assets/(liabilities) as at 1 January	406	420
Deferred tax (expense)/benefit for the period	255	(18)
Deferred tax recognised directly in equity	1	(4)
Effects of movements in exchange rates	(30)	8
Net deferred tax assets/(liabilities) as at 31 December	**632**	**406**

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

E.31.2. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the year ended 31 December

	2020	2019
Current tax expense	(133)	(229)
Deferred tax (expense)/benefit	255	(18)
Total income tax expense	**122**	**(247)**

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2020	2019
Tax rate	25%	25%
Profit from continuing operations (before taxation)	(677)	754
Computed taxation using applicable tax rate	169	(188)
Tax non-deductible expenses	(42)	(29)
Non-taxable income	5	16
Withholding tax on dividends	(13)	(24)
Tax rate differences on foreign results	3	24
Tax loss carried forward not recognised	(14)	(19)
Other	14	(27)
Total income tax expense	**122**	**(247)**

The Company is subject to corporate income tax in the Netherlands at an income tax rate of 25%. The Company's subsidiaries as well as associates are also subject to corporate income tax laws in the respective jurisdictions where the Group operates with corporate income tax rates ranging from 12.5% in Cyprus to 30% in the Philippines.

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

The Group follows the principle for the recognition of deferred tax assets, i.e. if 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. A deferred tax loss not previously recognised substantially decreased the effective tax rate of the Group during 2020 as it became likely that the Group will generate sufficient taxable profits to utilise tax losses from previous periods.

The change of deferred tax benefit is mainly caused by increased deferred tax assets stemming from the additional creation of ECLs.

E.31.3. Tax losses

As at 31 December 2020, the Group incurred tax losses from recent years of EUR 897 million (2019: EUR 594 million) available to be carried forward and offset against future taxable income. If 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 EUR 114 million (2019: EUR 102 million). The unutilised tax losses can be claimed in the period from 2021 to 2026 in the Netherlands (2021 to 2025 in the Czech Republic and Cyprus, and for an indefinite time in Hong Kong, China and in the Russian Federation) and expire as follows:

In millions of EUR

	31 December 2020	31 December 2019
2020	-	11
2021	15	21
2022	23	25
2023	25	22
2024	21	28
2025	91	61
2026	97	87
2027	2	2
2028	1	1
2029	1	1
Tax losses that can be carried forward indefinitely	621	335
Total	**897**	**594**

E.32. Off-balance sheet items

E.32.1. Commitments and contingent liabilities

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

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

In millions of EUR

	31 December 2020	31 December 2019
Loan commitments	1,605	1,769
Revolving loan commitments	1,255	1,390
Consumer loan commitments	31	48
Cash loan commitments	31	29
Undrawn overdraft facilities	126	101
Term loan facilities	162	201
Capital expenditure commitments	4	12
Guarantees provided	39	44
of which Non-payment guarantees	*20*	*21*
Other	3	-
Total commitments and contingent liabilities	**1,651**	**1,825**

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

	31 December 2020	31 December 2019
Secured bank loans	4,944	7,424
Loans received under repos	1,111	3,460
Debt securities issued	511	1,165
Total secured liabilities	**6,566**	**12,049**

The assets pledged as security were as follows:

In millions of EUR

	31 December 2020	31 December 2019
Cash and cash equivalents	265	809
Financial assets at FVOCI (repos)	-	46
Loans and receivables due from customers	5,865	11,441
Financial assets in off balance sheet (repo operations)	1,090	3,475
Total assets pledged as security	**7,220**	**15,771**

E.32.2. Other contingencies

E.32.2.1. Taxation

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

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

HC Consumer Finance Philippines, Inc. and Home Credit International a.s. are currently undergoing a tax inspection. The final results are not yet known.

E.32.3. Guarantee received and off-balance sheet assets

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

In millions of EUR

	31 December 2020	31 December 2019
Guarantees accepted	72	40
Loan commitments received	12	8
Value of assets received as collateral (including repos)	6,416	9,650
Total contingent assets	**6,500**	**9,698**

E.33. Related parties

E.33.1. Identity of related parties

The Group has a related party relationship with its parent company PPF Group N.V., its subsidiaries, the Group's equity accounted investees and non-consolidated subsidiaries.

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

The key management personnel of the Group comprises members of the board of directors and key executive officers.

E.33.2. Transactions with governing bodies and executive officers

The remuneration of the governing bodies and key executive officers received from the Group for 2020 was EUR 33 million (2019: EUR 28 million).

The remuneration only representing short-term benefits includes financial and non-financial income as follows:

Financial income includes all financial income accepted by a member of a board from the Group during the financial year (especially allowances provided for membership in 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 accepted by a member of a board from the Group during the financial year.

E.33.3. Transactions with the parent company

During the course of the year, the Group had the following significant transactions at arm's length with its parent company:

In millions of EUR, for the year ended 31 December

	2020	2019
Interest income	-	1
Net gain/(loss) on financial assets	2	-
Total revenue	**2**	**1**
Interest expense	-	(2)
Other operating expenses	(1)	(1)
Total expenses	**(1)**	**(3)**

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

In millions of EUR

	31 December 2020	31 December 2019
Loans due from customers*	70	2
Total assets	**70**	**2**
Due to non-banks	(628)	(586)
Total liabilities	**(628)**	**(586)**

*presented in their gross amounts (while ECL allowance is nil in 2020 and 2019).

E.33.4. Transactions with affiliates

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

In millions of EUR, for the year ended 31 December

	2020	2019
Interest income	7	8
Fee and commission income	13	8
Net gain/(loss) on financial assets	6	6
Other income	1	-
Total revenue	**27**	**22**
Interest expense	(2)	(4)
Other operating expenses	(18)	(22)
Depreciation and amortisation	(4)	(4)
Total expenses	**(24)**	**(30)**

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

In millions of EUR

	31 December 2020	31 December 2019
Loans due from customers*	164	86
Right of use assets	20	22
Trade and other receivables*	7	6
Intangible assets	1	2
Investment securities	24	50
Other assets	1	-
Total assets	**217**	**166**
Due to non-banks	(729)	(667)
Financial liabilities at FVTPL	(5)	(3)
Subordinated liabilities	-	(4)
Trade and other payables	(25)	(39)
Total liabilities	**(759)**	**(713)**

*presented in their gross amounts (while ECL allowance totals EUR 7 million and nil in 2020 and 2019, respectively).

In 2020 and 2019, the Group acquired participation certificates from telecommunication entities (subsidiaries of PPF Group), where the underlying assets are consumer loans to retail customers on mobile handsets and other telecommunication equipment. Under the certificates, the Group is an economic owner of all risks and rewards while the telecommunication entities retain rights to receive the related cash and are obliged to pay it to the Group without material delay. The outstanding balance of all tranches of these participation certificates held by the Group as at 31 December 2020, presented as loans due from customers in the consolidated statement of financial position, amounted to EUR 81 million (2019: EUR 49 million).

E.33.5. Other related parties including key management personnel

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

In millions of EUR, for the year ended 31 December

	2020	2019
Interest income	12	14
Total revenue	**12**	**14**
Other operating expenses	(3)	(6)
Total expenses	**(3)**	**(6)**

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

In millions of EUR

	31 December 2020	31 December 2019
Loans due from customers*	217	212
Total assets	**217**	**212**
Due to non-banks	(55)	(1)
Total liabilities	**(55)**	**(1)**

*presented in their gross amounts (while ECL allowance totals EUR 7 million and nil in 2020 and 2019, respectively).

F. Significant accounting policies

F.1. Significant accounting policies

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

F.1.1. Foreign currency

F.1.1.1. Foreign currency transactions

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for the differences arising on the retranslation of equity investments which are recognised in other comprehensive income.

F.1.1.2. Foreign operations

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

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

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

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

F.1.2. Financial assets and liabilities

Financial assets include financial assets at FVTPL, financial assets at FVOCI and financial assets at AC.

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

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

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

F.1.2.1. Business model assessment

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

The Group differentiates between the following basic business models:
- held-to-collect business model;
- both held-to-collect and for-sale business model;
- other business models (incl. trading, managing assets on a fair value basis, maximising cash-flows through sale and other models).

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

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of

contractual cash flows in a way that it would not meet this condition. In making the assessment, the Group considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’s claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

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

F.1.2.3. Financial assets at FVTPL

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

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 FVTPL.

Subsequent to initial recognition, all financial assets at FVTPL 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 FVTPL are recognised in the income statement.

F.1.2.4. Financial assets at AC

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

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

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

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

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

F.1.2.5. Financial assets at FVOCI

Financial assets at FVOCI comprise equity and debt securities. Both equity and debt securities are initially measured at fair value plus eligible transaction costs.

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

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

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

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

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

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

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

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

F.1.2.6. Trade receivables

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than those classified as at FVTPL or at FVOCI.

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

F.1.2.7. Cash and cash equivalents

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

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

F.1.2.8. Lease transactions

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

F.1.3. Derecognition of financial assets and liabilities

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

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

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

F.1.4. Derivatives and hedge accounting

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 are met at the designation date, i.e. if, and only if, all of the following conditions are met:

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

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

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

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

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

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

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

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

F.1.5. Repurchase agreements

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

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

F.1.6. Offsetting financial instruments

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

F.1.7. Impairment

F.1.7.1. Non-derivative financial assets

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

- loans and receivables due from banks and other financial institutions;
- loans due from customers;
- trade receivables and accrued income;
- cash and cash equivalents;

- debt instruments at FVOCI;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

No loss allowance is recognised on equity investments.

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

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

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

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

Credit-impaired financial assets

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

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

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

Measurement of ECLs

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

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

Inputs into measurement of ECLs

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

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

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

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

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

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

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

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

Due to the Covid-19 pandemic and subsequent related events (like national quarantines, adjustments of risk management practices, extending debt relief to borrowers, application of specific guidance issued by governments or regulators, etc.) in countries where Home Credit subgroup (consumer lending business) operates, the Group's existing modelling techniques were not fully applicable for the calculation of ECL on some portfolios since, under the circumstances, purely statistical models can give inaccurate results, or it is not possible to calculate the results without undue cost or effort. The main reasons were lock-downs in the countries or states of emergency not allowing customers to hold their obligations. This usually results in the significant worsening of historical model statistics and the imposition of regulatory or governmental reliefs to customers (e.g. in form of payment holidays) also in situations when delinquency status of contracts has not changed for a certain period of time. To ensure the applicability of the overall methodology, the consumer loan portfolio has been separated into three parts.

The first part of the portfolio (the COVID portfolio), in which significant deterioration from the current (i.e. not overdue) delinquency bucket is observable during the first months of crisis and in additional significant pandemic waves. The identification is set based on the analysis of contracts falling newly into delinquency of 30+ days while being under this threshold level for a predefined period of time (typically 3-9 months). The aim of separating these loans is to exclude those clients who suddenly started to fall into delinquency at the time of the crisis, with the assumption that the Covid-19 crisis is the cause of this deterioration and that this deterioration does not correspond to the standard portfolio risk performance which could be expected in the future. All contracts included in the COVID portfolio are automatically provisioned by lifetime coefficients (i.e. assigned with Stage 2 or Stage 3 according to the corresponding delinquency bucket) and excluded from the portfolio based modelling to avoid incorrect ECL calculation.

The second part of the portfolio includes clients to whom payment holidays (PayHol) were provided during the Covid-19 period (based on moratoria set in individual countries). During the payment holidays period, the subgroup performed qualitative assessments in the countries where it operates (collective analysis of impact on business sectors, impact on different geographical location, data acquired during collections processes, qualitative research etc.). This assessment led to the final estimation of SICR for this portfolio. For more information refer to the below section Determining whether credit risk has increased significantly.

Since there is no actual risk performance observable during the PayHol period, these contracts are excluded from portfolio-based ECL modelling as otherwise it would disrupt the statistics-based models. After the PayHol period ends and observation of actual risk performance is possible again, included contracts added back into the statistical models as well as removed from the PayHol portfolio for reporting purposes. If the share of the PayHol portfolio in a particular country is assessed as being high (~20%+), ECL assessment is done specifically for this portfolio based on an analysis of performance during and after the actual payment holidays period, as the risk on this portfolio is expected to be higher compared to the estimation based on standard coefficients due to the postponed recognition of the performance worsening. Based on the analysis, a management overlay covering the additional ECL is utilised to further improve the preciseness of overall ECL recognition.

The rest of the portfolio (non-covid) is not included in the above described paragraphs. This portfolio was evaluated consistently with the pre-covid-19 measurement of ECL.

Forward-looking information

The Group incorporates forward-looking information (FLI) based on both external and internal sources into its assessment of whether the credit risk of an instrument has increased significantly since initial recognition, and where possible, also into its measurement of ECLs. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for Economic Co-operation and Development (OECD) and the

International Monetary Fund (IMF), commercial sources (such as Bloomberg or Thomas Reuters), and selected private sector and academic forecasters. Internal information then consists of both portfolio and vintage risk parameters and calibrated client scoring models and functions.

Depending on the availability of data and the credibility of its sources, the Group analyses historical data over the past 4 to 14 years to estimate the relationships between macro-economic variables and credit risk and credit losses. Key external drivers may include variables such as interest rates, unemployment rates, inflation rates, GDP growth rates, FX rates and other macroeconomic variables and their forecasts.

Due to the Covid-19 pandemic, the methodology was reassessed to better reflect current circumstances and threshold was adjusted to nil therefore FLI is included in final calculation regardless the result. Also, FLI models calculated based on available data are being checked to provide reliable outputs utilising the macroeconomics data during and post crisis.

The provisions are based on the latest macro-economic forecast. Specifically in the consumer lending business, in response to the Covid-19 pandemic situation, the Group uses three scenarios with set weights for the evaluation of the impact:
- base scenario – in general, development according to available macroeconomics forecasts
- adverse scenario – either based on a worsening of the base scenario, or on a percentile from historical development (depending on reliability of model results)
- optimistic scenario – either based on an improvement of the base scenario, or based on a percentile from historical development (depending on reliability of results)

Scenario weights are set according to the latest expectations (the weight of the base scenario is mostly in the range of 70-80%, the rest is being distributed among adverse and optimistic scenarios) for each country based on the applicable facts and circumstances.

In current times of high volatility and persisting uncertainty about future developments when portfolio quality and the economic environment are rapidly changing, FLI models alone may not be able to accurately predict losses among the subgroup. Therefore, management uses not only the latest available forecasts for individual markets to compute external FLI impacts but also applies additional overlays to the extent of the latest ECL estimates on PayHol portfolios and assumptions on changes in post-crisis recovery development, which are considered to be the main potential internal sources of volatility in the resulting ECL estimates. The resulting management adjustments are applied to reflect the overall ECL appropriately both on the subgroup and local levels.

Credit risk grades

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

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

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

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

Group's internal credit risk grades

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

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

Determining whether credit risk has significantly increased

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

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

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

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

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

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

Specifically to the consumer lending business, in response to the Covid-19 pandemic, the Group implemented additional procedures related to SICR, where collective assessment utilising internal or external data available on the particular market (qualitative assessments, impact on business sectors, impact on different geographical location, data acquired during collections processes, qualitative research etc.) could be used instead or together with the standard case-by-case basis described above. This holds, in particular for, the PayHol portfolio (for detailed information on the portfolio split refer to the above section Measurement of ECLs), where the actual risk behaviour is not observable and standard PD estimation cannot be utilised. The PayHol portfolio is continuously and closely monitored in the collection processes. If a client faced short-term problems which are mitigated after the end of payment holidays, the performance gets back to standard. If the crisis triggers long-term problems, the standard staging is usually applied to the clients' exposures. The COVID portfolio (significantly impacted by the crisis) is automatically considered to be subject to SICR and lifetime ECL is applied.

Definition of default

The Group considers a financial asset to be in default when there is available information that:

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

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

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

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

Modified financial assets

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

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

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

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

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

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

Forbearance

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

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

Due to the Covid-19 pandemic, the Group introduced forbearance measures such as payment holidays for affected clients or/and other measures imposed by local governments such as different types of moratoria (both opt-in and opt-out). The Group adhered to guidance from several European/supra-national authorities (such as EBA, IASB, etc.) that forbearance measures related to Covid-19 do not automatically lead to SICR. For detailed information of SICR assessment refer to the above section Determining whether credit risk has increased significantly.

Write-offs

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

Presentation of allowances for ECL in the financial statements

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

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

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

F.1.7.2. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, deferred acquisition costs, the present value of future profits on acquired insurance portfolios, and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

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

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

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

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

F.1.7.3. Inventories

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

F.1.8. Leases

At the inception of a contract, the Group assesses whether a contract is or contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Group has the right to obtain substantially all economic benefits from the use of the asset throughout the period of use.
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
    - the Group has the right to operate the asset
    - the Group has designed the asset predetermining how and for what purpose it will be used.

This policy is applied to contracts entered into or changed on or after 1 January 2019.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost comprising the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment", i.e. on the same line item on which it presents underlying owned assets of the same nature.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group presents lease liabilities in “Trade and other payables” in the consolidated statement of financial position. For details refer to E.15.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease terms and significantly affects the amount of lease liabilities and the recognised right-of-use assets.

The Group has elected not to recognise leases of low-value assets, and right-of-use assets and lease liabilities for some leases that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

F.1.9. Assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before being classified as held for sale, the assets (or components of a disposal group) are measured in accordance with the applicable IFRS. Thereafter, the assets (or disposal groups) are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on a pro rata basis, except that no loss is allocated to inventory, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets; these continue to be measured in accordance with the Group’s accounting policies. Impairment losses on initial classification as held for sale and any 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.1.10. 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.1.11. Property, plant and equipment

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

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

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

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

Buildings and constructions	up to 50 years
Other tangible assets and equipment	up to 10 years

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

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

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

F.1.12. Intangible assets and goodwill

F.1.12.1. Goodwill and gain on a bargain purchase

The Group accounts for all business combinations except those determined to be reorganisations involving group companies under common control as acquisitions.

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

In respect of equity accounted investees, the carrying amount of any goodwill is included in the carrying amount of the investment in the associate.

F.1.12.2. Present value of future profits from acquired portfolio

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

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

F.1.12.3. Other intangible assets

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

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

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

As for the life and non-life insurance 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 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 FVTPL.

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 AC, 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 the part of gross premium revenue attributable to subsequent periods, calculated separately for each insurance contract.

F.1.16.2. Provisions for outstanding claims

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

F.1.16.3. Other insurance provisions

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

F.1.17. 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 the part of the net results of the Group attributable to interests not owned, either directly or indirectly through subsidiaries, by the equity holders of the Parent Company.

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

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

F.1.18. 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 FVTPL 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 FVTPL that are not held for trading arise from their subsequent measurement at fair value or from their disposal.

A realised gain/loss arises on the derecognition of financial assets other than financial assets at FVTPL. The amount of the realised gain/loss represents the difference between the carrying value of the financial asset and the sale price adjusted for any cumulative gain or loss directly recognised in equity.

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

F.1.21. Net insurance premium revenue

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

F.1.22. 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. Other income and other expenses

F.1.24.1. Income for services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due or associated costs.

F.1.24.2. 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.1.25. Personnel and other operating expenses

Personnel and other operating expenses generally include expenses relating to the running of the Group. These include personnel expenses, office rental expenses and other operating expenses. Staff costs include employee salaries and wages, management remuneration and bonuses, and social insurance.

Within banking operations, other operating expenses include the costs of processing payments, maintaining customer accounts and records, and dealing with customers.

F.1.26. 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 2020

F.2.1. Enhancements to the ECL calculation as a result of Covid-19

Identification and measurement of impairment

Due to Covid-19 and its significant impact on consumer finance business, the Home Credit subgroup (the “Subgroup”) adjusted its approach towards the identification and measurement of consumer loan impairments. The following enhancements to the ECL calculation as a result of Covid-19 were performed:

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under two scenarios (adverse and optimistic) - described below for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in the measurement of the resulting ECL.

The subgroup simulated the impact of defaults for all retail loans in the various stages that might occur in the future under different economic scenarios. The retail loans’ sensitivity analysis stated below is inclusive of management judgmental adjustments. The ECL resulting from the calculation of the adverse and optimistic scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting since the scenarios are meant to be significantly less likely to occur.

In millions of EUR

Subsegment* (consumer lending)	Total ECL	Adverse scenario	Optimistic scenario
China	1,308	1,513	1,046
SSEA	244	262	208
CIS	105	117	93
CEE	169	173	157
Total	**1,826**	**2,065**	**1,504**

**For details on Operating segments refer to section D*

As at 31 December 2020, the most significant level of ECL sensitivity was observed in Mainland China. This higher sensitivity is largely driven by significant exposure in this region and more severe impacts of the adverse and optimistic scenarios relative to the probability-weighted scenarios. The scenario weighting reflects that tail scenarios are considered highly unlikely and highly volatile, therefore, the subgroup’s preferred solution was to use weighted scenario with the option to use management adjustments.

Based on the year-end results and developments, the Group applied several adjustments and management overlays over the results obtained by regular calculation to appropriately reflect overall ECL estimation. In most countries, overlays were applied based on either the latest observable collection of data on PayHol portfolio’s payment behaviour and the corresponding expectation of the future recovery on this particular portfolio part (holds for China/SSEA regions) or management assumptions on overall changes in post-crisis recovery development (holds for CIS/CEE regions).

The overall impact of Covid-19 related FLI (both internal and external) as at 31 December 2020 is EUR 197 million.

Definition of default

The subgroup expects to reassess the definition of default during the year ending 31 December 2021 and to account for this as a change in estimate. Implementation may lead to an increase in the amounts of financial instruments allocated between Stages 2 and 3. The Group is not able to quantify the effect that this change will have on the amount of ECL recognised in the financial statements at present but, on the basis of the work carried out to date, the subgroup does not expect the effect of this reassessment to be material.

Modified financial assets

Due to the Covid-19 pandemic, the subgroup introduced forbearance measures such as payment holidays for affected clients or/and other measures imposed by local governments such as different types of moratoria (both opt-in and opt-out). The Group adhered to guidance from several European/supra-national authorities (such as EBA, IASB, etc.) that forbearance measures related to Covid-19 do not automatically lead to SICR. For detailed information of SICR assessment refer to the above section determining whether credit risk has increased significantly.

As at 31 December 2020, the Group recognised forborne gross retail loans of EUR 1,642 million, which is 11.3% of total retail loan portfolio (2019: nil), and related ECL allowances of EUR 839 million representing 45.8% of total retail loan allowances (2019: nil), and forborne gross non-retail loans of EUR 62 million, which is 4.9% of total non-retail loans (2019: nil), and related ECL allowances of EUR 17 million representing 19.1% of total non-retail loan allowances (2019: nil).

For the enhancements related to inputs into measurement of ECL, forward looking information and determining whether credit risk has increased significantly refer directly to F.1.7.1 and the appropriate subsections.

F.2.2. New effective requirements

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

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

These amendments had no impact on the Group's consolidated financial statements, but may impact future periods should the Group enter into any business combinations.

Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7 (effective from 1 January 2020)

The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.

The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

Hedges directly affected by interest rate benchmark (“IBOR”) reform – Phase 1 amendments

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark interest rate is not altered as a result of interest rate benchmark reform.

For the cash flow hedge of a forecast transaction, the Group assumes that the benchmark interest rate will not be altered as a result of interest rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Group assumes that the interest rate benchmark cash flows designated as a hedge will not be altered as a result of interest rate benchmark reform.

The Group will cease to apply the specific policy for assessing the economic relationship between the hedged item and the hedging instrument (i) to a hedged item or hedging instrument when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the respective item or instrument or (ii) when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the specific policy when the uncertainty arising from interest rate benchmark reform about the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

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

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact on the Group.

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

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the Group's consolidated financial statements.

Amendment to IFRS 16 Leases: Covid-19 – Related Rent Concessions (effective 1 June 2020)

This amendment simplifies lessee's accounting for rent concessions in reaction to the impact of Covid-19 global situation and its potential impact on rent relationships. Rent concessions often meet the definition of a lease modification which might result in complex accounting (revised discount rate, adjustment of right-of-use assets). The IASB introduced a practical expedient for lessees under which the lessee is not required to assess whether eligible rent concessions that are a direct consequence of the Covid-19 pandemic are leases modifications. Instead, it accounts for them under other applicable guidance like variable lease payments and are recognised in profit or loss.

This amendment was used by the Group during 2020 with immaterial impact on the Group's consolidated financial statements.

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

A number of new standards, amendments to standards and interpretations were not yet effective as of 31 December 2020 and have not been applied in the preparation of the consolidated financial statements. Of these pronouncements, the following will have a potential impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective from 1 January 2021)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and hedge accounting.

Change in basis for determining cash flows
The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

Hedge accounting
The amendments provide exceptions to the hedge accounting requirements in the following areas.

- The designation of a hedging relationship may be amended to reflect changes that are required by the reform.

- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to subgroups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

The amendments will require the Group to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

The Group plans to apply the amendments from 1 January 2021. Application will not impact amounts reported for 2020 or prior periods.

IFRS 17 Insurance Contracts (effective from 1 January 2023)

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

IFRS 17 has not yet been adopted by the EU.

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

Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements 2018-2020 (effective from 1 January 2022)

In general, these amendments and annual improvements bring some clarifications in the standards on various guidance and update some references.

These amendments have not yet been adopted by the EU and the Group does not expect them to have a significant impact on its consolidated financial statements.

Amendments to IFRS 3 – References to the Conceptual Framework (effective from 1 January 2022)

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

These amendments have not yet been adopted by the EU and may impact the Group's consolidated financial statements should the Group enter into any business combinations.

Amendment to IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (effective from 1 January 2022)

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment has not yet been adopted by the EU and is not expected to have a material impact on the Group's consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statement Classification of Liabilities as Current or Non-Current (expected effectiveness from 1 January 2023)

These amendments to IAS 1 affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability.

The amendments further clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

These amendments have not been adopted by the EU and the Group is assessing the potential impact on its consolidated financial statements resulting from the application of these amendments.

G. Subsequent events

On 21 January 2021, Moneta Money Bank a.s. (a Czech listed company “MMB”), announced that it had received from PPF Group (through its subsidiary Tanemo a.s.) a public proposal for a voluntary tender offer for MMB shareholders and an invitation for negotiations concerning the full acquisition of Air Bank and other companies from the Group (Home Credit a.s.; Benxy s.r.o.; and Home Credit Slovakia, a.s.) by MMB.

A voluntary tender offer (“VTO”) for the purchase of shares in MMB pursuant to the Business Corporations Act (Act No. 90/2012 Coll., Section 322) was addressed to all existing shareholders of MMB for a share purchase price of CZK 80 with a maximum volume of purchased shares – 20% of the total nominal value with PPF’s right to increase it up to 29%.

On 11 March 2021, it was announced that under the voluntary tender offer to buy MMB’s stock, PPF Group had received acceptance confirmations assuming the purchase of 141.7 million shares. Combined with the stake owned before the VTO publication and subject to the VTO transaction settlement PPF Group is to become the owner of 28.36% shares in MMB. PPF Group is to pay approx. EUR 440 million for the shares tendered in the voluntary buyout process. The final settlement of the VTO acceptances is subject to the terms of the VTO for MMB shares published on 8 February 2021. On 24 March 2021, Tanemo acquired 47.8 million shares representing a 9.4% stake in MMB. The acquisition of the residual shares was approved by the Czech National Bank on 16 April 2021.

In March 2021, the ultimate majority shareholder of PPF Group died.

22 April 2021

Board of directors:

Jan Cornelis Jansen
Member of the board of directors

Rudolf Bosveld
Member of the board of directors

Paulus Aloysius de Reijke
Member of the board of directors

Kateřina Jirásková
Member of the board of directors

Lubomír Král
Member of the board of directors

PPF Financial Holdings B.V.

Separate financial statements for the year ended 31 December 2020

Chamber of Commerce 61880353
with statutory office in Amsterdam

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Company statement of financial position

In millions of EUR

	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	D1	13	118
Loans receivable	D2	466	386
Investment in subsidiaries and associates	D3	1,811	1,788
TOTAL ASSETS		**2,290**	**2,292**
LIABILITIES			-
Subordinated liabilities	D5	245	250
Current income tax		-	2
TOTAL LIABILITIES		**245**	**252**
EQUITY			
Issued capital*		-	-
Share premium		2,324	2,324
Additional paid-in capital		80	80
Other reserves		(434)	(434)
Retained earnings		75	70
Total equity	**D4**	**2,045**	**2,040**
TOTAL LIABILITIES AND EQUITY		**2,290**	**2,292**

*Issued capital is EUR 45 thousand.

Company income statement

For the year ended 31 December

In millions of EUR

	Note	2020	2019
Interest income	D7	23	30
Interest expense	D7	(9)	(10)
Net interest income		**14**	**20**
Net foreign exchange gains/(losses)		2	(1)
Net impairment gains/(losses) on financial assets		(3)	(1)
Operating expense		(3)	(4)
PROFIT BEFORE TAX		**10**	**14**
Income tax expense	D8	-	(5)
NET PROFIT FOR THE PERIOD		**10**	**9**

Company statement of comprehensive income

For the year ended 31 December

In millions of EUR

	2020	2019
NET PROFIT FOR THE PERIOD	**10**	**9**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**10**	**9**

Company statement of changes in equity

In millions of EUR

	Issued capital*	Share premium	Additional paid-in capital	Other reserves	Retained earnings	Total
Balance as at 1 January 2020	**-**	**2,324**	**80**	**(434)**	**70**	**2,040**
Transactions with the owner:						
Dividends to the shareholder	-	-	-	-	(5)	(5)
Total comprehensive income						
Net profit for the period	-	-	-	-	10	10
Balance as at 31 December 2020	**-**	**2,324**	**80**	**(434)**	**75**	**2,045**

*Issued capital is EUR 45 thousand.

In millions of EUR

	Issued capital*	Share premium	Additional paid-in capital	Other reserves	Retained earnings	Total
Balance as at 1 January 2019	**-**	**2,324**	**80**	**(434)**	**66**	**2,036**
Transactions with the owner:						
Dividends to the shareholder	-	-	-	-	(5)	(5)
Total comprehensive income						
Net profit for the period	-	-	-	-	9	9
Balance as at 31 December 2019	**-**	**2,324**	**80**	**(434)**	**70**	**2,040**

*Issued capital is EUR 45 thousand.

Company statement of cash flows

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

In millions of EUR

	Note	2020	2019
Cash flows from operating activities			
Profit before tax		10	14
Net interest income	D7	(14)	(20)
Adjustments for:			
Net foreign exchange (gains)/losses		(2)	1
Net impairment losses on financial assets		3	1
Change in current liabilities		-	(1)
Change in loans receivables		(102)	122
Interest received		39	6
Interest paid		(9)	(10)
Income tax paid		(2)	(7)
Net cash from/(used in) operating activities		**(77)**	**106**
Cash flows from investing activities			
Investments in subsidiaries and equity-acc. investees	D3	(23)	(157)
Net cash used in investing activities		**(23)**	**(157)**
Cash flows from financing activities			
Dividends paid to the shareholder	D4	(5)	(5)
Net cash used in financing activities		**(5)**	**(5)**
Net decrease in cash and cash equivalents		**(105)**	**(56)**
Cash and cash equivalents as at 1 January		118	174
Cash and cash equivalents as at 31 December		**13**	**118**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

A. General

These separate financial statements of PPF Financial Holdings B.V. (the "Company") should be read in conjunction with the consolidated financial statements. The board of directors authorised the separate financial statements for issue on 22 April 2021. The main activity of the Company is to act as a holding and financing company.

For an additional description of the Company see section A of the notes to the consolidated financial statements for the year ended 31 December 2020.

A.1. *Statement of compliance*

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

A.2. *Basis of presentation*

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

A.3. *Going concern*

These separate financial statements have been prepared on the basis of the going concern assumption as described in Note A.9 of the notes to the consolidated financial statements for the year ended 31 December 2020.

B. Significant accounting policies

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

B.1. *Investments in subsidiaries and associates*

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

B.2. *Income tax*

The Company is part of a fiscal unity with PPF Group N.V. (the "Ultimate Parent Company") that files and settles the corporate income tax for their account. For more details please refer to D.8 of the notes to the separate financial statements.

B.3. *Other accounting policies*

Other significant accounting policies are as described in section F of the notes to the consolidated financial statements for the year ended 31 December 2020.

C. Risk management

The following section should be read in conjunction with the consolidated financial statements for the year ended 31 December 2020.

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

C.1. *Credit risk*

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

C.2. *Interest rate risk*

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

The Company's objective in managing its exposure to interest rate fluctuations is to minimise reported earnings and cash flow volatility associated with interest rate changes by regular monitoring the interest rates development and taking appropriate actions.

As at 31 December 2020, the Company does not classify and measures any of its financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Company's profit or loss or equity.

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

In millions of EUR, as at 31 December 2020

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Interest-bearing financial assets							
Cash and cash equivalents	0.00%	13	-	-	-	-	13
Loans receivable	6.53%	92	-	-	374	-	466
Total interest-bearing financial assets		**105**	**-**	**-**	**374**	**-**	**479**

In millions of EUR, as at 31 December 2019

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Interest-bearing financial assets							
Cash and cash equivalents	0.00%	118	-	-	-	-	118
Loans receivable	6.79%	2	285	-	99	-	386
Total interest-bearing financial assets		**120**	**285**	**-**	**99**	**-**	**504**

In 2020, financial liabilities bearing variable interest rate of 6M PRIBOR + 2.5% (in 2019 a fixed interest rate of 4.5% p.a.) and maturing in 2027 as well as those with a fixed interest rate of 3.6% p.a. and maturity in 2028 are presented under subordinated liabilities. For more information, please refer to D.5.

C.3. *Liquidity risk*

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

In millions of EUR, as at 31 December 2020

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash and cash equivalents	13	-	-	-	-	13
Loans receivable	92	-	-	374	-	466
Total financial assets	**105**	-	**-**	**374**	**-**	**479**
Subordinated liabilities	-	1	-	-	244	245
Total financial liabilities	**-**	**1**	**-**	**-**	**244**	**245**
Net position	**105**	**(1)**	**-**	**374**	**(244)**	**234**

In millions of EUR, as at 31 December 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash and cash equivalents	118	-	-	-	-	118
Loans receivable	-	287	-	99	-	386
Total financial assets	**118**	**287**	**-**	**99**	**-**	**504**
Subordinated liabilities	-	-	-	-	250	250
Total financial liabilities	**-**	**-**	**-**	**-**	**250**	**250**
Net position	**118**	**287**	**-**	**99**	**(250)**	**254**

C.4. *Foreign currency risk*

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

In millions of EUR, as at 31 December 2020

	EUR	CZK	USD	GBP	Total
Cash and cash equivalents	8	-	-	5	13
Loans receivable	411	-	35	20	466
Total financial assets	**419**	**-**	**35**	**25**	**479**
Subordinated liabilities	93	152	-	-	245
Total financial liabilities	**93**	**152**	**-**	**-**	**245**
Net position 2020	**326**	**(152)**	**35**	**25**	**234**

In millions of EUR, as at 31 December 2019

	EUR	CZK	USD	Total
Cash and cash equivalents	118	-	-	118
Loans receivable	350	-	36	386
Total financial assets	**468**	**-**	**36**	**504**
Subordinated liabilities	93	157	-	250
Total financial liabilities	**93**	**157**	**-**	**250**
Net position 2019	**375**	**(157)**	**36**	**254**

C.5. *Fair values of financial instruments*

The Company has performed an assessment of the fair values of its financial instruments. Fair values have been estimated either by reference to market values at the end of the reporting period date or by discounting the relevant cash flows using the current interest rates for similar instruments. The own non-performance risk was assessed as insignificant as at 31 December 2020 and 2019.

The estimated fair values of the following financial instruments differ from their carrying amounts shown in the separate statement of financial position in 2020:

In millions of EUR

	2020 Carrying amount	2020 Fair value
Loans receivable (Level 3)	466	473
Subordinated liabilities (Level 3)	245	237

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

In 2019, the Group assessed the carrying amounts of its financial assets and liabilities reasonably approximated their fair values.

D. Notes to the separate financial statements

D.1. *Cash and cash equivalents*

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

D.2. *Loans receivable*

In millions of EUR

	31 December 2020	31 December 2019
Home Credit Group B.V. (EUR)	298	249
PPF Group N.V. (EUR)	70	2
Other external loans (EUR)	98	99
Other external loans (USD)	-	36
Total loans receivable	**466**	**386**

The loan to Home Credit Group B.V. bore a fixed interest rate of 7.5% p.a., and its maturity has been prolonged by 3.5 years to December 2023. The loan to PPF Group N.V. bears a floating interest rate of 3M Euribor +150 bps p.a. and its maturity was prolonged to January 2021. The loan was fully repaid in January 2021.

In 2020, the loan amounting to EUR 98 million bore a fixed interest rate of 7.5% p.a.. The loan to Emma Omega Ltd. matures in June 2024 (EUR 76 million) and the loan to CFFI UK Ventures Ltd. (EUR 22 million) matures in June 2021. The loan amounting to EUR 36 million with a floating interest rate of 3M Euribor + 254 bps was fully repaid in December 2020.

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

The aggregate gross balance of loans is EUR 470 million (2019: EUR 387 million). In 2020, the Company recognised an expected probability-weighted estimate of credit losses relating to these loans of EUR 4 million (2019: EUR 1 million).

D.3. *Investments in subsidiaries and associates*

In millions of EUR

	Share	31 December 2020	Share	31 December 2019
Home Credit Group B.V.	91.12%	1,655	91.12%	1,655
PPF banka a.s.	92.96%	60	92.96%	60
ClearBank Ltd. (associate)	40.61%	91	39.31%	68
Mobi Banka a.d. Beograd	100.00%	5	100.00%	5
AB Structured Funding 1 DAC*	100.00%	-	100.00%	-
Usconfin 1 DAC*	100.00%	-	100.00%	-
RTGS Group Limited (associate)	39.16%	-	-	-
CB Investment Growth Holdings Limited (associate)	50.00%	-	-	-
Total investments in subsidiaries and associates		**1,811**		**1,788**

*under liquidation

D.4. *Equity*

D.4.1. Issued capital

The issued capital 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:

	31 December 2020	31 December 2019
Number of shares authorised	45,000	45,000
Number of shares issued and fully paid	45,000	45,000
Par value per share	EUR 1	EUR 1

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

D.4.2. Share premium

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

There was no contribution to share premium in 2020 and 2019.

D.4.3. Additional paid-in capital

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

In 2020, these interest payments are presented as dividends of EUR 5 million in these separate financial statements (2019: EUR 5 million).

D.4.4. Other reserve (under common control)

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

The difference between the Company's equity and consolidated equity results from the fact that the Company presents its investments in subsidiaries at cost. In the consolidated financial statements, the subsidiaries are consolidated, and their cumulative result is added to consolidated equity. The Company's net result for 2020 is higher than the consolidated result by EUR 485 million (2019: EUR 469 million lower).

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

In millions of EUR

	Issued capital*	Share premium	Additional paid-in capital	Revaluation reserve	Legal and statutory reserves	Translation reserve	Other reserves	Retained earnings	Total
Individual balance as at 31 December 2020	**-**	**2,324**	**80**	**-**	**-**	**-**	**(434)**	**75**	**2,045**
Adjustment for:									
Net result of subsidiaries	-	-	-	-	-	-	-	(486)	(486)
Reserves related to subsidiaries	-	-	-	21	149	(709)	94	1,532	1,087
Consolidated balance as at 31 December 2020	**-**	**2,324**	**80**	**21**	**149**	**(709)**	**(340)**	**1,121**	**2,646**

*Issued capital is EUR 45 thousand.

In millions of EUR

	Issued capital*	Share premium	Additional paid-in capital	Revaluation reserve	Legal and statutory reserves	Translation reserve	Other reserves	Retained earnings	Total
Individual balance as at 31 December 2019	**-**	**2,324**	**80**	**-**	**-**	**-**	**(434)**	**70**	**2,040**
Adjustment for:									
Net result of subsidiaries in 2019 (excl.gain on bargain purchase)	-	-	-	-	-	-	-	431	431
Gain on bargain purchase**	-	-	-	-	-	-	-	38	38
Reserves related to subsidiaries	-	-	-	22	143	(368)	95	1,070	962
Consolidated balance as at 31 December 2019	**-**	**2,324**	**80**	**22**	**143**	**(368)**	**(339)**	**1,609**	**3,471**

*Issued capital is EUR 45 thousand.
**From the acquisition of Mobi Banka a.d. Beograd (refer to B.2.1 in the consolidated financial statements)

D.5. *Reconciliation of movements of liabilities to cash flows arising from financing activities*

In millions of EUR

	Debt securities and subordinated liabilities	Share premium	Additional paid-in capital	Total
Balance as at 1 January 2020	**250**	**2,324**	**80**	**2,654**
Cash flows from financing activities	-	-	-	-
Total cash flows from financing activities	-	-	-	-
The effect of changes in foreign exchange rates and transfers	(5)	-	-	(5)
Interest expense	9	-	-	9
Interest paid	(9)	-	-	(9)
Balance as at 31 December 2020	**245**	**2,324**	**80**	**2,649**

In millions of EUR

	Debt securities and subordinated liabilities	Share premium	Additional paid-in capital	Total
Balance as at 1 January 2019	**249**	**2,324**	**80**	**2,653**
Cash flows from financing activities	-	-	-	-
Total cash flows from financing activities	-	-	-	-
The effect of changes in foreign exchange rates and transfers	1	-	-	1
Interest expense	10	-	-	10
Interest paid	(10)	-	-	(10)
Balance as at 31 December 2019	**250**	**2,324**	**80**	**2,654**

D.6. *Subordinated liabilities*

In millions of EUR

	31 December 2020	31 December 2019
Bonds issued	245	250

Bonds of CZK 4,000 million were issued in December 2017 (EUR 157 million). They bear a variable coupon rate of 6M PRIBOR + 2.5% p.a., and their final maturity is in December 2027 (in 2019 they bore a fixed coupon rate of 4.5% p.a). The Company has an early redemption option exercisable in December 2022. As of 31 December 2020, EUR 1 million is held by PPF banka a.s. (2019: EUR 1 million).

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

D.7. *Net interest income*

In millions of EUR for the year ended 31 December

	2020	2019
Interest income – loans	23	30
Total interest income	**23**	**30**
Interest expense – bonds	(9)	(10)
Total interest expenses	**(9)**	**(10)**
Total net interest income	**14**	**20**

D.8. *Income tax*

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

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2020	2019
Tax rate	25.00%	25.00%
Profit before tax	10	14
Computed taxation using applicable tax rate	(3)	(4)
Tax non-deductible expenses	-	(1)
Non-taxable income	1	-
Fiscal unity impact	2	-
Total income tax expense	**-**	**(5)**

D.9. *Group audit expenses*

In thousands of EUR, for the year ended 31 December 2020

	KPMG Accountants N.V.	Other KPMG network	Total
Audit of financial statements	751	1,560	**2,311**
Other audit engagements	405	373	**778**
Tax advisory	-	76	**76**
Other non-audit services	-	50	**50**
Total	**1,156**	**2,059**	**3,215**

In thousands of EUR, for the year ended 31 December 2019

	KPMG Accountants N.V.	Other KPMG network	Total
Audit of financial statements	308	2,216	**2,524**
Other audit engagements	6,921	1,107	**8,028**
Tax advisory	-	750	**750**
Other non-audit services	-	2,222	**2,222**
Total	**7,229**	**6,295**	**13,524**

Out of the amounts disclosed above, the audit expenses incurred directly by the Company in 2020 comprise audit services amounting to EUR 167 thousands (2019: EUR 96 thousands), other audit engagements amounting to EUR 94 thousand (2019: EUR 190 thousands), and other non-audit services of EUR 34 thousands (2019: EUR 0 thousand).

D.10. *Related parties*

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

The key management personnel of the Company comprise the members of the board of directors. In 2020 and 2019, no remuneration was paid to the members of the board of directors.

E. Subsequent events

On 5 January 2021, PPF Group N.V. repaid a principal in the amount of EUR 70 million to the Company in accordance with a loan agreement between PPF Financial Holdings B.V. and PPF Group N.V. concluded in April 2018.

22 April 2021

Board of directors:

Jan Cornelis Jansen
Member of the board of directors

Rudolf Bosveld
Member of the board of directors

Paulus Aloysius de Reijke
Member of the board of directors

Kateřina Jirásková
Member of the board of directors

Lubomír Král
Member of the board of directors

Other information

Certain information required by Article 392 the Civil Code of the Netherlands, to the extent applicable to the Company or the Group, as well as the auditor's report is included in this part of the consolidated annual accounts.

Provisions in the articles of association governing the appropriation of profit

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

Subsidiaries

Refer to the notes to the consolidated financial statements, Note B.1.

Auditor's report

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

Independent auditor's report

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

Report on the audit of the financial statements 2020 included in the annual accounts

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of PPF Financial Holdings B.V. as at 31 December 2020 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2020 of PPF Financial Holdings B.V. (the 'Company' or the 'Group') based in Amsterdam, the Netherlands.

The financial statements comprise:

1 the consolidated and company statement of financial position as at 31 December 2020;

2 the following consolidated and company statements for 2020: income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of PPF Financial Holdings B.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Audit approach

Summary

Materiality
Consolidated financial statements
— Materiality of EUR 37.0 million
— 1.3% of net assets
Company financial statements
— Materiality of EUR 11.0 million
— 0.5% of total assets

Group audit
— 99% of total assets
— 99% of revenue
— 98% of profit before tax

Key audit matters
— Estimation uncertainty with respect to the expected credit loss allowance on loans to customers

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the consolidated financial statements as a whole at EUR 37.0 million (2019: EUR 42.0 million) and for the company financial statements as a whole at EUR 11.0 million (2019: EUR 11.5 million).

The materiality for the consolidated financial statements is determined with reference to net assets (1.25%). We consider net assets as the most appropriate benchmark based on our assessment of the general information needs of users of the consolidated financial statements and given the fact that the benchmark is a key metric applied in the (regulated) banking industry.

The materiality for the company financial statements is determined with reference to total assets (0.5%). We consider total asset as the most appropriate benchmark based on the nature of the business of the Company as holding company without operational activities.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the consolidated and company financial statements for qualitative reasons.

We agreed with the Board of Directors that misstatements in excess of EUR 1.85 million and EUR 0.55 million which are identified during the audit of the consolidated and company financial statements respectively, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

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

Because we are ultimately responsible for the audit opinion, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities (or 'components').

Our group audit mainly focused on significant components. These significant components are individually financially significant due to their relative size within the Group. In addition, we included certain components in the scope of our group audit in order to arrive at a sufficient coverage over all relevant significant account balances.

This resulted in a full scope audit for 3 components with a total coverage of 99% of revenue, 99% of total assets and 99% of profit before tax. For the remaining population procedures were performed at the group level including analytical procedures in order to corroborate our assessment that scoping remained appropriate throughout the audit. This coverage is in line with our 2019 audit.

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

The group audit team has set component materiality levels ranging from EUR 3.7 million to EUR 31.0 million, based on the mix of size and risk profile of the components within the Group. The consolidation of the Group, the disclosures in the financial statements and certain accounting topics that are dealt with at group level are audited by the group audit team. The accounting matters on which audit procedures are performed by the group audit team include, but are not limited to, the assessment of the use of the going concern assumption and equity.

In view of restrictions on the movement of people across borders, and also within significantly affected countries, we considered changes to the planned audit approach to evaluate the component auditors' communications and the adequacy of their work. According to our original audit plan, we intended to visit the component in Czech Republic, to review selected component auditor documentation. Due to the aforementioned restrictions, this was not practicable in the current environment. As a result, we have requested those component auditors to provide us with access to audit workpapers to perform these evaluations, subject to local law and regulations.

In addition, due to the inability to arrange in-person meetings with such component auditors, we have increased the use of alternative methods of communication with them, including through written instructions, exchange of emails and virtual meetings.

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

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain a high (but not absolute) level of assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Board of Directors.

Our risk assessment

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We, together with our forensics specialists, evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the company and we inquired management as to whether the entity is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities.

Firstly, the company is subject to laws and regulations that directly affect the financial statements, including taxation and financial reporting. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items and therefore no additional audit response is necessary.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognized or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an indirect effect:

- anti-money laundering laws and regulations;
- anti-bribery and corruption laws and regulations; and
- data privacy legislation.

In accordance with the auditing standard we evaluated the following fraud and non-compliance risks that are relevant to our audit, including the relevant presumed risks:

- revenue recognition, in relation to interest income and fee and commission income (a presumed risk);
- management override of controls (a presumed risk); and
- fraud risk in relation to management override of Expected Credit Loss provision result.

We communicated the identified risks of fraud throughout our team and remained alert to any indications of fraud and/or non-compliance throughout the audit. This included communication from the group to component audit teams of relevant risks of fraud.

In all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We refer to the key audit matter 'Estimation uncertainty with respect to the expected credit loss allowance on loans to customers', that is an example of our approach related to areas of higher risk due to accounting estimates in which management made significant judgements.

We communicated our risk assessment and audit response to the Audit Committee and the Board of Directors. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our response

We performed the following audit procedures (not limited) to respond to the assessed risks:

- We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks.

- We performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by the company, including retrospective reviews of prior year's estimates. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information.
- With respect to the fraud risk in relation to management override of Expected Credit Loss provision results we refer to the key audit matter 'Estimation uncertainty with respect to the expected credit loss allowance on loans to customers'.
- We assessed the appropriateness of the applied revenue recognition methods and assessed the completeness and accuracy of recognized revenue based on amongst others: inspection and reconciliation with supporting documentation, and recalculation of revenue. We tested the reliability and integrity of customer master data.
- We incorporated elements of unpredictability in our audit.
- We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures.
- We obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements.
- We considered the effect of actual, suspected or identified risk of non-compliance as part of our procedures on the related financial statement items.

We do note that our audit is not primarily designed to detect fraud and non-compliance with laws and regulations and that 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, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our key audit matter

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

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Estimation uncertainty with respect to the expected credit loss allowance on loans to customers

Description

As discussed in section 'Key business and financial results' in the Director's Report, and Notes C.2 and E.4. to the consolidated financial statements, the loans to customers amount to EUR 13.9 billion as at 31 December 2020. The amount consists of EUR 12.7 billion loans to retail customers and EUR 1.2 billion loans to non-retail customers (corporations). These loans to customers are measured at amortised cost, less a provision for Expected Credit Losses ('ECL') of EUR 1.8 billion for retail customers and of EUR 89 million for non-retail customers (corporations). Considerable judgement is exercised in determining the amount of ECL for loans to customers, which are primarily assessed on a collective basis.

We identified the assessment of ECL on loans to retail customers and non-retail customers (corporations) as a key audit matter because several aspects of the accounting for loan losses require significant judgment of management and there was a high degree of estimation uncertainty as a result of complexity of the models, inputs and assumptions. The COVID-19 pandemic has increased estimation uncertainty with respect to significant assumptions, including the economic outlook, which combined with the varying government responses increases the level of judgment required by the Company in determining ECL allowances.

Specifically, assessment of the probability of default ('PD'), the loss given default ('LGD'), and the exposure at default ('EAD'), the use of the macro-economic assumptions in the ECL, and the criteria for identifying significant increase in credit risk ('SICR') required significant and complex management and auditor judgement and knowledge and experience in the industry.

Our response

Our primary procedures performed to address this key audit matter included, amongst others:

— We tested certain internal controls over the ECL processes for loans to retail customers and to non-retail customers (corporations). This included testing internal controls related to the completeness and accuracy of relevant data inputs into the ECL model, relevant general IT and application controls which ensure proper credit loss statistics are used in the ECL model calculations, and the governance and monitoring of the ECL. Furthermore, we tested certain internal controls with respect to the assessment of the PD, LGD, and EAD assumptions in the model calculation, including the development of macro-economic scenarios and review of model outputs.

- We have tested the completeness and accuracy of relevant data inputs into the ECL model calculation and have recalculated the ECL model output. Furthermore, we have evaluated the appropriateness of any manual adjustments. The relevant data inputs tested included the relevant loan data, transition matrices, bucketing in days past due, staging, recovery rates and discount rates.
- We involved professionals with specialised skills and knowledge who assisted in, amongst others:
  - evaluating the selection and application of methods, models, data sources, assumptions and judgements to determine the PD, LGD, and EAD parameters in models used by the Group to calculate ECL;
  - assessing the Group's methodology on ECL calculation, including the impact of macro-economic scenarios and updates made to reflect the impact of COVID-19;
  - evaluating the ECL model calculation to ensure it calculates in the manner as described by the Group's methodology;
  - for a sample of individual loans, by reference to respecyive loan files and inquiries of the credit risk persoonel:
  - determination whether a significant increase in credit risk occurred or whether the loan was credit-impaired;
  - assessment of the net realisable value of collateral;
  - assessment of whether appropriate PD and LGD was assigned to the loan;
  - check other characteristics of selected loans; and
  - for impaired loans, challenge the estimated cash flow scenarios and their probabilities with focus on the key assumptions in relation to the amount and timing of estimated cash flows, which included primarily the value of the underlying collateral.
- For a sample of credit impaired loans to non-retail customers (corporations), we challenged the estimated cash flow scenarios and their probilities.
- We evaluated the adequacy and appropriateness of the disclosures related to ECL within the financial statements.

Our observation

Based on our procedures performed, we found management's overall assessment relating to the expected credit loss allowance on loans to retail customers and non-retail customers (corporations) within an acceptable range and adequately disclosed in Note E.4, Note F.1.7 and Note F.2.1 to the financial statements respectively.

Other Matter

The impact of COVID-19 on our audit of the liquidity risk
The ongoing impact of COVID-19 on our audit of the company's liquidity risk is relevant to the users' understanding of our audit. Management is responsible for assessing the possible effects of COVID-19 on the company's liquidity risk and adequately disclosing the results of its assessment in the financial statements. We assess and challenge the appropriateness of management's assessment and the adequacy of the related disclosures. The appropriateness of management's assessment depends on reasonableness of estimates relating to the future economic environment and the company's future prospects and performance. The COVID-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to significant levels of uncertainty. We have evaluated the situation and uncertainties as disclosed in note A.9. of the financial statements and consider the disclosure to be adequate. However, an audit cannot predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to COVID-19.

Report on the other information included in the annual accounts

In addition to the financial statements and our auditor's report thereon, the annual accounts contain other information.

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

— is consistent with the financial statements and does not contain material misstatements; and

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

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

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

The Board of Directors is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements and ESEF

Engagement

We were engaged by the shareholder's meeting as auditor of PPF Financial Holdings B.V. on 2 July 2018, as of the audit for the year 2018 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

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

European Single Electronic Format (ESEF)

PPF Financial Holdings B.V. has prepared its annual accounts in ESEF. The requirements for this format are set out in the Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (these requirements are hereinafter referred to as: the RTS on ESEF).

In our opinion, the annual accounts prepared in the XHTML format, including the partially tagged consolidated financial statements as included in the reporting package by PPF Financial Holdings B.V., has been prepared in all material respects in accordance with the RTS on ESEF.

Management is responsible for preparing the annual accounts including the financial statements in accordance with the RTS on ESEF, whereby management combines the various components into a single reporting package. Our responsibility is to obtain reasonable assurance for our opinion whether the annual accounts in this reporting package, are in accordance with the RTS on ESEF.

Our procedures taking into consideration Alert 43 of NBA (the Netherlands Institute of Chartered Accountants), included amongst others:

— obtaining an understanding of the entity's financial reporting process, including the preparation of the reporting package;

— obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance document and the XBRL extension taxonomy files have been prepared in accordance with the technical specifications as included in the RTS on ESEF; and

— examining the information related to the consolidated financial statements in the reporting package to determine whether all required taggings have been applied and whether these are in accordance with the RTS on ESEF.

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee and Board of Directors 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 engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

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

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

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report on the next page. This description forms part of our auditor's report.

Amstelveen, 22 April 2021

KPMG Accountants N.V.

M.L.M. Kesselaer RA

Appendix:
Description of our responsibilities for the audit of the financial statements

Appendix

Description of our responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- concluding on the appropriateness of the Board of Directors 's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit.

We communicate with the Audit Committee and Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the Audit Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.