PPF Financial Holdings B.V.

Annual accounts 2019

Content:

Directors' Report

Description of the Company

PPF Financial Holdings B.V.
Date of deed on incorporation: 13.11.2014
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

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 the year 2019. 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 the 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 significant interest income from intercompany and external loans. The Company is not dependent on the dividend income from its subsidiaries.

Home Credit Group B.V. and its subsidiaries (referred to hereafter as "Home Credit" or "HC Group"), is one of the leading global providers of consumer credit with a focus on emerging markets. Home Credit Group B.V. is the parent which holds the equity stakes in leading consumer finance companies ("operating entities') in 10 countries which are split into five clusters: China; South and South East Asia ("SSEA") which includes our businesses in India, Indonesia, Philippines and Vietnam; Commonwealth of Independent States ("CIS") which includes our businesses in Russia and Kazakhstan; Central and Eastern Europe ("CEE"), which includes our businesses in Czech and Slovakia; and Other which includes our business in the USA as well as other projects or entities which are in early stage of development. The majority of Home Credit subsidiaries are regulated companies which are fully licensed by a national government regulatory body and compliant with local respective laws. The HC Group have banking licenses in Czech, Russia and Kazakhstan.

The HC Group's mission is to provide responsible lending primarily to individuals with little or no credit history. The HC Group's goal is to provide financing wherever and whenever potential customer may need it through our omni-channel distribution model both online and offline. Home Credit acquires customers primarily through online and offline point-of-sale ("POS") loans and thereafter focus on building relationships through a customer lifecycle by cross-selling cash loans, revolving credit and other relevant potential protection products. The HC Group's inclusive approach to lending services is enabled by superior data analytics and technology to process high volumes of data regarding a potential customers' behaviour pattern in order to gain strong predictive power for taking decisions regarding potential loans.

As at 31 December 2019, companies held by Home Credit Group B.V. served almost 27 million active customers across its operations: the Czech Republic (operational since 1997), Slovakia (1999), the Russian Federation (2002), Kazakhstan (2005), China (2007), Vietnam (2009), India (2012), Indonesia (2013), the Philippines (2013) and the United States of America (2015).

PPF banka a.s. (the "Bank") is an integral part of PPF Group from 2002 and it significantly participates in its domestic and foreign 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.

Besides the activities for PPF Group, the Bank's services are primarily tailored to Czech clients in the municipal and corporate segments. It also operates in the premium private banking sector. The Bank's principal activities comprise all types of banking transactions, and the provision of banking and financial services, both in domestic and international markets. The Bank does not compete with large universal banks or operate in the mass market and standard products.

The Bank is the market maker for 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 licensed in the United Kingdom in 2016 which is focused 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

In June 2018, the Company signed an agreement for the acquisition of a 100% stake in Telenor Banka a.g. Beograd, a Serbian mobile and online bank providing also consumer loans to the customers of Telenor Serbia, a telecommunication operator that PPF Group acquired in July 2017. The transaction was subject to regulatory approvals and closed in February 2019. In October 2019, the bank was renamed to Mobi Banka a.d. Beograd.

The funding and debt structure of the Company has not changed significantly in 2019.

The Home Credit Group

The HC Group retained its leadership position in POS lending, ranking number one in most markets in which it operates with the exception of India where it ranks number two.

New business volume in 2019 was BEUR 21.4 and total assets and equity were BEUR 26.6 and BEUR 2.9 respectively. The total number of customers served stood at 132 million at the end of 2019. Home Credit had a net profit of MEUR 400.

The growth was supported by increased distribution capacity and more effective CRM. The HC Group further leveraged on third parties and technology for distributing its products. It entered into a number of important partnerships including amongst others with Webank in China and Vodafone in India. Home Credit deployed technology for self-serving or remote sales as well as referral programs, the number of tippers grew to more than 763,000 at the end of 2019 after being rolled out in 2018. In 2019, the HC Group granted close to 27 million loans or 1 loan every second.

Technology was further deployed across the HC Group in particular in KYC and antifraud through the use of biometrics and optical character recognition. The launch of voice bot and chat bots is now widely in use for the early part of Home Credit collection processes in countries supporting higher activity volume at lower cost with no negative impact on customer satisfaction.

During the year, the HC Group obtained new credit card license in Philippines and it rolled out new revolving products in CEE, CIS and China, some of which have encountered great success. Revolving products had a strong growth in CEE and CIS with a number of new features launched successfully but also in China after the introduction of new payment products imbedded in app.

Home Credit has received awards and been recognised across different markets for instance as the Consumer Finance Company providing the best customer experience in China based on Tsinghua University or in the Czech Republic based on KPMG; in the Philippines, Home Credit was named the Best Consumer Finance Company by Global Banking and Finance. The HC Group has also been recognised as the best employer in Asia Pacific, India and Philippines according to Kincentric.

PPF banka

2019 was another successful year in PPF banka’s history. The bank made again a net profit of more than MEUR 80 and significantly strengthened the Bank’s capitalisation. The Bank also very active in the financial markets, where it again ranked among the top three dealers on the primary Czech government bond market and actively participated in the issues of many securities. Not least, PPF banka invested heavily in new technologies and projects to streamline the Bank’s operations and benefit our customers and employees.

The Bank’s investments in new technologies and IT systems continued in 2019. In early October, the Bank became one of the first Czech banks to launch instant payments, allowing its clients to make transfers within seconds, 24 hours a day, 7 days a week. Throughout the year, the Bank also worked hard on a new CRM system, which successfully launched at the beginning of 2020.

Mobi Banka

Mobi Banka specialises in innovative online financial services, being the first fully mobile and online bank operating 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. The bank currently has more than 450,000 clients and as at 31 December 2019, it managed assets worth MEUR 170.

ClearBank

Since 2016, the Group started to invest into a newly incorporated company in the UK, which was authorised to operate as a credit institution in December 2016 by the competent domestic authorities. The digital bank is jointly regulated by the Prudential Regulation Authority and the Financial Conduct Authority, and since 2017 it started to provide clearing and settlement services to non-retail customers as part of its core business model. As of 31 December 2019, the Group held a 39.3% share, entailing an investment of MEUR 68.

Key business and financial results

Consolidated financial highlights

	2019	2018
Total assets (BEUR)	35.1	32.3
Gross loans (BEUR)	22.9	20.6
Deposits (BEUR)	14.0	11.7
Total equity (BEUR)	3.8	3.0
Net profit (MEUR)	507	511

As of 31 December 2019, the total consolidated equity of PPF Financial Holdings B.V. amounted to MEUR 3,777 (2018: MEUR 2,970). Total assets increased from MEUR 32,316 to MEUR 35,060 which was attributable mainly to the growth of loan portfolio in Home Credit.

The consolidated net profit of the Group for 2019 reached MEUR 507 (2018: MEUR 511). The Group showed stable performance in comparison with 2018 results.

<u>The Home Credit Group</u>

Consolidated financial highlights

	2019	2018
Total assets (BEUR)	26.6	23.6
Gross loans (BEUR)	21.8	19.6
Deposits (BEUR)	7.3	6.8
Total equity (BEUR)	2.87	2.15
Net profit (MEUR)	400	422
Net interest margin	15.5%	15.5%
Cost-of-risk ratio	8.6%	9.5%
Cost-to-income ratio	42.6%	44.3%
Return on average equity (RoAE)	15.8%	21.7%
Number of distribution points (ths.)	478	437
Number of active customers (mil.)	26.9	28.0

In 2019, the HC Group continued to deliver a strong performance. Total assets grew by 12% from BEUR 23.6 at the end of 2018 to BEUR 26.6 at the end of 2019 driven by the 16% growth in net loans from BEUR 17.5 to BEUR 20.2 in the respective periods. Amongst the main loan categories, cash loan grew by 17% and revolving products by 51%.

The HC Group continued to diversify its funding during 2019. Debt securities increased as a proportion of total funding from 8.7% in 2018 to 10.7% in 2019 with the continued issuance across a number of key countries of operation including: China, India and in Russia, where Home Credit successfully issued an AT1 bond. In China, the HC Group remains one of the largest issuers of ABS (asset-backed security) in the interbank bond market.

The HC Group consolidated equity grew by 33% from BEUR 2.2 at the end of 2018 to BEUR 2.9 at the end of 2019, which further strengthen our equity to asset ratio from 9.1% to 10.8%.

The profit before tax for the HC Group grew by 31% from MEUR 469 in 2018 to MEUR 613 in 2019 demonstrating the continued strength of the franchise. However, the HC Group net income decreased slightly from MEUR 422 in 2018 to MEUR 400 in 2019 primarily due to (i) the decrease of fee income in China due to the regulatory changes and (ii) the increase in the tax expense compared to the previous year. Despite the headwinds, the HC Group was able to deliver an ROAA of 1.6% and an ROAE of 15.8% for 2019.

The interest income grew 16% from BEUR 4.6 in 2018 to BEUR 5.3 in 2019 which was in line with the growth in the loan portfolio while the net interest margin remained stable at 15.5% for the HC Group. The fee and commission income decreased by 29% from MEUR 680 in 2018 to MEUR 483 in 2019 primarily due to tightening interest rate cap regulations in China which limited the ability to offer additional products such as FPSP and recognise fee income from those products. Home Credit expects fee and commission to increase in the future. As a result, the operating income increased by 7% to BEUR 4.2 in 2019 from BEUR 4.0 in 2018 but the operating income to assets ratio decreased to 16.0% in 2019 from 16.7% in 2018.

The HC Group cost of risk improved from 9.5% in 2018 to 8.6% during 2019, primarily due to the improvement in the credit quality of the loan portfolio as well as increased access to data and better customer segmentation. The NPL ratio or loans past due greater than 90 days decreased from 8.4% to 5.6% due to ongoing derisking of the loan portfolio as well revising the write-down and recovery estimates to reflect the current business reality more precisely pursuant to regular review of HC Group historical estimates. At the same time, the HC Group NPL coverage ratio was strengthened to 130.6% in 2019 from 127.6% in 2018 as a result from improved asset quality.

The HC Group continued to focus on enhancing its operating efficiency by further leveraging economies of scale as well as the use of technology in many parts of our business. In 2019, operating expenses increased by only 3% but this resulted in positive jaws with our cost-to-income ratio further decreasing from 44.3% to 42.6%.

While the profit before tax increased by 31% in 2019 our income tax expense increased by more than 4 times. The HC Group income tax expense in 2018 was low, mainly due to the recognition of deferred tax assets in a number of countries including in India where the business in the country become profitable during that year. In 2019, Home Credit was no longer able to benefit from this and the tax rate is moving towards a more normalised level.

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

China, which is the HC Group biggest market, has been impacted by the ongoing US – China trade war which in part has negatively impacted the GDP growth rate in the country for the year. The business has also been affected during 2019 by the implementation of various laws and regulations with the objective of curtailing unsustainable lending activities in the market by the PRC government and the HC Group’s primary regulators in China. These laws and regulations were primarily targeting unlicensed players such as P2P companies and continue to have an impact on the broader consumer finance industry. The main impact to the HC Group’s business was the introduction of an interest rate cap and after a review of the product offering the cap implied a reduction of our net fee and commission income. In the longer-term, we believe that these regulations will benefit the HC Group and support the development of a more sustainable and transparent consumer credit industry in China. In addition, during 2019, the Baoshang takeover situation impacted the entire market sentiment. Despite headwinds, net loans grew from MEUR 10,920 in 2018 to MEUR 11,955. In 2019, as asset quality improved, NPL ratio decreased from 9.7% at the end of 2018 to 6.2% at the end of 2019 while NPL coverage ratio increased from 125.9% to 129.4% respectively.

Our CIS countries have benefited from less volatile oil and commodities prices in 2019 compared to 2018 as well as monetary easing and/or public spending to support the domestic economies. During 2019, the HC Group has launched a number of new revolving products which met significant customers’ interest and have further deepened the digital footprint with a strong growth in the mobile app daily registered users. Furthermore, during the past year, the HC Group successfully issued an AT1 bond in Russia and increased deposits in Kazakhstan. Finally, the financial literacy “Kids and Money” curriculum for children aged between 5 and 18 in Russian and Kazakhstan, has been presented to hundreds of schools in over 30 cities and won plaudits from the Russian Ministry of Finance, NGOs and the “The Best CSR Bank in Kazakhstan in 2019” award by AsiaMoney. The net loans grew from MEUR 3,083 in 2018 to MEUR 3,773 in 2019, NPL ratio decreased from 3.7% at the end of 2018 to 3.1% at the end of 2019 and cost-of-risk ratio from 1.8% to 1.4%, respectively.

In the CEE, our net loans grew by 22% year on year as we continue to innovate and expand our distribution capacity both online and offline. Similarly to CIS, we launched a number of new revolving products which met with significant customers' interest and were rewarded with a number of awards for best bank and customer experience. The net loans grew from MEUR 1,513 in 2018 to MEUR 1,855 in 2019, while the NPL ratio decreased from 10.7% at the end of 2018 to 8.8% at the end of 2019, cost-of-risk ratio remained negative due to very strong recovery post write off.

The results in South and South East Asia continued to improve significantly as our franchise in the respective countries became more mature and gained further critical scale. Each of the countries of operation was relatively stable during 2019, while the local Indian capital markets for the non-bank financial institutions continued to have head winds which impacted the HC Group's domestic fund raising efforts. During 2019, the HC Group kept expanding its distribution capacity including the launch of the Market Place platform in several markets similarly to what the HC Group previously did in other countries. Furthermore, the HC Group has diversified its funding mix including starting joint lending in India. The net loans grew from MEUR 1,915 in 2018 to MEUR 2,581 in 2019, while the asset quality improved with NPL ratio decreasing from 6.2% at the end of 2018 to 4.1% at the end of 2019.

PPF banka

Unconsolidated financial highlights

	2019	2018
Total assets (BEUR)	8.9	9.1
Gross loans (BEUR)	1.5	1.3
Deposits from customers (BEUR)	6.8	5.2
Total equity (MEUR)	563	452
Net profit (MEUR)	81	85
Adjusted NPL ratio	5.4%	7.7%
Unadjusted NPL ratio	7.5%	12.9%
Cost-to-income ratio	33.3%	30.5%
RoAE	16.0%	20.4%

In 2019, PPF banka's result again exceeded MEUR 80, with net profit coming to MEUR 81. The total comprehensive income, at MEUR 104, was the highest ever reported by the Bank.

Equity increased by almost 24% to MEUR 563. The volume of loans and advances to customers rose by 7% to BEUR 1.5. Total assets were reported at BEUR 8.9, down from BEUR 9.1 at the end of 2018.

Net interest income increased 18% year on year, climbing from MEUR 135 in 2018 to MEUR 160 in 2019. The increase in net interest income can be attributed to an increase in loans and advances to customers and a hike in market rates. Net fee and commission income in 2019 remained at the same level as in 2018. As in the previous year, securities trading yielded another excellent result, this time MEUR 24. The total net income from financial operations in 2019 came to negative MEUR 17. The result from trading in derivative transactions is recouped from exchange differences and interest income.

Total operating income of MEUR 149 in 2019 was just short of the outstanding level reported in 2018.

Total operating expenses amounted to MEUR 50. The small 5% increase compared to the previous year was mainly occasioned by a planned increase in payroll costs, which was connected to labour market trends, and by a planned expansion in employee numbers.

At the end of 2019, assets stood at almost BEUR 8.9. Deposits held with the central bank amounted to BEUR 6.1. Loans and advances to customers amounted to BEUR 1.5, an almost 7% increase at the end of 2018. Financial assets measured at fair value through profit or loss came to BEUR 0.3 and financial assets measured at fair value through other comprehensive income remained at BEUR 0.7. The slight decline can be explained by developments on the bond market.

The balance of allowances to non-performing loans and advances to customers, compared to the level at the beginning of 2019, decreased by a hefty MEUR 13 to MEUR 32 following a sharp 38% fall in the volume of non-performing loans to MEUR 113.

The balance of allowances to performing loans and advances to customers of MEUR 7 increased by a modest 5%, consistent with the rise in these performing exposures.

PPF banka's main source of financing is deposits from customers. The BEUR 6.8 balance at the end of 2019 was BEUR 1.5 higher than at the end of 2018. This positive trend is spread evenly between demand deposits and time deposits. At the end of 2019, the Bank's total liabilities amounted to BEUR 8.4.

Securities

In 2019, 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 figured among the top three primary dealers in 2019. It was second on the secondary government bond market. This methodology takes into account comprehensive criteria in the initial subscription of government bonds (the primary market) and 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:

	2019	2018
Domestic bonds	4.4	5.5
Foreign bonds	0.7	0.5
Foreign equities	0.3	0.1
Total securities trading volume	5.4	6.1

The Bank engaged in robust activity in our securities trading, with an emphasis on access to various equity and debt security markets.

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

- PPF Arena 1 (currently PPF Telecom Group B.V.) bonds totalling MEUR 1,050 (role: joint lead manager);
- Air Bank bonds totalling MCZK 1,500 (role: arranger and distributor);
- Emma Gamma bonds totalling MEUR 20 (role: arranger and distributor);
- investment certificates with underlying assets in the form of PPF Group members' debt totalling MEUR 45 (role: arranger, lead manager, and distributor); and
- private issues of bonds and investment certificates totalling MEUR 101 (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. There was significantly higher activity on the FX spot market, where the Bank reported the highest ever traded volume (2019: BEUR 11; 2018: BEUR 7.4) . The FX derivative market recorded a slight year-on-year decline in volumes, reflecting the gradual fading of the effects created by the termination of the CNB's foreign exchange interventions (2019: BEUR 20.8; 2018: BEUR 21.8).

As far as interest-rate derivatives are concerned, PPF banka significantly increased its activity on FRA markets and provided liquidity for the market in CZK interest-rate swaps (2019: BEUR 9.1; 2018: BEUR 5.3).

Corporate banking and the public sector

In 2019, in the face of keen competition on the domestic banking market, PPF banka continued to focus on maintaining business cooperation with a number of the key customers and on identifying new business opportunities in segments in which the Bank have long specialised. These primarily include manufacturing, energy (both in the Czech Republic and abroad), and wholesale and retail, as well as engineering, logging and wood processing. The Bank successfully continued to seek out and promote new attractive real estate projects, the share of which has supported our portfolio’s growth and stability. The Bank also continued to provide a comprehensive range of export and structured financing services.

PPF banka supported our customers, many of whom lead the way in their fields, in their acquisition activities, in expanding and upgrading their production capacities, and in the further development of their business activities in the Czech Republic, America or Asia. The Bank carried out our largest transactions in the form of club financing in cooperation with other major banks from the Czech Republic and abroad.

In the public sector, the Bank continued to strengthen its cooperation with the Czech Republic’s regions and statutory cities in 2019. PPF banka successfully completed our acquisition process and is now actively cooperating with all 14 of the Czech Republic’s regions. As part of this strategy, the Bank is building on the ties we have in the regions and we are gradually offering services to important corporate customers in which regions and municipalities have participating interests.

Private banking for individuals

PPF banka’s private banking department specialises in serving our most demanding private clients and in providing investment services. The Banka prides itself on the quality of our team of experienced private bankers, expert knowledge and ability to listen to our customers. For the Bank, 2019 was another successful year in which our customers were able to enjoy rising returns and successful acquisitions without having to worry about the management of finances they had entrusted to the Bank. In 2019, the Banka once again provided active support in placing PPF Group’s investment instruments on the market.

Staff development

The Company has no employees and therefore no organisational structure. All Group employees are employed by the subsidiaries of PPF Financial Holdings B.V.

The average number of employees during 2019 was 125,000 (2018: 136,000).

Social aspects of operating the business (relevant predominantly to the HC Group)

The Company has no 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 centered on promoting financial inclusion, and specifically on creating the conditions that facilitate financially inclusive societies. We understand that our place in the financial industry gives us an important role in enhancing financial inclusion, as we can often be the first touchpoint for people encountering the regulated financial system. There are three broad pillars under which our activities fall: (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 distinctive contribution towards our CSR ambition. In 2019, the HC Group engaged in more than 30 programmes in various forms, which have reached over 3 million people in our communities. We recognise that our employees may also have other topics close to their hearts – something that is particularly true in markets where charitable giving is not yet institutionalised. We encourage and support these efforts through initiatives like granting working time to volunteering activities, matching employee donations for selected projects, and lending our professional expertise to non-profit organizations.

Financial literacy and education more broadly are prerequisites for customers in emerging markets to be able to make full and effective use not just of 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 money management and household budgeting, and focus on children and students in order to help them become more responsible adults. To this end, each of our countries runs financial literacy programmes tailored to their cultural contexts. A few examples include: (i) The "Juan, Two, Three" roving series of workshops in 175 urban and rural communities in the Philippines, which reached over 25,000 households in 2019 alone, (ii) "Kids and Money" which is a fully-fledged financial literacy curriculum for children aged between 5 and 18 in Russian and Kazakh, which has been presented to hundreds of schools in over 30 cities in the two countries, and has won plaudits from the Russian Ministry of Finance as well as prominent NGOs; (iii) Cutting-edge methods of financial literacy education such as gamification and targeted lesson delivery through our customer mobile apps in a majority of our markets.

We understand that economic development, including the development necessary to support consumer-led economies, require populations that have overcome poverty cycles that inhibit their ability to raise their standards of living. Our efforts in this area include (i) organizing "tech talks" and TEDx conferences in Kazakhstan, Indonesia and the Philippines to promote young entrepreneurs; (ii) Donations of bicycles, school materials and uniforms to hundreds of pupils in remote primary schools in Vietnam; (iii) providing cybercrime prevention training for Indian police forces in provinces across the entire country; or (iv) a comprehensive public health programme in China that includes organising training for air ambulance crews in major urban centers by experts from the Czech Air Ambulance Service, training in infection control at emergency care centers, first aid training for first responders, and organising of major incident training simulations for healthcare services.

In 2019, The HC Group contributed to relief efforts surrounding natural disasters in the Philippines, Indonesia and Vietnam, through donations and debt forgiveness or debt holidays for distressed customers. In terms of the latter, Home Credit helps communities lay the groundwork for development and future success through targeted projects, such as through supporting critical environmental initiatives, including planting 2,400 trees in the Czech Republic to mitigate against bark beetle infestations, or the reintroduction of the endangered Turan tiger to its natural habitat in the Kazakh steppe.

Home Credit received numerous CSR related awards during 2019 including: The Best CSR Bank in Kazakhstan by AsiaMoney, Best CSR Fintech Company CSR Award at the 8th China Charity Festival, and the Most Socially Responsible Consumer Finance in the Philippines by International Finance Awards.

PPF banka

PPF banka traditionally makes its largest donations to PPF Group foundations, which supports, among other things, educational projects for talented pupils and students from socially disadvantaged families and children's homes. PPF banka is also involved in the operation of a bilingual nursery for the hearing-impaired.

In the arts, the Bank, along with PPF Group, financially supports the operation of the Jára Cimrman Theatre, which has been entertaining the Czech public for 50 years. Another project we have long supported as part of PPF Group is the Summer Shakespeare Festival, a highlight of Prague's summer culture that continues to attract visitors thanks to the work of the immortal William Shakespeare set against the beautiful backdrop of Prague Castle.

Environmental influence, research and development

The Group is aware of the importance of maintaining a healthy and undamaged environment for the current generation 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 negative environmental impacts in its everyday activities through moving the majority of its loan contracts onto paperless or online carriers, as well as energy-saving work done 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 (which uses non-structured data analytical tools). The Group also invests into anti-fraud processes, and more general research into the consumer finance sector, including collaborative projects with major universities in 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, HOMER, that is 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, for example, voicebots 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 2019, 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 regulatory requirements and expanded the functionality of the main banking system. The main banking system is stable, contains the latest functional and security updates, and has been expanded to include two new modules. Other IT systems the Bank also maintained on supported (secure) versions and ensured that they were widely available.

Corporate governance

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 executive.

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 once a 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 to 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 chairman. Until the appointment, a member of the Management Board shall act as chairman.

Each person entitled to attend shareholders' meetings is entitled to address the meeting and – if the voting rights accrue to him – to exercise his 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 general 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 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 chairman.

Decision making at the shareholders' meeting

Each share confers the right to cast one vote. All resolutions in respect of which no greater majority is required by law or by the Articles of Association shall be passed by an absolute majority. Pursue the Articles of Association, a higher quorum is not required for any decision.

If there is a tie in voting at the 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 general meeting by electronic means of communication shall be valid as those cast at the time of the meeting.

The chairman'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 subsidiary thereof.

Management Board

The Management Board is the Company's statutory body, which directs its operations and acts on its behalf. The shareholders' meeting elects the members of the Management Board for a term of office determined by the shareholders' meeting in 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 a member of the Management Board requires so.

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

A member of the Management Board shall not take part in the deliberation and decision-making of the Management Board if he personally has 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 the article 3(1) (25) of the 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 2019, 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 chairman 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 of 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 the 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, 2019:

- 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 or PPF Group N.V. and as general counsel, PPF Group,
- Mrs. Jirásková (located in the Czech republic, Prague, Evropská 17) served as Chief Financial Officer, PPF Group.

Beside 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.

Audit committee

An audit committee has been established at 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; and
  - 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, Chairman
- 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 resolution 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 the remuneration which apply to the remuneration of all staff (including the persons discharging managerial responsibilities) as well key principles applicable to the remuneration of the 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 the remuneration (current applicable limit is 100% between the variable and the fix component);
- deferral of a portion of the variable remuneration. The deferral period is at least 3 year. At least 40 % of variable remuneration is deferred;
- variable remuneration in instruments (i.e. non-cash). The equity instruments issued by the Company are not traded, therefore, a virtual (shadow) equity certificate for remuneration was created.

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 have received following remuneration from the Company and its subsidiaries:

- Mrs. Jirásková: TEUR 6
- Mr. Bosveld: TEUR 60

The members of the Management Board do not own any share 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 employees in the PPF Group and enables compliance checks and putting remedies in place when shortcomings are discovered or objectionable or illegal conduct identified. An important part of the programme is the PPF Group Code of Ethics that deals among other topics with the protection of human rights and the prevention of corrupt conduct in all PPF Group activities. Internal PPF Group policy on corporate compliance internal investigation further regulates how staff, managers and the management and supervisory bodies of the Group should proceed in case of suspicion, investigation and discovery of action which is unethical or improper and/or action which is contrary to legal regulations or the Code of Ethics of PPF Group.

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

Conflict of interest

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

Diversity policy

The Company does not yet pursue a diversity policy applicable to the members of the Management Board. The size and composition of the Management Board and the combined experience and expertise of their members should reflect the best fit for the profile and the strategy of the Company. This aim for the best fit, in combination with the availability of qualifying candidates, has resulted in Company currently having a Management Board in which four members are male and one member is female. The directors have a mix of economic and legal education.

In order to increase the gender diversity of the Management Board, in accordance with article 2:276 section 2 of the Dutch Civil Code, the Company pays close attention to gender diversity in the process of recruiting and appointing new members of the Management Board. The Company will retain an active and open attitude as regards selection of underrepresented gender candidates in the Management Board.

Corporate governance code

The Company is not required by the applicable law to follow any particular corporate governance code. Additionally, 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.

The Company, as a financial holding company, is subject to prudential supervision on consolidated basis by the Czech National Bank as stipulated in the 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 in the Czech law. 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 code.

Approach to risks associated with the financial reporting

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

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 a strict division between accounting and reporting functions followed by 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 identifying the user that created, changed, or reversed any accounting record.

Reporting data for the purposes of preparation of 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 for monitoring and reconciliation of intercompany transactions that are eliminated within the consolidation process. Only users with appropriate rights have access to the intercompany application. Consolidation system enables to monitor and track all source data used within the consolidation process – source individual data, intercompany eliminations, consolidation accounting and manual adjustments.

These annual financial statements are subject to external audit that implies that financial data used for consolidation are also subject to component audits. The Group also prepares an 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 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 issued two debt instruments. One of the debt instruments was admitted to trading on 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 the markets and calibrating start-up pilot projects on one hand and geographic diversification on the other hand. The Group is exposed to various risks as a result of its activities, primarily credit risk, liquidity risk, market risks (interest rate risk and currency risk), 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: the risk that future changes in market conditions may change the value of the instrument. The majority of the Group's exposure to market risk arises in connection with the funding of the Group's operations with liabilities denominated in foreign currencies, and to the extent the term structure of interest-bearing assets differs from that of liabilities. In PPF banka, the Group may actively assume market risk exposure to profit from the financial market development. 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 so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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

Outlook for 2020

Macroeconomic development in countries where the Group operates

The Home Credit business is subject to the general economic conditions in each of the countries in which we operate. Consumption and retail patterns in these countries affect demand for our products. While many emerging countries are focusing on promoting the emergence of a middle class and supporting domestic consumption, our industry is also subject to evolving regulatory changes across our countries of operation. Furthermore, the industry in which we operate continues to be dynamic and fast changing with the emergence of new competitors, rapid digitalization and greater customer sophistication.

The India capital market also encountered some turmoil following payment default from domestic non bank financial institutions causing some head wind to our domestic funding raising efforts. At the same time, the government continued implementing reforms including in relation to tax.

For a long time, the Czech economy unexpectedly defied the slowdown being experienced by its biggest trading partner, Germany, and kept to growth of around 2.7% y/y in the first half of the year. However, a small open economy like the Czech one, with exports accounting for almost 80% of GDP, cannot withstand negative external effects for long, as borne out in the second half of the year. The last quarter of 2019 was particularly weak, reporting just 1.7% y/y growth. Overall, GDP grew by 2.4% year on year in 2019, which is still a very good result compared to our trading partners.

Recent events, commercial and financial outlook

The ongoing Covid-19 situation is developing quickly around the world. The Group is closely monitoring the situation and fully complying with government recommendations or requirements in each of our countries of operation. From an operational perspective, the HC Group omni-channel business model (both online and offline) is very agile, has automated a number of processes and its staff are able to work remotely as required. Through this period, the HC Group has been leveraging alternative channels without need of personal contact with Home Credit employees either through Assistant Video Sales, self-service and mobile application on online. The balance sheet remains solid, relationship with partners is strong and it has the capacity to manage potential shocks. Our experience in China demonstrates that the HC Group business continuity processes are adaptable in the rapidly changing environment and operations are fully functional remotely. At present the HC Group taking steps to ensure business continuity in each of its countries and it is too early to fully assess the global impact.

In China, the HC Group took measures to manage the business from January 2020 in an orderly manner in full compliance with the guidance from the state council and regulatory agencies. While many cities took the initiative to delay the resumption of work and control circulation to varying degrees in order to control the spread of the epidemic, the HC Group business has always remained operational during this period. In mainland China, we are seeing that life is slowly reverting back to normal as people go back to work. Furthermore, in China, the HC Group has a diversified business with operations in 312 cities across the country. We believe that in the short-term, the domestic consumption will be temporarily impacted and affecting our industry and its participants including Home Credit. Volume in the first quarter will be impacted by a slump in consumption and by more conservative underwriting resulting in lower approval rate. Volumes have gradually increased as the population goes back to work and are expected to rebound near normal level in the coming months. Over the first months of 2020, the HC Group's collection efficiency was near normal levels as 100% of our collection is in electronic form. The HC Group leverages on technology including chat bot and voicebot in collections for pre-collections payment reminders as well as early collections and extended the usage of such. Home Credit issued two ABS transactions in January and March 2020 which undoubtedly demonstrates continued confidence of capital market investors in Chinese operations.

Since the beginning of 2020, PPF banka has become much more prudent in assessing the credit risk posed by loans newly submitted for approval. In its customer relations, the Bank is not only monitoring the situation, but is also in close contact with clients to pre-empt any potential impacts. When assessing what impact the current situation will have on the corporate loan portfolio, the Bank defines the expected macroeconomic scenarios of future development and analyses the macroeconomic effect on the creation of provisions and other relevant factors. The corporate bond portfolio was revised in tandem with the approach established for corporate risk assessment since the beginning of 2020. Parallel to this, the Bank is monitoring financial market developments. To help to fight the Covid-19 pandemic, PPF banka donated 5,000 pieces of detection kits to the capital city of Prague.

To help with the current Covid-19 situation, Home Credit has (i) donated MCNY 1 to the Hubei Province Charity Federation; (ii) provided MCNY 1 to support our employees and their families in Hubei Province; (iii) we matched any further employee contributions for this cause; and (iv) donated a first batch of 4.5 tons emergency medical supplies jointly with Sotio (a PPF Group biotech company) worth approximately MCNY 1.3 which included: protective masks, suits, gloves, goggles and respirators. A second batch was donated in late February and in total we have donated close to 11 tons of supplies to help against the outbreak.

In March 2020, PPF Group donated medical equipment worth approximately MEUR 3.6 to the Czech government in response to the crisis.

Declaration

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

There are no material contracts that are not entered into in the ordinary course of the issuer's business, which could result in any group member being under an obligation or an entitlement that is 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 20 April 2020,

Directors of PPF Financial Holdings B.V.

Annex:

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 uses in this report alternative performance measures. 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 společnost, 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 cannot be reconciled with the financial statements of the Company or with the financial statements of PPF banka a.s.
Cost-of-risk ratio	**Purpose:** 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 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-to-income ratio	**<u>Purpose:</u>** Cost-to-income ratio is a measure of operational effectiveness of a company. A lower cost-to-income ratio is associated with better company performance. **<u>Definition:</u>** When used for Home Credit Group B.V.: (General administrative expenses + Other operating expenses) / Operating income When used for PPF banka a.s.: Operating expenses (including donations and excluding impairment (loss)/reversal) / Operating income **<u>Reconciliation with financial statements:</u>** 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	**<u>Definition:</u>** 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.
Gross loans	**<u>Purpose:</u>** Gross loans is a volume measure which is used to provide information on the amount of loans disbursed in the past and still outstanding at the reporting date before the deduction of the allowance for impairment. **<u>Definition:</u>** When used for the Company: Gross amount of Loans due from customers – retail + Gross amounts of Loans due from corporations – non-retail

	as these terms are used in financial statements of the Company, Notes E.4.1.1 and E.4.1.2. When used for Home Credit Group B.V.: It means the gross amount of loans as used in the financial statements of Home Credit Group B.V. Note 11.
Interest earning assets	**<u>Purpose:</u>** The interest earning assets is a volume measure used in the calculation of the net interest margin. **<u>Definition:</u>** 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. **<u>Reconciliation with financial statements:</u>** This measure is used for the description of the performance of Home Credit Group B.V. It cannot be reconciled with the financial statements of the Company or with the financial statements of Home Credit Group B.V.
Net interest margin	**<u>Purpose:</u>** 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. **<u>Definition:</u>** 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. **<u>Reconciliation with financial statements:</u>** This measure is used for the description of performance of Home Credit Group B.V. It cannot be reconciled with the financial statements of the Company or with the financial statements of Home Credit Group B.V.
NPL coverage ratio	**<u>Purpose:</u>**

	The NPL coverage ratio is a measure of the portfolio credit quality. Usually, a higher NPL coverage ratio is associated with higher portfolio quality. **<u>Definition:</u>** NPL coverage ratio is calculated as loss allowance for loans to customers divided by gross non-performing loans. **<u>Reconciliation with financial statements:</u>** 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.
NPL ratio	**<u>Purpose:</u>** The NPL ratio is a measure of the portfolio credit quality. Usually, a higher NPL ratio is associated with lower portfolio quality. **<u>Definition:</u>** Gross non-performing loans and advances to customers / Gross performing loans and advances to customers **<u>Reconciliation with financial statements:</u>** 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.
Unadjusted NPL ratio	**<u>Purpose:</u>** The NPL ratio is a measure of the portfolio credit quality. Usually, a higher NPL ratio is associated with lower portfolio quality. **<u>Definition:</u>** Gross non-performing loans and advances to customers / Gross performing loans and advances to customers **<u>Reconciliation with financial statements:</u>** 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)	**<u>Purpose:</u>** 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. **<u>Definition:</u>** 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. **<u>Reconciliation with financial statements:</u>** 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.
Total volume of securities trading	**<u>Purpose:</u>** 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. **<u>Definition:</u>** Total notional amount of securities bought/sold as part of proprietary bank´s business and for customers. **<u>Reconciliation with financial statements:</u>** 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 or with the financial statements of PPF banka a.s.
Volume of foreign exchange market transactions	**<u>Purpose:</u>** 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. **<u>Definition:</u>** Total notional amount of foreign exchange market transactions traded as part of proprietary bank´s business and for customers. **<u>Reconciliation with financial statements:</u>** 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 or with the financial statements of PPF banka a.s.

PPF Financial Holdings

PPF Financial Holdings B.V.

Consolidated financial statements for the year ended 31 December 2019

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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
POCI	- purchased or originated credit impaired
PPE	- property, plant and equipment
UCC	- business combinations under common control

Consolidated statement of financial position

In millions of EUR

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	E1	9,375	9,738
Investment securities	E2	2,183	2,421
Loans and receivables due from banks and other financial institutions	E3	553	338
Loans due from customers	E4	21,318	18,513
Trade and other receivables	E5	61	66
Current tax assets		26	8
Equity-accounted investees	E6	48	44
Property, plant and equipment	E7	327	182
Intangible assets and goodwill	E8	389	292
Deferred tax assets	E31.1	426	429
Other assets	E9	354	285
TOTAL ASSETS		**35,060**	**32,316**
LIABILITIES			
Financial liabilities at fair value through profit or loss	E10	353	622
Due to non-banks	E11	13,980	11,696
Due to banks and other financial institutions	E12	13,260	13,849
Debt securities issued	E13	2,389	1,700
Subordinated liabilities	E14	268	447
Current tax liabilities		39	95
Trade and other payables	E15	912	877
Provisions	E16	62	51
Deferred tax liabilities	E31.1	20	9
TOTAL LIABILITIES		**31,283**	**29,346**
EQUITY			
Issued capital*	E17	-	-
Share premium	E17	2,324	2,324
Additional paid-in capital	E18	80	80
Other reserves	E19	(542)	(894)
Retained earnings		1,609	1,221
Total equity attributable to owners of the Parent		3,471	2,731
Non-controlling interests	E20	306	239
Total equity		**3,777**	**2,970**
TOTAL LIABILITIES AND EQUITY		**35,060**	**32,316**

*Issued capital is TEUR 45.

Consolidated income statement

For the year ended 31 December

In millions of EUR

	Note	2019	2018
Interest income		5,514	4,745
Interest expense		(1,665)	(1,374)
Net interest income	E23	**3,849**	**3,371**
Fee and commission income		675	843
Fee and commission expense		(197)	(165)
Net fee and commission income	E24	**478**	**678**
Net earned premiums		21	22
Acquisition costs		(4)	(5)
Net insurance income		**17**	**17**
Net gains/(losses) on financial assets/liabilities	E25	(18)	16
Other income	E26	143	40
TOTAL OPERATING INCOME		**4,469**	**4,122**
Net impairment losses on financial assets	E27	(1,816)	(1,725)
Personnel expenses	E28	(1,118)	(1,144)
Depreciation and amortisation	E29	(188)	(116)
Other operating expenses	E28	(569)	(534)
Net loss on disposals/liquidations of subsidiaries and equity accounted investees		(3)	(4)
Share of earnings of equity accounted investees, net of tax	E6	(21)	(13)
PROFIT BEFORE TAX		**754**	**586**
Income tax expense	E31.2	(247)	(75)
NET PROFIT FOR THE PERIOD		**507**	**511**
Profit attributable to:			
Owners of the Parent		481	477
Non-controlling interests	E20	26	34

Consolidated statement of comprehensive income

For the year ended 31 December

In millions of EUR

	2019	2018
NET PROFIT FOR THE PERIOD	**507**	**511**
Other comprehensive income		
Valuation gains/(losses) on FVOCI equity instruments	-	6
Valuation gains/(losses) on FVOCI debt securities*	33	(39)
FVOCI revaluation (gains)/losses transferred to income statement*	(4)	7
Foreign operations - currency translation differences*	132	(138)
Disposal of subsidiaries*	-	14
Cash flow hedge - effective portion of changes in fair value*	(2)	-
Income tax relating to components of other comprehensive income*	(5)	5
Other comprehensive income/(expense) for the period (net of tax)	**154**	**(145)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**661**	**366**
Total comprehensive income attributable to:		
Owners of the Parent	624	347
Non-controlling interests	37	19

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

Consolidated statement of changes in equity

In millions of EUR, for the year ended 31 December

	Issued capital*	Share premium	Additional paid-in capital	Revaluation reserve	Legal and statutory reserves	Translation reserve	Reserve for UCC	Hedging reserve	Other equity instruments	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)
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)
Other changes in NCI	-	-	-	-	-	-	-	-	-	(60)	(60)	5	(55)
Contributions by NCI	-	-	-	-	-	-	-	-	-	-	-	25	25
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**

* Capital issued is TEUR 45.

Consolidated statement of changes in equity

In millions of EUR, for the period ended 31 December

	Issued capital*	Share premium	Additional paid-in capital	Revaluation reserve	Legal and statutory reserves	Translation reserve	Reserve for UCC	Retained earnings	Attributable to owners of the Parent	Attributable to NCI	Total
Balance as at 31 December 2017	**-**	**2,231**	**-**	**19**	**81**	**(383)**	**(504)**	**1,065**	**2,509**	**274**	**2,783**
Adjustment upon initial application of IFRS 9 (net of tax)		-	-	2	-			(191)	(189)	(24)	(213)
Balance as at 1 January 2018 (adjusted)	**-**	**2,231**	**-**	**21**	**81**	**(383)**	**(504)**	**874**	**2,320**	**250**	**2,570**
Profit for the period	-	-	-	-	-	-	-	477	477	34	511
Currency translation differences	-	-	-	-	-	(124)	-	-	(124)	(14)	(138)
FVOCI revaluation gains/(losses) taken to equity	-	-	-	(32)	-	-	-	-	(32)	(1)	(33)
FVOCI revaluation (gains)/losses transferred to income statement	-	-	-	7	-	-	-	-	7	-	7
Disposals and deconsolidation of subsidiaries	-	-	-	-	(2)	16	(14)	14	14	-	14
Tax on items taken directly to or transferred from equity	-	-	-	5	-	-	-	-	5	-	5
Total comprehensive income	**-**	**-**	**-**	**(20)**	**(2)**	**(108)**	**(14)**	**491**	**347**	**19**	**366**
Net allocation to legal and statutory reserves	-	-	-	-	35	-	-	(35)	-	-	-
Contributions for the year	-	93	80	-	-	-	-	-	173	-	173
Acquisition of NCI	-	-	-	-	-	-	-	(109)	(109)	(54)	(163)
Contributions by NCI	-	-	-	-	-	-	-	-	-	24	24
Total transactions with owners of the Company	**-**	**93**	**80**	**-**	**35**	**-**	**-**	**(144)**	**64**	**(30)**	**34**
Balance as at 31 December 2018	**-**	**2,324**	**80**	**1**	**114**	**(491)**	**(518)**	**1,221**	**2,731**	**239**	**2,970**

* Capital issued is TEUR 45.

Consolidated statement of cash flows

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

In millions of EUR

	Notes	2019	2018
Cash flows from operating activities			
Profit before tax		754	586
Adjustments for:			
Depreciation and amortisation		188	116
Impairment/(reversal of impairment) of current and non-current assets	E.27	(1,816)	1,729
(Profit)/loss on disposal of PPE, intangible assets, and goodwill		2	1
(Profit)/loss on sale of investment securities		(8)	(25)
(Gains)/losses on disposal of subsidiaries		3	3
Interest expense		1,665	1,374
Interest income		(5,514)	(4,745)
Other (income)/expenses not involving movements of cash		1,015	(988)
Gains on bargain purchase		(38)	-
Interest received		5,942	5,008
Change in loans and receivables due from banks and other financial institutions		(222)	232
Change in loans due from customers		(1,859)	(3,697)
Change in trade and other receivables		5	29
Change in other assets		(75)	(37)
Change in financial liabilities at FVTPL		(269)	(155)
Change in liabilities due to non-banks		1,602	36
Change in trade and other payables		(48)	(141)
Income tax paid		(303)	(217)
Net cash used in operating activities		**1,024**	**(891)**
Cash flows from investing activities			
Purchase of PPE, intangible assets	E.7, E.8	(221)	(197)
Purchase of financial assets at FVTPL		(442)	(228)
Proceeds from financial assets at FVTPL		572	216
Purchase of financial assets at amortised cost		(47)	(17)
Purchase of financial assets FVOCI		(1,452)	(3,124)
Acquisition of subsidiaries and equity accounted investees, net of cash acquired		(84)	(38)
Proceeds from disposals of PPE and intangible assets		5	28
Proceeds from financial assets at amortised cost		87	-
Proceeds from sale of financial assets FVOCI		1,685	3,526
Proceeds from disposal of subsidiaries and equity accounted investees, net of cash disposed		-	3
Net cash from/(used in) investing activities		**103**	**169**

	Notes	2019	2018
Cash flows from financing activities			
Proceeds from the issue of share premium and other capital		-	173
Proceeds from the issue of debt securities		2,047	2,031
Proceeds from loans due to banks and other financial institutions		16,972	14,018
Payment of debt securities		(1,569)	(1,290)
Repayment of loans due to banks and other financial institutions		(17,656)	(11,685)
Interest paid		(1,553)	(1,679)
Cash payments for principal portion of lease liabilities		(45)	-
Dividends paid to shareholder		(5)	-
Proceeds from issue of other equity instruments		181	-
Cash flow from financing activities	**E.22**	**(1,628)**	**1,568**
Net increase (decrease) in cash and cash equivalents		**(501)**	**846**
Cash and cash equivalents as at 1 January		**9,738**	**8,982**
Effect of exchange rate movements on cash and cash equivalents		138	(90)
Cash and cash equivalents as at 31 December		**9,375**	**9,738**

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. On 30 June 2015, PPF Group contributed its share in Home Credit B.V. and PPF banka, a.s. to the Parent Company. On 8 May 2018, Home Credit B.V. was contributed to Home Credit Group B.V., a new holding company for the Home Credit business.

The consolidated financial statements of the Parent Company for the year ended 31 December 2019 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 2019 and 2018.

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

The Parent is a 100% subsidiary of PPF Group N.V., the ultimate controlling party is Mr Petr Kellner.

A.2. Statement of compliance

The consolidated financial statements were authorised for issue by the Board of Directors on 20 April 2020.

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 2019, which have been prepared in accordance with IFRSs, including IASs, promulgated by the IASB and interpretations issued by the IFRIC of the IASB as adopted by the European Union and with Section 2:362(9) of the Dutch Civil Code.

This is the first set of the Group's annual financial statements where IFRS 16 has been applied. Changes to significant accounting policies are described in Note F.2.

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 designated upon initial recognition as financial instruments at fair value through profit or loss, and financial instruments at fair value through other comprehensive income. Financial assets and liabilities as well as non-financial assets and liabilities measured at historical cost are stated at amortised cost using the effective interest method or historical cost, as appropriate, net of any relevant impairment.

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

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (refer to A.5). 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 bargain purchase is recognised in profit or loss immediately (refer to F.1.11.1). 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 and other financial assets (refer to E.2, E.3, E.4 and E.5);
- lease-term for the lessee accounting whether the Group is reasonably certain to exercise extension options (refer to E.21).

During 2019, the Group assessed and subsequently revised its estimation of the expected credit loss' model. As a result, the Group changed the credit loss estimate at the time of the write-off and aligned the estimate with the latest expectation of recoveries. The impact of changes in the estimate was applied prospectively to the financial statements, resulting in the following impact to the consolidated statement of financial position as at 31 December 2019: decrease of gross amount of loans to customers of MEUR 652, decrease of impairment allowances of MEUR 746 resulting in a change in the net amount of loans to customers of MEUR 94. The year to date impact on the consolidated statement of comprehensive income was a decrease of impairment losses on financial assets of MEUR 95.

A.5. Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed to, 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 there are changes to one or more of the elements of control. 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.

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 2019 and 2018.

Company	Domicile	Effective proportion of ownership interest December 2019	Effective proportion of ownership interest December 2018
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 2 B.V.	Netherlands	91.12%	91.12%
AB 4 B.V.	Netherlands	91.12%	91.12%
AB 7 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. (*formerly Zonky, 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. (*formerly Home Credit B.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%
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd	China	91.12%	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%	92.96%
Other subsidiaries			
Mobi Banka a.d. Beograd (*formerly Telenor Banka a.d. Beograd*)	Serbia	100.00%	-
AB Structured Funding 1 DAC	Ireland	100.00%	91.12%
Usconfin 1 DAC	Ireland	100.00%	92.96%
Associates			
ClearBank Ltd.	United Kingdom	39.31%	37.70%
Eureka Analytics PTE. LTD.	Singapore	22.32%	24.33%
Nymbus, Inc.	USA	12.68%	18.43%

AB Structured Funding 1 DAC was part of Home Credit subgroup in 2018, Usconfin 1 DAC was part of PPF banka subgroup in 2018.

B.2. Changes through business combinations in 2019/2018

B.2.1. Acquisition of a Serbian bank

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 MEUR 11 and a loss of MEUR 3 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 gains 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**

Gains on bargain purchase arising from the acquisition have been recognised as follows:

In millions of EUR

Total consideration	Less than 0.1
Fair value of identifiable net assets	38
Gains 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 2019:

Emma Omega has a put option to sell up to a maximum of 2.5% shareholding interest in Home Credit Group. The put option can be exercised at the earlier of (a) 30 June 2020 or, (b) in case of the successful completion of a potential Home Credit listing (Home Credit N.V. subgroup) before 30 June 2020, at the fifth business day before the publication of the Home Credit N.V. prospectus. If the put option is exercised, the acquirer of the shares will be an affiliate of PPF Financial Holdings (outside the Group). By the date of these financial statements the option had not been exercised and the planned listing process was cancelled.

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).

B.2.3. Acquisition of a 2.5% share in Home Credit Group (in 2018)

On 31 December 2018, the Group acquired a 2.5% stake in Home Credit Group B.V. from a minority shareholder. The Group increased its shareholding in Home Credit from 88.62% to 91.12%. The difference between the purchase price and the net asset value attributable to non-controlling interests acquired was recognised directly in equity.

The following tables summarise the financial aspect of the transaction:

In millions of EUR

Consideration	163
Effective ownership acquired	2.5%
Net asset attributable to non-controlling interests acquired	54
Effect recorded in retained earnings (decrease)	(109)

The purchase price of a 2.5% stake in Home Credit Group B.V. was payable in three instalments; the first part of the consideration (MEUR 83) was paid on 31 December 2018; the second part (MEUR 80) was initially due in June 2019. The third instalment was defined as an earn-out being equal to 50% of the difference between the current purchase price (the first two instalments) and the market value reached at a possible partial future exit. The earn-out could be in both directions, i.e. either positive or negative.

In April 2019, both shareholders of Home Credit Group B.V. signed an addendum substituting the initially agreed third instalment with an increase in the second instalment by MEUR 50. Therefore, the total consideration for the stake amounts to MEUR 213. The maturity of the second instalment amounting to MEUR 130 has been changed to May 2019. As the addendum was agreed in 2019, the respective increase in purchase price is recorded in the 2019 accounts as follows.

In millions of EUR

Additional consideration	50
Effect recorded in retained earnings (decrease)	(50)

B.2.4. Disposal of Home Credit Belarus (in 2018)

On 15 June 2018, the Group disposed its investment in Non-banking Credit and Financial Organisation Home Credit (OJSC).

The following table summarises the financial aspect of the transaction:

In millions of EUR

Consideration	4
Net asset value disposed	(7)
Negative currency translation reserve (reclassified to income statement)	(5)
Net loss on sale	(8)

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 also regularly reviews the current risk profile of the Group and the utilisation of key risk limits.

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 an 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:

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

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

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

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

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:

In millions of EUR, as at 31 December

	2019	2019	2018	2018
Economic concentration				
Households/Individuals	20,714	58.85%	17,090	53.50%
Financial services	11,765	33.43%	11,967	37.46%
Public sector	1,085	3.08%	1,248	3.91%
Corporate sector	1,211	3.44%	711	2.23%
Construction and real estate	369	1.05%	508	1.59%
Other	54	0.15%	418	1.31%
Total	**35,198**	**100.00%**	**31,942**	**100.00%**
Geographic concentration				
China	13,054	37.09%	12,192	38.17%
Czech Republic	11,457	32.55%	11,322	35.45%
Russia	4,687	13.31%	3,702	11.59%
Kazakhstan	1,039	2.95%	829	2.60%
Vietnam	952	2.71%	731	2.29%
Slovak Republic	360	1.02%	356	1.11%
Cyprus	174	0.49%	231	0.72%
Netherlands	56	0.16%	90	0.28%
Other EU countries	640	1.82%	567	1.78%
Other	2,779	7.90%	1,922	6.02%
Total	**35,198**	**100.00%**	**31,942**	**100.00%**
Of which:				
Loans due from customers	21,318	60.56%	18,513	57.96%
Cash and cash equivalents (excl. cash on hand)	9,209	26.17%	9,587	30.01%
Investment securities*	2,171	6.17%	2,391	7.48%
Loan commitments and guarantees (off-balance sheet)	1,814	5.15%	990	3.10%
Loans and receivables due from banks and other financial institutions	553	1.57%	338	1.06%
Trade and other receivables**	129	0.37%	123	0.39%
Hedging derivatives	4	0.01%	4	0.01%

* excl. equity securities and hedging derivatives
**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 2019

Loan exposure	Loans due from customers*	Loans and receivables due from banks and other financial institutions
Gross amount	22,943	554
Stage 1	19,484	554
Stage 2	2,118	-
Stage 3	1,341	-
Purchased or originated credit impaired	-	-
Allowance for impairment	(1,638)	(1)
Carrying amount	**21,305**	**553**

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

In millions of EUR, as at 31 December 2018

Loan exposure	Loans due from customers*	Loans and receivables due from banks and other financial institutions
Gross amount	20,654	338
Stage 1	17,145	338
Stage 2	1,679	-
Stage 3	1,830	-
Purchased or originated credit impaired	-	-
Allowance for impairment	(2,157)	-
Carrying amount	**18,497**	**338**

* 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 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**	**-**

In millions of EUR, as at 31 December 2018

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	1,017	112	-	-
Deposits with banks	25	-	-	-
Securities received under reverse repo*	27	-	7,816	-
Equity securities	192	-	172	-
Other	12	-	-	-
Total collateral received	**1,273**	**112**	**7,988**	**-**

* incl. cash and cash equivalents with central banks

The total value of assets held as collateral is MEUR 9,690 (2018: MEUR 9,458; refer to E.32.3) and consists of the collateral stated above (2019: MEUR 9,650; 2018: MEUR 9,373) plus collateral in the form of guarantees received (2019: MEUR 40; 2018: MEUR 85).

No collateral was held for trade and other receivables in 2019 and in 2018. 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 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	9,375	-	-	-	9,375
Investment securities	411	170	872	722	2,175
Financial assets at FVTPL	27	21	40	186	274
Financial assets at FVOCI*	323	89	430	228	1,070
Financial assets at amortised costs	61	60	402	308	831
Loans and receivables due from banks and other financial institutions	457	68	26	2	553
Loans due from customers	4,600	6,577	9,883	258	21,318
Trade and other receivables**	76	33	-	23	132
Total financial assets	**14,919**	**6,848**	**10,781**	**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 5 years	More than 5 years	Total
Financial liabilities at FVTPL	27	40	74	212	353
Due to non-banks	11,243	1,820	917	-	13,980
Due to banks and other financial institutions	4,041	4,722	4,497	-	13,260
Debt securities issued	479	1,049	861	-	2,389
Subordinated liabilities	-	-	11	257	268
Trade and other payables*	515	59	11	7	592
Lease liabilities**	15	33	93	14	155
Total financial liabilities	**16,320**	**7,723**	**6,464**	**490**	**30,997**

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

Net liquidity position 2019	**(1,401)**	**(875)**	**4,317**	**515**	**2,556**

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

In millions of EUR, as at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	9,738	-	-	-	9,738
Investment securities	461	193	1,009	728	2,391
Financial assets at FVTPL	18	35	73	239	365
Financial assets at FVOCI*	397	67	515	183	1,162
Financial assets at amortised costs	47	91	421	306	865
Loans and receivables due from banks and other financial institutions	253	69	16	-	338
Loans due from customers	4,647	5,548	8,058	260	18,513
Trade and other receivables**	98	2	-	23	123
Total financial assets	**15,197**	**5,812**	**9,083**	**1,011**	**31,103**

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

In millions of EUR, as at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	15	215	54	338	622
Due to non-banks	9,786	1,500	410	-	11,696
Due to banks and other financial institutions	4,692	6,701	2,452	4	13,849
Debt securities issued	176	972	552	-	1,700
Subordinated liabilities	2	143	6	296	447
Trade and other payables*	548	121	3	-	672
Total financial liabilities	**15,219**	**9,652**	**3,477**	**638**	**28,986**

* excl. tax and other non-financial liabilities

Net liquidity position 2018	**(22)**	**(3,840)**	**5,606**	**373**	**2,117**

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 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 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to non-banks	11,363	1,889	982	-	14,234
Due to banks and other financial institutions	4,319	5,255	4,744	-	14,318
Debt securities issued	509	1,154	941	-	2,604
Subordinated liabilities	1	13	55	293	362
Trade and other payables*	518	59	11	7	595
Lease liabilities**	17	38	107	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**	**7,828**	**322**	**34,085**

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

In millions of EUR, as at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to non-banks	9,799	1,551	427	-	11,777
Due to banks and other financial institutions	4,940	7,186	2,620	4	14,750
Debt securities issued	200	1,050	623	-	1,873
Subordinated liabilities	3	156	59	340	558
Trade and other payables*	573	124	3	-	700
Loan commitments (off-balance sheet)	447	97	12	371	927
Payment guarantees provided (off-balance sheet)	2	25	13	-	40
Total	**15,964**	**10,189**	**3,757**	**715**	**30,625**

* excl. tax and other non-financial liabilities

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

In millions of EUR, as at 31 December 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 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)	(10)	(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	12	16	95
Net position	**-**	**(21)**	**5**	**(5)**	**(21)**

In millions of EUR, as at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Outflows					
Interest rate derivatives held for trading	(191)	(805)	(2,395)	(3,909)	(7,300)
Currency derivatives held for trading	(3,250)	(5,729)	(2,507)	-	(11,486)
Hedging derivatives	-	(2)	(7)	(17)	(26)
Inflows					
Interest rate derivatives held for trading	191	807	2,398	3,906	7,302
Currency derivatives held for trading	3,247	5,733	2,500	-	11,480
Hedging derivatives	-	2	8	19	29
Net position	**(3)**	**6**	**(3)**	**(1)**	**(1)**

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 2019 would be approximately MEUR 177 higher/lower (2018: MEUR 149).

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 2019

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	1.9%	9,375	-	-	-	9,375
Investment securities	3.5%	414	798	324	461	1,997
Financial assets at FVTPL	2.5%	-	1	2	93	96
Financial assets at FVOCI*	4.5%	354	300	317	99	1,070
Financial assets at AC	2.2%	60	497	5	269	831
Loans and receivables due from banks and other financial institutions	2.5%	462	58	29	4	553
Loans due from customers	28.5%	5,216	6,433	9,615	54	21,318
Trade and other receivables**	0.3%	99	33	-	-	132
Total financial assets		**15,566**	**7,322**	**9,968**	**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 5 years	More than 5 years	Total
Financial liabilities at FVTPL	3.4%	42	-	25	89	156
Due to non-banks	1.5%	11,172	1,891	917	-	13,980
Due to banks and other financial institutions	9.0%	4,834	4,720	3,706	-	13,260
Debt securities issued	9.2%	479	1,048	862	-	2,389
Subordinated liabilities	4.3%	4	165	99	-	268
Trade and other payables*	-	515	59	11	7	592
Lease liabilities**	5.4%	17	47	81	10	155
Total financial liabilities		**17,063**	**7,930**	**5,701**	**106**	**30,800**

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

Net position 2019	**(1,497)**	**(608)**	**4,267**	**413**	**2,575**

In millions of EUR, as at 31 December 2018

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Cash and cash equivalents	1.7%	9,738	-	-	-	9,738
Investment securities	3.3%	504	846	400	497	2,247
Financial assets at FVTPL	3.3%	-	7	38	176	221
Financial assets at FVOCI*	5.1%	458	314	336	54	1,162
Financial assets at AC	0.8%	46	525	26	267	864
Loans and receivables due from banks and other financial institutions	3.2%	279	46	13	-	338
Loans due from customers	29.6%	5,207	5,527	7,714	65	18,513
Trade and other receivables**	-	121	2	-	-	123
Total financial assets		**15,849**	**6,421**	**8,127**	**562**	**30,959**

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

In millions of EUR, as at 31 December 2018

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities at FVTPL	1.6%	-	184	26	276	486
Due to non-banks	1.8%	9,786	1,500	410	-	11,696
Due to banks and other financial institutions	7.7%	5,346	6,051	2,452	-	13,849
Debt securities issued	11.7%	176	971	553	-	1,700
Subordinated liabilities	6.4%	-	142	255	50	447
Trade and other payables*	-	548	121	3	-	672
Total financial liabilities		**15,856**	**8,969**	**3,699**	**326**	**28,850**

* excl. tax and other non-financial liabilities

Net position 2018	**(7)**	**(2,548)**	**4,428**	**236**	**2,109**

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, US dollars and Kazakhstani tenge. As the currency in which the Group presents its consolidated financial statements is the euro, movements in the exchange rates between these currencies and the euro affect the Group's consolidated financial statements. Net investments in foreign operations are not hedged.

The 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 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

In millions of EUR, as at 31 December 2018

	EUR	CZK	CNY	RUB	VND	INR	KZT	USD	Other	Total
Net investment in foreign operation	139	1,288	1,432	240	310	610	277	-	160	4,456

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 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)

In millions of EUR, as at 31 December 2018

	EUR	CZK	CNY	RUB	INR	KZT	USD	Other	Total
Financial assets	800	-	1	-	-	-	666	539	2,006
Financial liabilities	2,218	233	1	48	-	-	691	302	3,492
Effect of FX derivatives	1,277	-	-	45	-	(152)	(341)	(521)	308
Net FX position	(141)	(233)	-	(3)	-	(152)	(366)	(284)	(1,178)

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 2019 and 2018 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 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

In millions of EUR, as at 31 December 2018

	CZK	USD	RUB	KZT	CNY	INR
Effect of 5% currency depreciation against EUR	(53)	18	(12)	(6)	(72)	19
Effect of 5% currency appreciation against EUR	53	(18)	12	6	72	(19)

C.4.4. Hedging

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

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

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

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

C.5. Insurance risk

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

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

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	21,318	21,348	-	-	21,348
Investment securities at amortised cost	831	831	714	5	112
Trade and other receivables*	132	132	-	19	113
Due to non-banks	(13,980)	(14,045)	-	(13,926)	(119)
Due to banks and other financial institutions	(13,260)	(13,253)	-	(13,253)	-
Debt securities issued	(2,389)	(2,363)	(1,708)	(280)	(375)
Subordinated liabilities	(268)	(268)	-	-	(268)
Trade and other payables**	(747)	(747)	-	(87)	(660)

* 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 2018

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and receivables due from banks and other financial institutions	338	338	-	338	-
Loans due from customers	18,513	18,724	-	-	18,724
Investment securities at amortised cost	864	851	749	-	103
Trade and other receivables*	123	123	-	13	110
Due to non-banks	(11,696)	(11,704)	-	(7,716)	(3,988)
Due to banks and other financial institutions	(13,849)	(13,851)	-	(2,858)	(10,993)
Debt securities issued	(1,700)	(1,704)	(1,050)	(353)	(301)
Subordinated liabilities	(447)	(448)	(141)	-	(307)
Trade and other payables**	(672)	(672)	-	(50)	(622)

* 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 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**

In millions of EUR, as at 31 December 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	225	140	-	365
Financial assets at FVOCI	1,026	166	-	1,192
Financial liabilities at FVTPL	(312)	(310)	-	(622)
Total	**939**	**(4)**	**-**	**935**

There were no transfers between Level 1, 2 and 3 in 2018 and 2019. There was no movement in Level 3 in 2019.

The following table shows the reconciliation of 2018 movements in Level 3:

In millions of EUR, for the year ended 31 December 2018

	Financial assets FVOCI	Financial liabilities FVTPL	Total
Balance as at 1 January	11	(313)	(302)
Net gains/(losses) recorded in profit or loss (included in net gain/(loss) on financial assets)	-	20	20
Settlements	-	293	293
transfers into/(out of) Level 3	(11)	-	(11)
Balance as at 31 December 2018	-	-	-

C.7. Offsetting financial assets and liabilities

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

International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2019 and 31 December 2018 the reported balances of positive and negative fair values of derivatives do not include any offset amounts.

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

Such agreements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 2019 and 31 December 2018 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 0.14% of its risk-weighted assets.

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

In a 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

	2019	2018
Issued capital	0.05	0.05
Share premium	2,324	2,324
Retained earnings and other reserves	378	(142)
Interim profit included into capital	55	229
Minority interests on CET 1	12	12
Adjustment to CET 1 due to IFRS 9	300	305
(-) Additional valuation adjustment	(2)	(2)
(-) Intangible assets	(363)	(276)
(-) Deferred tax assets (deductible part)	(79)	(226)
Total Tier 1 capital	**2,625**	**2,225**
Total Tier 2 capital	**255**	**300**
Total capital	**2,880**	**2,525**
Total capital adequacy ratio	**11.10%**	**11.18%**

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 *(since 2019)*	Deposits, loans and other transactions and balances with retail customers	Serbia

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

	2019	2018
Interest income	5,514	4,745
Fee and commission income	675	843
Net earned premiums	21	22
Total revenue from external customers	**6,210**	**5,610**

The following table shows the main items from the financial statements broken down according to reportable segments for 2019 and 2018:

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

In millions of EUR

2018	Consumer lending						Corporate banking	Unallocated	Eliminations	**Consolidated**
		China	*CIS**	*SEA*	*CEE*	*Other*				
Revenue from customers	5,460	3,483	903	834	230	10	135	15	-	5,610
Inter-segment revenue	(1)	-	-	-	(1)	-	40	10	(49)	-
Total revenue	**5,459**	**3,483**	**903**	**834**	**229**	**10**	**175**	**25**	**(49)**	**5,610**
Net interest income from external customers	3,267	2,076	492	594	173	(68)	97	7	-	3,371
Inter-segment net interest income	(51)	-	(3)	(34)	(1)	(13)	38	10	3	-
Total net interest income	**3,216**	**2,076**	**489**	**560**	**172**	**(81)**	**135**	**17**	**3**	**3,371**
Income tax expense	(84)						(21)	30	-	(75)
Net profit from continuing operations	**393**						**89**	**31**	**(2)**	**511**
Capital expenditure	(151)						(3)	-	-	(154)
Depreciation and amortisation	(115)						(2)	-	1	(116)
Other significant non-cash expenses	(1,732)						(1)	5	-	(1,728)
Segment assets (incl. equity accounted investees)	23,593						9,144	734	(1,155)	32,316
Segment liabilities	21,492						8,675	335	(1,156)	29,346
Segment equity	**2,101**						**469**	**399**	**1**	**2,970**

*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, as at 31 December

	2019	2018
Cash on hand	166	151
Current accounts	1,258	1,533
Balances with central banks	454	204
Placements with financial institutions due within one month	210	50
Reverse repo operations with central banks	7,287	7,800
Total cash and cash equivalents	**9,375**	**9,738**

As at 31 December 2019, cash and cash equivalents amounting to MEUR 809 (2018: MEUR 792) are restricted by borrowing agreements contracted by Chinese Home Credit 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, as at 31 December

	2019	2018
Financial assets at fair value through profit or loss	274	365
Financial assets at amortised cost	831	864
Financial assets FVOCI	1,078	1,192
Total investment securities	**2,183**	**2,421**

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

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

In millions of EUR, as at 31 December

	2019	2018
Government and other public-sector bonds	90	169
Corporate bonds	7	52
Positive fair values of trading derivatives (refer to E.10)	173	140
Interest rate derivatives	119	98
Currency derivatives	54	42
Positive fair values of hedging derivatives	4	4
Total financial assets at FVTPL	**274**	**365**

E.2.2. Financial assets at amortised cost

In millions of EUR, as at 31 December 2019

	Gross amount	Amortised cost
Government bonds	721	721
Corporate bonds	110	110
Total financial assets at amortised cost	**831**	**831**

In millions of EUR, as at 31 December 2018

	Gross amount	Amortised cost
Government bonds	761	761
Corporate bonds	103	103
Total financial assets at amortised cost	**864**	**864**

Credit quality analysis

No impairment losses on financial assets at amortised cost were recognised during the year ended 31 December 2019 and 2018.

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 amortised cost as investment securities are calculated on an individual basis.

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	105	-	-	-	105
High risk	-		-	-	-
Default	-	-	-	-	-
Gross amount	**831**	**-**	**-**	**-**	**831**
Loss allowance	-	-	-	-	-
Total carrying amount	**831**	**-**	**-**	**-**	**831**

In millions of EUR, as at 31 December 2018

	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	761	-	-	-	761
Low risk	-	-	-	-	-
Medium risk	103	-	-	-	103
High risk	-	-	-	-	-
Default	-	-	-	-	-
Gross amount	**864**	**-**	**-**	**-**	**864**
Loss allowance	-	-	-	-	-
Total carrying amount	**864**	**-**	**-**	**-**	**864**

E.2.3. Financial assets FVOCI

Financial assets at FVOCI comprise the following:

In millions of EUR, as at 31 December

	2019	2018
Debt securities	1,070	1,162
Government bonds	571	658
Corporate bonds	499	504
Equity securities	8	30
Shares	8	9
Mutual fund investments	-	21
Total financial assets at FVOCI assets	**1,078**	**1,192**

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 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**

In millions of EUR, as at 31 December 2018

Debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	246	-	-	-	246
Low risk	692	-	-	-	692
Medium risk	199	21	-	-	220
High risk	-	4	-	-	4
Default	-	-	-	-	-
Total carrying amount (fair value)	**1,137**	**25**	**-**	**-**	**1,162**

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 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)**

In millions of EUR, for the year ended 31 December 2018

Loss allowance – debt securities and loans at FVOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	(2)	-	-	-	(2)
New originated or purchased	-	(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, as at 31 December

	2019	2018
Gross amount	554	338
Allowance for impairment	(1)	-
Total carrying amount	**553**	**338**
Term deposits at banks	68	14
Minimum reserve deposits with central banks	139	133
Loans to banks	55	54
Loans and advances provided under repos	198	64
Cash collateral for derivative instruments	93	73

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

					2019	2018
Loans to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Very low risk	146	-	-	-	146	110
Low risk	256	-	-	-	256	197
Medium risk	152	-	-	-	152	31
High risk	-	-	-	-	-	-
Default	-	-	-	-	-	-
Gross amount	**554**	**-**	**-**	**-**	**554**	**338**
Loss allowance	(1)	-	-	-	(1)	-
Total carrying amount	**553**	**-**	**-**	**-**	**553**	**338**

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 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)

In millions of EUR, for the year ended 31 December 2018

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

E.4. Loans due from customers

Loans due from customers comprise the following:

In millions of EUR, as at 31 December

	2019	2018
Cash loans	13,930	11,938
Consumer loans	5,071	4,559
Revolving loans	806	529
Car loans	142	110
Mortgage loans	240	208
Loans due from customers – retail (carrying amounts)	**20,189**	**17,344**
Loans to corporations	1,116	1,153
Loans and advances provided under repo operations	10	15
Other	3	1
Loans due from customers – non-retail (carrying amounts)	**1,129**	**1,169**
Total loans due from customers (carrying amounts)	**21,318**	**18,513**

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 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	-	-	-	-	-
Allowance for impairment	**(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 of mortgage loans and car loans

In millions of EUR, as at 31 December 2018

	Cash loans	Consumer loans	Revolving loans	Other*	Total
Gross amount	**13,499**	**5,000**	**595**	**341**	**19,435**
Stage 1	11,020	4,391	463	284	16,158
Stage 2	1,312	220	75	34	1,641
Stage 3	1,167	389	57	23	1,636
POCI	-	-	-	-	-
Allowance for impairment	**(1,561)**	**(441)**	**(66)**	**(23)**	**(2,091)**
Stage 1	(393)	(98)	(11)	(2)	(504)
Stage 2	(303)	(53)	(5)	(1)	(362)
Stage 3	(865)	(290)	(50)	(20)	(1,225)
POCI	-	-	-	-	-
Total carrying amount	**11,938**	**4,559**	**529**	**318**	**17,344**

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.

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 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)**

In millions of EUR, for the year ended 31 December 2018

Loss allowance – Loans to customers - retail	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	**(562)**	**(261)**	**(854)**	**-**	**(1,677)**
Changes in the loss allowance	82	(85)	(865)	-	(868)
Transfer to Stage 1	(1)	2	1	-	2
Transfer to Stage 2	25	(149)	1	-	(123)
Transfer to Stage 3	58	62	(867)		(747)
New originated or purchased	(489)	(186)	(230)	-	(905)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	217	(102)	(226)	-	(111)
Financial assets derecognised	5	1	-	-	6
Write-offs	234	264	930	-	1,428
FX and other movements	9	8	20	-	37
Net change during the period	**58**	**(100)**	**(371)**	**-**	**(413)**
Loss allowance as at 31 December	**(504)**	**(362)**	**(1,225)**	**-**	**(2,091)**

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

Loans to corporations comprise the following:

In millions of EUR, as at 31 December

	2019	2018
Gross amount	1,172	1,219
Allowances for impairment	(56)	(66)
Total carrying amount	**1,116**	**1,153**

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

					2019	2018
Loans to customers – non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Very low risk	143	-	-	-	143	124
Low risk	16	-	-	-	16	13
Medium risk	795	33	-	-	828	867
High risk	54	2	-	-	56	22
Default	-	-	129	-	129	194
Total gross amount	**1,008**	**35**	**129**	**-**	**1,172**	**1,219**
Loss allowance	(6)	(1)	(49)	-	(56)	(66)
Carrying amount	**1,002**	**34**	**80**	**-**	**1,116**	**1,153**

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 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)**

In millions of EUR, for the year ended 31 December 2018

Loss allowance - Loans to customers - non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January	(6)	-	(48)	-	(54)
New originated or purchased	(3)	-	-	-	(3)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	3	-	(12)	-	(9)
Net change during the period	**-**	**-**	**(12)**	**-**	**(12)**
Loss allowance as at 31 December	**(6)**	**-**	**(60)**	**-**	**(66)**

E.5. Trade and other receivables

Trade and other receivables comprise the following:

In millions of EUR, as at 31 December

	2019	2018
Trade receivables	55	59
Accrued income	7	8
Individual impairment	(1)	(1)
Total trade and other receivables	**61**	**66**

E.6. Equity-accounted investees

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

In millions of EUR, as at 31 December

	2019	2018
ClearBank Ltd.	20	17
Other	28	27
Total equity-accounted investees	**48**	**44**

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

	2019	2018
ClearBank Ltd.	(22)	(16)
Other	1	3
Total share of earnings in equity-accounted investees	**(21)**	**(13)**

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, for the year ended 31 December

	2019	2018
Non-current assets	28	16
Current assets	634	82
Current liabilities	(615)	(57)
Net assets (100%)	47	41
Group's share of net assets (39.31%; 2018: 37.70%)	18	16
Goodwill included in carrying amount	2	1
Carrying amount of investment in associate	**20**	**17**
	2019	2018
Total net loss for the period (100%)	(39)	(23)
Group's share on the net loss (39.31%; 2018: 37.70%)	(15)	(9)
Dilution loss	(7)	(7)
Total share in profit/(loss) (39.31%; 2018: 37.70%)	**(22)**	**(16)**

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 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)

The roll-forward of right-of-use assets amounting to MEUR 152 as at 31 December 2019 (1 January 2019: MEUR 173) is disclosed in E.21.1.

In millions of EUR, for the year ended 31 December 2018

	Buildings	Other tangible assets and equipment	Total
Carrying amount			
Balance as at 1 January	64	127	191
Additions	9	66	75
Disposals	-	(20)	(20)
Depreciation charge	(4)	(51)	(55)
Other movements	(8)	7	(1)
Impairment reversal	-	1	1
Effects of movements in exchange rates	(6)	(3)	(9)
Balance as at 31 December	**55**	**127**	**182**
Cost	81	309	390
Accumulated depreciation and impairment	(26)	(182)	(208)

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 2019

	Goodwill	Software	Other intangible assets	Construction 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)

In millions of EUR, for the year ended 31 December 2018

	Goodwill	Software	Other intangible assets	Construction in progress	Total
Carrying amount					
Balance as at 1 January	3	240	3	-	246
Additions	-	62	9	7	78
Additions from internal development	-	43	-	-	43
Disposal	-	(7)	-	-	(7)
Other changes	-	(6)	5	(1)	(2)
Amortisation charge	-	(59)	(2)	-	(61)
Effects of movements in exchange rates	-	(4)	-	(1)	(5)
Balance as at 31 December	**3**	**269**	**15**	**5**	**292**
Cost	3	570	26	5	604
Accumulated amortisation and impairment losses	-	(301)	(11)	-	(312)

E.9. Other assets

Other assets comprise the following:

In millions of EUR, as at 31 December

	2019	2018
Prepaid expenses and advances	111	113
Cash collateral for payment cards	67	57
Other settlement accounts	117	44
Insurance deposits	21	24
Other taxes receivable	6	6
Deferred acquisition costs – insurance business	-	2
Assets held for sale	2	3
Inventories	3	2
Other	27	34
Total other assets	**354**	**285**

E.10. Financial liabilities at fair value through profit or loss

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

In millions of EUR, as at 31 December

	2019	2018
Negative fair values of trading derivatives	191	136
Interest rate derivatives	114	77
Currency derivatives	77	59
Liabilities from short sales of securities	156	486
Negative fair values of hedging derivatives	6	-
Total financial liabilities at FVTPL	**353**	**622**

Details of derivatives are provided in the following tables:

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/cross currency swaps	6,296	52	(38)
Total	**7,374**	**54**	**(77)**
Hedging derivatives			
OTC products:			
Forward exchange contracts	107	-	(4)
Cross currency interest rate swap contracts	58	-	(2)
Interest rate swap contracts	199	4	-
Total	**364**	**4**	**(6)**

In millions of EUR, as at 31 December 2018

Interest rate derivatives	Notional amount	Positive fair values	Negative fair values
OTC products:			
Interest rate swaps	6,703	94	(77)
Interest rate options (purchase)	4	-	-
Exchange-traded products:			
Interest rate futures	53	4	0
Total	**6,760**	**98**	**(77)**
Currency derivatives			
OTC products:			
Forward exchange contracts	1,389	6	(33)
Currency/cross currency swaps	8,573	36	(26)
Total	**9,962**	**42**	**(59)**
Hedging derivatives			
OTC products:			
Interest rate swap contracts	58	4	-
Total	**58**	**4**	**-**

E.11. Liabilities due to non-banks

Liabilities to non-banks comprise the following:

In millions of EUR, as at 31 December

	2019	2018
Current accounts and demand deposits	7,843	6,560
Term deposits	3,652	3,372
Loans received under repos	2,474	1,743
Loans	10	19
Other	1	2
Total liabilities to non-banks	**13,980**	**11,696**

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, as at 31 December

	2019	2018
Repayable on demand	7	3
Loans received under repos	987	2,580
Secured loans (other than repos)	7,424	6,967
Unsecured loans	4,774	4,223
Other	68	76
Total liabilities to banks	**13,260**	**13,849**

As at 31 December 2019 and 2018, 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, as at 31 December

	2019	2018
Fixed rate debt securities		
Within 1 year	1,385	1,114
1-2 years	676	239
2-3 years	82	237
3-4 years	-	14
4-5 years	71	-
Variable rate debt securities		
Within 1 year	28	-
1-2 years	83	62
2-3 years	64	28
3-4 years	-	7
Total debt securities issued	**2,389**	**1,700**

As at 31 December 2019, debt securities issued of MEUR 1,165 (2018: MEUR 896) were secured by cash loan receivables amounting to MEUR 91 (2018: MEUR nil), consumer loan receivables of MEUR 774 (2018: MEUR 555), and cash and cash equivalents amounting to MEUR 300 (2018: MEUR 341).

E.14. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of EUR, 31 December

	Interest rate	Maturity	2019	2018
Bond issue of MCZK 4,000	Fixed	2027	157	155
Bond issue of MEUR 92	Fixed	2028	92	93
Loan participation notes issue 8 of MUSD 200	Fixed	2021	-	139
Bond issue of MCZK 2,000	Fixed	2024	-	53
Bond issue of MCZK 200	Fixed	2029	8	-
Loan (Sprint eBusiness) MUSD 7	Variable	2023	7	7
Loan of MRSD 465	Variable	2024	4	-
Total subordinated liabilities			**268**	**447**

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

The bond issue of MEUR 92 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 Company has an early redemption option exercisable in September 2023.

Subordinated loan participation notes issue 8 was made in October 2013. The Group used an early redemption option exercisable on 17 April 2019 (the reset date).

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

E.15. Trade and other payables

Trade and other payables comprise the following:

In millions of EUR, as at 31 December

	2019	2018
Settlements with suppliers	177	261
Wages and salaries	106	126
Social security and health insurance	11	13
Other taxes payable	58	85
Accrued expenses	91	86
Customer loan overpayments	126	53
Deferred income	5	4
Advance received	-	18
Lease liabilities	155	-
Other liabilities	183	231
Total trade and other payables	**912**	**877**

The other category includes blocked accounts of PPF banka amounting to MEUR 81 (2018: MEUR 193) consisting chiefly of collateral deposits for derivatives totalling MEUR 73 (2018: MEUR 154).

E.16. Insurance and other provisions

Provisions comprise the following:

In millions of EUR, as at 31 December

	2019	2018
Provisions for unearned premiums	37	30
Provisions for insurance commissions return	10	8
Provisions for expected credit losses from loan commitments and financial guarantees	3	2
Provision for litigation except for tax-related litigation	6	7
Other provisions	6	4
Total provisions	**62**	**51**

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

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**

In millions of EUR, for the year ended 31 December 2018

	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	5	9	2	2	18
Adjustment on initial application of IFRS 9	-	-	1	-	1
Provisions created during the year	3	29	2	7	41
Provisions used during the year	-	(28)	-	-	(28)
Provisions released during the year	-	-	(4)	(5)	(9)
Effects of movements in exchange rate	(1)	(2)	1	-	(2)
Balance as at 31 December	**7**	**8**	**2**	**4**	**21**
Non-current (> 1 year)	4	-	1	1	6
Current (< 1 year)	3	8	1	3	15
Total provisions	**7**	**8**	**2**	**4**	**21**

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

In millions of EUR, for the year ended 31 December

	2019	2018
Balance as at 1 January	30	25
Premiums written during the year	24	31
Premiums earned during the year	(21)	(22)
Effects of movements in exchange rates	4	(4)
Balance as at 31 December	**37**	**30**

E.17. Capital issued and share premium

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

The following table provides details of authorised and issued shares:

	2019	2018
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 2019, there was no increase in share premium (2018: cash contribution of MEUR 93).

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 MEUR 80 that is 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 2019, the Group paid dividends amounting to MEUR 5.

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 fair value through other comprehensive income. 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	2019/2018	Netherlands
PPF banka, a.s. (subgroup)	PPFB	2019/2018	Czech Republic
Home Credit Indonesia PT	HCID	2019/2018	Indonesia
Home Credit US, LLC	HCUS	2019/2018	USA

*Home Credit N.V. was contributed to Home Credit Group B.V. in May 2018

The following table summarises the information relating to these subsidiaries:

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	529	114	3	(35)	
Profit/(loss) allocated to NCI	38	6	-	(18)	**26**
OCI allocated to NCI	9	2	-	-	**11**
Dividends paid to NCI	-	-	-	-	-

In millions of EUR

2018	HC	PPFB	HCID	HCUS	**Total**
NCI percentage (effective ownership)	**8.88%**	**7.04%**	**22.55%**	**54.35%**	
Total assets	23,647	9,622	276	91	
Total liabilities	(21,492)	(9,149)	(227)	(72)	
Net assets	**2,155**	**473**	**49**	**19**	
Net assets attributable to NCI of the sub-group	(17)	-	-	-	
Net assets attributable to owners of the Parent	**2,138**	**473**	**49**	**19**	
Carrying amount of NCI	190	33	7	9	**239**
NCI percentage during the period	**11.38%**	**7.04%**	**24.67%**	**55.60%**	
Revenue	5,454	191	142	7	
Profit/(loss)	445	94	5	(47)	
Other comprehensive income	(137)	(26)	-	-	
Total comprehensive income	308	68	5	(47)	
Profit/(loss) allocated to NCI	51	6	-	(23)	**34**
OCI allocated to NCI	(14)	(1)	-	-	**(15)**
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 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)

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

E.21.2. Amounts recognised in profit and loss

In millions of EUR, for the year ended 31 December

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

In 2018, the Group recognised lease expenses of MEUR 207 for operating leases under IAS 17.

Total cash outflow for leases amounted to MEUR 39 for the year ended 31 December 2019.

E.21.3. Extension option

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.

The Group estimates that should it exercise the extension option, potential future lease payments would result in an increase in its lease liability of MEUR 2.

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 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**

For the year ended 31 December 2019, share premium remained at MEUR 2,324 and additional paid-in capital stood at MEUR 80, as neither recorded any movements.

In millions of EUR, for the year ended 31 December 2018

	Debt securities and subordinated liabilities	Due to banks, other financial institution and holding companies	Share premium	Additional paid-in capital	Total
Balance as at 1 January	**1,423**	**11,959**	**2,231**	**-**	**15,612**
Changes from financing cash flows:					
Proceeds from capital contribution	-	-	93	80	173
Proceeds from the issue of debt securities	2,031	-	-	-	2,031
Proceeds from due to banks and other financial institutions	-	14,018	-	-	14,018
Repayment of debt securities	(1,290)	-	-	-	(1,290)
Repayment of due to banks and other financial institutions	-	(11,685)	-	-	(11,685)
Total changes from financing cash flows	**741**	**2,333**	**93**	**80**	**3,247**
Effect of movements in exchange rates and transfers	(15)	(112)	-	-	(127)
Interest expense	114	1,006	-	-	1,120
Interest paid	(116)	(1,337)	-	-	(1,453)
Balance as at 31 December	**2,147**	**13,849**	**2,324**	**80**	**18,399**

E.23. Net interest income

Interest income comprises the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Financial assets at FVTPL	7	7
Financial assets at FVOCI	45	53
Financial assets at AC	15	10
Due from banks and other financial institutions	177	104
Cash loan receivables	4,032	3,465
Consumer loan receivables	1,002	908
Revolving loan receivables	142	106
Car loan receivables	22	19
Mortgage loan receivables	6	5
Loans to corporations	66	68
Total interest income	**5,514**	**4,745**

Interest expense comprises the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Due to customers	286	242
Due to banks and other financial institutions	1,198	1,006
Debt securities issued	141	82
Lease liabilities	10	-
Subordinated liabilities	17	31
Other	13	13
Total interest expenses	**1,665**	**1,374**
Total net interest income	**3,849**	**3,371**

E.24. Net fee and commission income

Fee and commission income comprises the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Insurance commissions	358	551
Penalty fees	129	163
Customer payment processing and account maintenance	57	44
Commission income from partners	57	33
Cash transactions	38	27
Retailers’ commissions	16	17
Other	20	8
Total fee and commission income	**675**	**843**

Fee and commission expense comprises the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Commissions to retailers	21	21
Cash transactions	33	24
Payment processing and account maintenance	60	43
Payments to deposit insurance agencies	30	27
Credit and other register expense	39	41
Other	14	9
Total fee and commission expense	**197**	**165**

Total net fee and commission income	**478**	**678**

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

In millions of EUR, for the year ended 31 December

	2019	2018
Net trading income/(expense)	(30)	(3)
Debt securities trading	20	16
FX trading	14	2
Derivatives	(64)	(21)
Net gains/(losses) on financial assets/liabilities at FVTPL	-	17
Liabilities	-	17
Net realised gains/(losses)	12	2
Financial assets at AC	2	6
Financial assets at FVOCI	4	(3)
Loans and receivables	6	-
Financial liabilities measured at AC	-	(1)
Total net gain/(loss) on financial assets	**(18)**	**16**

E.26. Other income

In millions of EUR, for the year ended 31 December

	2019	2018
Gain on bargain purchase	38	-
Foreign currency gains	-	3
Provision of services to minority partner	13	20
Other	92	17
Total other income	**143**	**40**

E.27. Net impairment losses on other financial assets

In millions of EUR, for the year ended 31 December

	2019	2018
Financial assets at FVOCI	-	1
Cash loan receivables	1,546	1,333
Consumer loan receivables	246	365
Revolving loan receivables	25	18
Car loan receivables	2	-
Mortgage loan receivables	(2)	(2)
Loans to corporations	(3)	11
Due from banks and other financial institutions	-	(2)
Other financial assets*	2	1
Total net impairment losses on financial assets	**1,816**	**1,725**

* 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

	2019	2018
Employee compensation	912	921
Payroll related taxes (including pension contribution)	206	223
Total personnel expenses	**1,118**	**1,144**
Rental, maintenance and repair expense	35	80
Telecommunication and postage	90	77
Professional services	102	71
Information technologies	56	67
Advertising and marketing	69	61
Collection agency fee	65	56
Taxes other than income tax	51	43
Travel expenses	26	26
Net impairment losses on other assets	2	3
Loss on disposal of PPE and intangible assets	2	-
Foreign currency losses	16	-
Other	55	50
Total other operating expenses	**569**	**534**

The average rounded number of employees during the year 2019 was 125 000 (2018: 136,000); three of these employees were employed in the Netherlands (2018: three employees).

E.29. Depreciation and amortisation

In millions of EUR, for the year ended 31 December

	2019	2018
Depreciation of property, plant and equipment	59	55
Depreciation of property, plant and equipment – ROU (IFRS 16)	49	-
Amortisation of intangible assets	80	61
Total depreciation and amortisation	**188**	**116**

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

	2019 Fair value of underlying assets	2019 Carrying amount of corresponding liabilities	2018 Fair value of underlying assets	2018 Carrying amount of corresponding liabilities
Financial assets at FVTPL	-	-	172	145
Financial assets at FVOCI	46	45	403	395
Financial assets received in reverse repos	3,475	3,415	3,933	3,783
Total	**3,521**	**3,460**	**4,508**	**4,323**

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

	2019 Fair value of assets received as collateral (total)	2019 of which: Fair value of assets repledged or sold	2019 Carrying amount of receivables	2018 Fair value of assets received as collateral (total)	2018 of which: Fair value of assets repledged or sold	2018 Carrying amount of receivables
Loans and advances to central banks	7,217	3,475	7,287	7,740	3,933	7,800
Loans and advances to banks	209	-	198	76	-	64
Loans and advances to non-banks	19	-	10	27	-	15
Total loans and advances	**7,445**	**3,475**	**7,495**	**7,843**	**3,933**	**7,879**

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

	2019 Deferred tax liabilities	2019 Deferred tax assets	2018 Deferred tax liabilities	2018 Deferred tax assets
Investment securities	(6)	-	-	-
Loans	(2)	345	(27)	358
Trade and other receivables	-	5	-	-
Property, plant and equipment	(8)	5	(8)	1
Intangible assets	(21)	1	(16)	-
Other assets	(6)	1	(6)	5
Due to banks and other financial institutions	-	-	-	18
Debt securities issued	-	12	-	-
Financial liabilities at FVTPL	(1)	3	-	-
Lease liabilities	(1)	1	-	-
Other liabilities	-	19	(1)	28
Provisions	-	6	(2)	12
Other temporary differences	(3)	49	(2)	49
Value of loss carry-forwards recognised	-	7	-	11
Deferred tax assets/(liabilities)	**(48)**	**454**	**(62)**	**482**
Net deferred tax assets/(liabilities)	**(20)**	**426**	**(9)**	**429**

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

In millions of EUR, for the year ended 31 December

	2019	2018
Net deferred tax assets/(liabilities) as at 1 January	420	324
Deferred tax (expense)/income for the period	(18)	37
Deferred tax recognised directly in equity	(5)	64
Effects of movements in exchange rates	7	(5)
Net deferred tax assets/(liabilities) as at 31 December	**406**	**420**

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

	2019	2018
Current tax expense	(229)	(112)
Deferred tax (expense)/benefit	(18)	37
Total income tax expense	**(247)**	**(75)**

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2019	2018
Tax rate	25%	25%
Profit from continuing operations (before taxation)	754	586
Computed taxation using applicable tax rate	(188)	(147)
Tax non-deductible expenses	(29)	(42)
Non-taxable income	16	9
Withholding tax on dividends	(24)	(5)
Tax rate differences on foreign results	24	15
Tax loss carried forward not recognised	(19)	(7)
Utilised tax loss not previously recognised	-	41
Deferred tax not previously recognised	-	61
Other	(27)	-
Total income tax expense	**(247)**	**(75)**

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 12.50% in Cyprus to 30.00% 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 asset, and if it is not considered likely that taxable profits will be available against which unused tax losses can be utilised, deferred tax assets are not recognised. Deferred tax loss not previously recognised amounting to MEUR 102 substantially decreased the effective tax rate of the Group during

2018, as it became likely that the Group will generate sufficient taxable profits to utilise the tax losses from previous periods.

E.31.3. Tax losses

As at 31 December 2019 the Group incurred tax losses from recent years of MEUR 594 (2018: MEUR 454) available to be carried forward and offset against future taxable income. To the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilised, the deferred tax assets are not recognised. The unrecognised deferred tax assets amount to MEUR 102 (2018: MEUR 80). The unutilised tax losses can be claimed in the period from 2020 to 2025 in the Netherlands (2020 to 2024 in the Czech Republic and Cyprus, and for an indefinite time in Hong Kong and in the Russian Federation) and expire as follows:

In millions of EUR, as at 31 December

	2019	2018
2019	-	8
2020	11	11
2021	21	15
2022	25	12
2023	22	13
2024	28	5
2025	61	17
2026	87	85
2027	2	1
2028	1	-
2029	1	-
Tax losses that can be carried forward indefinitely	335	287
Total	**594**	**454**

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, as at 31 December

	2019	2018
Loan commitments	1,769	927
Revolving loan commitments	1,390	699
Consumer loan commitments	48	68
Cash loan commitments	29	37
Undrawn overdraft facilities	101	51
Term loan facilities	201	72
Capital expenditure commitments	12	7
Guarantees provided	44	63
Non-payment guarantees	21	22
Non-revocable letters of credit	-	1
Payment guarantees	23	40
Total commitments and contingent liabilities	**1,825**	**997**

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

The following table shows secured liabilities:

In millions of EUR, as at 31 December

	2019	2018
Secured bank loans	7,424	6,967
Loans received under repos	3,460	4,323
Debt securities issued	1,165	896
Total secured liabilities	**12,049**	**12,186**

The assets pledged as security were as follows:

In millions of EUR, as at 31 December

	2019	2018
Cash and cash equivalents	809	792
Financial assets at FVTPL (repos)	-	172
Financial assets at FVOCI (repos)	46	403
Loans and receivables due from customers	11,441	9,791
Financial assets in off balance sheet (repo operations)	3,475	3,933
Total assets pledged as security	**15,771**	**15,091**

As of 31 December 2019, cash and cash equivalents of MEUR 809 (2018: MEUR 792) were restricted by borrowing agreements with the creditors in Chinese Home Credit either to the disbursement of loans to retail clients or to the repayment of loans received from creditors. If the cash was used to provide loans to retail clients, the loans were pledged as collateral. Thus, the restriction on the cash effectively increases the creditors' security.

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 are characterised by frequent changes in legislation which are subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during several subsequent calendar years. Recent events within the Russian Federation, 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.

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

Home Credit and Finance Bank LLC, 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, as at 31 December

	2019	2018
Guarantees received	40	85
Loan commitments received	8	11
Value of assets received as collateral (including repos)	9,650	9,373
Total contingent assets	**9,698**	**9,469**

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

Income of the governing bodies and key executive officers received from the Group for the year 2019 was MEUR 28 (2018: MEUR 23).

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

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

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

E.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

	2019	2018
Interest income	1	1
Total revenue	**1**	**1**
Interest expense	(2)	(10)
Other operating expenses	(1)	(1)
Total expenses	**(3)**	**(11)**

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

In millions of EUR, as at 31 December

	2019	2018
Loans due from customers	2	27
Total assets	**2**	**27**
Due to non-banks	(586)	(201)
Subordinated liabilities	-	(51)
Total liabilities	**(586)**	**(251)**

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

	2019	2018
Interest income	8	9
Fee and commission income	8	2
Net gain/(loss) on financial assets	6	(9)
Other income	-	1
Total revenue	**22**	**3**
Interest expense	(4)	(3)
Other operating expenses	(22)	(24)
Depreciation and amortisation	(4)	-
Total expenses	**(30)**	**(27)**

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

In millions of EUR, as at 31 December

	2019	2018
Loans due from customers	135	111
Right of use assets	22	-
Trade and other receivables	6	2
Intangible assets	2	2
Investment securities	50	36
Other assets	-	1
Total assets	**215**	**152**
Due to non-banks	(667)	(139)
Financial liabilities at fair value through profit or loss	(3)	(2)
Subordinated liabilities	(4)	-
Trade and other payables	(39)	(9)
Total liabilities	**(713)**	**(150)**

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 (refer to B.2.2):

In millions of EUR, for the year ended 31 December

	2019	2018
Interest income	14	19
Total revenue	**14**	**19**
Other operating expenses	(6)	(7)
Total expenses	**(6)**	**(7)**

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

In millions of EUR, as at 31 December

	2019	2018
Loans due from customers	212	208
Total assets	**212**	**208**
Due to non-banks	(1)	(2)
Trade and other payables	-	(81)
Total liabilities	**(1)**	**(83)**

On 31 December 2018, the Group acquired a 2.5% stake in Home Credit Group B.V. from a minority shareholder controlled by key management personnel of the Group (refer to B.2.3).

F. Significant accounting policies

F.1. Significant accounting policies

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

F.1.1. Foreign currency

F.1.1.1. Foreign currency transactions

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for the differences arising on the retranslation of 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 fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

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 fair value through profit or loss, are measured initially at fair value plus transaction costs directly attributable to the acquisition or issue of the financial instrument.

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

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 fair value through profit or loss

Financial assets that are at initial recognition mandatorily at fair value through profit or loss 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 fair value through profit or loss.

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

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

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

F.1.2.4. Financial assets at amortised cost

Financial assets at amortised cost 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 amortised cost 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 amortised cost 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 amortised cost are recognised in the income statement.

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

F.1.2.5. Financial assets at fair value through other comprehensive income (FVOCI)

Financial assets at fair value through other comprehensive income 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 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 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 fair value through profit or loss or at fair value through other comprehensive income.

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 amortised cost 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 amortised cost 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 impairment loss 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 or a simple roll rate 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.

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

Depending on the availability of data and the credibility of its sources, the Group analyses historical data 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.

Each estimation of the impact of the macroeconomic forecast on provisioning is also subject to an internal materiality threshold evaluation to avoid any short-term fluctuations in provisioning volumes in cases where the impact of expected macroeconomic situation is considered immaterial. The materiality threshold has been set at 2% of the total provision for each respective Group company and the respective reporting date.

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

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

The Group employs statistical models to analyse the 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.

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.

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.

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.

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 amortised cost: 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

<u>Policy applied after 1 January 2019</u>

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.

Policy applied before 1 January 2019

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and if the arrangement conveys a right to use the assets.

Leases under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment that is required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

Leases of property, plant and equipment where the Group substantially bears all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges to achieve a constant rate of interest. The corresponding lease obligations, net of finance charges, are included in other long-term payables (depending on maturity).

The interest element of the finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or 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 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	5/35 years (non-life/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 fair value through profit or loss.

F.1.15. Other liabilities and provisions

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

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

F.1.16. Insurance provisions

F.1.16.1. Provisions for unearned premiums

Provisions for unearned premiums comprise 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 fair value through profit or loss that are not held for trading, net realised gains, and dividends.

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

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

A realised gain/loss arises on the derecognition of financial assets other than financial assets at fair value through profit or loss. The amount of the realised gain/loss represents the difference between the carrying value of the financial asset and the sale price adjusted for any cumulative gain or loss 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 2019

F.2.1. IFRS 16 Leases (effective from 1 January 2019)

The Group has adopted IFRS 16 which specifies how to recognise, measure, present, and disclose leases. The standard provides a single lessee accounting model requiring lessees to recognise assets and liabilities for all major leases. For the Group accounting policies for leases refer to F.1.8.

Impact of transition to IFRS 16 Leases

Effective from 1 January 2019, the Group adopted IFRS 16 using the modified retrospective approach. Accordingly, the information presented for 2018 has not been restated. The information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

For leases classified as operating leases under IAS 17, upon transition to IFRS 16, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- application of the exemption not to recognise right-of-use assets and liabilities for leases with a lease term of less than 12 months
- exclusion of initial direct costs from measuring the right-of-use asset at the date of initial application
- utilisation of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group also elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4.

The Group applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2019. The following table reconciles the Group's operating lease obligations at 31 December 2018, as previously disclosed in the Group's consolidated financial statements, to the lease obligations recognised upon the initial application of IFRS 16 as at 1 January 2019.

In millions of EUR

	1 January 2019
Right-of-use assets presented in property, plant and equipment	173
Deferred tax asset	-
Lease liabilities	(173)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 6.28%.

In millions of EUR

	1 January 2019
Operating lease commitments as at 31 December 2018 as disclosed in the Consolidated Financial Statements of the Group	(207)
Discounted using the incremental borrowing rate as at 1 January 2019	**24**
Finance lease liabilities recognised as at 31 December 2018	-
Recognition exemption for leases of low-value asset	-
Recognition exemption for leases with less than 12 months of lease term at transition	10
Extension options reasonably certain to be exercised and other	-
Lease liabilities recognised as at 1 January 2019	**(173)**

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised MEUR 152 of right-of-use assets and MEUR 155 of lease liabilities as at 31 December 2019.

Also, in relation to the leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year 2019, the Group recognised MEUR 49 of depreciation charges and MEUR 10 of interest costs from these leases.

F.2.2. Other relevant effective requirements

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

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

These interpretations have been adopted by the EU.

These interpretations did not have a significant impact on the Group’s financial statements.

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

In October 2018, IASB issued amendments to IFRS 9 Prepayment Features with Negative Compensation. These amendments enable entities to measure some pre-payable financial assets with so-called negative compensation at amortised cost.

These amendments have been adopted by the EU.

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

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

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

These amendments have been adopted by the EU.

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

Annual Improvements to IFRS Standards 2015-2018 Cycle (effective from 1 January 2019)

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

These annual improvements have been adopted by the EU.

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

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

In February 2018, the IASB issued narrow-scope amendments to pension accounting. The amendments specify how companies determine pension expenses when changes to a defined benefit pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after a change to the plan.

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

F.3. Standards, interpretations and amendments to published standards that are not yet effective 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 2019 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.

IFRS 17 Insurance Contracts (effective from 1 January 2021)

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IFRS 17 has not yet been adopted by the EU.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

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

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

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

These amendments have been adopted by the EU.

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

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

The IASB has issued narrow scope amendments to IFRS 3 aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments, beside other changes, narrow the definition of a business in the Standard.

These amendments have not yet been adopted by the EU and are not expected to have a significant impact on the Group's financial statements.

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

The amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors, and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the conceptual framework for financial reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

These amendments have been adopted by the Group.

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, to have entities apply those hedge accounting requirements assuming that the interest rate benchmark has not been 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 applied 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 applied the amendments.

These amendments have been adopted by the EU.

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

G. Subsequent events

The Group has evaluated the period after the balance sheet date up through 20 April 2020, which is the date that the consolidated financial statements were issued. It has been determined that other than the following, no subsequent events or transactions have occurred that would require recognition or disclosure in the consolidated 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. In limiting the effects of any possible operational risks, the Group has followed and observed the business continuity protocols, as the health of the Group's employees and clients is its first priority. While preparing the consolidated financial statements, it has been impossible to assess and quantify all possible effects on the Group's operations. The Company will keep the public duly informed of all possible impacts when they can be assessed and if they are material.

Risks related to business operations and business results:

Considering the many macroeconomic projections, a slowdown in economic growth and adverse effects on new business is probable. We can also expect that increased loss events will have an impact on the quality of retail and corporate loan portfolios. Limitations of opening hours and/or complete lock-downs of certain business premises in the individual countries will impact the volume of new business and the renewal of existing business relationships. Should the governmental restrictions be extended to several months, the Group is considering certain measures in respect of operating expenses.

Impact on liquidity and capital:

While a decrease in the portfolio quality is reasonably possible, the Group currently does not expect a significant worsening in timely collections within a one-year period. The Group has sufficient available funds and does not expect to have issues in meeting its obligations when they become due.

The Group believes that it has sufficient capital and liquidity reserves to cover credit losses, capital requirements and any outages of financing sources.

Operational risks:

To manage operational risk, the Group follows and observes the business continuity protocols. The Group continues to run its operations using remote access and taking measures to protect the health of employees working on-site.

Several business premises with direct physical contact with clients have been closed. However, a significant part of their business is being conducted using electronic channels. The Group expects the continuation of these operations.

The Group has separately analysed all risks and severe but plausible scenarios for its business segments and concluded that no material uncertainty pertains to the Group's ability to continue as a going concern, neither on a segment nor on a consolidated level.

20 April 2020

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

PPF Financial Holdings B.V.

Separate financial statements for the year ended 31 December 2019

Chamber of Commerce 61880353
with statutory office in Amsterdam

Company statement of financial position

	Note	31 December 2019 MEUR	31 December 2018 MEUR
ASSETS			
Cash and cash equivalents	5	118	174
Loans receivable	6	386	484
Investment in subsidiaries and associates	7	1,788	1,711
Total assets		**2,292**	**2,369**
EQUITY			
Issued capital*	8	-	-
Share premium	8	2,324	2,324
Additional paid-in capital	8	80	80
Other reserves	8	(434)	(434)
Retained earnings		70	66
Total equity		**2,040**	**2,036**
LIABILITIES			
Subordinated liabilities	9	250	249
Current income tax	12	2	4
Accounts payable		-	80
Total liabilities		**252**	**333**
Total liabilities and equity		**2,292**	**2,369**

* Issued capital is TEUR 45

Company income statement

	Note	2019 MEUR	2018 MEUR
Interest income	11	30	24
Interest expense	11	(10)	(8)
Net interest income		**20**	**16**
Net foreign exchange gain/(loss)		(1)	3
Net gain from sale of associates		-	3
Net impairment gains/(losses) on financial assets		(1)	1
Operating expense		(4)	(5)
Profit before tax		**14**	**18**
Income tax expense	12	(5)	(6)
Net profit for the period		**9**	**12**

Company statement of comprehensive income

	2019 MEUR	2018 MEUR
Net profit for the period	**9**	**12**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**9**	**12**

Company statement of changes in equity

MEUR	Issued capital*	Share premium	Additional paid-in capital	Other reserve	Retained earnings	Total
Balance as at 1 January 2019	**-**	**2,324**	**80**	**(434)**	**66**	**2,036**
Transactions with the owner:						
Dividends to shareholder	-	-	-	-	(5)	(5)
Total comprehensive income:						
Net profit for the year	-	-	-	-	9	9
Balance as at 31 December 2019	**-**	**2,324**	**80**	**(434)**	**70**	**2,040**

* Issued capital is TEUR 45.

MEUR	Issued capital*	Share premium	Additional paid-in capital	Other reserve	Retained earnings	Total
Balance as at 31 December 2017	**-**	**2,231**	**-**	**(434)**	**55**	**1,852**
Adjustment upon initial application of IFRS 9, net of tax	**-**	**-**	**-**	**-**	(1)	(1)
Balance as at 1 January 2018 (adjusted)	**-**	**2,231**	**-**	**(434)**	**54**	**1,851**
Transactions with the owner:						
Contributions for the year	-	93	80	-	-	173
Total comprehensive income:						
Net profit for the year	-	-	-	-	12	12
Balance as at 31 December 2018	**-**	**2,324**	**80**	**(434)**	**66**	**2,036**

* Issued capital is TEUR 45.

Company statement of cash flow

	Note	2019 MEUR	2018 MEUR
Profit from operations (before taxation)		**14**	**18**
Net interest income	11	(20)	(16)
Adjustments for:			
Net (gain)/loss from sale of associates		-	(3)
Effects of foreign currency translation on items other than cash and cash equivalents		1	(3)
Impairment on financial assets		1	(1)
Change in current liabilities		(1)	1
Change in loans receivables		122	(334)
Interest received		6	5
Interest paid		(10)	(7)
Income tax paid		(7)	(6)
Cash flow from/(used in) operating activities		**106**	**(346)**
Investments in subsidiaries and associates	7	(157)	(17)
Cash flow from/(used in) investing activities		**(157)**	**(17)**
Proceeds from share premium increase	8	-	93
Proceeds from other capital contributions	8	-	80
Proceeds from the issue of debt securities	9		129
Dividends paid to shareholders	8	(5)	-
Cash flow from/(used in) financing activities		**(5)**	**302**
Net increase/(decrease) in cash and cash equivalents		(56)	(61)
Cash and cash equivalents as at 1 January		174	235
Cash and cash equivalents as at 31 December		**118**	**174**

NOTES TO THE FINANCIAL STATEMENTS

1 General information

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 20 April 2020.

The main activity of the Company is to act as a holding and financing company.

For another description of the Company see Note A of the notes to the consolidated financial statements for the year ended 31 December 2019.

2 Basis of preparation

2.1 Statement of compliance

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

2.2 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.

2.3 Going concern

These financial statements have been prepared on the basis of the going concern assumption.

3 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 consolidated EU-IFRSs financial statements.

3.1 Investments in subsidiaries and associates

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

3.2 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 Note 13.

3.3 Other accounting policies

Other significant accounting policies are as described in Note F of the notes to the consolidated financial statements for the year ended 31 December 2019.

3.4 Changes in accounting policies since 1 January 2019

The Group adopted IFRS 16, which specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all major leases. As none of the Company's operations comprise acting as a lessee or a lessor, the impact of the transition to IFRS 16 to the Company's individual financial statements was MEUR 0.

4 Risk management

The following section should be read in conjunction with the consolidated financial statements.

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.

4.1 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.

4.2 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 may sometimes use 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.

As at 31 December 2019, the Company was not exposed to interest rate risk arising from debt instruments as all debt instruments (bonds) carry a fixed interest rate.

As at 31 December 2019, 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.

2019 MEUR	**Effective interest rate**	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 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**

2018 MEUR	**Effective interest rate**	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Interest bearing financial assets						
Cash and cash equivalents	0.00%	174	-	-	-	174
Loans receivable	7.28%	391	93	-	-	484
Total interest bearing financial assets		**565**	**93**	**-**	**-**	**658**

In 2019, as well as in 2018, financial liabilities bearing 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 Note 9.

4.3 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.

2019 MEUR	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 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**

2018 MEUR	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Cash and cash equivalents	174	-	-	-	174
Loans receivable	391	-	-	93	484
Total financial assets	**565**	**-**	**-**	**93**	**658**
Subordinated liabilities	1	-	-	248	249
Accounts payable	-	80	-	-	80
Total financial liabilities	**1**	**80**	**-**	**248**	**329**
Net position	**564**	**(80)**	**-**	**(155)**	**329**

4.4 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:

2019 **MEUR**	**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	**375**	**(157)**	**36**	**254**

2018 **MEUR**	**EUR**	**CZK**	**USD**	**Total**
Cash and cash equivalents	174	-	-	174
Loans receivable	451	-	33	484
Total financial assets	**625**	**-**	**33**	**658**
Subordinated liabilities	93	156	-	249
Accounts payable	79	1	-	80
Total financial liabilities	**172**	**157**	**-**	**329**
Net position	**453**	**(157)**	**33**	**329**

4.5 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 Company believes that the carrying amounts of its financial assets and liabilities reasonably approximate their fair values. All the Company's financial assets and liabilities are classified as Level 3 in the fair value hierarchy, and no transfers from Level 3 to other levels occurred either in 2019 or in 2018.

5 Cash and cash equivalents

All cash represents cash deposits with PPF banka a.s. and is freely distributable.

6 Loans receivable

	2019 MEUR	2018 MEUR
Home Credit Group B.V. (EUR)	249	365
PPF Group N.V. (EUR)	2	26
Other external loans (EUR)	99	60
Other external loans (USD)	36	33
	386	484

The loan to Home Credit Group B.V. bears a fixed interest rate of 7.5% p.a. and matures in June 2020. The loan to PPF Group N.V. bears a floating interest rate of 3M Euribor +150 bps p.a. and matures in December 2020. In December 2019, the maturity of the loan owed by Home Credit Group B.V. was prolonged to June 2020.

In 2019, the loan amounting to MEUR 99 bears a fixed interest rate of 7.5% p.a.. The loan amounting to MEUR 36 bears a floating interest rate of 3M Euribor + 254 bps. The loans mature in June 2024 and in December 2020, respectively.

All loans receivables are at Stage 1 with very low risk.

The aggregate gross balance of loans is MEUR 387 (2018: MEUR 484). In 2019, the Company recognised an expected probability-weighted estimate of credit losses relating to these loans of MEUR 1 (2018: MEUR 0).

7 Investments in subsidiaries and associates

	Share	2019 MEUR	Share	2018 MEUR
Home Credit Group B.V.	91.12%	1,655	91.12%	1,605
PPF banka a.s.	92.96%	60	92.96%	60
ClearBank Ltd.	39.31%	68	37.70%	46
Mobi Banka a.d. Beograd	100.00%	5	-	-
		1,788		1,711

Home Credit B.V. was contributed to Home Credit Group B.V. in May 2018. The investment in Home Credit Group B.V. after this transaction was MEUR 1,442. On 31 December 2018, the Group acquired a 2.5% stake in Home Credit Group B.V. from a minority shareholder. The Group increased its shareholding in Home Credit from 88.62% to 91.12%.

The purchase price of the 2.5% stake in Home Credit Group B.V. was payable in three instalments; the first part of the consideration (MEUR 83) was paid on 31 December 2018; the second part (MEUR 80) was initially due in June 2019. The third instalment was defined as an earn-out being equal to 50% of the difference between the current purchase price (the first two instalments) and the market value reached at a possible partial future exit. The earn-out could be in both directions, i.e. either positive or negative.

In April 2019, both shareholders of Home Credit Group B.V. signed an addendum substituting the initially agreed third instalment with an increase in the second instalment by MEUR 50. Therefore, the total consideration for the stake amounts to MEUR 213. The maturity of the second instalment amounting to MEUR 130 was in May 2019.

Part of the consideration amounting to MEUR 69 was settled against the repayment of existing loans.

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 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.

8 Equity

Share capital

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

The following table provides details of authorised and issued shares:

	2019	2018
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.

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 2019 (2018: MEUR 93).

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 MEUR 80. 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 2019, these interest payments are presented as dividends of MEUR 5 in these separate financial statements (2018: nil).

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 2019 is lower than the consolidated result by MEUR 469 (2018: MEUR 465).

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

MEUR	Issued capital *	Share premium	Additional paid-in capital	Revalua-tion reserve	Legal and statutory reserves	Transla-tion 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 TEUR 45

** from the acquisition of Mobi Banka a.d. Beograd (refer to B.2.1 in the consolidated financial statements)

MEUR	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 2018	**-**	**2,324**	**80**	**-**	**-**	**-**	**(434)**	**66**	**2,036**
Adjustment for:									
Net result of subsidiaries in 2018	-	-	-	-	-	-	-	465	465
Reserves related to subsidiaries	-	-	-	1	114	(491)	(84)	690	230
Consolidated balance as at 31 December 2018	**-**	**2,324**	**80**	**1**	**114**	**(491)**	**(518)**	**1,221**	**2,731**

* Issued capital is TEUR 45.

9 Subordinated liabilities

	2019 MEUR	2018 MEUR
Bonds issued	250	249

Bonds of MCZK 4,000 were issued in December 2017 (MEUR 157). They bear a fixed coupon rate of 4.5% p.a. and their final maturity is in December 2027. The Company has an early redemption option exercisable in December 2022. As of 31 December 2019, the amount of MEUR 1 is held by PPF banka a.s. (2018: MEUR 1).

Bonds of MEUR 92 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.

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

MEUR	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**

MEUR	Debt securities and subordinated liabilities	Share premium	Additional paid-in capital	Total
Balance as at 1 January 2018	**119**	**2,231**	**-**	**2,350**
Cash flows from financing activities				
Proceeds from capital contribution	-	93	80	173
Proceeds from the issue of debt securities	130	-	-	130
Total cash flows from financing activities	**130**	**93**	**80**	**303**
Balance as at 31 December 2018	**249**	**2,324**	**80**	**2,653**

11 Net interest income

	2019 MEUR	2018 MEUR
Interest income – loans	30	24
Total interest income	**30**	**24**
Interest expense – bonds	(10)	(8)
Total interest expenses	**(10)**	**(8)**
Total net interest income	**20**	**16**

12 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:

	2019 MEUR	2018 MEUR
Tax rate	25.00%	25.00%
Profit before tax	14	18
Computed taxation using applicable tax rate	(4)	(5)
Tax non-deductible expenses	(1)	(1)
Non-taxable income	-	2
Changes in estimates related to prior years	-	(2)
Total income tax expense	**(5)**	**(6)**

13 Group audit expenses

2019 (TEUR)	**KPMG Accountants N.V.**	**Other KPMG network**	**Total**
	TEUR	**TEUR**	**TEUR**
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**

2018 (TEUR)	**KPMG Accountants N.V.**	**Other KPMG network**	**Total**
	TEUR	**TEUR**	**TEUR**
Audit of financial statements	267	1,625	**1,892**
Other audit engagements	184	527	**711**
Tax advisory	-	433	**433**
Other non-audit services	-	129	**129**
Total	**451**	**2,714**	**3,165**

14 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). 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 2019 and 2018, no remuneration was paid to the members of the Board of Directors.

15 Subsequent events

No subsequent events have occurred after the balance sheet date that would have a material impact on the financial statements.

20 April 2020

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.

1 Provisions in the articles of association governing the appropriation of profit

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

2 Subsidiaries

Refer to the notes to the consolidated financial statements, Note B.1.

3 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 2019 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 2019 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 2019 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 2019;

2 the following consolidated and company statements for 2019: 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
— Group materiality of EUR 42.0 million — Based on net assets (1.25%) — The Company materiality of EUR 11.5 million — Based on total assets (0.5%)

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

Key audit matters
— Valuation of loan portfolio in line with IFRS 9

Opinion
Unqualified

Materiality

Based on our professional judgment we determined the materiality for the consolidated financial statements as a whole at EUR 42.0 million (2018: EUR 83.5 million) and for the company financial statements as a whole at EUR 11.5 million (2018: EUR 6.2 million).

The materiality for the consolidated financial statements is determined with reference to net assets (1.25%). We continue to 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. Following new professional auditing guidelines on applying materiality, we have lowered the materiality applied to the benchmark of net assets of the company.

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 2.1 million and EUR 0.6 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 consolidated 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 either individually financially significant due to their relative size within the Group or because we assigned a significant risk of material misstatement to one or more account balances of the component. 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 4 components with a total coverage of 99% of revenue, 99% of total assets and 92% 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 the risk in the residual population is remote. This coverage is in line with our 2018 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, except for Mobi Banka a.d. Beograd.

The group audit team has set component materiality levels ranging from EUR 4.0 million to EUR 35.0 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, centralized testing of models used to calculate expected credit losses and equity.

We were in close cooperation with Home Credit Group B.V. audit team located in Netherlands with which we discussed the audit work performed. For other components we performed remote reviews. With all component auditors we held conference calls and/or physical meetings. During these meetings and calls we discussed in more detail the planning and the risk assessment phase and the procedures performed including the findings and observations. Based on these meetings and calls we as group auditor assessed the sufficiency of the audit procedures performed.

As a result of the recent CoVid-19 outbreak we had to cancel the original plan to visit the location in Czech Republic and Republic of Serbia. In response, we have increased the frequency and level of detail of communication with group management, and local management and component auditors in Czech Republic and Republic of Serbia. We have requested and obtained from our component auditors more detailed reporting as an alternative measure for the cancelled site visits. Furthermore, the Company included enhanced disclosure on the impact of the CoVid-19 outbreak in the director's report and the subsequent event disclosure in the notes to the financial statements

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.

The audit coverage as stated in the section summary is as follows:

Total assets	**Revenue**	**Profit Before Tax**
99%	99%	92%
Full scope audit	Full scope audit	Full scope audit

Audit scope in relation to fraud

In accordance with the Dutch standards on auditing we are responsible for obtaining a high (but not absolute) level of assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

As part of our risk assessment process we have evaluated events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud ('fraud risk factors') to determine whether fraud risks are relevant to our audit. During this risk assessment we made use of our own forensic specialist.

We communicated identified fraud risks throughout our team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at group level.

In accordance with the auditing standard, we evaluated the fraud risk. The presumed fraud risk on the revenue recognition was not considered a significant risk to our audit. The other fraud risks that are relevant to our audit, are:

— Fraud risk in relation to management override of controls (a presumed risk).

— Fraud risk in relation to management override of Expected Credit Loss provision results.

Our audit procedures included an evaluation of the design, implementation as well as the operating effectiveness of internal controls relevant to mitigate these risks and substantive audit procedures, including detailed testing of high risk journal entries and evaluation of management bias.

We communicated our risk assessment and audit response to management and the Audit Committee. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our procedures to address fraud risks did not result in a key audit matter. However, the procedures to address the significant risk described in the key audit matter related to 'Valuation of loan portfolio in line with IFRS 9' also address the fraud risk in relation to management override of Expected Credit Loss provision results.

We do note that our audit is based on the procedures described in line with applicable auditing standards and are not primarily designed to detect fraud.

Audit scope in relation to non-compliance with laws and regulations

We have evaluated facts and circumstances in order to assess laws and regulation relevant to the company.

We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements based on our general understanding and sector experience, through discussion with relevant management and evaluating the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably:

- Firstly, the company is subject to laws and regulations that directly affect the financial statements including taxation and financial reporting (including related company legislation). We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
- 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.

Auditing standards limit the required audit procedures to identify non-compliance with laws and regulations that have an indirect effect to inquiring of relevant management and inspection of regulatory and legal correspondence, if any.

Our procedures to address compliance with laws and regulations did not result in the identification of a key audit matter.

We do note that our audit is not primarily designed to detect 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 judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matter to 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.

Valuation of loan portfolio in line with IFRS 9

Description

As discussed in section ‘Key business and financial results’ in the Directors’ Report, and Note E.4. to the consolidated financial statements, the loans due from customers amount is EUR 21.3 billion as at 31 December 2019. The amount consists of EUR 20.2 billion loans due from retail customers and EUR 1.1 billion loans due from non-retail customers (corporations). These loans due from customers are measured at amortised cost, less a provision for Expected Credit Losses (‘ECL’) of EUR 1.6 billion. Considerable judgement is exercised in determining the amount of ECL for loans due from customers, which are primarily assessed on a collective basis.

We identified the assessment of ECL on loans due from customers as a key audit matter because there was a high degree of estimation uncertainty as a result of complexity of the models, inputs, assumptions and judgements in measuring the ECL. 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 approach included testing both the design and operating effectiveness of internal controls and substantive audit procedures. As part of our procedures, we identified key IT applications used in the process and tested the relevant general IT and application controls over the key applications used. These IT controls secure proper credit loss statistics and resulting calculations needed to substantiate the main provision parameters.

Our primary procedures to address this key audit matter were performed on the components level and included, amongst others:

— Test of certain internal controls over the Group's ECL process for loans due from customers. 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, the test of 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.

— The test of the completeness and accuracy of relevant data inputs into the ECL model calculation and recalculation of the ECL model output. Furthermore, the evaluation of the the appropriateness of any manual adjustments was performed. The relevant data inputs tested included the relevant loan data, transition matrices, bucketing in days past due, staging, recovery rates and discount rates.

— The involvement of the professionals with specialised skills and knowledge who assisted in, amongst others:

  - evaluating the inputs, 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;
  - evaluating the ECL model calculation to ensure it calculates in the manner as described by the Group's methodology;
  - evaluating the appropriateness and completeness of Group level manual adjustments;
  - for a sample of individual loans, by reference to respective loan files and inquiries of the credit risk personnel:
    - 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;

- 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.

On the Group level, we assessed the work performed on the components level and inspected the components' working papers to ensure they had performed the required audit procedures.

Our observation

Based on our procedures performed, we found management's overall assessment relating to the valuation of loans due from customers within an acceptable range and adequately disclosed in Note E.4. to the financial statements respectively.

Other matter

The impact of uncertainties due to the CoVid-19 on our audit

As disclosed in section 'Recent events, commercial and financial outlook' in the Directors' Report, and Note G. to the consolidated financial statements, CoVid-19 affects the company and results in certain uncertainties for the future financial position and performance of the company. Uncertainties related to the potential effects of CoVid-19 are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the company, the related disclosures and the appropriateness of the going concern assumption of the financial statements. The appropriateness of the going concern assumption depends on assessments of 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 described in the aforementioned disclosure 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 contains 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.

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 PPF Financial Holdings B.V.'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 PPF Financial Holdings B.V. or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

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

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

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

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report on the next page. This description forms part of our auditor's report.

Amstelveen, 20 April 2020

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 judgment 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 PPF Financial Holdings B.V.'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' 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 PPF Financial Holdings B.V.'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 components 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 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.

From the matters communicated with the Board of Directors, 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.