We are PPF.

Another year. Another annual report.
Another set of figures.
But PPF is more than just numbers
and profits.
PPF is the projects we have created.
PPF is the markets we have developed.
PPF is people.

We are PPF.

PPF

PPF GROUP ANNUAL REPORT 2019

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FOREWORD

Dear Friends,

Never in the existence of PPF has there been such a divergence between the world that our Annual Report describes and the world in which it is being published. In 2019, the world was thriving.

As was PPF. We were going from strength to strength as both a creative and progressive force. We had successfully moved forward with several major projects, including the acquisition of the CME media group, a billion-euro bond issue to finance our telco business, and the establishment and successful launch of a new toll system in the Czech Republic. Of course, as happens every year, some of our plans for 2019 were not as successful as we had hoped. We learnt lessons from these achievements and missteps alike.

But that was before coronavirus emerged. For someone like me, who loves to create and build, there is nothing worse than seeing decline and destruction. I have experienced and seen this several times. The pandemic has shown every last one of us how relative the things which we considered essential and constant really are. As a result, we are all now thinking much more about what is truly important in life. Family, children, health, freedom. PPF and I are no exception in this regard. We shall not forget where we came from and what we have been through. This is why the photos in this year's Annual Report are inspired by the places and values that shaped us the most in our youth.

Sometimes I ask myself, "Why do I work so much? Why don't I relax more?" To be honest, first and foremost, I still love what I do. I like thinking about and figuring out how to do things better, differently. I get a thrill from learning and succeeding. I know that there is always more than one path to reach a goal, and I find it rewarding to seek out the best way forward. And then, most importantly, I feel responsibility. Responsibility for others, for my children, for our businesses, and for what we have built at PPF over the course of almost thirty years. I could never have grown PPF alone, without partners, customers, or employees. Success is not an achievement of a single person, but of the cooperation of a team, including family, friends, and the entire Group. I would like to thank them all for this.

When I started doing business thirty years ago, one of my aims was to prove that we Czechs have what it takes to succeed in the world, to be among the very best. PPF managed to do that. We truly are a large global company. But we could never have conquered the world without putting down roots in our home in the Czech Republic. To repeat what I wrote in last year's Annual Report: we must never forget our roots and what has shaped us. This is why we at PPF cultivate Czech potential and why we build on our people, their knowledge, experience, ingenuity, professionalism, creativity, drive and diligence.

We know that every crisis is also an opportunity, and that problems are there to be confronted and resolved.

Life is what we make of it. What our work brings to others. The real and tangible outcomes we can see behind us indicate what lies ahead.

Petr Kellner

We are PPF.

PPF GROUP

GROUP PROFILE

PPF Group's growth rests on the development of traditional and new industries, the building of modern infrastructure, the digital economy and linking up Czech talent and capabilities with global opportunities. PPF Group invests in numerous sectors, encompassing financial services, telecommunications, biotechnology, real estate and engineering. Innovations and advanced technologies, in which PPF Group invests significantly, enable PPF companies to offer highly competitive services that not only deliver value to customers, but often also help to drive forward the entire market. In the countries in which it maintains a presence, PPF Group supports science, education, culture and social issues through non-profit projects and its charity work.

PPF operates in Europe, Asia and North America. PPF Group's assets as at 31 December 2019 amounted to EUR 48.6 billion. PPF Group's corporate ownership and management structure is in the Netherlands. PPF Group N.V., headquartered in Amsterdam, is the key PPF Group holding company where strategic decisions governing the entire Group's operations are taken. In the Czech Republic, PPF Group paid CZK 6.9 billion in taxes and levies in 2019.

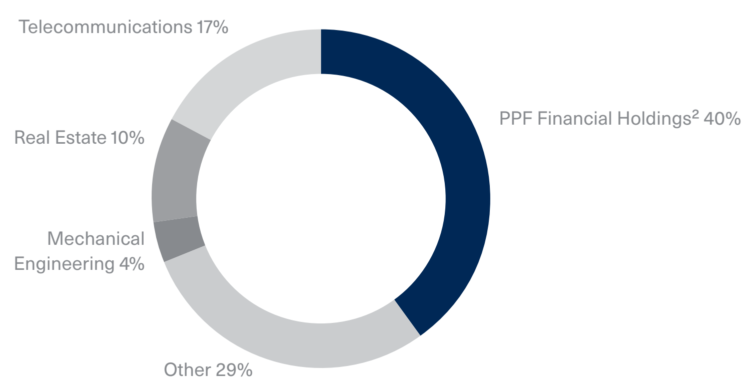
DESCRIPTION OF THE COMPANY PPF GROUP N.V.

Date of incorporation	29 December 1994
Registered office	Strawinskylaan 933, 1077XX Amsterdam, Netherlands
Registration number	33264887
Basic share capital	EUR 624,010
Business	Holding company for the Group, financing

SELECTED FINANCIAL HIGHLIGHTS OF PPF GROUP

EUR millions, based on IFRS	2019	2018	2017
Assets	48,614	45,055	38,222
Equity	8,797	7,485	6,907
Revenue	10,149	8,638	6,506
Profit after tax	935	815	642

Segments by equity value[1]



[1] As at 31 December 2019

[2] Home Credit, Air Bank, Zonky, PPF banka, ClearBank, Mobi Banka

SHAREHOLDERS

Petr Kellner

Founder and majority shareholder, PPF Group N.V.
(share of voting rights: 98.93%)

Born in 1964; graduated from the Faculty of Industrial Economics, University of Economics, Prague, in 1986. He is one of PPF Group's founders and was chairman of the Board of Directors of PPF a.s. from January 1998 to March 2007. He was a member of the Board of Directors of Assicurazioni Generali from April 2007 to March 2013. Petr Kellner oversees the Group's strategic development and its future direction.

Ladislav Bartoníček

Shareholder, PPF Group N.V.
(share of voting rights: 0.535%)

Born in 1964; a graduate of the Faculty of Electrical Engineering, Czech Technical University, Prague. He joined PPF investiční společnost a.s. in 1991 as an executive director. He was awarded an MBA by the Rochester Institute of Technology, New York, in 1993. From 1996 to September 2006, he served as chief executive officer of the insurance company Česká pojišťovna a.s. In 2007, he was appointed CEO and a member of the Board of Directors of Generali PPF Holding N.V. (GPH), one of the largest insurance groups in Central and Eastern Europe, which was established as a joint venture of PPF Group and Assicurazioni Generali. He held his CEO position at GPH until March 2013. From March 2014 to February 2018, he was CEO of SOTIO a.s., PPF Group's biotechnology company. Since 2018, he has been responsible for telecommunications at the Group. Ladislav Bartoníček has been a shareholder of PPF Group since 2007.

Jean-Pascal Duvieusart

Shareholder, PPF Group N.V.
(share of voting rights: 0.535%)

Born in 1966; a graduate of the University of Chicago (MBA) and the Catholic University of Louvain, Belgium, where he majored in Commercial Engineering. He joined the consulting company McKinsey in 1992. He was a managing partner at McKinsey Prague between 1999 and 2005, when he assumed leadership of McKinsey CIS and Central Europe. He has advised banks, insurance companies, and industrial companies in Russia, the Czech Republic, Slovakia, Hungary, Poland, and Romania. He has been a PPF Group shareholder since 2010. In January 2020, he was appointed as CEO of Home Credit N.V.

PETR KELLNER

"Life is what we make of it. What our work brings to others. The real and tangible outcomes we can see behind us indicate what lies ahead."

Founder and majority shareholder,
PPF Group N.V.

LADISLAV BARTONÍČEK

“The things that you have to work on the most will bring you the greatest satisfaction.”

Dolní Poberouní is perhaps the most beautiful piece of countryside near Prague, offering a unique combination of the River Berounka and the Brdy Hills. I have lived here for over 25 years and, as we raised our children here, I think of this place as home.

I grew up in Libčice nad Vltavou, a small town where, as children, our expeditions and adventures were fixated on the River Vltava. Rivers – these days the Berounka – continue to fascinate me. Sometimes they adapt to their surroundings; other times they shape them. They are a flowing, ever-changing force. A river is defined moment by moment, each instant determining what the river is to be and prompting what will happen in the next. Life is much the same: every minute ushers in something new and determines what is to come. And, like the story of a river, I too have been and continue to be shaped by the people I encounter – family, teachers, colleagues, friends and enemies, and, vice versa, I influence the people around me.

In my life, my greatest satisfaction has always been derived from the things I have had to work on the most and put real effort into. It is marvellous to see the trail you leave behind you, creating an interesting and pleasant landscape.

Shareholder, PPF Group N.V.

JEAN-PASCAL DUVIEUSART

“In the end, everything will turn out well.”

I see the playground at my children's school as a symbol of education and joy: values that mean a lot to me as a father of five. I have moved many times in my life and my family has come with me. My home, then, is not connected to any specific place. Rather, I feel at home wherever my family is. My children are growing up in a global world. They frequently move to new environments and cultures, adapting constantly. No one can tell where their homes will be and how their lives will turn out. I just remind them that they will experience the joy of feeling “home” anywhere as long as they are ready. That is why I guide them to work hard, build their future, and find their own path to happiness. And last but not least, not to forget to do good things along the way.

Shareholder, PPF Group N.V.

GOVERNING BODIES

GOVERNING BODIES OF SELECTED COMPANIES

PPF Group N.V.

Aleš Minx
Chairman of the Board of Directors

Jan Cornelis Jansen
Member of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

František Dostálek
Chairman of the Supervisory Board

Kamil Ziegler
Member of the Supervisory Board

Lubomír Král
Member of the Supervisory Board

PPF Financial Holdings

Kateřina Jirásková
Member of the Board of Directors

Lubomír Král
Member of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Jan Cornelis Jansen
Member of the Board of Directors

Paul de Reijke
Member of the Board of Directors

Home Credit

Jiří Šmejc
Chairman of the Board of Directors

Jean-Pascal Duvieusart
Member of the Board of Directors and CEO

Mel Carvill
Member of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Kateřina Jirásková
Member of the Board of Directors (from June 2019)

Arundhati Bhattacharya
Member of the Board of Directors (from June 2019)

Shao Zili
Member of the Board of Directors (from June 2019)

Ben Shenglin
Member of the Board of Directors (from June 2019)

Tan Siew Boi
Member of the Board of Directors (from June 2019)

PPF banka

Petr Jirásko
Chairman of the Board of Directors

Jaroslava Studenovská
Vice-Chairwoman of the Board of Directors

Miroslav Hudec
Member of the Board of Directors

Gabriela Mošovská
Member of the Board of Directors

Igor Kottman
Member of the Board of Directors

Air Bank

Michal Strcula
Chairman of the Board of Directors

Luboš Berkovec
Member of the Board of Directors

Pavel Pfauser
Member of the Board of Directors

CETIN

Juraj Šedivý
Member of the Board of Directors (from January 2019)

Filip Cába
Vice-Chairman of the Board of Directors (from January 2019)

Michal Frankl
Member of the Board of Directors

Telenor CEE

BULGARIA
Jason King
Chairman of the Board of Directors

Marek Sláčík
Member of the Board of Directors

Jan Hanuš
Member of the Board of Directors

HUNGARY
Jan Hanuš
Chairman of the Board of Directors

Marek Sláčík
Vice-Chairman of the Board of Directors

György Koller
Member of the Board of Directors

SERBIA
Mike Michel
Member of the Board of Directors

Marek Sláčík
Member of the Board of Directors

Jan Hanuš
Member of the Board of Directors

MONTENEGRO
Mike Michel
Member of the Board of Directors

Sasa Filipović
Member of the Board of Directors

Vanja Stanković
Member of the Board of Directors

Branko Mitrović
CEO

PPF Real Estate Holding

Jan Cornelis Jansen
Member of the Board of Directors

Paul de Reijke
Member of the Board of Directors

Jean-Pascal Duvieusart
Member of the Board of Directors

Menno Ferdinand Verhoeff
Member of the Board of Directors

Škoda Transportation

Petr Brzezina
Chairman of the Board of Directors

Tomáš Ignačák
Vice-Chairman of the Board of Directors

Jan Menclík
Member of the Board of Directors

Zdeněk Sváta
Member of the Board of Directors

Jaromír Šilhánek
Member of the Board of Directors
(until 1 February 2019)

Zdeněk Majer
Member of the Board of Directors
(from 1 February 2019)

CzechToll

Jan Harrer
Executive Director

Matej Okáli
Executive Director

SOTIO

Pavel Solský
Chairman of the Board of Directors

Vladimír Prunner
Member of the Board of Directors

Richard Kapsa
Member of the Board of Directors

PPF a.s.

Kateřina Jirásková
Chairwoman of the Board of Directors

Vladimír Mlynář
Member of the Board of Directors

Lubomír Král
Member of the Board of Directors

PPF Advisory (Russia) Limited

Martin Schaffer
Executive Director

ALEŠ MINX

“The root of man is man himself.”

I went to university in the Žižkov district of Prague. I lived in the Jarov halls of residence and Žižkov essentially became my home from home for that time. Good old Žižkov was rather scruffy back then. With its marvellous run-down nooks and crannies and quirky inhabitants, it entertained me as much as my studies. It was here that I frequented the local legendary pubs, made lifelong friendships, and established what were to become – though it was hard to imagine at the time – future business contacts. I had no idea how fateful meeting my classmate Petr Kellner would be for me and how much and for how long my life would be connected with PPF, whose first office, coincidentally, was also in Žižkov. Both Žižkov and PPF, where I dropped anchor a few years after graduation, have changed beyond belief since then, but it is always a pleasure to come back to both again and again.

Chairman of the Board of Directors
PPF Group N.V.

KATEŘINA JIRÁSKOVÁ

“What doesn’t kill you makes you stronger.”

For me, my grammar-school days in Benešov were mainly about being part of a great bunch of people in class and on the basketball court. They remain my friends to this day. With hindsight, this was also the first time I realised that, whatever you do, a good team will give you a firm basis. My first summer jobs taught me that if I wanted something, I had to work for it. Whether at school, in sport, or anywhere else. My time at grammar school served as a foundation I continue to build on today. I am now a proud mother of two sons and I try to instil certain ground rules in them that will benefit them in life: no pain, no gain; honesty is the best policy; and always be sure to greet and thank people clearly and distinctly. Most of all, I tell them that I will always love them and that they should not be afraid to come to me whenever anything is troubling them. Just as I strive to be open-minded in my sons’ upbringing, I also try to remain open to suggestions at work, because I know that we can get where we want to be by following more than one path.

Chairwoman of the Board of Directors, PPF a.s.
Chief Financial Officer

LADISLAV CHVÁTAL

“Whatever you do, always do it to the best of your ability.”

Games of chess, a pastime I enjoyed in my youth, gave me the solid grounding I needed for my work at PPF. We have to look at the whole chessboard, consider multiple scenarios, and think several moves ahead. It's a fair game in which intellect and concentration win. In business, too, we try to apply all these principles in order to achieve success. In contrast, nature and farming are an environment where the influence of natural conditions is a factor that has an impact beyond these principles. This makes me look at the world from a different perspective and think differently. Nature should be treated with great humility: we do not stand alone in determining whether and how much we are successful – a mathematically well-thought-out plan will not spell triumph. How well we do also depends on the sun, the rain and many other natural factors, on which we have only a limited influence. We can only influence how well we do things ourselves. Farming amid natural influences and beauty gives my life a new perspective. A good result evokes a feeling of inner happiness and energises me.

Chairman of the Supervisory Board, PPF banka
Chairman of the Supervisory Board, Škoda Transportation
Chief of Special Situations

LUBOMÍR KRÁL

“Nothing in life is free.”

I grew up in Písek, the Athens of South Bohemia. As a town with a high concentration of secondary schools, it was teeming with young people and I remember how great an atmosphere it had. People I met during my time at grammar school in Písek have remained lifelong best friends. It was the place where I experienced the Velvet Revolution, where I had my first date, and where I got drunk for the first time – all very defining moments for my future life.

I then chose to study law not because it was something I consciously aspired to, but because I wanted to avoid mathematics at all costs. Although I later realised that law was neither an easier nor a simpler path of study, in the end this is where I found my calling. Law has the same firm logic, dogmas, clear rules and overarching principles as algebra, but it is a creative environment that is constantly evolving and forcing you to develop and educate yourself. We are not particularly keen on dogma at PPF, but in my path through life there is definitely one dogma I honour and respect: nothing is free.

Member of the Board of Directors, PPF a.s.
General Counsel

MARTIN SCHAFFER

“Life can be tough.”

I started my career at the Medical Faculty of Charles University, a place steeped in tradition, where theory and practice have been yoked to each other for many years. For me, this is a symbol of how we are constantly moving forward in our knowledge. And that if we stop, knowledge goes on without us. It became embedded in me during my arduous years as a student of medicine that, if you want to achieve results in any field, you have to approach your goal thoughtfully and with the required effort.

That's why, when it comes to work, study or sports, I always try to take that extra step or two more than others. This is the core value that I try to instil in my children – to achieve any objective, you must be willing to exert more effort than others and outdo even yourself.

Executive Director
PPF Advisory (Russia) Limited

VLADIMÍR MLYNÁŘ

“No one said it would be easy.”

Prior to 1989, I worked in the boiler room, or more precisely the heat exchanger, at Prague’s Motol Hospital. I was in my early twenties and the boilermen here taught me not only to repair the pipes, but also lots of vulgar jokes that were to come in handy later on in life. I have never read as many books as I did during the night shifts. I learnt that, when all is said and done, the essentials are the same everywhere, no matter what job you’re doing and how much you get paid for it. That neither the world nor people are black or white, and that evaluations and assumptions based on rash judgements make no sense. And also that you should always try to think beyond established clichés.

Member of the Board of Directors, PPF a.s.
Chief of Government and Public Affairs

JIŘÍ ŠMEJC

“A happy life lies in the ability to enjoy special moments every day.”

The Faculty of Mathematics and Physics, Charles University. My alma mater. It was here that I met the people who would influence my entire life. I remember, for example, how I was once sitting with a few classmates, having a beer with Zdeněk Hedrlín, one of the senior lecturers, when he casually observed: “You all think how smart you are, but could you earn a million crowns?” Today I realise that this sentence must have been one of the main impetuses for me to subsequently start up in business.

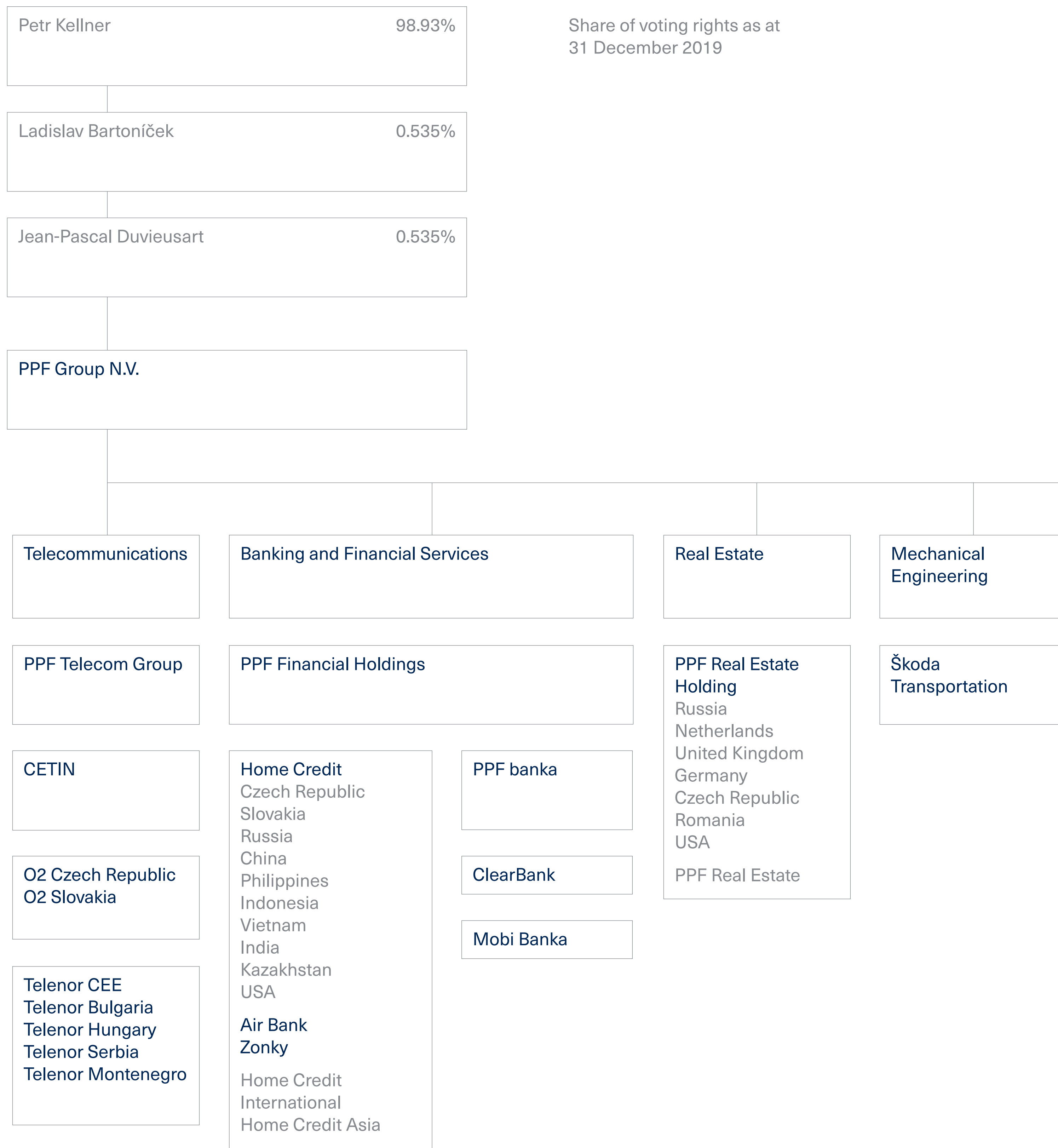
Professor Hedrlín also taught me another crucial point: how decisive a role variability plays in the quality of life. In other words, the more things you try out in life, the more valuable a life you lead. This is precisely what I called to mind when I was travelling around Europe as a student with a violin on my back, when I set up my first small business in 1991, when I found myself co-owning Nova TV at the age of 27, and when I accepted an offer to relocate to Russia and manage PPF Group’s assets there, which at the time was a ticket to really big international business.

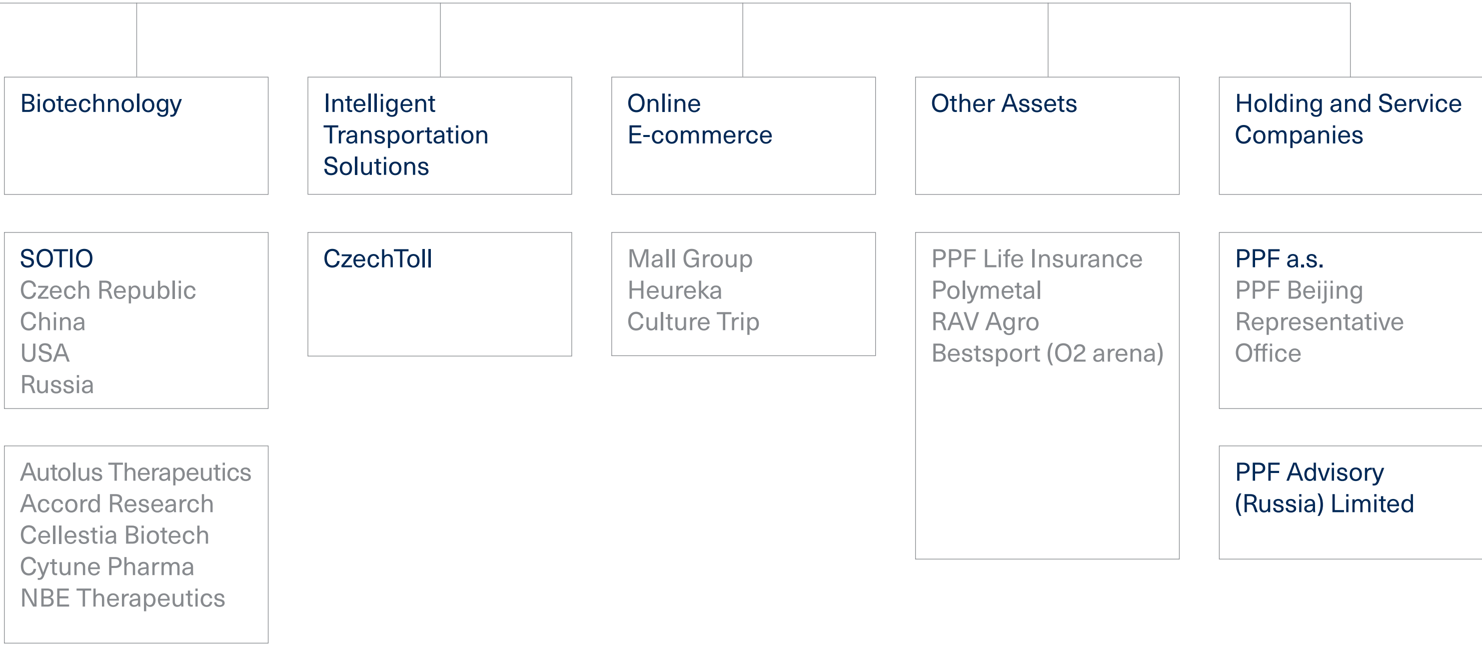
Finally, I recall this in the moments I spend with my children. There is so much they should know in order to one day become mature, contented, decent people.

Chairman of the Board of Directors
Home Credit

PPF GROUP MAJOR ASSETS

PPF GROUP MAJOR ASSETS




Biotechnology
Intelligent Transportation Solutions
Online E-commerce
Other Assets
Holding and Service Companies
SOTIO
Czech Republic
China
USA
Russia
Autolus Therapeutics
Accord Research
Cellestia Biotech
Cytune Pharma
NBE Therapeutics
CzechToll
Mall Group
Heureka
Culture Trip
PPF Life Insurance
Polymetal
RAV Agro
Bestsport (O2 arena)
PPF a.s.
PPF Beijing Representative Office
PPF Advisory (Russia) Limited

SELECTED PPF GROUP COMPANIES

PPF FINANCIAL HOLDINGS

PPF Group's core business is financial services and banking. Successful growth in this area benefits from the emphasis on client needs, investment in innovation and digital technologies, and the ever-evolving range of modern financial services. In the markets where it operates, PPF Group focuses on programmes to support financial literacy and responsible personal finance management.

PPF Financial Holdings B.V. overarches investments in the financial sector: PPF banka, Home Credit, including Air Bank, Zonky, and ClearBank. In 2019, Serbia's Telenor Bank joined this financial subgroup and was subsequently renamed Mobi Banka a.d. Beograd.

PPF Financial Holdings B.V. is classified as a financial holding company and, as such, it is subject to consolidated prudential requirements pursuant to Regulation (EU) No 575/2013 of the European Parliament and of the Council, with the Czech National Bank as the consolidating supervisor. In accordance with the Banks Act, PPF banka is the entity liable for the PPF Financial Holdings financial subgroup.

PPF Financial Holdings is classified by the Czech National Bank as "other systemically important institution", which implies stricter regulatory requirements, especially in the areas of capital, liquidity, large exposures, internal management and control systems.

ClearBank

A digital bank based in the United Kingdom, ClearBank is subject to joint regulation by the local authorities responsible for supervising the financial markets: the Prudential Regulation Authority and the Financial Conduct Authority. Since 2017, this newly established bank has been providing corporate customers with clearing and settlement services as part of its core business model. As at 31 December 2019, PPF Group held a 39.3% stake in ClearBank.

Mobi Banka

Mobi Banka specialises in the provision of innovative online financial services; it is the first fully mobile/online bank on the Serbian market. It enjoys unique business synergy with the telecommunications services provided in Serbia by Telenor, also owned by PPF Group. This universal retail bank currently has more than 450,000 clients. As at 31 December 2019, it was managing assets worth EUR 170 million.

On 10 October 2019, further to a decision by PPF Group as the shareholder, and following approval of the necessary administrative processes by the competent regulators in Serbia, the then Telenor Banka started the process of rebranding in order to become Mobi Banka. The renaming of the bank was accompanied by a large-scale communication campaign. On the very first day of the campaign, the bank's innovated website was launched, followed eight days later by its mobile app. There was active and transparent communication with Telenor Banka's existing clients across various channels, including social media and a bank call centre. In mid-October, a massive advertising campaign was launched to deliver the main message that the synergy between the services of the telecommunications operator Telenor and Mobi Banka was continuing.

HOME CREDIT

Home Credit Group B.V. ("HCGBV") is one of the leading global providers of consumer credit with a focus on emerging markets. Home Credit's mission is to lend responsibly, primarily to individuals with little or no credit history, through an omni-channel distribution model both online and offline.

Home Credit aspires to change the way the world shops by providing consumer finance products that are readily accessible and affordable for customers. As a group, Home Credit manages and centrally develops a number of processes and solutions which are then adapted to each local market with the aim of providing a seamless experience across relevant touch-points, while becoming more agile and innovative in an ever-evolving digital world. Its inclusive approach to lending services is made possible by superior data analytics and technology to process high volumes of data on potential customers' behavioural patterns. This gives it the strong predictive power required to take decisions on potential loans.

HCGBV is a parent holding equity stakes in leading consumer finance companies in 10 countries worldwide. Home Credit has banking licences in the Czech Republic, Russia and Kazakhstan. Home Credit operates in countries with high growth potential, a combined population of approximately 3.4 billion, above-average GDP growth and low consumer finance penetration rates. HCGBV's operating companies are leaders on their markets for POS lending.

Home Credit primarily markets three types of unsecured consumer finance loan products: POS loans, cash loans and revolving loans. For many loan customers, Home Credit has been the first formal/regulated institution to extend credit to them, providing them with their positive borrowing experience anywhere. In 2019, repeat customers accounted for approximately 67% of new loan volumes.

The Group has been growing its omni-channel distribution capacity both offline, online and online-to-offline, leveraging a growing number of diverse corporate partnerships with the likes of telco companies and retailers to distribute products to customers. Online, Home Credit partners with more than 1,000 e-shops and e-commerce portals to distribute products. Home Credit also has a unique reach in the offline world with a capacity to offer services at more than 477,000 points of sale operated by retail chains and local and small businesses. With an increasing proportion of customers buying products or services over the internet, including through mobile apps, online sales channels have become an essential part of the omni-channel offering. Online sales include online points of sale, Home Credit's mobile apps, own or third parties' websites, and telemarketing and SMS.

In 2019, Home Credit entered into a number of important partnerships, including with Webank in China or Vodafone in India.

In 2019, HCGBV continued to deliver strong performance. Total assets grew by 12% from EUR 23.6 bn at the end of 2018 to EUR 26.6 bn at the end of 2019, driven by the 16% growth in net loans from EUR 17.5 bn to EUR 20.2 bn in the respective periods. Among the three loan categories, cash lending grew by 17% and revolving products by 51%.

The Group's profit before tax grew by 31% from EUR 469m in 2018 to EUR 613m in 2019, demonstrating the continued strength of the Group's business model. However, the Group's net income decreased slightly from EUR 422m in 2018 to EUR 400m in 2019, primarily due to the decrease in fee income in China following certain regulatory changes, and due to the increase in the tax expense compared to the previous year. Despite these headwinds, the Group was able to deliver an ROAA of 1.6% and an ROAE of 15.8% for 2019.

Each of Home Credit's geographic clusters, as well as countries in the emerging markets, was profitable in 2019. The Group retained its leadership position in POS lending, ranking number one in all markets in which it operates except India, where it ranks number two.

The new business volume in 2019 was EUR 21.4 bn and total assets and equity were EUR 26.6 bn and EUR 2.9 bn, respectively. The total number of customers served stood at 132 million at the end of 2019. During the year, Home Credit granted close to 27 million loans, or one loan every second.

Technology was further deployed across the Group, in particular in antifraud processes, through the use of biometrics and OCR. Voicebots and chatbots are now widely in use for the early part of collection processes, supporting higher activity volume at lower cost with no negative impact on customer satisfaction.

During the year, Home Credit obtained a new credit card licence in the Philippines and rolled out new revolving products in CEE, CIS and China, many of which have been marketed successfully and proved hugely successful among customers. Revolving products saw strong growth in the CEE and CIS, with a number of new features launched successfully, as well as in China after the introduction of new payment products embedded in the Home Credit app.

HCGBV's corporate social responsibility philosophy is centred on promoting financial inclusion, and specifically on creating conditions that will facilitate financially inclusive societies. There are three broad pillars under which these activities fall: (i) education (and financial literacy in particular); (ii) poverty reduction; and (iii) direct aid to communities. In 2019, Home Credit engaged in more than 30 programmes in various forms, reaching over 3 million people. Each of the countries where Home Credit operates runs financial literacy programmes tailored to their cultural landscape.

Key Business Highlights (consolidated)

EUR millions	2019	2018
PPF Group share	91.12%	91.12%
Operating revenue	4,249	3,953
Profit after tax	400	422
Total assets	26,590	23,647
Total equity	2,873	2,154
Year-end number of employees	124,000	125,000

In 2019, Home Credit significantly scaled up its presence in the digital realm. By deploying advanced technology across its global platform, the company achieved a balance between online (48%) and offline (52%) sales channels. Moving with the trend of advances in broader financial ecosystems, popular marketplaces – which aggregate goods available from different retailers through financing – were rolled out to all its countries and were integrated into its powerful apps. Meanwhile, the Group maintained its leadership in POS lending, ranking first on all its markets except India, where it is second and growing rapidly.

AIR BANK

Air Bank is a new-generation retail bank. Since 2011, in pursuit of the vision to be the first bank people can love, it has been competing with traditional banks by offering simple, innovative services and maintaining a friendly approach to clients, for which it has won many awards.

In 2019, Air Bank again managed to acquire new business, increasing the volume of lending and generally upping revenues from ordinary retail banking.

At the end of 2019, eight years after its inception, Air Bank had more than 788,000 clients served by 798 employees at 35 branches distributed among the Czech Republic's largest towns and cities. Last year, Air Bank attracted 115,000 new customers, tantamount to 17% year-on-year growth.

In 2019, Air Bank made a net profit of CZK 1.5 billion, with operating costs of CZK 1.6 billion and revenues of CZK 3.5 billion. Total assets came to CZK 118.7 billion, a 6% year-on-year increase. The bank's equity rose by 27% to CZK 9.8 billion. Total profit went up by 7% year on year. Current-account and savings-account deposits climbed by 5% to CZK 107.1 billion in 2019. Lending expanded by 19% to CZK 55.3 billion.

Air Bank offered its clients a raft of new services in 2019. It was the first domestic bank to launch instant payments. It was also among the first banks to make Apple Pay extremely popular in the Czech Republic. As the year progressed, it also added other similar tools, such as Google Pay, Garmin Pay and Fitbit Pay. It launched multi-banking and connected all the major banks (from which most clients come to Air Bank) to it. Since April 2019, clients over 15 years of age have also been able to open a current account with Air Bank. One major innovation with a direct impact on Air Bank's growth was the launch of the possibility of opening an account in the My Air mobile app.

Key Business Highlights

EUR millions	2019	2018
PPF Group share	91.12%	91.12%
Net profit	58	56
Total assets	4,671	4,364
Equity	386	301
Number of employees	798	778

In 2019, Air Bank won many awards from both industry professionals and the general public. Půjčka od Air Bank (Air Bank Loan) was again rated as the most fair in the Responsible Lending Index compiled by People in Need. In industry competitions, Air Bank was named Best Bank, Bank of the Year, Customers' Bank and Most Amenable Bank. Air Bank services such as its current account, mobile applications and instant payments took first place in the Zlatá koruna (Golden Crown) contest. For the second time, the bank was the outright winner of a study of companies delivering the best customer experience in the Czech Republic.

MICHAL STRCULA

Chairman of the Board of Directors, Air Bank

“Fall asleep with a dream, wake up with a purpose.”

This is my home, where I now live with my family. My life revolves around my family – it is the most important thing I have. I believe that I am where I am today thanks to two values. Family is central to both of them. Personal responsibility is about always starting with yourself. That's the only thing you can really reliably influence. Older generations in particular lived by it. Whenever my grandparents had a goal, they would get up and set to work on achieving it. For me, integrity means that your thoughts, words and actions are in unison. Children are my inspiration when it comes to integrity: up to a certain age, they do not hide anything – they say and do whatever they are thinking. I emphasise to them that it is important to have dreams, but it is more important to actually go and do something to make them a reality.

PPF BANKA

PPF banka is a modern bank for unique clients from the corporate, public and private sectors who appreciate its professional and individual approach. Its services are based on professional expertise, singular solutions and sophisticated financial operations. It regularly earns plaudits for its activity in the financial markets.

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

In 2019, PPF banka's earnings again exceeded CZK 2 billion, with profit after tax coming to CZK 2,088,000. The total comprehensive income, at CZK 2,677 million, was the highest ever reported by the Bank. Total assets dipped to CZK 227 billion. The volume of lending climbed by almost 7% to CZK 37 billion. The return on equity (ROE) in 2019 was 16%. The total capital adequacy ratio came to 18.27%.

PPF banka was also involved in many securities issues. For example, it was the joint lead manager for an issue of PPF Telecom Group (formerly PPF Arena 1) bonds totalling EUR 1.05 billion, and the arranger and distributor for a CZK 1.5 billion Air Bank bond issue. In addition, it marketed investment certificates with underlying assets in the form of PPF Group members' debt totalling CZK 1.1 billion. PPF banka also placed on the market other private issues of bonds and investment certificates worth CZK 2.6 billion.

PPF banka is entering the years ahead well capitalised and with the ambition of making further investments in new technologies and projects that will make it more efficient.

Key Business Highlights

EUR millions	2019	2018
PPF Group share	92.96%	92.96%
Net profit	81.3	85.9
Total assets	8,932	9,150
Equity	563	452
Number of employees	237	248

PPF banka's very good financial performance in 2019 was mainly due to the strong growth of net interest income, which climbed by 18% year on year to CZK 4.1 billion. In October 2019, PPF banka became one of the first Czech banks to launch an instant payment system, enabling customers to make transfers within seconds, 24 hours a day, 7 days a week. It was also very active on the financial markets, where, according to an evaluation by the Ministry of Finance, it again ranked among the top three dealers on the primary Czech government bond market.

PETR JIRÁSKO

Chairman of the Board of Directors, PPF banka

"The biggest mistake you can make in life is to always be afraid of making one."

One of the many jobs I had while I was studying at the University of Economics was in a bank's dealing department. These were important moments in my financial education and understanding of the value of money. Looking back, I consider them an important and formative experience – student jobs helped me to embark on a path that I would find rewarding and that I would want to pursue in my professional life. Dealing – my first contact with the world of big finance – fascinated me. To this day, dealing carries a lot of emotion for me, as it combines adrenaline and responsibility: you have to stand up for your opinion and own your decisions, knowing that sooner or later you will make a mistake. And you learn that the strength of your opinions depends not on your number of wins, but on the number of times you have failed and risen again – each time you must pick yourself up, dust yourself off, learn and move on.

PPF TELECOM GROUP

In telecommunications, PPF Group's portfolio meets the needs of customers and the market, which is heavily influenced by the significant degree of innovation and digitalisation of services. It places high demands on the security, speed and quality of data, mobile solutions, and personalised consumption of digital content.

PPF Telecom Group (formerly PPF Arena 1 B.V.) is a strategic part of PPF Group that serves as an umbrella for telecommunication networks and operator activities (CETIN, Telenor CEE, O2 Group).

PPF Telecom Group operates through seven companies in six Central and East European countries, making it a medium-sized telecommunications group for Europe. The Group holds a strategic market position in the region and successfully competes with the Deutsche Telekom and Telekom Austria groups. Its size and geographical diversification help to protect its profitability in the face of any unfavourable local trends. Exchanges of experience between relevant operating companies contribute to operational efficiency. Investments in innovation and technology are applied across the markets on which the group operates, contributing to high service quality and economies of scale.

O2 Czech Republic and O2 Slovakia have their own management, pursue their own business and financial strategies, and make their own policies, as O2 is a financial investment for PPF Group.

TELENOR CEE

Telenor CEE operators are a powerful force on markets in Central and Eastern Europe. As well-established brands among customers, they have long focused on high quality services and a first-class customer experience. As an investor and leader of innovative digital services for the public, Telenor CEE also focuses on online safety and the promotion of digital literacy.

Telenor CEE provides telecommunication and mobile services and is a leading operator on the markets in Hungary, Bulgaria, Serbia and Montenegro. The Telenor brand's position and strength are the fruit of a long-term strategy focused on a high level of service and a first-class customer experience.

Telenor operators offer their services through modern and well-managed mobile networks.

The Hungarian high-speed LTE network is one of the most powerful LTE networks in the world according to OpenSignal analysts. In 2019, Telenor in Bulgaria and Telenor in Serbia achieved the highest score and won the "BEST IN TEST" award in an independent measurement of network quality by P3 Communications, a renowned company in the field. In Montenegro, Telenor operates a 4G network with the best coverage and the fastest mobile internet in urban areas. In keeping with their strategy, Telenor operators also support a wide range of charitable and publicly beneficial initiatives. Telenor's work with civil society and in the field of CSR cements the company's reputation in these countries.

At the end of 2019, four Telenor providers had nearly 9.2 million customers and employed approximately 4,200 people in the region. In terms of sales, Telenor entities are the number one in Bulgaria, Serbia and Montenegro, and the number two in Hungary.

PPF Group acquired Telenor CEE providers under an agreement with the Norwegian Telenor group to purchase its assets in Central and Eastern Europe. After the necessary regulatory approvals had been obtained, the transaction was settled at the end of July 2018. As a result of the transaction, PPF Group acquired 100% of Telenor's existing assets in Hungary, Bulgaria, Montenegro and Serbia. This transaction was the largest of its kind in the region since 2011.

Throughout 2019, Telenor operators across CEE were testing 5G technology and trialled several local 5G networks, aiming to drive innovations and support development of new digital business solutions. In cooperation with local institutions and businesses, Telenor Bulgaria's 5G experiments included demonstrations of remote medical examination, concert live streaming, distance mentoring and a remote production line management. In May 2019, Telenor Hungary launched its test network in Györ and at the campus of Györ Széchenyi István University to give access to 5G connectivity to engineering students for research purposes. In June 2019, Telenor Serbia rolled out the country's first 5G base station in the Science-Technology Park Belgrade, creating a test environment for start-ups and students of technical faculties.

CETIN

CETIN's mission is to build, operate and constantly innovate a reliable, secure and fast telecommunications infrastructure, which is essential for the further digitalisation and competitiveness of the Czech economy. 99.6% of Czech households can rely on the CETIN telecommunications network's set of mobile and fixed technologies.

CETIN, a wholesale provider of telecommunications services, owns and operates the largest electronic communications network in the Czech Republic. It offers its services, always under the same conditions, to all telecommunications operators and internet service providers who supply services to end customers via the CETIN infrastructure.

CETIN mainly offers mobile network infrastructure services, mass fixed network services (network access services, xDSL and optical connectivity, IP TV, voice services), data services for corporate networks, and data centre leasing.

CETIN's national fixed network comprises approximately 20 million pairs of copper cables and almost 46,000 km of fibre-optic cables, though this length is increasing all the time thanks to extensive investment.

Mobile technology is disseminated by around 6,400 base stations. CETIN contributes to a network sharing project and provides its mobile infrastructure to O2 and T-Mobile. In 2019, CETIN successfully continued to strengthen its mobile network, commissioned 145 new LTE stations, and increased capacity at more than 1,200 sites with new LTE frequencies.

CETIN also offers international services to domestic and foreign providers alike. On the international stage, the company maintains a presence via physical network nodes (POPs) in London, Vienna, Bratislava, Frankfurt and Hong Kong, and offers comprehensive international voice and data services to over 200 customers worldwide.

CETIN, as the administrator and operator of the largest critical information infrastructure for telecommunications in the Czech Republic, oversees the protection of its customers and the availability of services. In the protection of its network and users, it adopts security measures that are in line with the recommendations of the National Cyber and Information Security Agency (NÚKIB) and the European Union Agency for Cybersecurity (ENISA). CETIN always cooperates with the NÚKIB to the necessary extent and provides it with maximum possible assistance. It is also a member of FENIX, the project that draws together companies providing connections to important services with a view to ensuring that these remain in operation even in the most critical situations. The company continuously engages in risk analysis and cybersecurity auditing in line with best practice, conducts security tests, invests in security technologies and specialists, and shares knowledge and best practices with colleagues from the entire PPF Telecom Group.

Key Business Highlights (consolidated)

EUR millions	2019	2018
Total assets	2,443	2,171
Revenue	747	772
EBITDA	333	295
Profit	110	99
Number of employees	2,117	1,890

In 2019, CETIN continued its major Speeding Up the Czech Republic project, building street cabinets that connect municipalities and city boroughs to high-speed infrastructure. In 2019, 1,145 unique cabinets were put into operation, raising the total to 6,222 in the CETIN network today. By setting up these cabinets and deploying new technologies, CETIN significantly speeded up approximately 92% of all of its copper connections. The average connection speed in the CETIN network thus increased by 25%, from 67 Mbit/s in 2018 to 84 Mbit/s. Internet users can check the speed available at any particular address and from specific providers at www.zrychlujemecesko.cz, a site visited by almost a million users in 2019.

JURAJ ŠEDIVÝ

Chairman of the Board of Directors, CETIN

"The goal is not always to win, but to do your all."

The Prague riverside is where I go jogging on early Sunday mornings in the summer, my wife riding her bike alongside me. We go before six o'clock, while the streets are still empty. Prague looks different and is breathtaking at that time. My family and I have spent long periods in different countries and there are many places where we feel comfortable. But the city we have kept returning to as our home for the last twenty-five years is Prague: our youngest son was born here and both of our children spent part of their childhood and adolescence here. We have a house, friends and secluded spots that we love here. The riverside has been my training ground for numerous races – I have competed in many triathlons and rallies in my life. As much as I enjoy winning, the goal is to do my all. And not just in a race. Sometimes it can mean victory, other times a top–10 finish. After an accident or illness, the biggest victory can be to take those first few steps. And to go that bit further every day.

O2 CZECH REPUBLIC*

In its range of services, O2 develops future-oriented trends in the field of digital services and mobile telecommunications in the Czech Republic and Slovakia for both the public and corporate customers. O2 is one of the most active supporters of digital literacy among children and young people in the Czech Republic, their online safety, and the use of technology in education.

O2 Czech Republic is the largest telecommunications operator on the Czech market. It provides voice, internet and data services to the full gamut of customers – households, SMEs, and large corporations. O2's internet is available in 99% of the Czech Republic's inhabited territory, easily making the company the country's largest internet provider. By dint of its O2 TV service, which had 443,000 users at the end of 2019, it is also the largest provider of internet television broadcasting in the Czech Republic. The operator has purchased a number of exclusive sports rights for its customers, enabling it to offer them the most attractive sports content on the Czech market. The company also ranks among the largest players in hosting and cloud services, as well as in the fields of managed services and ICT.

In Slovakia, O2 Slovakia offers mobile services to household customers and a number of smaller and medium-sized enterprises. O2 Business Services, a subsidiary wholly owned by O2 Slovakia, provides a comprehensive portfolio of fixed and mobile telecommunications services and ICT solutions to corporate customers.

Besides continuously enhancing the quality of both the mobile and the fixed network, in 2019 O2 focused primarily on revising and improving the tariffs available. In September, it began offering NEO unlimited-data mobile plans, allowing all customers to choose their bandwidth according to their needs. The launch was preceded by a number of customer surveys and analyses of foreign markets. O2 offers its customers several variants with different connection speeds, so customers can choose a speed suited to their needs. As such, O2 was the only operator to introduce an offer that is also ready for the future roll-out of 5G networks. Available research shows that this offer was clearly the best received on the market. On the same date, O2 significantly increased the volume of data in its improved FREE+ unlimited-call plans. The larger amounts of data in the FREE+, O2 NEO and O2 Data plans, together with an increase in the number of customers using a smart phone supporting 4G LTE, fuelled a 30% year-on-year increase in mobile data consumption in 2019.

In addition to unlimited-data mobile plans, O2 introduced new tariffs for Internet na doma and O2 TV. New mobile, television and internet tariffs netted O2 CZ a record rise in customer numbers in 2019.

O2 TV

With digital O2 TV a key product yielding the highest level of customer satisfaction, the company continued to work hard in consolidating its exclusive sports content. In addition to the complete football league FORTUNA:LIGA, the UEFA Champions League and the top-flight Ice-Hockey Extraliga, it added a new station, Premier Sport, to transmit hundreds of live broadcasts from the world's most prestigious football league – the English Premier League. To accommodate tennis fans, O2 renewed its television rights to the complete WTA tennis circuit for three more seasons, taking it up until the end of 2022.

In response to the paradigm shift in trends in the telecommunications industry, O2 is also focusing on developing and offering unconventional telecommunications services. These primarily include financial services such as equipment insurance, mobile-phone travel insurance, and a technical solution for electronic sales registration called O2 eKasa.

Through the O2 Foundation, O2 concentrates its corporate social responsibility on the development of children and

* PPF Group treats this as a financial investment. The Group does not intervene in the company's management.

young people. In the O2 Chytrá škola (Smart School) programme, it helps teachers and parents to teach children how to use the internet safely and smartly. It has long sponsored the Deaf and Blind Line, Safety Line and Seniors Line. In a long-running social-awareness campaign called Freedom – Don't Take it for Granted (Svoboda není samozřejmost), it recalls important moments from the second half of the 20th century.

Key Business Highlights (consolidated)

EUR millions	2019	2018	2017
Revenues	1,510	1,481	1,432
EBITDA	492	435	399
Total assets	1,680	1,405	1,364
Net profit	213	212	212
Total equity	558	592	606

As the country's only operator of telephone boxes, O2 decided to make symbolic use of them to commemorate the events of November 1989 in a dignified and original way. On 17 November 2019, phones in 3,803 telephone boxes across the land started ringing. Almost 217,000 calls were made. Anyone who picked the phone up heard authentic recordings from the events of November 1989, followed by a short message. The whole project, drawing in more than 3,000,000 people in just a few days, was part of a long-term campaign called Freedom – Don't Take it for Granted, which O2 uses to draw attention to social issues related to freedom and democracy within the framework of its marketing communication tools.

SOTIO

SOTIO, which joined PPF Group in 2012, is intent on biotechnological research and development and on opening up access to new treatment options for patients with serious oncological diseases. Teams of top Czech and foreign experts work for the company within the framework of its far-reaching international activities. It has its own laboratory facilities in Prague and is the largest private research entity of its kind in the Czech Republic.

SOTIO is an international biotechnology company specialising in the research and development of new oncology treatment. Employing more than 300 professionals, the company has its headquarters in Prague and operates in Europe, the US, China and Russia. At the end of 2019, it also opened a subsidiary in Switzerland.

SOTIO is building a diversified portfolio of immuno-oncology products based on its own research and development, cooperation with partners, licensing agreements, investments, mergers and acquisitions. The most developed projects are our own platform of active cellular immunotherapy, which is based on dendritic cells, and SO-C101, an interleukin IL-15 product developed in cooperation with our affiliate Cytune Pharma. SOTIO is verifying the safety and efficacy of developed products in a number of phase I to III clinical trials. This is the first time in history that a company from the Czech Republic has entered phase III of clinical development.

Since 2012, SOTIO has launched thirteen clinical studies in Europe and the US focusing on patients with solid tumours, especially those with ovarian, lung and prostate cancer. Further clinical studies are under preparation. The company is also collaborating on several research projects with leading Chinese hospitals.

As a result of positive results from clinical studies focused on ovarian cancer patients, presented in previous years at the world's most prestigious oncology conferences, SOTIO is preparing to implement a phase III clinical trial.

SOTIO is also looking to work with other companies and institutions developing promising oncology treatments. It also covers preclinical and clinical development for other biotechnology companies that have contractual or capital ties to PPF Group or SOTIO. These are currently the French company Cytune Pharma, the German Lead Discovery Center and the Swiss NBE-Therapeutics. This trio is complemented by the management of PPF Group's investments in the English biotechnology company Autolus and the Swiss company Cellestia Biotech. In cooperation with these partner companies and as part of its own scientific research, SOTIO is implementing several projects in the preclinical stage with the aim of moving their development to phase I of clinical development in the near future.

SOTIO has the internal capacities it needs for research, clinical development and product marketing. The company has built its own production and research facilities in Holešovice, Prague, which are among the most modern and largest of their kind in Europe. These ultra-clean laboratories meet the most stringent requirements for the sterile production of medicinal products used in cell therapy. The company also runs similar laboratories in Beijing, China.

A key phase I/Ib study evaluating the safety and preliminary efficacy of Cytune Pharma's SO-C101 in patients with advanced cancer was launched in the summer of 2019 at the prestigious Gustave Roussy Institute of Oncology (France), Vall d'Hebron (Spain) and the Yale Cancer Center and MD Anderson Cancer Center (USA). Preclinical experiments have shown that SO-C101 is more effective and better tolerated than unmodified IL-15 or IL-2. SO-C101 is an ideal combination partner for other modern treatment approaches, such as checkpoint inhibitors, monoclonal antibodies and other established therapies, and has the potential to change the lives of a large number of cancer patients. SOTIO is therefore working with Cytune on the preparation of further clinical studies.

RADEK ŠPÍŠEK

Global CEO, SOTIO

"If you do get stressed, make sure it's because of something that's worth it."

I associate Horažďovice – the small town in southern Bohemia where I, a child of Prague, decamped for much of the summer holidays – with my grandmother. She was a librarian, always making sure that I read all the books she considered important, and keeping me fed with local home-made cakes. I later appreciated her advice "always behave yourself and learn foreign languages" during my long stays abroad. In the last year of my medical studies, I won a placement in Boston for several months. It was incredible for me to see how medicine was interlinked with world science. It opened my eyes, and the discovery that knowledge from our university was entirely on a par with that of American students, and in many ways even better, boosted my confidence. Although it may be perceived as a weakness or handicap for international career development, I have always felt that I belong to Europe and that I want to live here in the long term.

ŠKODA TRANSPORTATION

The importance of modern environmentally friendly public transport continues to grow. Last year, Plzeň-based Škoda invested more than a billion crowns in its own research, development and digitalisation. Courtesy of these investments and the expertise and experience of its several thousand employees, the traditional Czech engineering brand supplies industry-leading vehicles for public transport and railways to mature markets virtually all over the world.

Last year, Plzeň-based Škoda celebrated the 160th anniversary of the company's foundation. In addition to the parent company in Plzeň, projects are also implemented by several subsidiaries in both the Czech Republic and abroad, such as Škoda Transtech in Finland and other companies in Germany, Russia and Hungary.

As part of its development strategy, Škoda Digital was established in July 2019 to develop digital, control and diagnostic systems for vehicles. In December 2019, a new joint venture was formed in Russia with Sinara Group, the current number two on the local rolling stock market. Škoda Transportation's vehicles are environmentally friendly, run exclusively on electricity, and produce no emissions. This enables the company to compete with the world's largest manufacturers.

Last year was a record-breaking year for Škoda Transportation in terms of new orders. Since its takeover by PPF Group in April 2018, contracts worth approximately CZK 64 billion have been signed, with CZK 45 billion of that reported for last year alone.

Škoda is a major Czech exporter, with up to 60% of its orders headed abroad.

The most significant export contracts last year include a contract for the supply of 26 trams for Bonn, Germany, worth CZK 2.6 billion, a contract for 32 modern single-deck units for Latvia worth CZK 6 billion, and a contract for seven new dining cars for Finnish railways, worth some CZK 600 million. In addition to these important contracts, Škoda was also announced as the winner of a tender to supply as many as 45 metro trains for Warsaw worth CZK 8 billion. The purchase agreement was signed in January 2020.

The Škoda Electric subsidiary was also successful. It will deliver complete electrical equipment for 26 new trolleybuses for the Romanian city of Brașov, and it will also contribute to the supply of 22 low-floor trolleybuses for the French city of Saint-Étienne.

Škoda was also successful on its home market in the Czech Republic. The company signed a framework agreement with České dráhy (Czech Railways) for the supply of some 50 RegioPanters and entered into a purchase agreement for the supply of 31 of these electric units worth CZK 3.6 billion and five double-decker push-pull trains worth CZK 1 billion. Škoda also won a contract for 37 RegioPanter electric units for the South Moravian Region worth more than CZK 6.5 billion, including a 30-year service contract. At the end of the year, the contract to service Prague metro trains (on lines A and B) was also renewed for another 15 years.

Key Business Highlights

EUR millions	2019	2018
Total assets	953	903
Revenue	386	459
EBITDA	13	29
Net Profit	(15)	13
R&D expenses	35	35
Number of employees	3,966	3,818

At the end of 2019, Škoda Transportation won a tender for the supply of trams for Bonn. The company will supply a total of 26 modern vehicles from the ForCity Smart platform. Exclusive spare parts deliveries for 25 years and options on up to twelve additional vehicles are also important parts of the contract. The Bonn contract is not our first such success in Germany. Eighty new modern trams will be making their way for the lines running between Mannheim, Ludwigshafen and Heidelberg in the coming years, and other trams are already in operation in the German cities of Chemnitz and Schöneiche.

PETR BRZEZINA

Chairman of the Board of Directors, Škoda Transportation

"Be prepared, because great opportunities arise only once."

I grew up in the Karviná region and, on completing my secondary studies at an industrial engineering college, I was admitted to Brno University of Technology. This was the first key moment in my life when my world changed completely and I had to become independent, find my own way, and foster new relationships and friendships. The second important moment was when I was given an hour to decide whether to accept an offer to work abroad. That second moment would never have happened without the first. I even consider my current job for Škoda Transportation an amazing opportunity. After years of working for foreign companies, I am now in a position to help the progress of a hugely traditional Czech company. My life illustrates the idea that we need to be prepared, because great opportunities arise only once. And that we should respect our roots.

PPF REAL ESTATE HOLDING

Real Estate Holding is a branch of PPF Group that manages and grows the value of real estate and seeks out new property opportunities. As a major developer and investor, it is developing a wide-ranging international portfolio of modern real estate and projects with good prospects in prestigious locations.

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

In 2019, the company further actively consolidated its property portfolio. It sold a number of small, non-core projects to other investors and one large project in Germany.

PPF Real Estate Holding actively assessed the number of acquisition opportunities in countries where it currently operates and on new markets in Europe, as well as in the US. The company successfully completed a major acquisition in Russia.

PPF Group's real estate investments in the Netherlands comprise eight office buildings and one shopping centre, including one building completely renovated between 2016 and 2018 and now offering 13,000 m^2 of brand new modern office space. Altogether, they offer more than 160,000 m^2 to let in prestigious locations, such as the Millennium Tower in Rotterdam. These properties on the – keenly competitive – Dutch market are attracting high-quality tenants.

In Russia, PPF Real Estate offers offices, shopping malls and logistics complexes, which it either fully owns or co-owns together with other leading investors, including the Hines Russia & Poland Fund. Together with Hines, PPF owns office buildings in Moscow's popular Metropolis centre, which is on the way from Sheremetyevo Airport to the city centre.

PPF Real Estate owns and operates a large shopping centre in Astrakhan with a total area of more than 36,000 m^2.

In 2019, the company acquired the Nevsky Centre in Saint Petersburg. Altogether, it provides over 45,000 m^2 of leasable area. The building, opened in 2010, was created according to modern architectural solutions.

At Comcity business park in "New Moscow", just off the main ring road, the company is operating the initial stage of this project, offering 107,500 m^2 of office space and 7,600 m^2 of retail space. By the end of 2019, over 95% of the premises had been let to large international and Russian companies, mainly from the telecommunication and IT sectors. The Comcity concept, with plans to prepare up to 430,000 m^2 for customers, also incorporates green rest areas and a large shopping gallery, which includes a supermarket, restaurants, cafés and a gym.

PPF Real Estate has started actively developing the second phase of the project, with a total area of 103,000 m^2, which will include two office buildings and a four-star 150-room Comcity Novotel hotel operated by international operator AccorHotels. This second phase will also include a retail gallery and underground and surface parking.

In tandem with its long-term partner, Radius Group, PPF Real Estate is contributing to the development of one of the largest logistics parks in the southern part of the broader Moscow region. South Gate Industrial Park spreads out over an area of 144 ha. With an overall capacity of 653,000 m^2, it is an industry leader. The PPF Real Estate and Radius Group partner platform is working on expanding its track record in "built-to-suit" projects on plots at South Gate Industrial Park and elsewhere.

In 2018, PPF Real Estate entered the UK office real estate market by acquiring a prominent office property in Canary Wharf, London, which is one of the world's most iconic business districts. The nine-storey building, overlooking the Thames, provides over 20,000 m^2 of office and retail space. The company also owns and rents three

Victorian-era houses in Bishopswood Road, London, with the third house completed and rented in 2019. The houses are modernised for 21st-century living, offering around 1,000 m^2 of accommodation each.

The ArtGen Project in Prague offers modern offices and retail units in two buildings over approximately 26,000 m^2. Since being commissioned, the occupancy of the buildings has reached almost hundred per cent. ArtGen serves as a prime example of how what was once one of Prague's industrial districts has been transformed into a modern office, retail and residential location.

Another office building offering 8,000 m^2 in Kateřinská Street, in the centre of Prague, has seen a substantial increase in full occupancy, compared to 15% when the project was purchased in September 2016.

PPF Real Estate's property portfolio in Germany shrank to one office building situated in the Monheim/Düsseldorf region with a leasable area of 12,000 m^2. The building is fully let to prestigious tenants. In 2019, the company sold two office buildings, one in the centre of Berlin and one in the Langen/Frankfurt area, benefiting from momentum on the German real estate market.

Key Business Highlights (consolidated)

EUR millions	2019	2018
PPF Group share	100%	100%
Total assets (market evaluation)	2,379	2,026
Total equity	934	714
Number of employees	323	301

In 2019, PPF Real Estate Russia completed the acquisition of one of the most famous and prestigious shopping centres in Saint Petersburg, the Nevsky Centre, with a total area of 91,000 m^2. The complex is located in the city's historical centre, at a junction where the largest thoroughfares intersect and in one of the liveliest places of the "cultural capital of Russia". The centre's seven floors offer generous retail space for more than 100 tenants, including shops, restaurants, cafés and gyms.

PPF LIFE INSURANCE

In its 18 years of operations on the Russian market, PPF Life Insurance has emerged as one of the most active and stable providers of life insurance services. It reports progressive growth by drawing on its own far-reaching agent network, by teaming up with partner brokers and financial consultants, and by providing high-quality insurance products and services.

The total volume of premiums written grew year on year by 10% to RUB 4,019 million, mainly due to the efficient operation of the company's branch (agency) network throughout Russia. The life written premium growth in 2019 reached 11.4%, maintaining double-digit growth for the third year. The volume of new business grew 5% year on year; financially, this amounted to RUB 1,062 million in premiums written under contracts concluded in 2019.

In 2019, the company opened 20 new branches in 13 regions (15 cities) across Russia, with the total number of insurance agents rising by 14% to almost 7,000. Compared to 2018, the number of insurance contracts concluded by the company's clients was up by 24%.

Although PPF Life Insurance continued to make major investments in 2019, especially in the development of the agency network, the company still reported a net profit of RUB 286 million.

PPF Life Insurance's clients can be sure of the company's stability and prospects for development on the Russian market as RAEX, the domestic rating agency, has confirmed the high level of its financial reliability for nine years now (with an ruAA rating).

Key Business Highlights

EUR millions	2019	2018
PPF Group share	100%	100%
Gross premiums written	55.5	49.2
Profit after tax	3.9	2.4
Number of employees	788	709

PPF Life Insurance, which operates in Russia, is playing an increasingly active role in nationwide programmes aimed at promoting financial literacy among all age groups, starting with schoolchildren. In the last four years, the company has organised more than 8,000 seminars and other interactive events dedicated to financial literacy throughout Russia. In 2019 alone, the company's agents and financial advisers held 450 seminars of this type. The company's unique know-how is conveyed by a finance-based game called Drive Your Life, which is applied at events to support financial literacy and is intended primarily for schoolchildren and university students. In 2019, there were 1,500 events at which attendees were able to play this game. PPF Life Insurance is the official partner of the main financial literacy event in Russia, the Financial Literacy Week for Children and Young People, which is sponsored by the finance ministry.

MALL GROUP

PPF Group's main e-commerce activity encompasses the entire range of digital services that Mall Group is developing and managing from Prague for the international market. These include, in addition to traditional online stores with integrated logistics, the group's own internet television and innovative financial consumer services for online shopping.

MALL Group is the largest e-commerce group in Central and Eastern Europe. Operating in seven countries and employing over two thousand people, it offers its services to 90 million inhabitants across Central and Eastern Europe. It is co-owned by Jakub Havrlant's Rockaway Capital investment group, PPF Group, and Daniel Křetínský and Patrik Tkáč's EC Investments. Rockaway is the managing shareholder. Since June 2019, the group's CEO has been Oldřich Bajer, who was appointed when Jakub Havrlant completed a three-year stint and moved on to the role of chairman of the MALL Group board of directors.

In 2019, the group reported turnover of CZK 16.8 billion up 11% on the previous calendar year. The group is growing most dynamically in Croatia and Slovenia, where it has built up a position as the online market's leader. Altogether, MALL Group delivered over 9.4 million orders to more than 7.3 million customers last year.

Customers already have more than 1,050 collection points to choose from, and MALL Group is keen to continue expanding its network. The number of MALL Shops, partner MALL Points and MALL Boxes in the Czech Republic doubled to more than 670 in 2019, with 58% of customers preferring delivery points to home delivery. In October last year, MALL.CZ opened its first specialised shop dedicated to mobile phones, tablets and accessories in Holešovice, Prague. This was followed by the opening of the Cash&Carry stores in Žilina (Slovakia) and Ljubljana (Slovenia) at the end of the year.

From MALL Group's perspective, it was a successful year for building an ambitious Central European group of online shops. Customers shop with the group not only because of the convenience, but also because they can spend time gaining inspiration and having fun. Shopping is made all the more convenient by the MALL Pay payment service, which in 2019 appealed to more than 70,000 customers and saw its transaction numbers rise by 500% year on year. This year, MALL Pay will be integrated into the ČSOB payment gateway. There are also plans for a number of new products, including a payment card and the further development of supplementary insurance.

MALL.TV

The group's own internet television channel, MALL.TV, is already up and running in two countries. In the Czech Republic, it reaches over 13% of the online population per month and the average viewing time is 7 minutes. The channel broadcasts original series and entertaining and popular-science programmes. In autumn 2019, MALL.TV was also launched in Slovakia, where it is already regularly watched by 10% of the country's online population.

Last year, MALL Group prepared several innovations that will make shopping easier and more pleasant for customers. MALL.CZ was the first Czech e-shop to introduce photo searches. Based on any photo from a mobile phone, the service can search for the most similar products, including similar colour versions and schemes, which customers can then order directly from MALL.CZ. MALL.CZ is currently trialling the service on a range of fashion, footwear and watches.

HEUREKA

E-commerce is an opportunity to cultivate customer-oriented, simple and technologically advanced services. Heureka Group aims to harness the constant development and enhancement of its own algorithms and analysis in order to simplify and speed up online shopping for tens of millions of its European users, to guide them in their search for the right product, and to help them shop in a reliable e-shop.

Heureka Group is a European e-commerce group that includes Heureka, the largest price comparison website on the Czech market. In addition to the Czech and Slovak shopping advice sites, the group also includes the Hungarian Árukereső.hu, Romanian Compari.ro, Bulgarian Pazaruvaj.com, Slovenian Ceneje.si, Croatian Jeftinije.hr, Serbian Idealno.rs and Bosnian Idealno.ba. Heureka Group highlights high-quality and reliable e-shops and, based on the experience of millions of shoppers, awards online stores "Customer Verified" certificates. It also announces the winners of the annual Shop of the Year competition. Customers can make purchases directly from Heureka by using the Heureka Košík [Heureka Cart] service.

The group is owned by three investors: PPF (40%), EC Investments a.s. (owned by the entrepreneurs Daniel Křetínský, Patrik Tkáč and Roman Korbačka – 40%), and Jakub Havrlant's Rockaway group (20%). In 2019, they split it from the original MALL Group structure and formed a new board of directors responsible for implementing strategy.

Over the last six months, the Heureka Group has strengthened significantly in many respects: nine European markets, over 20 million visitors per month, and merchandise on offer from more than 55,000 online shops. This gave it the undeniable status of Europe's largest price comparison and shopping advice website. This year, Heureka Group has set itself the goal of consolidating its position within the region.

There are several factors behind Heureka Group's strong growth. One of them is product innovation in key categories, resulting in more than a 10% increase in product reviews and over a 20% rise in shop reviews. In addition, the Heureka team launched a new responsive front-end on the mobile version of the website, and the mobile app itself was significantly improved. A major innovation is the platform for the provision of data analytics and statistics from all nine countries, thanks to which e-shops and brands can work with information of relevance to customer behaviour.

Heureka Group offered an opportunity to invest in it: at the end of January 2020, it began placing five-year bonds through J&T Banka and PPF banka. In January, Heureka Group granted a mandate to J&T Bank and PPF banka to place bonds worth CZK 2.5 billion. The bond yield is 5.25% p.a., with semi-annual payment and a five-year maturity. This is the largest volume of bonds ever realised in the Czech market's e-commerce segment.

CZECHTOLL

CzechToll delivers a technologically advanced modern satellite toll system that facilitates better traffic control and more efficient management of the Czech nationwide transport infrastructure. This next-generation electronic toll system, the world's first, has inspired other countries.

CzechToll is part of the PPF Group's long-term strategic plans in the field of telecommunications infrastructure. The company has built and operates a new electronic toll system in the Czech Republic. Modern satellite technology has replaced the 13-year-old toll system based on microwave technology.

The replacement in the Czech Republic was carried out while the original microwave system remained in full operation. There were no major transport disruptions and no outages in the collection of tolls. Although the toll road network in the Czech Republic has grown by 60% since 1 January 2020, allowing more money to be collected in tolls and re-invested in transport infrastructure, the cost of running the new CzechToll toll system is three times lower than for the original microwave system.

CzechToll built its satellite toll system in 14 months at a cost of CZK 1.945 billion. The delivery of the system included 600,000 on-board units, 60 checkpoints, 40 modern patrol vehicles, a central toll payment control system, the installation of complete technical equipment at more than 200 sales points, two large data centres, surveillance centres for staff of the Road and Motorway Directorate (ŘSD), a customer portal and online self-service, including a mobile application for toll payments. Arrangements were made for the complete software connection of all these components, which form a coherent and functional electronic toll system.

O2 ARENA

The O2 Arena is one of the most modern multipurpose arenas in Europe. Able to host up to 20,000 spectators, it is the largest hall of its kind in the Czech Republic. It has the flexibility and equipment to host demanding and spectacular cultural and sports projects for domestic and foreign audiences. Unrivalled conference facilities are available for events of many formats.

The country's biggest multifunctional hall enjoyed another prosperous year in 2019, the third most successful in terms of attendance. The top-drawing events included concerts by Maroon 5 and Twenty One Pilots, along with performances by the American singer Billie Eilish and music legend Phil Collins. In January 2019, the O2 Arena welcomed its ten millionth visitor.

Sports highlights included two events from the world of mixed martial arts: the world-famous UFC, held for the first time in the Czech Republic, and a Czech evening of martial arts under the auspices of OKTAGON. Crowds flocked to a one-of-a-kind ice-hockey event – the opening match of the NHL, in which the Philadelphia Flyers took on the Chicago Blackhawks. The world's largest showjumping competition, the Global Champions Prague Playoffs, was held for the second time. This was the first event to capitalise on the O2 Arena's connection with its new facility, O2 universum.

O2 universum

In the autumn, the O2 Arena's younger sibling, the multipurpose O2 universum, opened for business. This new complex welcomed almost 53,000 visitors in its first three months. Over the months, fans of bands such as Kabát, Volbeat and Dymytry packed into its largest auditorium, Hall A. Here, too, martial arts left their mark, with the centre hosting the premiere evening of the new MMA I Am Fighter event. O2 universum served as a preparation area for riders and a shopping village for fans during the gala of the Prague Playoffs world showjumping event.

In 2019 as a whole, more than 140 events, including private corporate functions, took place at the O2 Arena and O2 universum. The attractive programme mix, combining top-class sport, concerts and family shows, continued to increase demand for VIP seats and areas (a club level, premium seats, skyboxes, party boxes and event boxes).

The two facilities are owned and operated by PPF Group's Bestsport, a.s.

O2 universum, the new multifunctional and congress centre, was opened in September 2019 and is directly connected to the O2 Arena. The complex, a modern facility for hosting major international events that vary in their focus and format (concerts, congresses, corporate events, etc.), has a capacity of 10,000 visitors.

SIGNIFICANT EVENTS AT PPF GROUP

2019

January

PPF Real Estate Holding entered into a transaction with the Finnish retail company Stockmann Group to acquire the significant Nevsky Centre shopping mall in Saint Petersburg for its Russian portfolio.

February

PPF Group sold a 10% stake in Škoda Transportation to the engineering group's former shareholder, Michal Korecký, a current member of Škoda Transportation's supervisory board.

Once all necessary regulatory approvals had been granted, PPF Group acquired Serbia's Telenor Bank (subsequently renamed Mobi Banka). This acquisition follows on from the previously completed purchase of Telenor's telecommunications companies in Central and South-eastern Europe.

March

PPF Arena 1, which consolidates PPF Group's telecommunications investments, successfully subscribed to seven-year senior guaranteed bonds worth EUR 550 million. In February 2020, PPF Arena 1 was renamed PPF Telecom Group.

April

PPF Group and EMMA agreed to complete the transfer of 2.5% of Home Credit Group's shares previously owned by EMMA to PPF. This step fulfils previous agreements between the two groups. PPF Group now holds a 91.12% stake in Home Credit, with the remaining 8.88% belonging to Emma Capital.

July

Home Credit Group, through its subsidiary Home Credit B.V. (HCBV), submitted a listing application for permission to trade its shares on the Main Board of the Hong Kong Stock Exchange. The contemplated global public offering of shares was subject to the among other things, the approval of the Hong Kong Stock Exchange, the final decision of the corporate bodies at Home Credit Group and HCBV, market conditions, and other factors.

September

PPF Group acquired 19.2% of the shares in the British biotechnology company Autolus Therapeutics, a global leader in the field of oncological T-cell therapy. The shares were acquired by PPF through the US stock exchange NASDAQ. After the biotechnology company SOTIO, the stake in Autolus is PPF's second largest biotechnology investment.

O2 universum, the new multifunctional and congress centre, was opened in Prague. It is directly connected to the O2 Arena. The complex, a modern facility for hosting major international events that vary in their focus and format (concerts, congresses, corporate events, etc.), has a capacity of 10,000 visitors.

October

On completion of its spin-off from the original Mall Group structure, Heureka Group a.s. was established on 1 October. It will serve as the umbrella for the leading online price comparison website on nine markets in Central and Eastern Europe.

PPF signed an agreement with the media company Central European Media Enterprises Ltd. to take it over completely. CME operates television stations in Bulgaria, the Czech Republic, Romania, Slovakia and Slovenia. The completion of the deal was conditional on the consent of CME's shareholders, the European Commission and the national regulators in some of the countries where CME operates.

PPF Group sold a 25% stake in the Hungarian Telenor, which includes Telenor Hungary and Telenor Real Estate, to Antenna Hungária. PPF Group owns 75% of the holding company created specifically for the joint venture, with Antenna Hungária owning the remaining 25%.

2019

November

PPF Group successfully subscribed for further five-year senior guaranteed bonds worth EUR 500 million to support PPF's investments in the telecommunications sector in Central and Eastern Europe; the bonds were issued by the company now operating under the name PPF Telecom Group.

Due to market conditions, Home Credit Group decided not to proceed with a global offering for its wholly-owned subsidiary Home Credit N.V. on the Stock Exchange of Hong Kong.

PPF Real Estate Russia started constructing the second stage of the Comcity business park in south-west Moscow. This second stage will include two office buildings and a four-star Novotel, part of the network run by the international AccorHotels.

December

PPF Real Estate sold two office buildings in Germany, one in the centre of Berlin and the other in Langen/Frankfurt, taking advantage of the favourable situation on the German real estate market.

The validity of the contract between the Ministry of Transport and a consortium of CzechToll companies from PPF Group and SkyToll, which won the tender for the operation of a new toll system in the Czech Republic in 2018, was confirmed by the Supreme Administrative Court.

Škoda Transportation announced the establishment of a joint venture with Sinara Group, a major Russian manufacturer in the field of transport engineering.

2020

January

CzechToll launched a new electronic toll collection system in the Czech Republic, with modern satellite technology replacing a 13-year-old toll system based on microwave technology. The new system's launch went ahead without any problems and had no adverse impact on traffic on motorways and class 1 roads in the Czech Republic.

SOTIO, a biotechnology company belonging to the PPF Group, established a subsidiary, SOTIO Biotech AG, at the Basel Technology Park in Switzerland. The Swiss branch will have a clinical development team and will carry out other operations necessary for the advancement of the portfolio of products being developed to tackle serious oncological diseases.

Heureka, the largest European group of price comparison websites, mandated J&T Bank and PPF banka to place bonds worth CZK 2.5 billion. This is the largest volume of bonds ever realised in the Czech e-commerce segment.

February

PPF Real Estate decided to expand into the US market, which offers great potential for the diversification and expansion of the portfolio of the Group's real estate holding company.

PPF Arena 1 B.V., the company consolidating PPF Group's telecommunications investments, changed its name to PPF Telecom Group B.V.

The shareholders in the media company Central European Media Enterprises (CME) approved PPF Group's bid to take over CME at an extraordinary general meeting.

March

Biotechnology company SOTIO purchased and shipped 20,000 protective masks from the US to the Czech Republic, which it donated to the Ministry of Health of the Czech Republic for distribution to general practitioners just as the coronavirus epidemic was taking hold.

April

In the fight against the coronavirus epidemic, PPF Group donated protective equipment, test kits and other medical supplies worth more than CZK 100 million to the Czech Republic. PPF Group's total donations in the pandemic came to CZK 200 million, with other medical supplies delivered to a further eight countries: India, Indonesia, Kazakhstan, Vietnam, the US, the Philippines, Montenegro and Bulgaria.

CORPORATE SOCIAL RESPONSIBILITY AND THE SUPPORT OF CULTURE

In 2019, companies from PPF Group in the Czech Republic donated CZK 283 million. The corporate social responsibility (CSR) activities and projects supported by PPF Group have long centred on education and the development of the Czech education system, culture and sport. PPF Group engages in corporate social responsibility (CSR) and charity in all countries where it does business.

Financial literacy

PPF Group, mainly through Home Credit, is one of the world's largest players in the field of consumer finance. As such, it focuses on promoting financial literacy and a responsible relationship with personal finance in all markets where it provides these services. The baseline and core concept for this activity is financial inclusion, i.e. a situation where modern financial products and services are accessible not only to people targeted by banks and other financial institutions, but also to those on lower incomes without a credit history.

In 2019, Home Credit initiated and organised over 30 diverse financial literacy and public education programmes. These covered most of the countries where it operates and reached more than three million people. The programmes focus on all age groups, starting with schoolchildren. For example, Home Credit publishes Children and Money, a popular and illustrative publication, in Russia and Kazakhstan. In China last year, Home Credit concentrated on raising financial awareness in a number of the country's autonomous areas. Here, it reaches out to remote rural areas with a scheme it calls Financial Caravan. Home Credit stages similar fun urban and rural awareness-raising events in the Philippines.

Another financial institution, PPF Life Insurance in Russia, is the finance ministry's official sponsor for the largest event of its kind in the country, Financial Literacy Week for Children and Young People. In 2019, the company organised over 450 seminars throughout Russia and, in its operations, focuses in particular on high school and university students.

Home Credit's charitable and public activities around the world

PPF Group's company with the largest global reach, Home Credit, is sensitive in how it perceives current social problems in the countries in which it operates. In 2019, the individual Home Credit companies initiated numerous activities to provide assistance and solutions in various situations. Home Credit in China sponsors efforts to improve the quality of the local air rescue service in cooperation with a similar service from the Czech Republic. Home Credit Vietnam has long provided material support for primary school students in rural areas and has also helped to mitigate the damage caused by natural disasters. Last year saw the tenth annual Sinyaya ptitsa (Blue Bird) project to support talented university students in Russia. Home Credit contributed to the studies and personal development of several dozen young people from 10 regions across the country.

Telecommunications

Telecommunications companies in PPF Group's portfolio also view corporate social responsibility as a long-term commitment to contribute to economic growth and to improve the quality of life of societies in the countries in which they operate. Their CSR activities and projects focus primarily on digital literacy, but also on the education of people facing disadvantages on the labour market, cybersecurity, and the sponsorship of sporting and cultural events.

CETIN, the operator of the largest electronic communications network in the Czech Republic, is aware of its share of responsibility for safeguarding the cybersecurity of the state's critical information infrastructure. Since 2014, it has been working with researchers at the Czech Technical University in Prague. In addition to scientific research, CETIN also supports the further training of university experts and gives them the opportunity to gain practical experience in the management of state-of-the-art telecommunications networks.

CETIN also views support for cultural, social and environmental projects as integral to its business. In 2019, the company was the Prague Spring International Music Festival's technology partner for the fourth time. It saw to the technical side and financing of an online broadcast of Smetana's My Country from the Municipal House to the beautiful setting of Prague's Kampa. Last year, the company also participated in the nationwide environmental campaign Planting the Future, both financially and through the voluntary involvement of its employees.

Through the O2 Foundation, O2 focuses on the development of children and young people, on supporting education, and on helping seniors. In a long-running social-awareness campaign called Freedom – Don't Take it for Granted (Svoboda není samozřejmost), O2 runs suitable communication programmes to recall important moments from the second half of the 20th century.

Long-term support for charitable and publicly beneficial activities is included in the corporate strategies of operators from PPF's portfolio who operate under the Telenor brand in Central and Eastern Europe. They play a major role in maintaining the overall very high reputation these companies enjoy on local markets.

A central plank of Telenor's CSR activities in Hungary is its scheme to promote digital literacy, which includes the education of children, teachers and parents, as well as the education of hospitalised children or children with disabilities. In 2019, the scheme trained another 150 educators and created a knowledge and experience sharing platform. Ten new school facilities joined the project.

For 13 years, in cooperation with the Bulgarian Safe Internet Centre, Telenor Bulgaria has been implementing an online security programme that, in 2019, was geared towards the organisation of regional workshops on how to work with the internet, especially for parents. A second CSR project that Telenor Bulgaria has been developing on a lasting basis is the Open Mind scheme, aimed at educating people with various types of disabilities and at engaging them in working life. The scheme's participants have the opportunity to gain experience and try out work in individual departments at Telenor. Several of them are now company employees.

In 2019, Telenor Serbia completed and evaluated a three-year project implemented together with UNICEF that focused on safe internet use. In total, 100,000 parents and teachers took part in the project. In addition to education, Telenor Serbia has long supported athletics and, in general, the exercise and healthy lifestyle of children in cooperation with the Serbian Athletics Federation. In 2019, through the Telenor Foundation, the company supported six new projects. In the 10 years of its existence, assistance has been provided to 300 projects.

In Montenegro, Telenor has also formed a partnership with UNICEF to carry out a multi-year project on safe computer and internet use. This project is being run in collaboration with the local National Board of Education. One of the specific outputs so far has been a new digital literacy education programme that has been formally accredited and is therefore available as a tool to all primary school teachers in the country.

THE KELLNER FAMILY FOUNDATION

Renáta and Petr Kellner's Family Foundation seeks to help pupils and students of primary schools, secondary schools, universities and other higher-education institutions to acquire a quality education. Since its establishment, the Foundation has focused most of its attention on three key education projects geared towards the development of the Czech public education system and the support of motivated pupils and students. These projects involve social scholarships for students of the Open Gate eight-year grammar school, financial grants under the Universities Project for university students, and resources for the implementation of the Helping Schools Succeed Project in public primary schools in numerous regions across the Czech Republic.

In 2019, the Foundation distributed CZK 89.5 million in the form of contributions for its own projects and donations to organisations, municipalities and private individuals. Since its formation in 2009, the KELLNER FAMILY FOUNDATION has contributed CZK 800 million to socially beneficial activities.

Social Grants for Students of the Open Gate Eight-year Grammar School

In the 2019/2020 academic year, the Open Gate grammar school is attended by 294 students. The KELLNER FAMILY FOUNDATION financially supports the studies of 97 of them. In 2019, the Foundation provided CZK 41 million in social grants. Since the school's establishment, the Foundation has awarded 1,548 annual grants totalling CZK 657 million. Open Gate is one of the top-rated grammar schools in the Czech Republic. Its students score highly in the International Baccalaureate (IB). In 2019, Thea Kratochvílová earned the maximum number of points (45), placing her on a par with 274 other students out of over 100,000 around the world who took the IB last year. Similarly, the results achieved in the Czech maturita (school-leaving examination) place Open Gate students among the best in the country, with two thirds passing with distinction in 2019.

Universities Project – Grants for University Students

For ten years, the Foundation has been providing financial grants to Czech students at foreign and Czech higher-education institutions. In the 2019/2020 academic year, the Foundation admitted 61 students, mainly studying bachelor degrees, to the Universities Project. In 2019, it distributed CZK 10.5 million from this project. Thanks to financial grants, motivated Czech students are awarded university degrees in a whole range of subjects at universities in the Czech Republic and abroad, e.g. in the Netherlands, Germany, Austria, Japan, the US and the UK, including the renowned Oxford and Cambridge Universities. Over the last ten years, funding has been granted to 177 students. A hundred of these young people have completed their studies at their dream university – whether in the Czech Republic or elsewhere in the world.

Helping Schools Succeed – Project for Public Primary Schools

THE KELLNER FAMILY FOUNDATION has long aspired to improve education at public primary schools. In 2010, this included the initiation of the Helping Schools Succeed project, which the Foundation continues to fund generously. Project implementation is in the hands of the autonomous public benefit company Pomáháme školám k úspěchu, established precisely for this purpose by the Foundation. Focusing on systemic improvements in the quality of education, CZK 31 million went into supporting primary schools in 2019.

In 2019, 23 public primary schools were involved in the project, with the Foundation directly supporting 860 teachers and, through them, more than 9,500 pupils. Schools receive material, educational and personnel support. Under the project, experts work with head teachers and their deputies on the leadership of teaching teams, and with teachers by providing mentoring and peer support and working on the individualisation of teaching. Together, they focus on pupils' reading and writing and on literacy and critical thinking. School management is guided towards fostering a culture that supports pupils' learning and the professional development of teachers.

In 2019, the project team received assistance from the founders of the Foundation so that it could expand its activities to many more schools, teachers and hence pupils in the period ahead. The plan under the new strategy is to extend the project to about 100 public primary schools in the 2020/2021 school year, encompassing an estimated 2,500 teachers and about 32,000 pupils.

The ten years' work by the project team and all experts and teachers involved in the Helping Schools Succeed Project culminated in a survey conducted in collaboration with experts from the Research and Development Institute of the Teacher Training Faculty at Charles University. The significance of the project for the schools, educators and pupils involved was assessed by 390 teachers. The results were subsequently compared with Czech teachers' replies in the TIMMS and TALIS international surveys. The teachers' answers showed that the tangible results of the long-term Helping Schools Succeed Project included greater motivation among educators to engage in professional development, the introduction of new methods into teaching, the positive transformation of relations among teachers, and the close link between schools and pupils' parents. Most teachers (91%) from schools involved in the project said that they were satisfied with their profession; 81% stated that they were proud of their occupation.

PPF Foundation

In September 2019, PPF a.s. founded the PPF Foundation to pursue a clear vision: the PPF Foundation is our way of helping others to change the world for the better. The PPF team is united by belief in the values of personal motivation, talent development, hard work, responsibility and choosing one's own path. PPF and the Foundation try to find and support exceptional initiatives where there is an opportunity to succeed and be inspired worldwide by individuals and institutions. They are keen to help these initiatives to grow further and share their knowledge and experience.

The Foundation will look for exceptional individuals so that, with the support of PPF, they can realise the projects and visions they believe in and set an example for others. The Foundation will support Czech projects that, in their ideas, activities and impact, reach boldly across the Czech border, deliver value and bring opportunities to others, and have accepted their share of responsibility for the world around them. The Foundation's projects will focus on situations where a good idea grows into a real inspiration for others, and where efforts at well-earned success and working together can bring real change, hope or joy to many others across societies.

The PPF Foundation's activities are focused on the development of Czech civil society, with an emphasis on conservative values and freedom, projects aimed at a plurality of opinions and respect for others, equal opportunities and the strengthening of the Czech footprint in the world. In addition to science, education, art and social issues, the areas supported will also include community development, sports activities for children and young people, and care for Czech cultural heritage.

PPF Group – a Partner for Czech Culture

In 2019, PPF Group continued to support cultural projects that it has long partnered. For over twenty years, PPF has been a lead sponsor of the Summer Shakespeare Festival, and the Group's collaboration with the Jára Cimrman Theatre has lasted just as long. Cultural events in Prague sponsored by Group's companies include Art Week and the Prague Spring Music Festival. PPF also partners the Czech Philharmonic.

The PPF Art subsidiary manages probably the largest private art collection of Czech and Slovak photography, comprising 2,052 works by 193 artists. It features photographs by Josef Sudek, František Drtikol, Jaromír Funke, Ivan Pinkava, Tono Stano and others.

It also manages a set of 333 works of art, mainly paintings and sculptures, including works by Alphonse Mucha, Maxmilián Pirner, Jakub Schikaneder, Luděk Marold, Mikuláš Medek, August Piepenhagen, and contemporary artists, such as Ivan Ouhel, Tomáš Císařovský, Petr Nikl, and Jan Merta. Selected paintings, photographs and sculptures from the PPF collection are installed in the interiors of buildings where companies belonging to the Group – such as PPF Gate, ArtGen and SOTIO – are based.

The company runs prominent exhibition premises in Prague, the Václav Špála Gallery and Josef Sudek Studio, and promotes Czech art in the Czech Republic and around the world.

The exhibition Sudek, Funke, Drtikol…, hosted by the Regional Gallery in Liberec in 2018, was followed by three exhibitions in foreign galleries – Augsburg in Germany and Jelenia Góra and Wrocław in Poland – in 2019. The exhibitions at the Polish galleries were among the most visited and attracted the attention of regional and national television. Last year, PPF Art lent paintings from its collection for exhibitions at the National Gallery (Mikuláš Medek, Květoslava Válová), the Prague Castle Riding School (Michael Rittstein), Mánes (Jakub Schikaneder) and the Hlinsko Regional Gallery (Luděk Marold).

PPF GROUP HISTORY

1991

In September 1991, Petr Kellner and his partners set up a company called Správa Prvního privatizačního fondu. Its initial registered capital was 100,000 Czechoslovak crowns.

The first four PPF privatisation funds were registered at the end of the year.

1992

PPF investment funds netted more than 3% of all investment points in the first wave of voucher privatisation, as more than 186,000 people opted to invest with them. The funds themselves later held shares in 202 enterprises with an aggregate nominal value of 4.9 billion crowns, ranking them sixth by volume of assets under management.

1993

At the beginning of the year, PPF-R (Russia) was established to capitalise on the experience gained by PPF from the Czech voucher privatisation and take part in the Russian Federation's privatisation process.

1994

PPF set up two mutual funds for the second wave of voucher privatisation, which bagged a further 140,000 shareholders and shares in 45 enterprises with a nominal value of CZK 2.4 billion.

1995

PPF kick-started the process of acquiring Česká pojišťovna, the largest company on the insurance market in the Czech Republic, by purchasing a 20% stake.

1996

Under a shareholder agreement, PPF was made responsible for the management of Česká pojišťovna and spearheaded its root-and-branch restructuring and modernisation. Ladislav Bartoníček was appointed as the insurer's CEO.

1997

The restructuring of Česká pojišťovna's investment portfolio saw a modest Moravian leasing company transformed into Home Credit as a platform for the provision of consumer finance services.

1998

In Russia, the rouble's tailspin and the harsh economic crisis pushed PPF into the red. The Group pulled out of the Russian market temporarily, selling off its remaining assets there.

1999

PPF sold shares in several industrial enterprises and started to implement a basic change in its business strategy, veering towards retail financial services. PPF acquired Expandia banka (subsequently eBanka), the first purely electronic bank in the Czech Republic.

2000

PPF exercised an agreed option to purchase further shares and gain a majority in Česká pojišťovna.

2001

The Czech Government decided to sell the state-owned 30% stake in Česká pojišťovna to PPF Group, which ended up with a shareholding in excess of 90% as it progressed towards 100% ownership of the insurance company.

PPF purchased a majority of shares in První městská banka, now PPF banka, from the City of Prague.

2002

PPF took control of TV Nova, the first private television station in the Czech Republic.

PPF returned to Russia, where it started offering consumer finance services (Home Credit) and insurance services on the local market.

2003

PPF Asset Management was formed, gradually establishing itself as the investment hub for all companies within PPF Group.

2004

PPF Group opened a branch office in Beijing.

PPF sold TV NOVA to multinational media corporation CME.

2005

Jiří Šmejc became a 5% shareholder in PPF.

2006

Home Credit launched consumer finance services in Kazakhstan, Ukraine and Belarus. PPF Group also started offering insurance on these markets.

2007

Home Credit launched operations in China.

PPF Group obtained a significant minority stake in the large Russian bank Nomos.

Ladislav Bartoníček became a minority PPF Group shareholder.

2008

PPF and Italy's Assicurazioni Generali became the joint founders of Generali PPF Holding, one of the largest insurance groups in Central and Eastern Europe and the CIS.

PPF became an important shareholder in Polymetal, one of the leading Russian silver and gold mining companies.

2009

PPF entered Eldorado, one of the largest domestic appliance and electronics retail chains in Russia.

PPF, along with J&T and Daniel Křetínský, formed Energetický a průmyslový holding, giving it access to the energy sector and industry.

2010

PPF Group became the first foreign entity to be licensed by the Chinese regulator to provide consumer finance services.

Jean-Pascal Duvieusart became a minority shareholder in PPF Group N.V.

2011

Establishment of Air Bank, a new retail bank specialising in online services.

PPF bought a share in collapsing lottery company Sazka as a part of bankruptcy proceedings; in 2012, PPF sold its share, making a significant profit.

2012

Jiří Šmejc sold his 5% share in PPF Group to other shareholders and became a minority shareholder in Home Credit and Air Bank.

SOTIO, the biotechnology company developing new therapies for oncology and autoimmune diseases, became a part of PPF Group.

2013

In a two-part transaction, PPF sold its 49% stake in Generali PPF Holding to the Generali Group and kept selected insurance assets in Russia.

PPF bought Bestsport Arena, in the process becoming the owner of Prague's O2 arena, which is one of the most modern multipurpose halls in Europe.

2014

PPF purchased O2 Czech Republic, the largest Czech telecommunications operator, and O2 Slovakia, the number three on the Slovak mobile market.

PPF was granted a national licence to provide consumer finance services in China.

2015

PPF became the first in Europe to make a voluntary optional separation in the telecommunications sector by splitting O2 Czech Republic into two: into Česká telekomunikační infrastruktura (CETIN), the owner and manager of the fixed and mobile network, and the purely retail operator O2. This demerger and the restructuring of the telecommunications companies pushed up the value of both of them.

Home Credit entered into an agreement with US-based Sprint and started offering consumer finance services to that telecommunications operator's customers in the US.

2016

PPF Group and EMMA Capital sold their shares in Eldorado, the second largest electronics and domestic appliances retail chain in Russia.

2017

PPF invested in Mall Group, the largest e-commerce platform in Central Europe.

2018

PPF Group acquired Telenor's telecommunication assets in Central and South-eastern Europe (Hungary, Serbia, Montenegro, and Bulgaria).

PPF Group acquired Škoda Transportation, the largest transport machinery company in Central and Eastern Europe.

2019

PPF signed a contract with media company Central European Media Enterprises Ltd. on the full takeover of its assets, television stations and other media assets in Bulgaria, the Czech Republic, Romania, Slovakia and Slovenia. The completion of the deal was conditional on the consent of CME's shareholders, the European Commission and the national regulators in some of the countries where CME operates.

The contract between the Ministry of Transport and a consortium of CzechToll companies from PPF Group and SkyToll, which won the tender for the operation of a new toll system in the Czech Republic in 2018, entered into force.

FINANCIAL SECTION

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REPORT OF THE INDEPENDENT AUDITOR

To: the General Meeting and the Supervisory Board of PPF Group N.V.

Our opinion

The 'Financial Section' of the PPF Group Annual Report 2019 of PPF Group N.V. (hereafter 'the financial section') is derived from the audited financial statements of PPF Group N.V. for the year 2019.

In our opinion the 'financial section' included in the accompanying PPF Group Annual Report 2019 is consistent, in all material respects, with those financial statements, on the basis described in note A.3.

The financial section comprises:

1. the glossary;
2. the consolidated financial statements, including:
3. the consolidated statement of financial position as at 31 December 2019;
4. the consolidated statements comprehensive income, changes in equity and cash flows for the year 2019; and
5. the notes comprising a summary of the accounting policies and other explanatory information.

The financial section does not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code. Reading the financial section, therefore, is not a substitute for reading the audited financial statements of PPF Group N.V. and our report thereon.

The financial section and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements of 20 May 2020.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements of PPF Group N.V. for the year 2019 in our report dated 20 May 2020.

Our auditor's report also includes an other matter paragraph in relation to the impact of uncertainties due to the COVID-19 on our audit.

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

As disclosed in Note G.3 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 companies, 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.

Responsibilities of the Board of Directors and the Supervisory Board for the financial section

The Board of Directors is responsible for the preparation of the financial section on the basis described in note A.3.

The Supervisory Board is responsible for overseeing the financial reporting process of the financial section.

Our responsibilities for the audit of the financial section

Our responsibility is to express an opinion on whether the financial section is consistent, in all material respect, with the audited financial statements based on our procedures, which we conducted in accordance with Dutch law, including the Dutch Standard 810 'Opdrachten om te rapporteren betreffende samengevatte financiële overzichten' (Engagements to report on summary financial statements).

Amstelveen, 30 June 2020

KPMG Accountants N.V.
M.L.M. Kesselaer RA

GLOSSARY OF ABBREVIATIONS

AC	amortised cost
CGU	cash generating unit
EAD	exposure at default
EBITDA	earnings before interest, tax, depreciation and amortisation
ECL	expected credit loss
FLI	forward-looking information
FV	fair value
FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
FX	foreign exchange
IBNR	provision for claims incurred but not reported
IPRD	in-progress research and development
JV	joint venture
LAT	liability adequacy test
LGD	loss given default
LTV	loan to value
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
PVFP	present value of future profits
RBNS	provision for claims reported but not settled
ROU	right-of-use assets

Consolidated statement of financial position

In millions of EUR	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	E1	9,824	10,120
Investment securities	E2	2,914	3,359
Loans and receivables due from banks and other financial institutions	E3	582	349
Loans due from customers	E4	21,676	18,803
Trade and other receivables	E5	1,051	835
Contract assets	E5	287	277
Current tax assets		33	19
Inventories	E6	216	193
Equity-accounted investees	E7	884	920
Investment property	E8	2,002	1,743
Property, plant and equipment	E9	3,862	3,158
Goodwill	E10.1	1,659	1,648
Intangible assets	E10.2	2,593	2,673
Deferred tax assets	E38.2	479	477
Other assets	E11	552	481
TOTAL ASSETS		**48,614**	**45,055**
LIABILITIES			
Financial liabilities at fair value through profit or loss	E12	530	761
Due to non-banks	E13	12,792	11,396
Due to banks and other financial institutions	E14	16,854	18,496
Debt securities issued	E15	4,337	2,593
Subordinated liabilities	E16	264	396
Current tax liabilities		49	111
Trade and other payables	E17	2,991	2,315
Contract liabilities	E5	277	208
Provisions	E18	326	279
Deferred tax liabilities	E38.2	639	600
TOTAL LIABILITIES		**39,059**	**37,155**
EQUITY			
Issued capital	E19	1	1
Share premium	E19	677	677
Other reserves	E20	115	(379)
Retained earnings		8,004	7,186
Total equity attributable to owners of the Parent		8,797	7,485
Non-controlling interests	E21	758	415
Total equity		9,555	7,900
TOTAL LIABILITIES AND EQUITY		**48,614**	**45,055**

Consolidated income statement

For the year ended 31 December

In millions of EUR	Note	2019	2018
Interest income		5,569	4,778
Interest expense		(1,893)	(1,501)
Net interest income	**E24**	**3,676**	**3,277**
Fee and commission income		672	841
Fee and commission expense		(201)	(171)
Net fee and commission income	**E25**	**471**	**670**
Net earned premiums		75	71
Net insurance benefits and claims		(35)	(31)
Acquisition costs		(17)	(18)
Net insurance income	**E28**	**23**	**22**
Net rental and related income	E29	191	154
Property operating expenses		(30)	(29)
Net valuation gain/(loss) on investment property	E8	121	27
Net income related to construction contracts		–	2
Profit/(loss) on disposal of investment property		3	1
Net real estate income		**285**	**155**
Telecommunications income		3,159	2,414
Telecommunications expenses		(1,077)	(875)
Net telecommunications income	**E30**	**2,082**	**1,539**
Mechanical engineering income		388	372
Mechanical engineering expenses		(232)	(235)
Net mechanical engineering income	**E31**	**156**	**137**
Toll operations income		91	–
Toll operations expenses		(87)	–
Net toll operations income	**E32**	**4**	**–**
Net gain/(loss) on financial assets	E26	(133)	13
Net agriculture income	E33	4	8
Other income	E34	224	133
TOTAL OPERATING INCOME		**6,792**	**5,954**
Net impairment losses on financial assets	E27	(1,839)	(1,726)
Personnel expenses	E35	(1,627)	(1,530)
Depreciation and amortisation	E36	(909)	(608)
Other operating expenses	E35	(1,046)	(1,109)
Profit/(loss) on disposals/liquidations of equity-accounted investees and subsidiaries	B2	(5)	104
Share of profit/(loss) of equity-accounted investees, net of tax		37	(46)
PROFIT BEFORE TAX		**1,403**	**1,039**
Income tax expense	E38.1	(398)	(174)
NET PROFIT FOR THE PERIOD		**1,005**	**865**
Profit attributable to:			
Owners of the Parent		935	815
Non-controlling interests	E21	70	50

Consolidated statement of comprehensive income

For the year ended 31 December

In millions of EUR	2019	2018
NET PROFIT FOR THE PERIOD	**1,005**	**865**
Other comprehensive income		
Valuation gains/(losses) on FVOCI equity instruments	215	(60)
Valuation gains/(losses) on FVOCI debt securities*	41	(44)
FVOCI revaluation gains/(losses) transferred to income statement*	(4)	5
Foreign operations - currency translation differences*	191	(174)
Effect of movement in equity of equity-accounted investees*	(166)	371
Disposal of subsidiaries and associates*	(2)	(22)
Cash flow hedge – effective portion of changes in fair value*	(2)	(13)
Net change in fair value of CF hedges transferred to income statement*	8	–
Income tax relating to components of other comprehensive income*	(8)	8
Other comprehensive income/(expense) for the period (net of tax)	**273**	**71**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,278**	**936**
Total comprehensive income attributable to:		
Owners of the Parent	1,193	903
Non-controlling interests	85	33

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

Consolidated statement of changes in equity

In millions of EUR	Issued capital	Share premium	Revaluation reserve	Legal and statutory reserves
Balance as at 1 January 2019	**1**	**677**	**(133)**	**129**
Profit for the period	–	–	–	–
Currency translation differences	–	–	–	–
FVOCI revaluation gains/(losses) taken to equity	–	–	254	–
FVOCI revaluation (gains)/losses transferred to income statement	–	–	(4)	–
FVOCI revaluation (gains)/losses transferred directly to retained earnings	–	–	19	–
Effect of hedge accounting	–	–	–	–
Net change in fair value of CF hedges transferred to income statement	–	–	–	–
Effect of movement in equity of equity-accounted investees	–	–	–	–
Disposal and deconsolidation of subsidiaries	–	–	–	–
Tax on items taken directly to or transferred from equity	–	–	(7)	–
Total comprehensive income for the period	**–**	**–**	**262**	**–**
Net allocation to legal and statutory reserves	–	–	–	29
Dividends to shareholders	–	–	–	–
Dividends to NCI	–	–	–	–
Acquisition of NCI	–	–	–	–
Other changes in NCI	–	–	–	–
Contributions by NCI	–	–	–	–
Issue of AT1 subordinated bond	–	–	–	–
Other	–	–	–	–
Total transactions with owners of the Company	**–**	**–**	**–**	**29**
Balance as at 31 December 2019	**1**	**677**	**129**	**158**

Consolidated statement of changes in equity

In millions of EUR	Issued capital	Share premium	Revaluation reserve	Legal and statutory reserves
Balance as at 1 January 2018	**1**	**677**	**(44)**	**90**
Adjustment on initial application of IFRS 9 (net of tax)	–	–	2	–
Adjustment on initial application of IFRS 15 (net of tax)	–	–	–	–
Balance as at 1 January 2018 (adjusted)	**1**	**677**	**(42)**	**90**
Profit for the period	–	–	–	–
Currency translation differences	–	–	–	–
FVOCI revaluation gains/(losses) taken to equity	–	–	(103)	–
FVOCI revaluation (gains)/losses transferred to income statement	–	–	5	–
FVOCI revaluation (gains)/losses transferred directly to retained earnings	–	–	1	–
Effect of hedge accounting	–	–	–	–
Effect of movement in equity of equity-accounted investees	–	–	–	–
Disposal and deconsolidation of subsidiaries	–	–	–	–
Tax on items taken directly to or transferred from equity	–	–	6	–
Total comprehensive income for the period	**–**	**–**	**(91)**	**–**
Net allocation to legal and statutory reserves	–	–	–	39
Dividends to shareholders	–	–	–	–
Dividends to NCI	–	–	–	–
Acquisition of NCI	–	–	–	–
Other changes in NCI	–	–	–	–
Contributions by NCI	–	–	–	–
Total transactions with owners of the Company	**–**	**–**	**–**	**39**
Balance as at 31 December 2018	**1**	**677**	**(133)**	**129**

Translation reserve	Hedging reserve	Other reserves	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
(742)	**371**	**(4)**	**7,186**	**7,485**	**415**	**7,900**
–	–	–	935	935	70	1,005
179	–	–	–	179	12	191
–	–	–	–	254	2	256
–	–	–	–	(4)	–	(4)
–	–	–	(19)	–	–	–
–	(2)	–	–	(2)	–	(2)
–	7	–	–	7	1	8
24	(185)	(5)	–	(166)	–	(166)
(2)	–	–	–	(2)	–	(2)
–	(1)	–	–	(8)	–	(8)
201	**(181)**	**(5)**	**916**	**1,193**	**85**	**1,278**
–	–	–	(29)	–	–	–
–	–	–	(60)	(60)	–	(60)
–	–	–	–		(34)	(34)
–	–	–	53	53	277	330
–	–	–	(54)	(54)	4	(50)
–	–	–	–	–	11	11
–	–	181	–	181	–	181
–	–	7	(8)	(1)	–	(1)
–	**–**	**188**	**(98)**	**119**	**258**	**377**
(541)	**190**	**179**	**8,004**	**8,797**	**758**	**9,555**

Translation reserve	Hedging reserve	Other reserves	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
(548)	**–**	**(7)**	**6,738**	**6,907**	**470**	**7,377**
–	–	–	(191)	(189)	(24)	(213)
–	–	–	21	21	4	25
(548)	**–**	**(7)**	**6,568**	**6,739**	**450**	**7,189**
–	–	–	815	815	50	865
(158)	–	–	–	(158)	(16)	(174)
–	–	–	–	(103)	(1)	(104)
–	–	–	–	5	–	5
–	–	–	(1)	–	–	–
–	(13)	–	–	(13)	–	(13)
(14)	382	3	–	371	–	371
(22)	–	–	–	(22)	–	(22)
–	2	–	–	8	–	8
(194)	**371**	**3**	**814**	**903**	**33**	**936**
–	–	–	(39)	–	–	–
–	–	–	(40)	(40)	–	(40)
–	–	–	–	–	(40)	(40)
–	–	–	(112)	(112)	(56)	(168)
–	–	–	(5)	(5)	–	(5)
–	–	–	–	–	28	28
–	**–**	**–**	**(196)**	**(157)**	**(68)**	**(225)**
(742)	**371**	**(4)**	**7,186**	**7,485**	**415**	**7,900**

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		1,403	1,039
Adjustments for:			
Depreciation and amortisation		909	608
Impairment losses on goodwill		–	1
Impairment of current and non-current assets	E27	1,848	1,746
(Profit)/loss on disposal of PPE, intangible assets and investment property		(1)	2
(Profit)/loss on sale of investment securities		62	(22)
(Gains)/losses on disposals of equity-accounted investees and subsidiaries		5	(104)
Interest expense	E24	1,893	1,501
Interest income	E24	(5,569)	(4,778)
Other (income)/expenses not involving movements of cash		(193)	(7)
Gain on bargain purchase	E34	(38)	(23)
Interest received		5,968	5,058
Change in loans and receivables due from banks and other financial institutions		(239)	220
Change in loans due from customers		(5,556)	(3,594)
Change in trade and other receivables		(237)	9
Change in contract assets		(10)	4
Change in other assets		(104)	(85)
Change in liabilities due to non-banks		731	109
Change in financial liabilities at FVTPL		(240)	(55)
Change in trade and other payables		136	(40)
Income tax paid		(460)	(308)
Change in assets and liabilities held for sale		–	13
Unrealised foreign exchange differences		926	(908)
Net cash from/(used in) operating activities		**1,234**	**386**
Cash flows from investing activities			
Purchase of PPE and intangible assets	E9,E10	(707)	(648)
Dividends received		27	4
Purchase of financial assets at FVTPL		(440)	(230)
Purchase of financial assets at FVTPL not held for trading		–	(173)
Purchase of financial assets at amortised cost		(47)	(16)
Purchase of financial assets FVOCI		(1,546)	(3,200)
Purchase of investments property		(22)	(28)
Acquisition of subsidiaries and associates, net of cash acquired	B2	(320)	(2,765)
Proceeds from disposals of PPE and intangible assets		27	58
Proceeds from financial assets at amortised cost		87	11
Proceeds from sale of financial assets FVOCI		1,986	3,546
Proceeds from financial assets at FVTPL		572	219
Proceeds from sale of financial assets at FVTPL not held for trading		173	–
Proceeds from sale of assets and liabilities held for sale		–	44
Proceeds from sale of investment property		14	1
Proceeds from disposal of subsidiaries and associates, net of cash disposed	B2	124	4
Proceeds from sale of subsidiaries to NCI	B2	334	–
Net cash used in investing activities		**262**	**(3,173)**

In millions of EUR	Notes	2019	2018
Cash flows from financing activities			
Proceeds from the issue of debt securities		3,082	2,032
Proceeds from liabilities due to banks and other financial institutions		17,595	17,511
Payment of debt securities		(1,514)	(1,194)
Repayment of liabilities due to banks and other financial institutions		(19,361)	(12,601)
Interest paid		(1,685)	(1,786)
Cash payments for principal portion of lease liability		(136)	–
Dividends paid to shareholders		(60)	(40)
Dividends paid to non controlling interest		(34)	(40)
Proceeds from issue of other equity instruments	E20	181	–
Cash flow from financing activities	**E23**	**(1,932)**	**3,882**
Net increase/(decrease) in cash and cash equivalents		**(436)**	**1,095**
Cash and cash equivalents as at 1 January		**10,120**	**9,118**
Effect of exchange rate movements on cash and cash equivalents		140	(93)
Cash and cash equivalents as at 31 December		**9,824**	**10,120**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

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

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 Group” or the “Group”) and the Group’s interests in associates, joint ventures and affiliated entities. For a listing of significant Group entities and changes to the Group in 2019 and 2018, please refer to Section B of these consolidated financial statements.

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

As at 31 December 2019, the ultimate shareholder structure was as follows:

— Petr Kellner – 98.93% (directly and indirectly)
— Ladislav Bartoníček – 0.535% (indirectly)
— Jean-Pascal Duvieusart – 0.535% (indirectly).

A.2. Statement of compliance

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

These summary financial information presented within the Financial Section part of the PPF Group N.V. Annual Report does not constitute the full financial statements of the PPF Group N.V. for the financial year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union and with Section 2:362(9) of the Dutch Civil Code, including International Accounting Standards (“IASs”), promulgated by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB, but represents an extract from them.

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

A.3. Basis of measurement

The consolidated financial statement comprises the consolidated PPF Group N.V. statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows and the summary of accompanying other explanatory information and basis of preparation. These include the same information as the full annual financial statements which are available on the Company site, except for the part related to standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Group’s consolidated financial statements.

The summary financial information presented within the Financial Section part of the PPF Group N.V. Annual Report does not constitute the full financial statements of the PPF Group N.V. for the financial year ended 31 December 2019 but represents an extract from them. Reading the financial statements, therefore, is not a substitute for reading the audited financial statements of PPF Group N.V., prepared in accordance with IFRS (as adopted by the EU). The independent auditor of the PPF Group N.V., KPMG Accountants N.V., has issued an unqualified audit opinion on the full financial statements for the year ended 31 December 2019.

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, financial instruments at fair value through other comprehensive income and investment property. 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 purchases is recognised in profit or loss immediately (refer to F.1.15.1). 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 initial value of goodwill for each business combination (refer to B.2);
— useful life of tangible and intangible fixed assets (refer to E.9, E.10);
— in-progress research and development recognised as intangible asset (refer to E.10);
— the fair value of investment property (refer to E.8);
— the fair value of financial instruments (refer to C.7);
— impairment of financial instruments, trade receivables and contract assets (refer to E.1–E.5);
— provisions recognised under liabilities (refer to E.18);
— the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits (refer to E.38);
— revenue recognition timing in terms of the transfer of control over the goods and services to the customer – at a point in time or over time (refer to E.30–E.32);
— commissions as costs to obtain contracts with customers and stand-alone selling prices (refer to E.5, E.30–E32); and
— lease-term for the lessee accounting whether the Group is reasonably certain to exercise extension options (refer to E.22).

During 2019, the Group assessed and subsequently revised its estimation of 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 latest expectation of recoveries. The impact of change in 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 change in net amount of loans to customers of MEUR 94. The year to date impact in 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 those entities that are controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into consideration. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control, over financial and operating policies. A joint venture is an arrangement in which the Group has joint control based on a contractual agreement, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. 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 or joint control commences until the date the significant influence or joint control ceases to exist. When the Group's share of losses exceeds the carrying amount of the associate or jointly controlled entity, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate or jointly controlled entity.

Reorganisations and mergers involving companies under common control are accounted for using consolidated net book values. 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.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

A.6. Presentation of functional currency

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

A.7. Change in presentation of receivable portfolio provided to Serbian clients for accessories

In 2018, the Group recognised a receivable portfolio provided to Telenor Serbia's (Telenor d.o.o. Beograd) customers by Mobi Banka (formerly Telenor Banka a.d. Beograd) for financing handsets purchases. However, the portfolio should not have been recognised by the Group in 2018, as Telenor Serbia customers and Mobi Banka have loan agreements, hence the portfolio itself is recognised by Mobi Banka and Telenor Serbia is acting only as a guarantor. As a consequence, the Group, in 2018, should only have recognised the deposit placed at Mobi Banka as a collateral whereas the portfolio itself was already recognised by Mobi Banka. Mobi Banka is a fully consolidated subsidiary since February 2019 (refer to B.2.1). The comparative period 2018 was restated accordingly, the trade and other receivables decreased by MEUR 35, liabilities due to banks decreased by MEUR 29 and other financial assets increased by MEUR 6.

B. The consolidated Group and main changes for the period

B.1. Group entities

The following list shows only significant holding and operating entities that are subsidiaries, associates or joint ventures of the Parent Company as of 31 December 2019 and 2018.

Company	Domicile	Effective proportion of ownership interest 2019	Effective proportion of ownership interest 2018
PPF Group N.V.	Netherlands	Parent Company	Parent Company
PPF Financial Holdings subgroup – subsidiaries			
PPF Financial Holdings B.V.	Netherlands	100.00%	100.00%
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%
AB Structured Funding 1 DAC	Ireland	100.00%	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. (renamed from 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. (changed from Home Credit B.V.)	Netherlands	91.12%	91.12%
Home Credit Consumer Finance China Ltd.	China	91.12%	91.12%
Home Credit Group B.V.	Netherlands	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%
Mobi Banka a.d. (Telenor Banka a.d. Beograd)	Serbia	100.00%	–
PPF banka a.s.	Czech Republic	92.96%	92.96%
PPF Co3 B.V.	Netherlands	92.96%	92.96%
Ruconfin B.V.	Netherlands	92.96%	92.96%
Shenzhen Home Credit Number One Consulting Co., Ltd.	China	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%
Usconfin 1 DAC	Ireland	100.00%	92.96%
PPF Financial Holdings subgroup – 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%
Telecommunications subgroup – subsidiaries			
PPF A3 B.V.	Netherlands	100.00%	100.00%
PPF TMT Holdco 1 B.V.	Netherlands	100.00%	100.00%
CETIN Finance B.V.	Netherlands	100.00%	100.00%
Česká telekomunikační infrastruktura a.s. ("CETIN")	Czech Republic	100.00%	100.00%
O2 Czech Republic a.s.*	Czech Republic	83.57%	83.40%
O2 IT Services s.r.o.	Czech Republic	83.57%	83.40%
O2 Slovakia, s.r.o.	Slovakia	83.57%	83.40%
PPF Arena 1 B.V. (in 2020 renamed to PPF Telecom Group B.V.)	Netherlands	100.00%	100.00%
PPF Infrastructure B.V.	Netherlands	100.00%	100.00%

Company	Domicile	Effective proportion of ownership interest 2019	Effective proportion of ownership interest 2018
PPF Telco B.V.	Netherlands	100.00%	100.00%
PPF TMT Bidco 1 B.V.	Netherlands	100.00%	100.00%
Telenor Bulgaria EAD	Bulgaria	100.00%	100.00%
Telenor Commmon Operation Zrt.	Hungary	100.00%	100.00%
Telenor d.o.o. Beograd	Serbia	100.00%	100.00%
Telenor d.o.o. Podgorica	Montenegro	100.00%	100.00%
Telenor Magyarország Zrt.	Hungary	75.00%	100.00%
Telenor Real Estate Hungary Zrt.	Hungary	75.00%	100.00%
TMT Hungary B.V.	Netherlands	75.00%	–
Real estate subgroup – subsidiaries			
PPF Real Estate Holding B.V.	Netherlands	100.00%	100.00%
Anthemona Ltd.	Cyprus	100.00%	100.00%
Art Office Gallery a.s.	Czech Republic	100.00%	100.00%
Boryspil Project Management Ltd.	Ukraine	100.00%	100.00%
Capellalaan (Hoofddorp) B.V.	Netherlands	100.00%	100.00%
De Reling (Dronten) B.V.	Netherlands	100.00%	100.00%
EusebiusBS (Arnhem) B.V.	Netherlands	100.00%	100.00%
Fantom LLC	Russia	100.00%	100.00%
Fosol Enterprises Limited	Cyprus	89.91%	89.91%
Gen Office Gallery a.s.	Czech Republic	100.00%	100.00%
German Properties B.V.	Netherlands	100.00%	100.00%
Gorod Molodovo Pokoleniya LLC (changed from Gorod Molodovo Pokoleniya JSC)	Russia	73.00%	73.00%
Hofplein Offices (Rotterdam) B.V.	Netherlands	100.00%	100.00%
Charlie Com LLC	Russia	100.00%	100.00%
In Vino LLC	Russia	99.90%	99.90%
Intrust NN CJSC	Russia	66.67%	66.67%
Investitsionny Trust CJSC	Russia	78.75%	78.75%
ISK Klokovo LLC	Russia	100.00%	100.00%
Johan H (Amsterdam) B.V.	Netherlands	100.00%	100.00%
Kateřinská Office Building s.r.o.	Czech Republic	100.00%	100.00%
Kartontara LLC (renamed from Yugo-Vostochnaya promyshlennaya compaiya "Kartontara" LLC)	Russia	100.00%	100.00%
Kvartal Togliatti LLC	Russia	100.00%	100.00%
Langen Property B.V.	Netherlands	100.00%	100.00%
Logistics-A LLC	Russia	100.00%	100.00%
Logistika-Ufa LLC	Russia	100.00%	100.00%
LvZH (Rijswijk) B.V.	Netherlands	100.00%	100.00%
Millennium Tower (Rotterdam) B.V.	Netherlands	100.00%	100.00%
Mitino Sport City LLC	Russia	100.00%	100.00%
Monheim Property B.V.	Netherlands	100.00%	100.00%
Monchyplein (Den Haag) B.V.	Netherlands	100.00%	100.00%
Plaza Development SRL	Romania	100.00%	100.00%
Pompenburg (Rotterdam) B.V.	Netherlands	100.00%	100.00%
PPF GATE a.s.	Czech Republic	100.00%	100.00%
PPF Real Estate s.r.o.	Czech Republic	100.00%	100.00%
PPF Real Estate Russia LLC	Russia	100.00%	100.00%
One Westferry Circus S.a.r.l.	Luxembourg	100.00%	100.00%
Razvitie LLC	Russia	60.07%	60.07%
RC PROPERTIES S.R.L.	Romania	100.00%	100.00%
Roko LLC	Russia	100.00%	100.00%
Skladi 104 LLC	Russia	60.06%	60.06%
Skolkovo Gate LLC	Russia	100.00%	100.00%
Spektr LLC	Russia	100.00%	100.00%
Stockmann StP Centre LLC	Russia	100.00%	–
Tanaina Holdings Ltd.	Cyprus	100.00%	100.00%
Telistan Ltd.	Cyprus	99.90%	99.90%
TK Lipetskiy LLC	Russia	100.00%	100.00%
Velthemia Ltd.	Cyprus	60.07%	60.07%

Company	Domicile	Effective proportion of ownership interest 2019	Effective proportion of ownership interest 2018
Wagnerford LLC	Russia	89.91%	89.91%
Wilhelminaplein B.V.	Netherlands	100.00%	100.00%
Bucca Properties Ltd.	BVI	–	100.00%
Glancus Investments Inc.	BVI	–	100.00%
Retail Star 22, spol. s r.o.	Czech Republic	–	100.00%
Trigon Berlin B.V.	Netherlands	–	100.00%
Real estate subgroup – associates/joint ventures			
Bohemia LLC	Russia	35.00%	35.00%
Carolia Westminster Hotel Ltd. (Other associate in 2018)	United Kingdom	45.00%	45.00%
Flowermills Holding B.V.	Netherlands	49.94%	49.94%
Gilbey Holdings Ltd.	Cyprus	60.00%	60.00%
Komodor LLC	Ukraine	59.40%	59.40%
Marisana Enterprises Ltd.	Cyprus	49.94%	49.94%
Westminster JV a.s. (Other associate in 2018)	Czech Republic	50.00%	50.00%
Moravia LLC	Russia	–	35.00%
Syner NN LLC	Russia	–	35.00%
Engineering subgroup – subsidiaries			
PPF Beer Topholdco B.V.	Netherlands	100.00%	100.00%
Bammer trade a.s.	Czech Republic	90.00%	100.00%
Pars nova a.s.	Czech Republic	90.00%	100.00%
ŠKODA ELECTRIC a.s.	Czech Republic	90.00%	100.00%
Škoda Investment a.s.	Czech Republic	90.00%	100.00%
Škoda Transportation a.s.	Czech Republic	90.00%	100.00%
Škoda Transtech Oy (renamed from Transtech Oy)	Finland	90.00%	100.00%
ŠKODA VAGONKA a.s.	Czech Republic	90.00%	100.00%
Engineering subgroup – joint ventures			
SIBELEKTROPRIVOD LLC	Russia	45.00%	50.00%
Other significant subsidiaries			
Bavella B.V.	Netherlands	100.00%	100.00%
Bestsport, a.s.	Czech Republic	100.00%	100.00%
BONAK a.s.	Czech Republic	100.00%	100.00%
Cytune Pharma SAS (associate until July 2018)	France	96.00%	96.00%
CzechToll s.r.o.	Czech Republic	100.00%	100.00%
Facipero Investments Ltd.	Cyprus	100.00%	100.00%
Fodina B.V.	Netherlands	100.00%	100.00%
GEMCOL Ltd.	Cyprus	–	100.00%
Letňany eGate s.r.o.	Czech Republic	100.00%	100.00%
Letňany Park Gate s.r.o.	Czech Republic	100.00%	100.00%
Letňany Air Land s.r.o.	Czech Republic	100.00%	100.00%
Letňany Air Logistics s.r.o.	Czech Republic	100.00%	100.00%
PPF a.s.	Czech Republic	100.00%	100.00%
PPF Capital Partners Fund B.V.	Netherlands	96.00%	96.00%
PPF CYPRUS MANAGEMENT Ltd. (renamed from Anthiarose Ltd.)	Cyprus	100.00%	100.00%
PPF Life Insurance LLC	Russia	100.00%	100.00%
Prague Entertainment Group B.V.	Netherlands	100.00%	100.00%
RAV Agro LLC	Russia	100.00%	100.00%
RAV Molokoproduct LLC	Russia	100.00%	100.00%
Sotio a.s.	Czech Republic	92.16%	92.16%
Sotio Medical Research (Beijing) Co., Ltd.	China	96.00%	96.00%
Sotio N.V.	Netherlands	96.00%	96.00%
Timeworth Holdings Ltd.	Cyprus	100.00%	100.00%
Vox Ventures B.V.	Netherlands	100.00%	100.00%

Company	Domicile	Effective proportion of ownership interest 2019	Effective proportion of ownership interest 2018
Other significant associates/joint ventures			
The Culture Trip Ltd.	United Kingdom	43.69%	43.69%
LEAG Holding a.s.**	Czech Republic	50.00%	50.00%
Lausitz Energie Verwaltungs GmbH	Germany	50.00%	50.00%
Mall Group a.s.** (renamed from Sully system a.s.)	Czech Republic	40.00%	40.00%
CZC.cz s.r.o.	Czech Republic	40.00%	40.00%
Internet Mall Slovakia, s.r.o.	Slovakia	40.00%	40.00%
Internet Mall, a.s.	Czech Republic	40.00%	40.00%
Heureka Group a.s.** (demerged from Mall Group a.s.)	Czech Republic	40.00%	–
Heureka Shopping s.r.o. (merged with Heureka Group a.s.)	Czech Republic	–	40.00%

* As of 31 December 2019 and 2018 due to existence of treasury shares held by O2 Czech Republic a.s. the direct stake in the registered capital of this company is 81.06%.
** This associate/joint venture comprises a group of entities.

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

Place of business	Entity
Russia	Anthemona Ltd., Flowermills Holding B.V., Marisana Enterprises Ltd.
United Kingdom	Tanaina Holdings Ltd., One Westferry Circus S.a.r.l.
Germany	Langen Property B.V., Monheim Property B.V., Trigon Berlin B.V. (sold in 2019)

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 telecommunications 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 Telenor 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. Had the acquisition occurred on 1 January 2019, both 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 one 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 gain on a bargain purchase.

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

In millions of EUR, as at 20 February 2019	
Fair value of assets	**167**
Cash and cash equivalents	68
Investment securities	27
Loans and receivables due from banks and other financial institutions	11
Loans due from customers	54
Property, plant and equipment, intangible assets	7
Fair value of liabilities	**129**
Due to banks and other financial institutions	2
Due to non-banks	117
Subordinated liabilities	5
Other liabilities	5
Fair value of identifiable net assets	**38**

Gain on bargain purchase arising from the acquisition has been recognised as follows:

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

B.2.2. Acquisition of real estate projects

In January 2019, the Group acquired a 100% share in Stockmann StP Centre LLC, an entity holding the Nevsky shopping centre located in Saint Petersburg. The total consideration paid for the entity holding the project amounted to MEUR 155.

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

	Stockmann StP Center LLC
Transaction date	January 2019
Type of investment property	shopping mall
Location	Russia
Effective stake acquired	100%
In millions of EUR	
Consideration (paid in cash)	155
Fair value of net assets acquired	155
of which:	
Investment property	202
Fair value of liabilities assumed	50

Together with a minority partner, in April 2018, the Group acquired a 100% stake in Wagnerford LLC, an entity holding an up-and-running office building in Moscow (Metropolis 2). In April 2018, the Group acquired a 100% stake in One Westferry Circus S.a.r.l., an entity holding an up-and-running office building in London (Westferry). In November 2018, the Group acquired a 100% stake in Plaza Development SRL, an entity holding an up-and-running office building in Bucharest (Crystal Tower).

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

	Wagnerford LLC	One Westferry Circus S.a.r.l.	Plaza Development SRL
Transaction date	April 2018	April 2018	November 2018
Type of investment property	office building	office building	office building
Location	Russia	United Kingdom	Romania
Effective stake acquired	89.91%	100%	100%
In millions of EUR			
Consideration (paid in cash)	44	47	18
Consideration (deferred)	12	–	–
Fair value of net assets acquired	128	126	48
of which:			
Investment property	124	123	41
Fair value of liabilities assumed	(72)	(79)	30

B.2.3. Sale of real estate projects

In December 2019, the Group sold a Berlin office building held by Trigon Berlin B.V. for a consideration of MEUR 105. Total profit from the sale of the entity amounted to MEUR 3.

In December 2018, the Group sold a 100% share in the Ryazan Shopping Mall project held by Ryazan Shopping Mall Ltd. for a consideration of MEUR 3. Due to the net liability position of the company and the transfer of the related positive translation reserve to profit, the Group recognised total profit from the sale amounting to MEUR 91. The profit mitigates the revaluation losses of the investment property recognised in previous years and is presented in the real estate segment.

B.2.4. Sale of minority stake in Škoda engineering subgroup in 2019

In February 2019, the Group sold a 10% stake in the Škoda engineering subgroup to an entity controlled by Mr Korecký, one of the members of Škoda Transportation's Supervisory Board. Mr Korecký's position remains that of a non-executive.

The following tables summarise the financial aspect of the transaction:

In millions of EUR	
Consideration	31
Effective ownership sold	10%
Net asset attributable to non-controlling interest sold	34
Effect recorded in retained earnings (decrease)	(3)

B.2.5. Acquisition of Škoda Transportation in 2018

In November 2017, the Group signed an agreement for the acquisition of a 100% stake in Škoda Transportation and other related assets. Škoda Transportation is a group focusing mainly on the development and manufacture of vehicles for public municipal transport and railways. Škoda Transportation's main products include low-floor trams, electric locomotives, metro trains, suburban train units, trolleybuses, and electric buses, as well as traction engines and complete powertrains for transport systems. The majority of its operations are located in the Czech Republic, but the group also has subsidiaries in Germany, Poland, Hungary, Finland, and the Russian Federation.

The transaction was completed in April 2018, subsequent to the receipt of all necessary regulatory approvals. The following table shows the key non-financial parameters of the transaction:

Transaction date		24 April 2018
Significant entities and stake acquired		
Škoda Transportation a.s.	Czech Republic	100%
Pars nova a.s.	Czech Republic	100%
ŠKODA ELECTRIC a.s.	Czech Republic	100%
ŠKODA VAGONKA a.s.	Czech Republic	100%
Transtech Oy	Finland	100%
Bammer trade a.s.	Czech Republic	100%
Škoda Investment a.s.	Czech Republic	100%
SIBELEKTROPRIVOD LLC	Russia	50%

From the Group's perspective, the acquisition of the Škoda Transportation business is considered a long-term investment that enables better risk diversification by entering new businesses.

During the eight month period ended 31 December 2018, the consolidated group contributed revenue of MEUR 372 and profit of MEUR 9 to the Group´s results. Had the acquisition occurred on 1 January 2018, consolidated revenue and profit would have increased further by MEUR 113 and by MEUR 1, respectively.

The following table shows the determination of purchase price:

In millions of EUR	
Purchase price (paid in cash)	306
Contingent consideration (maximum amount of deferred earn-out)	59
Fair value of contingent consideration	55
Total purchase price	361

The contingent consideration depends notably on the successful completion of specified projects in progress at the moment of the acquisition.

The Group incurred acquisition-related costs not exceeding MEUR 1 on legal fees and due diligence costs. These costs are included in consulting costs.

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 one 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 gain on a bargain purchase.

Key assumptions and valuation approach

As the acquired business is a well-established rail vehicles producer, the key asset categories acquired in the acquisition were fixed assets, work in progress, intellectual property, in-process development reported in the balance sheet, customer relationships, order backlog, and brands additionally identified. Major fixed asset categories reported on the balance sheet are production technology and related equipment, land and buildings, and brand licences.

Since each asset category has different characteristics, different asset valuation methods were used. Based on the nature of the tangible assets, buildings and their continued use, the valuation of all tangible assets except for land used the cost approach. The market approach was used for the valuation of land. Identified customer relationships and order backlog were valued using the multi-period excess earnings method. Any acquired intellectual property and brands were valued using the relief-from royalty approach. It was concluded that the carrying amounts of current and financial assets as well as all assumed liabilities represent their respective fair values.

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

In millions of EUR, as at 24 April 2018	
Fair value of assets (excluding goodwill)	**902**
Cash and cash equivalents	42
Financial assets at FVTPL	17
Investment in JV	13
Trade receivables	128
Current tax assets	13
Inventories	123
Contract assets	208
Property, plant and equipment	205
Intangible assets	122
Deferred tax assets	10
Other assets	21
Fair value of liabilities	**520**
Due to banks and other financial institutions	81
Due to non-banks	25
Debt securities issued	92
Subordinated liabilities	36
Trade and other payables	187
Provisions	66
Deferred tax liabilities	33
Fair value of identifiable net assets	**382**

The trade receivables comprise gross contractual amounts due of MEUR 132, of which MEUR 4 was expected to be doubtful at the acquisition date.

Gain on bargain purchase arising from the acquisition has been recognised as follows:

In millions of EUR	
Total consideration	361
Fair value of identifiable net assets	382
Net asset value attributable to non-controlling interests	2
Gain on bargain purchase	23

B.2.6. Sale of 25% shareholding in Telenor Hungary

In October 2019, the Group sold a 25% share in TMT Hungary B.V. to a third party, which resulted in the decrease of the Group's effective ownership in TMT Hungary B.V. from 100% to 75%. TMT Hungary B.V. was founded in September 2019 as a new holding company for the Group's businesses in Hungary – Telenor Magyarország Zrt. and Telenor Real Estate Hungary Zrt.

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

In millions of EUR	
Total net consideration	303
Net effective ownership in Telenor Hungary decreased	25%
Net asset value attributable to non-controlling interests sold	242
Effect recorded in equity attributable to equity holders of the Parent (gain)	61

B.2.7. Acquisition of Telenor's telecommunications assets in CEE countries (in 2018)

In March 2018, the Group entered into an agreement with Telenor for the acquisition of its telecommunications assets in Central and Eastern Europe, specifically in Hungary, Bulgaria, Serbia and Montenegro. Through this transaction, the Group gained full control over Telenor's mobile operators in the aforementioned countries, the rights to use the Telenor brand through the first half of 2021, and the property used for the companies' operations. As the transaction was subject to several relevant regulatory approvals, it was completed in July 2018. The Parent Company gained control over Telenor entities on that date.

The following table shows the key non-financial parameters of the transaction:

Transaction date		31 July 2018
Significant entities and stake acquired		
Telenor Magyarország Zrt.	Hungary	100%
Telenor Bulgaria EAD	Bulgaria	100%
Telenor d.o.o. Beograd	Serbia	100%
Telenor d.o.o. Podgorica	Montenegro	100%
Telenor Common Operation Zrt.	Hungary	100%
Telenor Real Estate Hungary Zrt.	Hungary	100%

From the Group's perspective, the acquisition of the Telenor business is considered a long-term investment allowing the Group to expand its telecommunications portfolio to four more countries.

In connection with the deal, acquisition and revolving facilities up to MEUR 3,025 supporting the acquisition and refinancing of existing loans had been fully underwritten by BNP Paribas Fortis SA/NV, Crédit Agricole CIB, Erste Group Bank, HSBC Bank plc, Société Génerale and UniCredit Bank Czech Republic and Slovakia, a.s. and subsequently successfully syndicated amongst existing relationship banks and new lenders.

In the five months to 31 December 2018, the consolidated Telenor entities contributed revenue of MEUR 568 and profit of MEUR 67 to the Group's results. Had the acquisition occurred on 1 January 2018, consolidated revenue and profit would have increased further by MEUR 741 and by MEUR 102, respectively.

The following table shows the determination of the purchase price:

In millions of EUR	
Initial instalment (paid in cash)	2,329
Net present value of deferred instalments	400
Deferred period	4 equal instalments until July 2022
Total purchase price	2,729

The Group incurred acquisition-related costs of approximately MEUR 3 in legal fees and due diligence costs. These costs are presented under professional service costs.

In accordance with IFRS 3, the Group initiated a purchase price allocation ("PPA") exercise to identify the fair value of assets and liabilities. Assets and liabilities denominated in foreign currencies were translated using the exchange rate valid as at the acquisition date. The acquired business was divided into four cash-generating units based on the geographic location of the acquired individual operations. Consequently, the acquired assets and assumed liabilities of the individual units were 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 goodwill.

Key assumptions and valuation approach

As the acquired businesses are mobile operators, the key asset categories acquired in the acquisition were fixed assets reported in the balance sheet, and customer relationships identified in addition to the fixed assets. Major fixed asset categories reported on the balance sheet are telecommunication technology and related equipment, land and buildings, software, and spectrum and brand licences.

Since each asset category has different characteristics, different asset valuation methods were used. Based on the nature of the tangible assets and their continued use, the valuation of all tangible assets except land and buildings used the cost approach. The market approach was used for the valuation of land. Buildings were valued combining the cost and income approaches. Purchased software was valued using the cost method. Spectrum licences were valued using the Greenfield approach and a market comparison. Identified customer relationships were valued using the multi-period excess earnings method. Any acquired brands were valued using the cost approach.

It was concluded that the carrying amounts of current and financial assets as well as all assumed liabilities represent their respective fair values.

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

In millions of EUR, as at 31 July 2018	
Fair value of assets (excluding goodwill)	**2,084**
Cash and cash equivalents	55
Trade and other receivables	327
Contract assets	55
Inventories	31
Property, plant and equipment	505
Intangible assets	1,082
Other assets	29
Fair value of liabilities	**421**
Due to banks and other financial institutions	26
Deferred tax liabilities	97
Current tax liabilities	7
Trade and other payables	257
Provisions	34
Fair value of identifiable net assets	**1,663**

Trade receivables comprise gross contractual amounts due of MEUR 424, whereas on the acquisition date, the collection of MEUR 97 was expected to be doubtful.

Goodwill arising from the acquisition has been recognised as follows:

In millions of EUR	
Total consideration	2,729
Fair value of identifiable net assets	1,664
Goodwill	1,065

Goodwill is attributable to the established position of the Telenor businesses in the relevant markets, potential synergies with other Group operations, and the assembled workforce. None of the recognised goodwill is expected to be deducted for tax purposes.

B.2.8. Acquisition of a 2.5% share in Home Credit Group

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.2.9. Acquisition of controlling stake in Cytune Pharma (in 2018)

Since 2015, the Group has held a minority stake in Cytune Pharma SAS, a French company dealing with research and development of new therapies for patients suffering from cancer and infectious diseases.

During July and August 2018, the Group completed the acquisition of a 96% effective stake in Cytune Pharma SAS. Prior to transaction the Group held a 23.94% effective stake. The consideration paid amounted to MEUR 28. The total consideration consists of a contingent deferred payment dependent of the fulfilment of project milestones and future revenues.

The following table summarises the financial aspects of the transaction:

In millions of EUR	
Direct stake in the company acquired	75.06%
Effective state in the company acquired	72.06%
Purchase price (paid in cash)	28
FV of investment in associate until the transaction	8
Fair value of assets acquired	3
Fair value of liabilities assumed	2
Non-controlling interests	1
Goodwill	36

In accordance with IFRS 3, the Group performed a purchase price allocation (PPA) exercise to identify the fair value of assets and liabilities. The acquired business was identified as one cash-generating unit. Consequently, the acquired assets and assumed liabilities of the individual units were restated to their respective fair values. The Group did not identified any significant intangible assets in relation to the company business. The difference between the allocated purchase price and the fair values of identified assets and liabilities resulted in the recognition of goodwill.

B.2.10. Sale of Home Credit Belarus (in 2018)

On 15 June 2018, the Group disposed of its investment in Non-banking Credit and Financial Organization "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)

B.2.11. Acquisition of Central European Media Enterprises

On 27 October 2019, the Group through its indirect subsidiary signed an agreement with Central European Media Enterprises Ltd., the company listed on NASDAQ/Prague Stock Exchange (CME) to acquire CME. CME operates television stations in Bulgaria, the Czech Republic, Romania, Slovakia, and Slovenia. This transaction is subject to customary closing conditions, including approval by the CME shareholders, the European Commission, and national regulators in certain countries where CME is active. As at the date of these financial statements approval by the CME shareholders and the national regulators were obtained. The total consideration amounts to approx. EUR 1.9 billion.

The acquisition is expected to be financed with a mix of equity and debt. The debt component consists of EUR 1.15 billion senior secured term and revolving acquisition facilities. The facilities have been fully underwritten by BNP Paribas, Crédit Agricole CIB, Credit Suisse, HSBC, Société Générale and UniCredit.

At this moment, the Group has limited access to financial information to assess the current fair value of assets and liabilities. CME regularly publishes its financial results in accordance with US GAAP.

The closing of the transaction is expected in a few months.

B.3. Other changes

B.3.1. Share buy-back programme in O2 CR

In 2016, O2 CR commenced the acquisition of its own shares on the regulated market organised by the Prague Stock Exchange, under the conditions published in connection with the approval of the share buy-back programme on the regulated market in December 2015. Until 31 December 2017, it acquired a total of 8.7 million treasury shares for the total acquisition price of MEUR 86. During the second half of 2019, O2 CR acquired additional 0.6 million shares for 5.6 MEUR, increasing the Group's effective share from 83.4% to 83.57%.

B.3.2. Operation of the Czech toll system

Through its subsidiary CzechToll s.r.o., in September 2018, the Group became the winner of the tender for the new toll system operator in the Czech Republic initiated by the Czech Ministry of Transport. The Company submitted its bid as part of a consortium with Slovak toll operator SkyToll, which will supply technical solutions for the new Czech system. Initiated on 1 December 2019, the new toll system is intended to operate for the next 10 years.

CzechToll is the main contractor responsible for the fulfilment of the contract with Ředitelství silnic a dálnic ČR (ŘSD) in cooperation with SkyToll. ŘSD is a governmental body that is a direct customer of supplies. The subject of the contract is supplies and services which are related to the preparation, implementation and operation of the electronic toll system. As part of the operations CzechToll mediates toll collection to the accounts of ŘSD, or, in most cases, to CzechToll´s own accounts by subsequent transfer of the collected fees to ŘSD´s accounts. In the preparation phase and as one of the contractual conditions, CzechToll sold to ŘSD technical solutions and related equipment enabling its main business operations. CzechToll uses the equipment for the administration of operations, maintenance and toll collection. This equipment is in the ownership of ŘSD.

B.3.3. 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 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 could be exercised at the earlier of (a) 30 June 2020 or, (b) in case of the successful completion of the potential Home Credit listing (Home Credit N.V. subgroup) before 30 June 2020, at the fifth business day before publication of the Home Credit N.V. prospectus. In case the put option is exercised the acquirer of the shares will be an affiliate of PPF Financial Holdings (outside the Group). Until the date of these financial statements the option has not been exercised, 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 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 in case of no Home Credit listing and (b) from the Home Credit listing date until 31 December 2023.

Under the Agreement, upon regular termination of it 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 average market price of any material listed subsidiary of Home Credit Group if listed at that time. The contractual arrangements can be terminated also earlier than on regular termination date (31 December 2023) upon agreed and specified circumstances. The acquirer of the shares is an affiliate of PPF Financial Holdings (outside the Group).

C. Risk exposures, risk management objectives and procedures

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

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

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

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

PPF banka a.s. and Air Bank a.s. established the function of Chief Risk Officer to head the independent risk management function in the respective banks. Telecommunication entities have their own separate Credit Management Units.

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

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

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

C.1. Derivative financial instruments

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

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

C.1.1. Swaps

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

C.1.2. Futures and forwards

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

C.1.3. Options

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

C.1.4. Other derivatives

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

C.2. Credit risk

Credit risk is the risk of financial loss occurring because a borrower or a counterparty fail to discharge their contractual obligations to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers (Home Credit Group). Other significant businesses affected by credit risk are corporate banking (PPF banka) and telecommunications business (O2 CR, CETIN and Telenor entities).

C.2.1. Home Credit Group

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

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

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

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

Credit underwriting process

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

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

Fraud prevention

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

General loan collection

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

Pre-collection measures

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

Early collection

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

Administrative and personal collection

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

Late collection

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

Legal collection, debt sale

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

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

The Board of Directors has delegated 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 (applicable to PPF banka)

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

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

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

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

A concentration of credit risk arises as a result of the existence of loans with similar economic characteristics affecting the debtor's ability to meet its obligations. PPF Financial Holdings B.V. (the "Subgroup", refer to C.9) treats a receivable from a debtor or an economically connected group of debtors exceeding 10% of the Subgroup's eligible capital as a large exposure and applies a limit of 25% of the Subgroup's eligible capital to such exposures. As at the balance sheet date, the Subgroup did not have any significant concentration of credit risk with respect to any individual debtor and the 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.

C.2.3. Telecommunications

For telecommunications, business credit risk is managed by the Credit Management Units of relevant entities and is based on three main activities:

- prevention: scoring of new customers – regular monitoring of customers' payment morale, activation of control procedures (integrated black list, external credit registers, and other external information databases), limits and/or deposits applied based on customer segments or the product, credit limits for indirect sales partners (dealers, distributors, franchises) for the purchase of our products, collateral security (deposits, receivables insurance, bills of exchange, pledges of real estate, bank guarantees etc.).
- monitoring of accounts receivables: regular monitoring of the creditworthiness of existing customers and monitoring and analysing of the receivable aging structure (internal and external indicators of any potential bad debts). These activities are processed in an integrated system solution for the scoring, maintenance and collection of receivables.
- collection process: credit management units cooperate with the customer care units in the implementation of a reasonable, effective and continual collection process. Collection process competences are allocated separately. In the CETIN subgroup, collection from active customers is in the competence of the accounting unit; subsequent collection is the responsibility of the treasury unit, the legal unit, and the accounting unit. In other segments, collection from active customers is in the competence of the customer care unit; any collection after contracts are cancelled falls within the responsibility of the credit management unit.

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	21,116	56.35%	17,480	51.37%
Financial services	12,226	32.62%	12,327	36.17%
Corporate sector	1,810	4.83%	1,379	4.05%
Public sector	1,445	3.86%	1,546	4.54%
Mechanical engineering	417	1.11%	330	0.97%
Construction and real estate	394	1.05%	566	1.65%
Other	68	0.18%	425	1.25%
Total	**37,476**	**100.0%**	**34,053**	**100.0%**
Geographic concentration				
China	13,060	34.85%	12,202	35.80%
Czech Republic	12,204	32.56%	11,999	35.20%
Russia	4,910	13.10%	3,858	11.32%
Kazakhstan	1,039	2.77%	830	2.44%
Vietnam	952	2.54%	731	2.14%
Slovakia	628	1.68%	552	1.62%
Cyprus	437	1.17%	468	1.37%
Netherlands	37	0.10%	112	0.33%
Other EU countries	1,375	3.67%	1,241	2.81%
Other	2,834	7.56%	2,060	6.97%
Total	**37,476**	**100.0%**	**34,053**	**100.0%**
Of which:				
Loans due from customers	21,676	57.84%	18,803	55.17%
Cash and cash equivalents (excl. cash on hand)	9,657	25.77%	9,967	29.24%
Investment securities*	2,307	6.16%	2,757	8.10%
Trade and other receivables**	1,140	3.04%	898	2.72%
Loan commitments and guarantees (off-balance sheet)	1,812	4.84%	994	2.92%
Loans and receivables due from banks and other financial institutions	582	1.55%	349	1.02%
Contract assets	287	0.77%	277	0.81%
Hedging derivatives	15	0.03%	8	0.02%

* excl. equity securities and hedging derivatives
** incl. cash collateral for payment cards and other financial assets

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 the expected losses included in the allowance for uncollectibility. The table comprises off-balance sheet items (refer to E.39.1) and financial assets other than equity securities.

Credit quality and collateral received

The following table summarises information about 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	23,302	583
Stage 1	19,752	583
Stage 2	2,209	–
Stage 3	1,341	–
Purchased or originated credit impaired	–	–
Allowance for impairment	(1,639)	(1)
Carrying amount	**21,663**	**582**

* 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	20,961	349
Stage 1	17,452	349
Stage 2	1,679	–
Stage 3	1,830	–
Purchased or originated credit impaired	–	–
Allowance for impairment	(2,174)	–
Carrying amount	**18,787**	**349**

* 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 securities borrowing activities. There are no overdue loans to banks.

All of 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	182	–	96	–
Other	195	20	–	–
Total collateral received	**1,317**	**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 8,993 (2018: MEUR 9,497; refer to E.39.3) and consists of the collateral stated above (2019: MEUR 8,911; 2018: MEUR 9,373) plus collateral in the form of guarantees received (2019: MEUR 82; 2018: MEUR 124).

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 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, the management tools available, and any 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 the use of liabilities with a range of maturities.

The following tables show 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	9,824	–	–	–	9,824
Investment securities	420	151	937	815	2,323
Financial assets at FVTPL	32	24	33	233	322
Financial assets FVOCI*	327	94	501	274	1,196
Financial assets at amortised cost	61	33	403	308	805
Loans and receivables due from banks and other financial institutions	465	88	26	3	582
Loans due from customers	4,697	6,775	9,946	258	21,676
Trade and other receivables**	759	330	285	56	1,430
Total financial assets	**16,165**	**7,344**	**11,194**	**1,132**	**35,835**

* excluding equity instruments.
** including 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	26	39	200	265	530
Due to non-banks	10,067	1,801	917	7	12,792
Due to banks and other financial institutions	4,125	5,088	7,451	190	16,854
Debt securities issued	491	1,131	1,677	1,038	4,337
Subordinated liabilities	–	–	7	257	264
Trade and other payables*	1,252	221	418	8	1,899
Lease liabilities**	36	90	367	183	676
Total financial liabilities	**15,997**	**8,370**	**11,037**	**1,948**	**37,352**

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

Net liquidity position 2019	**168**	**(1,026)**	**157**	**(816)**	**1,517**

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

In millions of EUR, as at 31 December 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	10,120	–	–	–	10,120
Investment securities	470	383	1,131	781	2,765
Financial assets at FVTPL	19	209	175	243	646
Financial assets FVOCI*	404	83	561	232	1,280
Financial assets at amortised cost	47	91	395	306	839
Loans and receivables due from banks and other financial institutions	263	70	16	–	349
Loans due from customers	4,741	5,707	8,094	261	18,803
Trade and other receivables**	748	259	110	58	1,175
Total financial assets	**16,342**	**6,419**	**9,351**	**1,100**	**33,212**

* excluding equity instruments.
** including 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	16	271	63	411	761
Due to non-banks	9,486	1,500	410	–	11,396
Due to banks and other financial institutions	4,846	6,910	4,567	2,173	18,496
Debt securities issued	176	972	1,445	–	2,593
Subordinated liabilities	1	92	7	296	396
Trade and other payables*	1,127	273	449	2	1,851
Total financial liabilities	**15,652**	**10,018**	**6,949**	**2,882**	**35,493**

* excluding tax and other non-financial liabilities.

Net liquidity position 2018	**690**	**(3,599)**	**2,410**	**(1,782)**	**(2,281)**

The net liability position in 2019 and 2018 reflects the fact that the Group finances the previous acquisitions of its significant investments (Telenor assets in 2018, O2 CR/CETIN in previous years) and investment property using bank financing and debt securities. The Group repays such loans by proceeds from future dividends, rental income or the sale of assets, or is able to refinance such facilities at their maturities.

The following tables show the residual maturities of balance sheet and off-balance sheet liabilities on an undiscounted cash flow basis. Only those liability items are shown for which 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	10,188	1,868	979	14	13,049
Due to banks and other financial institutions	4,421	5,680	8,021	202	18,324
Debt securities issued	541	1,246	1,883	1,083	4,753
Subordinated liabilities	1	13	55	293	362
Trade and other payables*	1,307	221	433	8	1,969
Lease liabilities**	41	103	413	215	772
Loan commitments (off-balance sheet)	678	112	845	4	1,639
Payment guarantees provided (off-balance sheet)	7	54	95	–	156
Total	**17,184**	**9,297**	**12,724**	**1,819**	**41,024**

* excluding 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	9,498	1,551	427	–	11,476
Due to banks and other financial institutions	5,122	7,501	5,152	2,225	20,000
Debt securities issued	200	1,063	1,545	–	2,808
Subordinated liabilities	3	105	59	360	527
Trade and other payables*	1,151	277	483	2	1,913
Loan commitments (off-balance sheet)	447	97	13	371	928
Payment guarantees provided (off-balance sheet)	2	31	15	–	48
Total	**16,423**	**10,625**	**7,694**	**2,958**	**37,700**

* excluding 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)	(3,036)	(3,236)	(5,579)	(12,165)
Currency derivatives held for trading	(3,765)	(2,423)	(3,703)	–	(9,891)
Hedging derivatives	(218)	(278)	(342)	(18)	(856)
Inflows					
Interest rate derivatives held for trading	314	3,036	3,238	5,573	12,161
Currency derivatives held for trading	3,764	2,404	3,711	–	9,879
Hedging derivatives	223	283	362	16	884
Net position	**4**	**(14)**	**30**	**(8)**	**12**

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)	(2,426)	(3,909)	(7,331)
Currency derivatives held for trading	(3,280)	(5,768)	(3,126)	–	(12,174)
Hedging derivatives	–	(2)	(9)	(20)	(31)
Inflows					
IR derivatives held for trading	191	808	2,432	3,908	7,339
Currency derivatives held for trading	3,278	5,772	3,118	3,118	12,168
Hedging derivatives	1	3	10	19	33
Net position	**(1)**	**8**	**(1)**	**(2)**	**4**

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.12) 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 214 higher/lower (2018: MEUR 194).

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	1.8%	9,824	–	–	–	9,824
Investment securities	3.7%	420	776	394	554	2,144
Financial assets at FVTPL	3.6%	–	2	2	139	143
Financial assets at FVOCI*	4.9%	359	304	387	146	1,196
Financial assets at AC	2.1%	61	470	5	269	805
Loans and receivables due from banks and other financial institutions	2.7%	470	78	29	5	582
Loans due from customers	27.5%	5,367	6,535	9,718	56	21,676
Trade and other receivables**	0.0%	783	329	284	34	1,430
Total financial assets		**16,864**	**7,718**	**10,425**	**649**	**35,656**

* excluding equity instruments.
** including 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	2.0%	42	–	88	139	269
Due to non-banks	1.6%	9,997	1,871	917	7	12,792
Due to banks and other financial institutions	7.8%	6,944	5,085	4,732	93	16,854
Debt securities issued	6.1%	492	1,131	1,677	1,037	4,337
Subordinated liabilities	4.3%	–	165	99	–	264
Trade and other payables*	0.7%	1,135	221	535	8	1,899
Lease liabilities**	3.7%	39	99	358	180	676
Total financial liabilities		**18,649**	**8,572**	**8,406**	**1,464**	**37,091**

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

Net position 2019	**(1,785)**	**(854)**	**2,019**	**(815)**	**(1,435)**

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	1.6%	10,120	–	–	–	10,120
Investment securities	3.5%	511	861	420	548	2,340
Financial assets at FVTPL	3.3%	–	7	38	176	221
Financial assets FVOCI*	5.4%	465	329	382	104	1,280
Financial assets at AC	0.9%	46	525	–	268	839
Loans and receivables due from banks and other financial institutions	3.1%	289	47	13	–	349
Loans due from customers	29.2%	5,455	5,534	7,748	66	18,803
Trade and other receivables**	0.0%	751	252	137	35	1,175
Total financial assets	**–**	**17,126**	**6,694**	**8,318**	**649**	**32,787**

* excluding equity instruments.
** including 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	1.7%	–	240	26	301	567
Due to non-banks	1.9%	9,487	1,499	410	–	11,396
Due to banks and other financial institutions	6.6%	8,753	6,379	3,009	355	18,496
Debt securities issued	8.2%	176	972	1,445	–	2,593
Subordinated liabilities	5.9%	–	92	254	50	396
Trade and other payables*	0.7%	1,127	274	448	2	1,851
Total financial liabilities	**–**	**19,543**	**9,456**	**5,592**	**708**	**35,299**

* excluding tax and other non-financial liabilities.

Net position 2018		**(2,417)**	**(2,762)**	**2,726**	**(59)**	**(2,512)**

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, and newly Hungarian forint. 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 in OCI (translation reserve). 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 countries in other than the local currency is excluded.

In millions of EUR, as at 31 December 2019	EUR	CZK	CNY	RUB	VND	KZT	USD	INR	BGN	HUF	RSD	Other	Total
Net investment in foreign operations	(1,138)	5,298	1,486	1,148	344	385	358	890	623	994	826	601	11,815

In millions of EUR, as at 31 December 2018	EUR	CZK	CNY	RUB	VND	KZT	USD	INR	BGN	HUF	RSD	Other	Total
Net investment in foreign operations	1,463	4,413	1,437	1,209	310	300	202	610	699	1,111	795	652	12,591

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	HUF	Other	Total
Financial assets	1,352	54	–	22	16	–	762	22	64	2,292
Financial liabilities	3,081	488	–	178	–	–	714	–	39	4,500
Effect of FX derivatives	1,908	–	–	17	(642)	(117)	148	(236)	(81)	997
Net FX position	**179**	**(434)**	**–**	**(139)**	**(626)**	**(117)**	**196**	**(214)**	**(56)**	**(1,211)**

In millions of EUR, as at 31 December 2018	EUR	CZK	CNY	RUB	INR	KZT	USD	HUF	Other	Total
Financial assets	1,178	1	1	21	–	–	763	–	581	2,545
Financial liabilities	5,822	255	1	162	–	–	706	–	290	7,236
Effect of FX derivatives	2,007	–	–	45	–	(152)	(339)	(396)	(523)	642
Net FX position	**(2,637)**	**(254)**	**–**	**(96)**	**–**	**(152)**	**(282)**	**(396)**	**(232)**	**(4,049)**

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	HUF	INR
Effect of 5% currency depreciation against EUR	(243)	(28)	(50)	(13)	(74)	(39)	(13)
Effect of 5% currency appreciation against EUR	243	28	50	13	74	39	13

In millions of EUR, as at 31 December 2018	CZK	USD	RUB	KZT	CNY	HUF	INR
Effect of 5% currency depreciation against EUR	(208)	4	(56)	(7)	(72)	(56)	8
Effect of 5% currency appreciation against EUR	208	(4)	56	7	72	56	(8)

C.4.4. Hedging

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

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

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

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

C.5. Insurance risk

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

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

C.5.1. Life insurance

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

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

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

C.5.2. Non-life insurance

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

C.6. Risks specific to real estate business

C.6.1. Concentration risk

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

C.6.2. Valuation risk

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

C.6.3. Occupancy risk

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

C.7. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

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

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

In millions of EUR, as at 31 December 2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets at amortised cost	805	804	714	5	85
Loans and receivables due from banks and other financial institutions	582	582	–	553	29
Loans due from customers	21,676	21,706	–	–	21,706
Trade and other receivables*	1,143	1,143	–	18	1,125
Contract assets	287	287	–	–	287
Due to non-banks	(12,792)	(12,856)	–	(12,727)	(129)
Due to banks and other financial institutions	(16,854)	(16,841)	–	(16,841)	–
Debt securities issued	(4,337)	(4,322)	(1,790)	(2,156)	(376)
Subordinated liabilities	(264)	(264)	–	–	(264)
Trade and other payables**	(2,575)	(2,575)	–	(94)	(2,481)

* including cash collateral for payment cards and other financial assets.
** excluding 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
Financial assets at amortised cost	839	827	749	–	78
Loans and receivables due from banks and other financial institutions	349	349	–	349	–
Loans due from customers	18,803	19,014	–	–	19,014
Trade and other receivables*	898	903	–	14	889
Contract assets	277	277	–	–	277
Due to non-banks	(11,396)	(11,404)	–	(7,411)	(3,993)
Due to banks and other financial institutions	(18,496)	(18,491)	(64)	(2,922)	(15,505)
Debt securities issued	(2,593)	(2,604)	(1,132)	(1,171)	(301)
Subordinated liabilities	(396)	(377)	(90)	–	(287)
Trade and other payables**	(1,851)	(1,853)	(7)	(50)	(1,796)

* including cash collateral for payment cards and other financial assets.
** excluding 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	92	180	50	322
Financial assets FVOCI	1,608	140	39	1,787
Financial liabilities at FVTPL	(156)	(261)	(113)	(530)
Total	**1,544**	**59**	**(24)**	**1,579**

In millions of EUR, as at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	225	323	98	646
Financial assets FVOCI	1,678	157	39	1,874
Financial liabilities at FVTPL	(312)	(368)	(81)	(761)
Total	**1,591**	**112**	**56**	**1,759**

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

In millions of EUR, for the year ended 31 December 2019	Financial assets FVTPL	Financial assets FVOCI	Financial liabilities FVTPL	Total
Balance as at 1 January	98	39	(81)	56
Net gains/(losses) recorded in profit or loss (included in net gain/(loss) on financial assets)	(48)	–	(37)	(85)
Purchases of financial assets	–	8	–	8
Sales/settlements	–	(9)	5	(4)
Transfers out of/into Level 3	–	1	–	1
Balance as at 31 December 2019	**50**	**39**	**(113)**	**(24)**

In millions of EUR, for the year ended 31 December 2018	Financial assets FVTPL	Financial assets FVOCI	Financial liabilities FVTPL	Total
Balance as at 1 January	–	117	(332)	(215)
Net gains/(losses) recorded in profit or loss (included in net gain/(loss) on financial assets)	–	9	15	24
Net gains/(losses) recorded in other comprehensive income	–	(1)	–	(1)
Purchases of financial assets	–	25		25
Sales/settlements	–	(1)	293	292
Additions of financial liabilities	–	–	(2)	(2)
Additions from business combinations	–	–	(55)	(55)
Transfers out of/into Level 3	98	(110)	–	(12)
Balance as at 31 December 2018	**98**	**39**	**(81)**	**56**

The financial assets at FVOCI in Level 3 represent equity securities of MEUR 39 (2018: MEUR 39). The fair value of debt securities is sensitive to market interest rates. The fair value of equity securities is sensitive to economic developments at the businesses in question.

C.8. Offsetting financial assets and liabilities

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

International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of the financial position. Therefore, as at 31 December 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.9. Operational risk

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

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

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

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

Compliance with Group standards is supported by a programme of periodic reviews undertaken by internal audit. The individual subsidiaries have their local internal audit teams that also cooperate with the Group internal audit on 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.10. Capital management

The Group's objective is to maximise the shareholder value while maintaining investor, creditor and market confidence and being able to sustain the future development of the businesses. The Group manages its capital structure and makes adjustments in light of changes in economic conditions.

To achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets the financial covenants attached to interest-bearing loans and borrowings. Any breaches in meeting the financial covenants would permit lenders to call loans and borrowings, subject to the Group not being able to remedy the breach. There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current period.

In 2019, PPF Group N.V. distributed MEUR 60 (2018: MEUR 40) to its shareholders. This distribution should be seen in relation to the general principles for capital management as explained above.

C.10.1. Financial services segment

Until the beginning of 2015, the Group was a financial conglomerate and thus subject to supplementary prudential rules applicable to financial conglomerates. This situation changed in January 2015, when a significant insurance segment was divested.

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

The Subgroup is required to fulfil the following capital requirements: a Tier 1 capital adequacy ratio of at least 6% and a total capital adequacy ratio of at least 8%. Moreover, the Subgroup is required to maintain a capital conservation buffer amounting to 2.5% of its risk-weighted assets and an institution-specific countercyclical capital buffer that is currently 0.14% of its risk-weighted assets.

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

Tier 2 capital consists 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 Subgroup'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 Subgroup'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 and the Subgroup, 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 both geographical and sector terms. These segments offer different products and services and are managed separately because they operate in completely distinct business sectors. The Group's Board of Directors and shareholders (the chief operating decision maker) review the internal management reports of individual segments on a regular basis.

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

Reportable segment	Business name/brand	Operations	Geographic focus
Financial segment	PPF banka and its subsidiaries	Loans, deposits and other transactions and balances with corporate customers, trading activities	Czech Republic
	Home Credit	Lending to private individual customers, deposit-taking	Czech Republic, Slovakia, Russian Federation, Asia, USA
	Air Bank* and its subsidiaries	Deposits, loans and other transactions and balances with retail customers	Czech Republic and Slovakia
	Mobi Banka (since 2019)	Deposits, loans and other transactions and balances with retail customers	Serbia
	ClearBank (associate)	Clearing and settlement services	United Kingdom
Telecommunications	O2	Telecommunications operator providing a range of voice and data services (CZ), mobile operator (SK)	Czech Republic, Slovakia
	CETIN	Administration and operation of data and communication network	Czech Republic
	Telenor	Mobile operators providing a range of voice and data services	Hungary, Bulgaria, Serbia and Montenegro
Real estate	PPF Real Estate Holding	Developing, investing and professional consulting in the property sector	Central and Western Europe, Russian Federation, Romania
Mechanical engineering	Škoda	Production, development, assembling and repairs of vehicles for public transport	Czech Republic, Eastern Europe, Russian Federation, Finland
Insurance	PPF Insurance	Provision of life insurance products	Russian Federation
Other	Sotio	Development of new medical therapies, focusing on the treatment of cancer and autoimmune diseases	Czech Republic, USA, China
	RAV Holding	Grain and livestock production, storage and trade	Russian Federation
	O2 Arena	Operation of multipurpose hall hosting mainly sports and cultural events	Czech Republic
	CzechToll (since 2019)	Toll operating and collection system	Czech Republic
	LEAG (JV)	Extraction, processing, refining and sale of lignite, generation of electricity and heat	Germany
	Mall/Heureka (associate)	E-commerce and comparison-shopping platforms	Central and Eastern Europe
	The Culture Trip (associate)	Online publishing and book selling	worldwide

* part of Home Credit Group

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 the segments. Significant non-cash expenses comprise mainly impairment losses on financial and non-financial assets. Eliminations represent intercompany balances among individual reporting segments.

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

In millions of EUR, for the year ended 31 December	2019	2018
Interest income	5,569	4,778
Fee and commission income	672	841
Net earned premiums	75	71
Net rental and related income	191	154
Telecommunications income	3,159	2,414
Mechanical engineering income	388	372
Net agriculture income	4	8
Toll operation income	91	–
Total revenue from external customers	**10,149**	**8,638**

The Group does not have a major customer or individual customer with revenue exceeding 10% of total segment revenue.

The following table shows the main items from the financial statements broken down according to reportable segments for the year ended 31 December 2019 and comparative figures for 2018:

In millions of EUR, 2019	Financial services	Telecommunications	Real estate
Revenue from external customers	6,206	3,175	193
Inter-segment revenue	4	5	1
Total revenue	**6,210**	**3,180**	**194**
Segment share of earnings of associates/JVs	(21)	–	(18)
Net profit for the year	**507**	**348**	**157**
Capital expenditure	(175)	(392)	(1)
Depreciation and amortisation	(188)	(690)	(3)
Other significant non-cash expenses	(1,816)	(75)	–
Segment assets	35,012	8,216	2,296
Equity-accounted investees	48	–	82
Total assets			
Segment liabilities	31,283	6,570	1,444
Total liabilities			
Segment equity	**3,777**	**1,646**	**934**

In millions of EUR, 2018	Financial services	Telecommunications	Real estate
Revenue from external customers	5,606	2,420	156
Inter-segment revenue	4	4	2
Total revenue	**5,610**	**2,424**	**158**
Segment share of earnings of associates/JVs	(13)	–	28
Net profit for the year	**511**	**220**	**120**
Capital expenditure	(154)	(364)	(1)
Depreciation and amortisation	(116)	(469)	(3)
Other significant non-cash expenses	(1,728)	(23)	(5)
Segment assets	32,272	7,551	1,950
Equity-accounted investees	44	1	57
Total assets			
Segment liabilities	29,346	6,000	1,294
Total liabilities			
Segment equity	**2,970**	**1,552**	**713**

* income statement items and capital expenditure presented since acquisition in April 2018 (refer to B.2.5).

Insurance	Mechanical engineering	Other	Unallocated	Eliminations	Consolidated
66	391	111	7	–	10,149
1	–	–	36	(47)	–
67	**391**	**111**	**43**	**(47)**	**10,149**
–	5	71	–	–	37
3	**(14)**	**(45)**	**53**	**(4)**	**1,005**
–	(34)	(50)	(1)	5	(648)
(1)	(26)	(5)	(1)	5	(909)
–	(2)	(3)	(1)	–	(1,897)
219	949	1,101	2,044	(2,107)	47,730
–	20	734	–	–	884
					48,614
164	632	800	187	(2,021)	39,059
					39,059
55	**337**	**1,035**	**1,857**	**(86)**	**9,555**

Insurance	Mechanical engineering*	Other	Unallocated	Eliminations	Consolidated
59	376	18	3	–	8,638
1	–	–	37	(48)	–
60	**376**	**18**	**40**	**(48)**	**8,638**
–	6	(67)	–	–	(46)
2	**32**	**(66)**	**40**	**6**	**865**
–	(17)	(77)	(2)	–	(615)
(1)	(16)	(2)	(1)	–	(608)
–	(6)	–	(15)	–	(1,747)
165	901	630	1,691	(1,025)	44,135
–	14	804	–	–	920
					45,055
127	575	379	374	(940)	37,155
					37,155
38	**340**	**1,055**	**1,317**	**(85)**	**7,900**

D.1.1. Financial services segment

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, and centralised processes driving operational excellence. The Group also presents additional information for revenue and net interest income based on the division of countries into four geographic clusters.
The Home Credit Group operates in the following principal geographical areas: China, the Russian Federation, the Czech Republic, Vietnam, Kazakhstan, Slovakia, India, Indonesia, the Philippines, and the USA. The Russian and Kazakh Home Credit businesses and Air Bank operate under banking licences allowing for the collection of deposits.

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			
		China	CIS*	SEA
Revenue from customers	6,004	3,672	971	1,083
Inter-segment revenue	3	–	–	–
Total revenue	**6,007**	**3,672**	**971**	**1,083**
Net interest income from external customers	3,745	2,290	550	736
Inter-segment net interest income	(82)	–	(4)	(52)
Total net interest income	**3,663**	**2,290**	**546**	**684**
Net profit for the year	**405**			
Capital expenditure	(170)			
Depreciation and amortisation	(183)			
Other significant non-cash expenses	(1,825)			
Segment assets (incl. equity accounted investees)	26,593			
Segment liabilities	23,717			
Segment equity	**2,876**			

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

In millions of EUR, 2018	Consumer lending			
		China	CIS*	SEA
Revenue from customers	5,460	3,483	903	834
Inter-segment revenue	(1)	–	–	–
Total revenue	**5,459**	**3,483**	**903**	**834**
Net interest income from external customers	3,267	2,076	492	594
Inter-segment net interest income	(51)	–	(3)	(34)
Total net interest income	**3,216**	**2,076**	**489**	**560**
Net profit for the year	**393**			
Capital expenditure	(151)			
Depreciation and amortisation	(115)			
Other significant non-cash expenses	(1,732)			
Segment assets (incl. equity accounted investees)	23,593			
Segment liabilities	21,492			
Segment equity	**2,101**			

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

		Corporate banking	Retail banking	Unallocated	Eliminations	Consolidated
CEE	Other	PPF Banka	Mobi Banka			
255	23	188	11	7	–	6,210
3	–	65	–	23	(91)	–
258	**23**	**253**	**11**	**30**	**(91)**	**6,210**
192	(23)	103	4	(3)	–	3,849
3	(29)	63	–	23	(4)	–
195	**(52)**	**166**	**4**	**20**	**(4)**	**3,849**
		86	**(3)**	**20**	**(1)**	**507**
		(4)	(1)	–	–	(175)
		(3)	(2)	–	–	(188)
		9	–	–	–	(1,816)
		8,932	170	527	(1,162)	35,060
		8,346	129	253	(1,162)	31,283
		586	**41**	**274**	**–**	**3,777**

		Corporate banking	Unallocated	Eliminations	Consolidated
CEE	Other	PPF Banka			
230	10	135	15	–	5,610
(1)	–	40	10	(49)	–
229	**10**	**175**	**25**	**(49)**	**5,610**
173	(68)	97	7	–	3,371
(1)	(13)	38	10	3	–
172	**(81)**	**135**	**17**	**3**	**3,371**
		89	**31**	**(2)**	**511**
		(3)	–	–	(154)
		(2)	–	1	(116)
		(1)	5	–	(1,728)
		9,144	734	(1,155)	32,316
		8,675	335	(1,156)	29,346
		469	**399**	**1**	**2,970**

D.1.2. Telecommunications segment

The telecommunications segment comprises O2 CR, CETIN, and, since July 2018, also Telenor. O2 CR is further divided into two geographical segments corresponding to the geographical location of customers. The Telenor businesses are split into three segments based on the geographical location of customers. The Telenor Serbia and Montenegro segment comprises two individual business units with a common management and business strategy.

In millions of EUR, 2019	CETIN	O2 Czech Republic	O2 Slovak Republic	Telenor Hungary	Telenor Bulgaria	Telenor Serbia & MNE	Unallocated segment	Eliminations	Consolidated
Revenue from external customers	344	1,210	293	524	379	417	13	–	3,180
Inter-segment revenue	409	26	5	3	5	13	31	(492)	–
Total revenue	**753**	**1,236**	**298**	**527**	**384**	**430**	**44**	**(492)**	**3,180**
EBITDA	**333**	**374**	**118**	**208**	**180**	**184**	**16**	**(6)**	**1,407**
Profit for the period	**113**	**124**	**36**	**68**	**77**	**79**	**(156)**	**7**	**348**
Capital expenditure	(161)	(57)	(38)	(62)	(28)	(46)	–	–	(392)
Depreciation and amortisation	(175)	(191)	(58)	(113)	(77)	(85)	(2)	11	(690)
Other significant non-cash expenses	(4)	(22)	(10)	(11)	(14)	(14)	–	–	(75)
Segment assets	2,515	2,092	594	1,176	781	1,088	470	(500)	8,216
Segment liabilities	1,607	1,031	289	232	163	196	3,310	(258)	6,570
Segment equity	**908**	**1,061**	**305**	**944**	**618**	**892**	**(2,840)**	**(242)**	**1,646**

In millions of EUR, 2018	CETIN	O2 Czech Republic	O2 Slovak Republic	Telenor Hungary*	Telenor Bulgaria*	Telenor Serbia & MNE*	Unallocated segment	Eliminations	Consolidated
Revenue from external customers	382	1,189	286	219	164	182	2	–	2,424
Inter-segment revenue	397	16	6	1	1	1	13	(435)	–
Total revenue	**779**	**1,205**	**292**	**220**	**165**	**183**	**15**	**(435)**	**2,424**
EBITDA	**295**	**332**	**101**	**75**	**70**	**70**	**(3)**	**–**	**940**
Profit for the period	**105**	**125**	**37**	**20**	**24**	**21**	**(112)**	**–**	**220**
Capital expenditure	(158)	(129)	(43)	(10)	(7)	(17)	–	–	(364)
Depreciation and amortisation	(143)	(156)	(46)	(47)	(36)	(41)	–	–	(469)
Other significant non-cash expenses	(8)	(7)	(3)	(2)	(1)	(2)	–	–	(23)
Segment assets	2,238	1,891	517	1,237	807	1,038	191	(367)	7,552
Segment liabilities	1,352	772	195	132	112	143	3,423	(129)	6,000
Segment equity	**886**	**1,118**	**322**	**1,105**	**695**	**895**	**(3,232)**	**(238)**	**1,552**

* income statement and capital expenditure for Telenor Hungary, Telenor Bulgaria and Telenor Serbia &MNE presented since acquisition in July 2018 (refer to B.2.7.).

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	167	153
Current accounts	1,700	1,910
Balances with central banks	454	204
Reverse repo operations with central banks	7,287	7,800
Placements with financial institutions due within one month	216	53
Total cash and cash equivalents	**9,824**	**10,120**

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 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 the 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	322	646
Financial assets at amortised cost	805	839
Financial assets at FVOCI	1,787	1,874
Total investment securities	**2,914**	**3,359**

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

Financial assets at fair value through profit or loss held for trading comprise the following:

In millions of EUR, as at 31 December	2019	2018
Government and other public-sector bonds	90	343
Corporate bonds	4	52
Positive fair value of trading derivatives	164	146
Interest rate derivatives	119	105
Currency derivatives	45	41
Positive fair value of hedging derivatives	15	8
Total financial assets at FVTPL	**273**	**549**

For more details on notional amounts and the positive and negative fair values of derivative instruments, refer to E.12.

Financial assets not held for trading representing debt securities amount to MEUR 49 (2018: MEUR 97).

E.2.2. Financial assets at amortised cost

Financial assets at amortised cost comprise the following:

In millions of EUR, as at 31 December 2019	Gross amount	Amortised cost
Government bonds	721	721
Corporate bonds	84	84
Total financial assets at amortised cost	**805**	**805**

In millions of EUR, as at 31 December 2018	Gross amount	Amortised cost
Government bonds	761	761
Corporate bonds	78	78
Total financial assets at amortised cost	**839**	**839**

Credit quality analysis

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

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 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	722	–	–	–	722
Low risk	5	–	–	–	5
Medium risk	78	–	–	–	78
High risk	–	–	–	–	–
Default	–	–	–	–	–
Gross amount	**805**	**–**	**–**	**–**	**805**
Loss allowance	–	–	–	–	–
Total carrying amount	**805**	**–**	**–**	**–**	**805**

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	78	–	–	–	78
High risk	–	–	–	–	–
Default	–	–	–	–	–
Gross amount	**839**	**–**	**–**	**–**	**839**
Loss allowance	–	–	–	–	–
Total carrying amount	**839**	**–**	**–**	**–**	**839**

E.2.3. Financial assets at FVOCI

Financial assets at FVOCI comprise the following:

In millions of EUR	2019	2018
Debt securities	1,196	1,280
Government bonds	678	763
Corporate bonds	518	517
Equity securities	591	594
Shares	591	572
Mutual fund investments	–	22
Total financial assets at FVOCI assets	**1,787**	**1,874**

As at 31 December 2019, the Group holds 30.6 million shares (2018: 54.6 million shares) in Polymetal as equity securities measured at FVOCI. The Group sold 24 million shares in 2019. The fair value of the remaining shares in holding amounted to MEUR 430 (2018: MEUR 502) and a MEUR 184 gain was recognised as a revaluation reserve in equity (2018: loss of MEUR 64). The shares are listed on the London Stock Exchange and classified as Level 1 from the fair-value determination perspective.

During 2019, the Group acquired 8.6 million shares (a 19.2% share) in the British biotechnology company Autolus Therapeutics PLC and classified them as equity securities measured at FVOCI. Autolus is a global leader in the field of oncological T-cell therapy. The shares were acquired by the Group through the US stock exchange NASDAQ. The fair value of the shares in holding amounted to MEUR 102 as at 31 December 2019, where the shares are classified as Level 1 from the fair-value determination perspective.

Credit quality analysis

The following table shows the fair value of the Group's debt instruments 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	264	–	–	–	264
Low risk	707	–	–	–	707
Medium risk	184	34	–	–	218
High risk	7	–	–	–	7
Default	–	–	–	–	–
Total carrying amount (fair value)	**1,162**	**34**	**–**	**–**	**1,196**

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	247	–	–	–	247
Low risk	802	–	–	–	802
Medium risk	206	21	–	–	227
High risk	–	4	–	–	4
Default	–	–	–	–	–
Total carrying amount (fair value)	**1,255**	**25**	**–**	**–**	**1,280**

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 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/EAG/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 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	583	349
Allowance for impairment	(1)	–
Total carrying amount	**582**	**349**
Term deposits at banks	96	16
Minimum reserve deposits with central banks	139	134
Loans to banks	55	54
Loans and advances provided under repos	198	64
Cash collateral for derivative instruments	94	74
Other	–	7

Minimum reserve deposits are mandatory non-interest-bearing deposits with restricted withdrawals, maintained in accordance with regulations issued by central banks in 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 of impairment allowances 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 Loans to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	Total 2019	Total 2018
Very low risk	148	–	–	–	148	121
Low risk	274	–	–	–	274	197
Medium risk	161	–	–	–	161	31
High risk	–	–	–	–	–	–
Default	–	–	–	–	–	–
Gross amount	**583**	**–**	**–**	**–**	**583**	**349**
Loss allowance	(1)	–	–	–	(1)	–
Total carrying amount					**582**	**349**

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)
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	(3)	–	–	–	(3)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	1	–	–	–	1
Financial assets derecognised	2	–	–	–	2
Loss allowance as at 31 December	**–**	**–**	**–**	**–**	**–**

E.4. Loans due from customers

Loans due from customers comprise the following items:

In millions of EUR, as at 31 December	2019	2018
Cash loans	13,933	11,940
Consumer loans	5,023	4,559
Revolving loans	806	529
Car loans	141	110
Mortgage loans	240	207
Loans due from customers – retail (carrying amounts)	**20,143**	**17,345**
Loans to corporations	1,400	1,299
Loans to equity-accounted investees	120	143
Loans and advances provided under repo operations	10	15
Other	3	1
Loans due from customers – non-retail (carrying amounts)	**1,533**	**1,458**
Total loans due from customers (carrying amounts)	**21,676**	**18,803**

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	**15,166**	**5,267**	**885**	**405**	**21,723**
Stage 1	12,627	4,819	644	339	18,429
Stage 2	1,623	239	177	44	2,083
Stage 3	916	209	64	22	1,211
POCI	–	–	–	–	–
Allowance for impairment	**(1,233)**	**(244)**	**(79)**	**(24)**	**(1,580)**
Stage 1	(462)	(95)	(18)	(2)	(577)
Stage 2	(364)	(50)	(11)	(2)	(427)
Stage 3	(407)	(99)	(50)	(20)	(576)
POCI	–	–	–	–	–
Total carrying amount	**13,933**	**5,023**	**806**	**381**	**20,143**

* includes mortgage loans and car loans.

In millions of EUR, as at 31 December 2018	Cash loans	Consumer loans	Revolving loans	Other*	Total
Gross amount	**13,501**	**4,999**	**594**	**341**	**19,435**
Stage 1	11,022	4,390	462	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)**	**(440)**	**(65)**	**(24)**	**(2,090)**
Stage 1	(393)	(98)	(11)	(2)	(504)
Stage 2	(303)	(53)	(5)	(1)	(362)
Stage 3	(865)	(289)	(49)	(21)	(1,224)
POCI	–	–	–	–	–
Total carrying amount	**11,940**	**4,559**	**529**	**317**	**17,345**

* includes mortgage loans and car loans.

Credit quality analysis

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

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)**	**(1,224)**	**–**	**(2,090)**
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	(415)	(202)	(250)	–	(867)
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	72	392	2,150	–	2,614
FX and other movements	(9)	(7)	(26)	–	(42)
Net change during the period	**(73)**	**(65)**	**648**	**–**	**510**
Loss allowance as at 31 December	**(577)**	**(427)**	**(576)**	**–**	**(1,580)**

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)**	**(855)**	**–**	**(1,678)**
Changes in the loss allowance	82	(85)	(864)		(867)
Transfer to Stage 1	(1)	2	2		3
Transfer to Stage 2	25	(149)	1		(123)
Transfer to Stage 3	58	62	(867)		(747)
New originated or purchased	(490)	(186)	(229)	–	(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	235	264	930	–	1,429
FX and other movements	9	7	20	–	36
Net change during the period	**58**	**(101)**	**(369)**	**–**	**(412)**
Loss allowance as at 31 December	**(504)**	**(362)**	**(1,224)**	**–**	**(2,090)**

E.4.1.2. Loans to corporations – non-retail

Loans to corporations comprise the following:

In millions of EUR, as at 31 December	2019	2018
Gross amount	**1,579**	**1,526**
Loans to corporations	1,459	1,383
Loans to equity-accounted investees	120	143
Allowances for impairment	**(59)**	**(84)**
Total carrying amount*	**1,520**	**1,442**

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

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 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 customers, which represent loans to corporations, are calculated on an individual basis.

In millions of EUR, as at 31 December Loans to customers – non-retail (corporations)	Stage 1	Stage 2	Stage 3	POCI	Total 2019	Total 2018
Very low risk	247	–	–	–	247	420
Low risk	227	–	–	–	227	23
Medium risk	796	124	–	–	920	867
High risk	54	2	–	–	56	22
Default	–	–	129	–	129	194
Total gross amount	**1,324**	**126**	**129**	**–**	**1,579**	**1,526**
Loss allowance	(9)	(1)	(49)	–	(59)	(84)
Total carrying amount*	**1,315**	**125**	**80**	**–**	**1,520**	**1,442**

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

An analysis of the changes in the corresponding ECL allowances in relation to loans to customers – non-retail 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	(24)	–	(60)	–	(84)
Changes in the loss allowance	(3)	–	(1)	–	(4)
Transfer to stage 1	(3)	–	–	–	(3)
Transfer to stage 3	–	–	(1)	–	(1)
New originated or purchased	(2)	(1)	(8)	–	(11)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	(2)	–	–	–	(2)
Financial assets fully repaid	5	–	6	–	11
Write-offs	17	–	17	–	34
FX and other movements	–	–	(3)	–	(3)
Net change during the period	15	(1)	11	–	25
Loss allowance as at 31 December	**(9)**	**(1)**	**(49)**	**–**	**(59)**

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	(24)	–	(54)	–	(78)
Changes in the loss allowance	1	–	–	–	1
Transfer to stage 1	1	–	–	–	1
New originated or purchased	(3)	–	–	–	(3)
Change in PD/EAD/LGD, unwind of discount, changes to model assumptions	2	–	(6)	–	(4)
Net change during the period	–	–	(6)	–	(6)
Loss allowance as at 31 December	**(24)**	**–**	**(60)**	**–**	**(84)**

E.5. Trade and other receivables, contract balances

Trade and other receivables and contract assets comprise the following:

In millions of EUR, as at 31 December	2019	2018
Gross amount	1,136	885
Trade receivables	1,099	841
Accrued income	37	44
Individual impairment	(85)	(50)
Total trade and other receivables	**1,051**	**835**
Gross amount	288	277
Individual impairment	(1)	–
Total contract assets	**287**	**277**

Credit quality analysis

The Group generally uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a large number of small balances. In the engineering segment, where trade receivables comprise a small number of large balances, a specific allowance for impairment is used. In contrast, in the telecommunications and real estate segments, where a large number of small balances is typical, the portfolio approach is applied.

Loss rates are calculated using a roll rate method based on the probability of receivables progressing through the successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics: geographic region, age of customer relationship, and type of product purchased.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers using the provision matrix as at 31 December 2019.

In millions of EUR, as at 31 December 2019	Weighted-average loss rate	Gross amount	Loss allowance	Carrying amount	Credit-impaired
Current (not past due)	0.7%	1,212	(9)	1,203	No
1–90 days	5.4%	93	(5)	88	No
91–180 days	20.0%	30	(6)	24	Yes
more than 180 days past due	74.2%	89	(66)	23	Yes
Total		**1,424**	**(86)**	**1,338**	

In millions of EUR, as at 31 December 2018	Weighted-average loss rate	Gross amount	Loss allowance	Carrying amount	Credit-impaired
Current (not past due)	0.3%	950	(3)	947	No
1–90 days	2.0%	102	(2)	100	No
91–180 days	19.1%	21	(4)	17	Yes
more than 180 days past due	46.1%	89	(41)	48	Yes
Total		**1,162**	**(50)**	**1,112**	

Loss rates are based on actual credit loss experiences over past years. The rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. The most significant scalar factors are the GDP forecast and industry outlook as well as actual and forecasted unemployment rates.

The movements in the allowance for impairment in respect of trade and other receivables and contract assets during the year were as follows.

In millions of EUR, for the year ended 31 December	2019	2018
Balance as at 1 January	(50)	(41)
Impairment losses recognised in the income statement	(26)	(17)
Amount related to receivable written off	–	7
Financial assets derecognised during the period (excl. write offs)	–	1
Release of impairment losses on written off items	(1)	–
Effect of movements in exchange rates	(8)	–
Balance as at 31 December	**(85)**	**(50)**

Contract assets and contract liabilities

The following table provides information about the carrying amounts of receivables, contract assets and contract liabilities from contracts with customers.

In millions of EUR, for the year ended 31 December	2019	2018
Receivables, which are included in trade and other receivables	191	81
Contract assets	**287**	**277**
out of which:		
Contract assets (mechanical engineering)	206	197
Contract assets (telecommunications)	81	80
Contract liabilities	**(277)**	**(208)**
out of which:		
Contract liabilities (mechanical engineering)	(169)	(118)
Contract liabilities (telecommunications)	(108)	(90)

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on mechanical engineering contracts. The contract assets are transferred to receivables when the rights become unconditional. For the telecommunications segment, contract assets relate to rights to consideration in exchange for goods or services that the Group has already transferred to customers but not yet invoiced. These contract assets particularly include contracts with customers where the supply of telecommunication services is supplemented by the sale of subsidised telecommunication equipment. A contract asset arises from the reallocation of revenues under a customer contract from telecommunication services provided and recognised during the life of the contract to the revenues from the sale of such subsidised equipment, which is recognised at the time of sale.

Contract liabilities primarily relate to the advances received from customers for engineering contracts, for which revenue is recognised when the Group is able to reliably measure the progress in the completion of the contracts. The Group applies the input method. A contract liability in the telecommunications segment is the Group's obligation to deliver goods or to provide services for which the Group has received consideration from the customer. Contract liabilities include mostly telecommunication services prepaid by customers on prepaid cards. These revenues are recognised when the voice or data traffic takes place, or when other services are provided, or when the card associated with the prepaid credit expires. Contract liabilities also arise when activation fees are invoiced upon the conclusion of a new contract that is not a stand-alone performance obligation and are thus accrued over the term of the contract with the customer.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

In millions of EUR, for the period ended 31 December 2019	Contract assets	Contract liabilities
Balance as at 1 January	277	(208)
Revenue recognised that was included in the contract liability balance at the beginning of the period	–	67
Increases due to cash received, excluding amounts recognised as revenue during the period	–	(133)
Transfers from contract assets recognised at the beginning of the period to receivables	(111)	–
Increases as a result of changes in the measure of progress	124	–
FX differences from foreign currency transactions	(5)	–
FX differences from translation to presentation currency	2	(3)
Balance as at 31 December	**287**	**(277)**

In millions of EUR, for the period ended 31 December 2018	Contract assets	Contract liabilities
Balance as at 1 January	18	(75)
Additions resulting from business combinations	246	(64)
Revenue recognised that was included in the contract liability balance at the beginning of the period	–	59
Increases due to cash received, excluding amounts recognised as revenue during the period	–	(129)
Transfers from contract assets recognised at the beginning of the period to receivables	(139)	–
Increases as a result of changes in the measure of progress	154	–
FX differences from translation to presentation currency	(2)	1
Balance as at 31 December	**277**	**(208)**

The transaction price allocated to the remaining performance obligations related to contracts with customers (unsatisfied or partially unsatisfied) is as follows:

In millions of EUR, as at 31 December	2019	2018
within 1 year	1,013	638
1–2 years	572	149
2–5 years	1,209	286
more than 5 years	686	37
Transaction price on performance obligations yet to be satisfied	**3,480**	**1,110**

E.6. Inventories

Inventories comprise the following:

In millions of EUR, as at 31 December	2019	2018
Mechanical engineering inventories	109	108
Goods/merchandise for resale	80	75
Trading property	20	6
Agricultural inventories	7	4
Total inventories	**216**	**193**

The carrying amounts of inventories comprise impairment of MEUR 12 (2018: MEUR 15) and represent notably an allowance for mechanical engineering categories and slow-moving and damaged items.

E.7. Equity-accounted investees

The following table shows the breakdown of individual equity-accounted investees (comprising associates and joint-ventures):

In millions of EUR, for the year ended 31 December	2019	2018
LEAG**	659	717
Metropolis (Russia)	57	54
Mall Group	46	60
Heureka Group*	25	–
The Culture Trip	–	21
ClearBank	20	17
Other	77	51
Total equity-accounted investees	**884**	**920**

* demerged from Mall Group in October 2019.
**a joint-venture.

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

In millions of EUR, for the year ended 31 December	2019	2018
LEAG**	131	(26)
Metropolis (Russia)	(19)	27
Mall Group	(26)	(26)
Heureka Group*	1	–
The Culture Trip	(35)	(15)
ClearBank	(22)	(16)
Other	7	10
Total share of profit/(loss) in equity-accounted investees	**37**	**(46)**

* demerged from Mall Group in October 2019.
**a joint-venture.

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

LEAG

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

In millions of EUR, as at 31 December	2019	2018
Percentage ownership interest	**50.00%**	**50.00%**
Non-current assets	2,401	3,015
Current assets	3,396	3,402
Non-current liabilities	(2,902)	(2,715)
Current liabilities	(1,577)	(2,268)
Net assets (100%)	1,318	1,434
Carrying amount of investment in JV (50.00%)	**659**	**717**
Total revenue	2,340	2,340
Total net profit/(loss) for the period (100%)	261	(52)
Total share in profit/(loss) (50.00%)	**131**	**(26)**
Total other comprehensive income/(expense) for the period (100%)	(380)	770
Group's share of other comprehensive income/(expense) (50%)	(190)	385

Other comprehensive income comprises a cash flow hedge effect related to the forward contracts for CO2 emission rights. The hedging instruments are commodity derivatives designed to hedge the purchase price for future purchases of emission rights.

The other comprehensive expense in 2019 (2018: income), as well as profit or loss, follows the development of emission rights market prices. In addition, in 2018, the significant other comprehensive income was influenced by a change in the emission rights accounting treatment in LEAG.

Metropolis (Russia)

In July 2015, the Group acquired a 49.99% stake in entities holding two up-and-running Moscow office buildings. In 2019, due to the positive development of the rouble exchange rate, the project made a revaluation loss compensated by a translation gain (100%) of MEUR 49 (2018: a translation loss of MEUR 31), recorded directly in equity.

In millions of EUR, as at 31 December	2019	2018
Percentage ownership interest	**49.99%**	**49.99%**
Non-current assets	369	378
Current assets	11	8
Non-current liabilities	(249)	(240)
Current liabilities	(16)	(37)
Net assets (100%)	115	109
Carrying amount of investment in associate (49.99%)	**57**	**54**
Total revenue	38	39
Total net profit for the period (100%)	(38)	53
Total share in profit (49.99%)	**(19)**	**27**
Total other comprehensive income/(expense) for the period (100%)	49	(31)
Group's share of other comprehensive income/(expense) (49.99%)	24	(15)
Dividends received by the Group	2	1

Mall Group

In October 2017, the Group acquired a 40% stake in Mall Group a.s. The investment comprised Mall Group and Heureka, representing an e-commerce platform in Central and Eastern Europe and a comparison shopping platform in the Czech Republic and Slovakia. In October 2019, Heureka demerged from Mall Group and has formed Heureka Group a.s. since then. The below figures for 2019 are presented for the already demerged groups, whereas the comparatives for 2018 show Mall Group including Heureka.

The following table presents performance of Mall Group:

In millions of EUR, as at 31 December	2019	2018*
Percentage ownership interest	**40.00%**	**40.00%**
Non-current assets	169	171
Current assets	197	194
Non-current liabilities	(38)	(208)
Current liabilities	(213)	(223)
Net assets (100%)	115	(66)
Group's share of net assets (40%)	46	(26)
Goodwill included in carrying amount	–	86
Carrying amount of investment in associate (40%)	**46**	**60**
Total revenue	708	660
Total net loss for the period (100%)	(66)	(68)
Total share in profit/(loss) (40%)	**(26)**	**(26)**

* including Heureka.

Heureka Group

In millions of EUR, as at 31 December	2019
Percentage ownership interest	**40.00%**
Non-current assets	30
Current assets	15
Non-current liabilities	(175)
Current liabilities	(26)
Net assets (100%)	(156)
Group's share of net assets (40%)	(62)
Goodwill included in carrying amount	87
Carrying amount of investment in associate (40%)	**25**
Total revenue*	21
Total net profit for the period (100%)*	3
Total share in profit/(loss) (40%)*	**1**

* since demerger from Mall Group a.s. on 1 October 2019.

The Culture Trip

The Culture Trip Ltd., a UK start-up company dealing with online publishing and book selling, was acquired in June 2016. As of December 2019, the Group holds a 43.69% (2018: 43.69%) share with a net asset value of MEUR 2 (2018: MEUR 6). The loss for 2019 of MEUR 35 comprises goodwill impairment of MEUR 19.

ClearBank

ClearBank is a newly established UK bank that has been providing clearing and settlement services since 2017. As of December 2019, the Group holds a 39.31% share (2018: 37.70%) with a net asset value of MEUR 47 (2018: MEUR 41).

E.8. Investment property

Investment property comprises projects located in the Russian Federation, the Czech Republic, the Netherlands, Germany, Romania and the UK, and consists mainly of completed and rented office premises, buildings, warehouses, and shopping malls.

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

In millions of EUR, as at 31 December 2019	Russia	Czech Republic	Netherlands	Germany	Romania	UK	Total
Land plot	120	6	–	–	–	–	126
Office	453	88	363	20	96	128	1,148
Warehouse	325	–	–	–	–	–	325
Retail	322	1	27	–	–	–	350
Residential	–	15	–	–	–	27	42
Other	11	–	–	–	–	–	11
Total investment property	**1,231**	**110**	**390**	**20**	**96**	**155**	**2,002**

In millions of EUR, as at 31 December 2018	Russia	Czech Republic	Netherlands	Germany	Romania	UK	Total
Land plot	123	–	–	–	–	–	123
Office	409	83	317	120	97	121	1,147
Warehouse	284	–	–	–	–	–	284
Retail	85	28	29	–	–	–	142
Residential	–	19	–	–	–	18	37
Other	10	–	–	–	–	–	10
Total investment property	**911**	**130**	**346**	**120**	**97**	**139**	**1,743**

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

In millions of EUR, for the year ended 31 December	2019	2018
Balance as at 1 January	1,743	1,474
Recognition of ROU asset in initial application of IFRS 16	4	–
Adjusted balance as at 1 January 2019	1,747	1,474
Additions resulting from business combination	206	309
Disposals resulting from business combination	(182)	(15)
Additions – capitalised costs	22	28
Disposals	(12)	(2)
Transfer from trading property	(14)	–
Unrealised gains from investment property	165	76
Unrealised losses from investment property	(44)	(49)
Effect of movements in exchange rates	112	(78)
Other changes	2	–
Balance as at 31 December	**2,002**	**1,743**

The most significant developments in the real estate segment in 2019 were as follows:

— an acquisition of Nevsky shopping centre in Saint Petersburg (refer to B.2.2)
— a sale of a Berlin office building owned by Trigon Berlin B.V. (refer to B.2.3)
— a sale of Langen office building owned by Langen B.V. (an asset deal).

The real estate subgroup was restructured in 2019 (mergers and intragroup sales) to simplify its structure and make intragroup processes more efficient.

E.8.1. Techniques used for valuing investment property

Residual calculation

The residual method takes into consideration the level of revenues or sales that could be achieved by disposing of development properties. The total sum of these revenues or sales is known as the gross development value (GDV) and includes all separate areas that comprise the entire development, including residential and/or commercial areas (apartment areas, terraces/balconies, garages, parking, cellars and any garden areas).

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

Income approach – discounted cash flow (DCF) calculation

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

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

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

Sales comparable approach

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

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

Country	Category	Valuation method
Netherlands	office/retail	Income approach
Germany	office	Income approach
Czech Republic	office/retail/residential	Income approach/ Residual approach (property under development)
Russia	office/retail (incl. under development)	Income approach
Russia	warehouse (incl. under development)	Income approach
Romania	office	Income approach
United Kingdom	office/residential	Income approach
All locations	land	Sales comparison

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

For the year ended 31 December 2019	Current income per sqm	Market rent per sqm	Initial yield	Reversionary yield
Germany	EUR 10.50	EUR 11.06	6.80%	7.81%
Netherlands	EUR 7.94–16.12	EUR 11.62–17.67	3.53%–7.84%	5.01%–9.03%
Czech Republic	EUR 9.30–12.31	EUR 12.89–14.97	3.71%–5.98%	6.27%–6.62%
United Kingdom	EUR 15.94	EUR 40.11	2.74%	6.89%
Russia	EUR 6.13–41.17	EUR 5.14–38.82	8.31%–10.84%	7.57%–10.87%
Romania	EUR 6.03–17.88	EUR 17.19–18.18	2.68%–7.35%	6.71%–7.75%

For the year ended 31 December 2018	Current income per sqm	Market rent per sqm	Initial yield	Reversionary yield
Germany	EUR 8.72–13.81	EUR 10–16.39	3.80%–6.80%	4.50%–8.00%
Netherlands	EUR 4.31–15.26	EUR 11.73–17.25	1.18%–7.47%	5.40%–9.64%
Czech Republic	EUR 7.57–11.86	EUR 12.99–14.97	3.07%–6.19%	6.79%–7.36%
United Kingdom	EUR 26.10	EUR 34.58	5.27%	6.98%
Russia	EUR 7.21–34.92	EUR 4.73–41.63	8.20%–10.32%	8.20%–11.37%
Romania	EUR 18.43	EUR 17.26	7.74%	6.98%

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

E.9. Property, plant and equipment

The following table shows the roll-forward of property, plant and equipment (excl. right-of-use assets):

In millions of EUR, for the year ended 31 December 2019	Land and buildings	Ducts, cables and related plant	Telecom technology and related equipment	Other tangible assets and equipment	Construction in progress	Total
Carrying amount						
Balance as at 1 January	688	1,325	655	337	153	3,158
Additions resulting from business combinations	16	–	1	2	–	19
Additions	47	34	143	59	86	369
Disposals	(1)	–	(2)	(7)	(3)	(13)
Other movements	13	12	49	9	(84)	(1)
Depreciation charge	(29)	(70)	(166)	(98)	–	(363)
Impairment charge	–	–	–	(1)	(1)	(2)
Effect of movements in exchange rates	10	16	(2)	9	(4)	29
Balance as at 31 December	**744**	**1,317**	**678**	**310**	**147**	**3,196**
Cost	945	1,773	1,214	668	150	4,750
Accumulated depreciation and impairment	(201)	(456)	(536)	(358)	(3)	(1,554)

The roll-forward of right-of-use assets amounting to MEUR 666 as at 31 December 2019 (1 January 2019: MEUR 716) is disclosed in E.22.1.

In millions of EUR, for the year ended 31 December 2018	Land and buildings	Ducts, cables and related plant	Telecom technology and related equipment	Other tangible assets and equipment	Construction in progress	Total
Carrying amount						
Balance as at 1 January	497	1,356	318	181	127	2,479
Additions resulting from business combinations	193	–	324	164	38	719
Additions	52	31	81	90	86	340
Disposals	(10)	–	(1)	(25)	(1)	(37)
Other movements	5	18	59	14	(96)	–
Depreciation charge	(29)	(68)	(126)	(81)	–	(304)
Impairment charge	(8)	(2)	–	–	–	(10)
Impairment reversal	–	–	–	1	–	1
Effect of movements in exchange rates	(12)	(10)	–	(7)	(1)	(30)
Balance as at 31 December	**688**	**1,325**	**655**	**337**	**153**	**3,158**
Cost	859	1,706	1,042	622	154	4,383
Accumulated depreciation and impairment	(171)	(381)	(387)	(285)	(1)	(1,225)

In both periods, the most significant additions of PPE relate to the construction and renovation of telecommunications infrastructure in CETIN and the construction of a telecommunications network in O2 Slovakia.

E.10. Intangible assets and goodwill

E.10.1. Goodwill

The following table shows the roll-forward of goodwill:

In millions of EUR, for the year ended 31 December	2019	2018
Balance as at 1 January	1,648	569
Additions from business combinations	15	1,086
Impairment losses recognised	–	(1)
Effect of movements in exchange rates	(4)	(6)
Balance as at 31 December	**1,659**	**1,648**

Goodwill is allocated to individual CGUs as follows:

In millions of EUR, as at 31 December	2019	2018
O2 CR – Czech operations	401	396
O2 CR – Slovak operations	40	40
CETIN	111	108
Telenor Hungary	421	435
Telenor Bulgaria	219	219
Telenor Serbia	369	369
Telenor Montenegro	42	42
Other	56	39

Goodwill is tested annually for impairment. A reasonably possible change in the key assumptions on which the management has based its determination of the recoverable amounts would not result in O2 CR, CETIN, Telenor carrying amounts higher than their recoverable amounts.

O2 CR

The impairment test involves determining the recoverable amount of the consolidated entity, corresponding to the value in use. The value in use is the present value of future cash flows expected to be derived from the CGU.

Value in use is determined in a discounted cash flow enterprise valuation model and derived from cash flow forecasts based on the analyst mean forecast sourced from Thomson Reuters Eikon (for 2020 to 2022). Cash flows beyond the forecast period were extrapolated (for 2023 to 2026) using appropriate growth rates based on general economic data derived from macroeconomic and financial studies.

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

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

Discount rate – the discount rate reflects the Group's estimate of the risk and related expected return specific to the CGU. The weighted average cost of capital forms the basis for the determination of the discount rate. Relevant data taken from independent financial analysts as a benchmark for the weighted average cost of capital are used to determine the discount rate. The resulting discount rate and its effect on value in use are tested for sensitivity. The current methodology used as of 31 December 2019 will be subject to regular reassessments and potential adjustments.

The discounted cash flow valuation is supported by a valuation using the market approach based on publicly traded peer companies. The multiple of enterprise value (EV) to earnings before interest, taxes, depreciation and amortisation (EBITDA) was selected as the most suitable multiple, as EBITDA is considered to be the closest approximate of free cash flow. The value estimates the draw on EV/EBITDA multiples based on market data as at the valuation date and the EBITDA of the peer public companies for 2019. Additionally, the EV/Sales multiple is considered as well.

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

The final value in use is allocated into two O2 CR cash generating sub-units, O2 Czech Republic and its subsidiary O2 Slovakia, in the following way: The enterprise value is divided by the proportion of the sub-units' EBITDAs, and the respective net debts of the sub-units are subtracted to calculate the resulting equity values.

CETIN

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

Value in use is determined in an enterprise valuation model and assessed from a group-internal perspective. Value in use is derived from the medium-term forecast for a period of five years (for 2020 to 2024), prepared by management and most recent at the time of the impairment test. The medium-term forecast is based on past experience as well as on future market trends. Further, the medium-term forecast is based on general economic data derived from macroeconomic and financial studies. The key assumptions on which management bases its business plan and growth rates include trends in the gross domestic product, interest rates, nominal wages, capital expenditures, market share, growth rates, and discount rates. Cash flows beyond the management forecast period were extrapolated (for 2025 to 2026) using appropriate growth rates based on general economic data derived from macroeconomic and financial studies.

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

Estimated growth rate in terminal value – forecasts of the market and regulatory environment in which the company conducts its principal business, as well as the investment life cycle, are the basis for determining the value assigned to the estimated growth rate. A 1.0% growth rate is used.

Discount rate – this reflects the Group's estimate of the risk and related expected return. The weighted average cost of capital forms the basis for the determination of the discount rate. Relevant data taken from independent financial analyses as a benchmark for the weighted average cost of capital is used to determine the discount rate. The resulting discount rate and its effect on value in use are tested for sensitivity. The current methodology used as of 31 December 2019 will be subject to regular reassessments and potential adjustments.

The discounted cash flow valuation is supported by a valuation using the market approach based on publicly traded peer companies. The multiple of enterprise value (EV) to earnings before interest, taxes, depreciation and amortisation (EBITDA) was selected as the most suitable multiple, as EBITDA is considered to be the closest approximate of free cash flow. The value estimates draw on EV/EBITDA multiples based on market data as at the valuation date and the EBITDA of the peer public companies for 2019. Additionally, the EV/Sales multiple is considered as well.

TELENOR

Telenor's CEE businesses operate in four countries, identified as individual CGUs for the purposes of the impairment test. These operating businesses are in Hungary, Bulgaria, Serbia and Montenegro.

The impairment test involves determining the recoverable amounts of the above four cash-generating units, which correspond to their value in use. The value in use of a CGU is the present value of the future cash flows expected to be derived from each CGU.

Value in use is determined in an enterprise valuation model and assessed from the group-internal perspective. Value in use is derived from the most recent forecast for a period of five years (for 2020 to 2024), prepared by management at the time of the impairment test. The forecast is based on past experience as well as on future market trends. Further, the forecast considers general economic data derived from macroeconomic and financial studies. The key assumptions on which management bases its business plan and growth rates include trends in the gross domestic product, interest rates, nominal wages, capital expenditures, market share, growth rates, and discount rates. Cash flows beyond the management forecast period were extrapolated (for 2025 to 2026) using the appropriate growth rates based on general economic data derived from macroeconomic and financial studies.

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

Estimated growth rate in terminal value – forecasts of the market and regulatory environment in which the companies conduct their principal businesses, as well as the investment life cycle, are the basis for determining the value assigned to the estimated growth rate. A growth rate of 1.0% is used for Hungary and Bulgaria and growth rates of 1.5% and 2.5% are used for Serbia and Montenegro, respectively.

Discount rate – this reflects the Group's estimate of the risk and related expected return. The weighted average cost of capital forms the basis for the determination of the discount rate. Relevant data taken from independent financial analysts as a benchmark for the weighted average cost of capital is used to determine the discount rate for each respective Telenor CGU. The resulting discount rates and their effect on value in use are tested for sensitivity. The current methodology used as of 31 December 2019 will be subject to regular reassessments and potential adjustments.

The discounted cash flow valuation is supported by a valuation using the market approach based on publicly traded peer companies. The multiple of enterprise value (EV) to earnings before interest, taxes, depreciation and amortisation (EBITDA) was selected as the most suitable multiple, as EBITDA is considered to be the closest approximate of free cash flow. The value estimates draw on EV/EBITDA multiples based on market data as at the valuation date and the EBITDA of the peer public companies for 2019. Additionally, the EV/Sales multiple is considered as well.

E.10.2. Intangible assets

Intangible assets comprise the following:

In millions of EUR, as at 31 December	2019	2018
Software	569	518
Licences	559	608
Customer relationships	900	1,018
In-process research and development	323	287
Trademark	120	138
Not in use	51	28
Other	71	76
Total intangible assets	**2,593**	**2,673**

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

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

In millions of EUR, for the year ended 31 December 2019	Software	Licences	Customer relation-ships	IPRD	Trade-marks	Other intangible assets	Construct-ion in progress	Total
Carrying amount								
Balance as at 1 January	518	608	1,018	287	138	76	28	2,673
Additions resulting from business combinations	4	–	–	–	–	–	–	4
Additions	162	32	–	22	2	18	43	279
Additions from internal development	15	–	–	34	–	–	10	59
Disposal	–	–	–	(14)	–	(1)	–	(15)
Other movements	23	1	–	(3)	–	5	(26)	–
Amortisation charge	(158)	(81)	(115)	(5)	(21)	(28)	–	(408)
Impairment charge	–	–	–	–	–	–	(1)	(1)
Effect of movements in exchange rates	5	(1)	(3)	2	1	1	(3)	2
Balance as at 31 December	**569**	**559**	**900**	**323**	**120**	**71**	**51**	**2,593**
Cost	1,258	815	1,329	351	271	106	51	4,181
Accumulated amortisation and impairment losses	(689)	(256)	(429)	(28)	(151)	(35)	–	(1,588)

In millions of EUR, for the year ended 31 December 2018	Software	Licences	Customer relation-ships	IPRD	Trade-marks	Other intangible assets	Construct-tion in progress	Total
Carrying amount								
Balance as at 1 January	373	346	407	207	73	6	84	1,496
Additions resulting from business combinations	57	313	693	39	70	15	21	1,208
Additions	129	1	–	26	1	70	23	250
Additions from internal development	43	–	–	18	–	–	–	61
Disposal	(12)	(6)	–	–	–	–	–	(18)
Other movements	65	10	–	4	18	3	(100)	–
Amortisation charge	(125)	(55)	(80)	(4)	(23)	(17)	–	(304)
Effect of movements in exchange rates	(12)	(1)	(2)	(3)	(1)	(1)	–	(20)
Balance as at 31 December	**518**	**608**	**1,018**	**287**	**138**	**76**	**28**	**2,673**
Cost	1,035	790	1,327	307	267	93	28	3,847
Accumulated amortisation and impairment losses	(517)	(182)	(309)	(20)	(129)	(17)	–	(1,174)

E.11. Other assets

Other assets comprise the following:

In millions of EUR, as at 31 December	2019	2018
Prepaid expenses and advances	182	191
Cash collateral for payment cards	88	57
Cost to obtain or fulfil the contract	53	48
Other tax receivable	27	23
Biological assets	5	4
Insurance related other assets	4	4
Financial settlements and other similar accounts	117	44
Assets held for sale	3	4
Other	80	107
Subtotal other assets (gross)	**559**	**482**
Individual allowance for impairment	(7)	(1)
Prepaid expenses and advances	(2)	(1)
Other	(5)	–
Total other assets (net)	**552**	**481**

Capitalised incremental costs to obtain contracts, presented newly in line with IFRS 15, include commissions for external and internal business channels that are directly attributable to obtaining customer contracts and incremental. The amortisation of these costs is recognised in a separate line (amortisation of cost to obtain contracts) in profit or loss; the amortisation period is determined by the expected average duration of contracts separately for business customers and for consumers and separately for certain product types (ranging from 16 to 48 months).

Under previous policies, all commissions paid to agents for activation, marketing, and other activities were included in the telecommunication cost of sales for the period and recognised in profit or loss as costs.

E.12. 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 derivatives	252	188
Interest rate derivatives	124	90
Currency derivatives	128	98
Negative fair values of hedging derivatives	9	6
Liabilities from short sales of securities	156	486
Other	113	81
Total financial liabilities at FVTPL	**530**	**761**

Details of trading 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	10,514	119	(124)
Exchange-traded products:			
Interest rate futures	2	–	–
Total	**12,511**	**119**	**(124)**
Currency derivatives			
OTC products:			
Forward exchange contracts	1,029	1	(38)
Currency/cross currency swaps	7,942	44	(90)
Total	**8,971**	**45**	**(128)**

* refer to E.2.1.

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	7,274	101	(90)
Interest rate options (purchase)	4	–	–
Other interest rate contracts	31	–	–
Exchange-traded products:			
Interest rate futures	53	4	–
Total	**7,362**	**105**	**(90)**
Currency derivatives			
OTC products:			
Forward exchange contracts	1,362	5	(33)
Currency/cross currency swaps	10,270	36	(65)
Total	**11,632**	**41**	**(98)**

* refer to E.2.1.

The following tables shows details of the hedging derivatives:

In millions of EUR, as at 31 December 2019	Notional amount	Positive fair values*	Negative fair values
Forward exchange contracts	222	6	(4)
Foreign currency swap contracts	313	3	–
Cross currency interest rate swap contracts	58	–	(2)
Interest rate swap contracts	343	6	(3)
Total	**936**	**15**	**(9)**

* refer to E.2.1.

In millions of EUR, as at 31 December 2018	Notional amount	Positive fair values*	Negative fair values
Forward exchange contracts	356	2	(1)
Foreign currency swap contracts	308	–	(2)
Interest rate swap contracts	158	6	(3)
Total	**822**	**8**	**(6)**

* refer to E.2.1.

E.13. Liabilities 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	6,794	6,394
Term deposits	3,500	3,235
Loans received under repos	2,474	1,743
Loans	23	23
Other	1	1
Total liabilities to non-banks	**12,792**	**11,396**

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

E.14. Liabilities to banks and other financial institutions

Liabilities to banks and other financial institutions comprise the following:

In millions of EUR, as at 31 December	2019	2018
Repayable on demand	7	12
Loans received under repos	1,122	2,844
Secured loans (other than repos)	10,309	10,932
Unsecured loans	5,348	4,631
Other	68	77
Total liabilities to banks	**16,854**	**18,496**

Secured loans include the following significant loan facilities related to the acquisition of Telenor assets:

In March 2018, PPF Arena 1 B.V. (renamed to PPF Telecom Group B.V. in 2020) consolidating the telecommunications segment entered into a facilities agreement with a syndicate of banks. In July 2018, under this agreement, the Group utilised secured term loan facilities amounting to MEUR 2,396 and MCZK 10,172. In Mach 2019, the secured term loan facilities were restructured and partially refinanced by a senior secured Eurobond issued by PPF Arena 1 B.V. in the total amount of MEUR 550 (refer to E.15). The secured term loans were further refinanced in November 2019 by new senior secured Eurobonds issued by PPF Arena 1 B.V. in the total amount of MEUR 500 (refer to E.15). As at 31 December 2019, the outstanding amounts of the secured term loan facilities were MEUR 1,349 and MCZK 6,139. The actual amount of outstanding secured loan liabilities stated in the above table is lower by unamortised facility and legal fees directly attributable to the origination of the loan facilities. These fees were capitalised and are amortised to finance costs using the effective interest rate method. As at 31 December 2019 and 31 December 2018, a committed revolving facility of MEUR 200 has not been utilised. For details on security of the facilities refer to E.39.1.

The following loans are EUR-denominated:

Repayable by	2023	2024
Margin rate over 3M EURIBOR	1.5% – 2.5%	2.25% – 3%
Actual respective margin levels applicable*	2.00%	2.75%

* initial agreed margin.

The EUR loans were used to finance the acquisition of Telenor Group telecommunications assets in Central and Eastern Europe (refer to B.2.7.).

The following loans are CZK-denominated:

Repayable by	2023	2024
Margin rate over 3M PRIBOR	1% – 2%	1.5% – 2.5%
Actual respective margin levels applicable*	1.50%	2.00%

* initial agreed margin.

The CZK loans were used to fully refinance the existing loan facilities related to refinancing of deferred purchase price for O2 CR (MEUR 395 in 2017).

As at 31 December 2019 and 31 December 2018, the Group complied with the financial covenants imposed by its loan facilities.

E.15. Debt securities issued

Debt securities issued relate to bonds issued, certificates of deposit, asset-backed security issues and promissory notes except for subordinated items.

The maturities of the debt securities are as follows:

In millions of EUR, as at 31 December	2019	2018
Fixed rate debt securities	**4,162**	**2,497**
Within 1 year	1,513	1,114
1–2 years	1,255	320
2–3 years	82	861
3–4 years	191	14
4–5 years	71	188
More than 5 years	1,050	–
Variable rate debt securities	**175**	**96**
Within 1 year	28	62
1–2 years	83	28
2–3 years	64	6
Total debt securities issued	**4,337**	**2,593**

As at 31 December 2019, issued debt securities of MEUR 1,165 (2018: MEUR 896) were secured by cash and cash equivalents of MEUR 300 (2018: MEUR 341), cash loan receivables amounting to MEUR 91 (2018: MEUR nil) and consumer loan receivables of MEUR 774 (2018: MEUR 839).

In March 2019, the Group's entity PPF Arena 1 B.V., consolidating its telecommunications business, established a MEUR 3,000 medium term note programme. At the same moment, the entity obtained Ba1 corporate credit rating by Moody's, a BB+ rating by Standard & Poor's, and BBB- by Fitch Ratings. Under this programme, in March 2019, the Group issued a senior secured eurobond in the aggregate nominal amount of MEUR 550. Under the programme, the Group further issued a senior secured eurobond amounting to MEUR 500 in November 2019. The issued eurobonds have maturity over 5 years. As at 31 December 2019, the unused capacity of the programme is MEUR 1,950 (refer to the section on subsequent events). Bond proceeds (excluding expenses incurred in relation to issuance of the bonds) were used to repay the Group's secured loans.

E.16. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of EUR, as at 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	–	88
Bond issue of MCZK 2,000	Fixed	2024	–	53
Loan MUSD 7	Variable	2023	7	7
Bond issue of MCZK 200	Fixed	2029	8	–
Total subordinated liabilities			**264**	**396**

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 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.17. Trade and other payables

Trade and other payables comprise the following:

In millions of EUR, as at 31 December	2019	2018
Settlements with suppliers	979	933
Wages and salaries	160	178
Social security and health insurance	31	32
Other taxes payable	118	141
Lease liabilities	676	–
Accrued expenses	186	201
Deferred income	47	49
Advance received	33	41
Customer loan overpayments	126	53
Payables arising out of insurance operations	3	–
Deferred payment for acquisition of Telenor*	417	405
Other	215	282
Total other liabilities	**2,991**	**2,315**

* refer to B.2.7.

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).

For relevant information of lease liabilities, please refer to F.2.1.

E.18. Provisions

Provisions comprise the following:

In millions of EUR, as at 31 December	2019	2018
Insurance provisions	191	150
Warranty provisions	20	24
Provision for litigation except for tax-related litigation	12	13
Provision for onerous contracts	6	11
Provisions for insurance commissions return	10	8
Provisions for expected credit losses from loan commitments and financial guarantees	3	2
Provisions for asset retirement obligations	42	34
Provision for restructuring	1	2
Other provisions	41	35
Total provisions	**326**	**279**

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 onerous contracts	Warranty provisions	Provisions for asset retirement obligations	Other provisions	Total
Balance as at 1 January	13	11	24	34	47	129
Additions resulting from business combinations	–	–	–	–	1	1
Provisions created during the year	3	1	15	12	71	102
Provisions used during the year	(2)	(6)	(12)	(2)	(58)	(80)
Provisions released during the year	(2)	–	(7)	(2)	(7)	(18)
Effect of movements in exchange rates	–	–	–	–	1	1
Balance as at 31 December	**12**	**6**	**20**	**42**	**55**	**135**
Non-current (> 1 year)	5	–	–	41	15	61
Current (< 1 year)	7	6	20	1	40	74
Total provisions	**12**	**6**	**20**	**42**	**55**	**135**

In millions of EUR, for the year ended 31 December 2018	Provision for litigation except for tax issues	Provisions for onerous contracts	Warranty provisions	Provisions for asset retirement obligations	Other provisions	Total
Balance as at 1 January	9	–	–	16	20	45
Additions resulting from business combinations	8	18	19	24	25	94
Provisions created during the year	4	19	17	1	56	97
Provisions used during the year	(1)	(22)	(7)	(2)	(39)	(71)
Provisions released during the year	(5)	(3)	(5)	(5)	(14)	(32)
Effect of movements in exchange rates	(2)	(1)	–	–	(1)	(4)
Balance as at 31 December	**13**	**11**	**24**	**34**	**47**	**129**
Non-current (> 1 year)	6	–	8	33	11	58
Current (< 1 year)	7	11	16	1	36	71
Total provisions	**13**	**11**	**24**	**34**	**47**	**129**

The Group recognised a provision for asset retirement obligations of MEUR 42 (2018: MEUR 34). The amount of the provision is affected by the increased estimate of the present value of the future costs of dismantling, removing of assets and restoring sites in connection with network construction. Scenarios of future costs based on management estimations, market prices, and historical costs were discounted to present value. Discount rates are paired to the expected dates of any future dismantling and removing of assets.

E.18.1. Insurance provisions

Insurance provisions comprise the following:

In millions of EUR, as at 31 December	2019	2018
Non-life insurance provisions	38	32
Provisions for unearned premiums	37	31
Provisions for outstanding claims	1	1
RBNS provisions	1	1
Life insurance provisions	153	118
Provisions for outstanding claims	4	3
Mathematical provisions	139	107
Provisions for profit participation allocated to policyholders	9	8
Other insurance provisions	1	–
Total insurance provisions	**191**	**150**

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

In millions of EUR, for the year ended 31 December Gross amount	2019	2018
Balance as at 1 January	31	27
Premiums written during the year	25	32
Premiums earned during the year	(23)	(24)
Effect of movements in exchange rates	4	(4)
Balance as at 31 December	**37**	**31**

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

In millions of EUR, for the year ended 31 December	2019	2018
Balance as at 1 January	115	114
Mathematical provision for contracts concluded in previous years, and cancelled in the current reporting year	(6)	(5)
Mathematical provision for contracts maturing in the current reporting year	(7)	(6)
Increase in mathematical provision for active contracts concluded in previous years	25	22
Provision for insurance contracts concluded in the current period	4	4
Bonuses (profit) credited to policyholders	2	2
Effect of movements in exchange rates	15	(16)
Balance as at 31 December	**148**	**115**

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

In millions of EUR, for the year ended 31 December 2019	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Between 5 and 15 years	More than 15 years	Total
Non-life insurance provisions	17	15	6	–	–	38
Life insurance provisions	11	15	19	68	40	153

In millions of EUR, for the year ended 31 December 2018	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Between 5 and 15 years	More than 15 years	Total
Non-life insurance provisions	15	12	5	–	–	32
Life insurance provisions	9	11	14	53	31	118

E.19. Issued capital and share premium

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

The following table provides details of authorised and issued shares:

	2019	2018
Number of shares authorised	250,000	250,000
Number of shares issued and fully paid	62,401	62,401
Par value per share	EUR 10	EUR 10

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

In 2019, share premium representing the excess received by the Parent Company over the par value of its shares amounted to MEUR 677 (2018: MEUR 677).

E.20. Other reserves

E.20.1. 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.20.2. 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.20.3. 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.20.4. Hedging reserve

The hedging reserve represents mainly a cash flow hedge effect related to the forward contracts for CO_2 emission rights recognised in other comprehensive income by the Group's joint venture LEAG. The hedging instruments are commodity derivatives designed to hedge purchase price for future purchases of emission rights. The significant gain in 2018 was caused by the significant increase in emission rights prices, whereas in 2019 the trend reversed. For the period ending 31 December 2019, the Group recognised its share on loss in other comprehensive income amounting to MEUR 186 (2018: share on gain of MEUR 382).

E.20.5. Other reserves

Other reserves comprise primarily a balance of MEUR 181 (2018: nil) of an AT1 subordinated bond issued by one of the subsidiaries, not available for distribution to the shareholders.

E.21. Non-controlling interests

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

Name of subsidiary*	Abbr.	Applicable	Country of incorporation
O2 Czech Republic a.s. (subgroup)	O2 CR	2019/2018	Czech Republic
TMT Hungary B.V. (subgroup)	TMT	2019	Hungary
Home Credit Group B.V. (subgroup)	HC	2019/2018	Netherlands
PPF banka a.s. (subgroup)	PPFB	2019/2018	Czech Republic
Velthemia Ltd. (subgroup)	VELT	2019/2018	Cyprus
PPF Beer Topholdco B.V. (subgroup)	MECH	2019	Czech Republic
Home Credit Indonesia PT	HCID	2019/2018	Indonesia

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

The following table summarises the information relating to these subsidiaries:

In millions of EUR, 2019	O2 CR	TMT*	HC	PPFB	VELT	MECH**	HCID	Other	Total
NCI percentage (ownership)	**16.43%**	**25.00%**	**8.88%**	**7.04%**	**39.93%**	**10.00%**	**22.55%**		
Total assets	1,879	1,202	26,590	8,928	284	969	430		
Total liabilities	(1,193)	(234)	(23,717)	(8,345)	(152)	(630)	(350)		
Net assets	**686**	**968**	**2,873**	**583**	**132**	**339**	**80**		
Net assets attributable to NCI of the sub-group	–	–	(29)	–	–	–	–		
Net assets attributable to owners of the Parent	**686**	**968**	**2,844**	**583**	**132**	**339**	**80**		
Carrying amount of NCI	113	242	236	41	53	34	12	27	758
NCI percentage during the period	**16.51%**	**25.00%**	**8.88%**	**7.04%**	**39.93%**	**10.00%**	**22.55%**		
Revenue	1,510	528	6,003	235	33	388	214		
Profit/(loss)	165	69	417	84	36	(19)	3		
Other comprehensive income	(4)	(8)	112	30	–	13	–		
Total comprehensive income	161	61	529	114	36	(6)	3		
Profit/(loss) allocated to NCI	27	2	38	6	15	(2)	–	(16)	70
OCI allocated to NCI	(1)	(2)	9	2	–	1	–	5	14
Dividends paid to NCI	**(34)**								

* NCI for TMT Hungary results from the sale of a 25% shareholding described in B.2.6.
** NCI for PPF Beer Topholdco results from the sale of a 10% shareholding described in B.2.4.

In millions of EUR, 2018	O2 CR	HC*	PPFB	VELT	HCID	Other	Total
NCI percentage (ownership)	**16.60%**	**8.88%**	**7.04%**	**39.93%**	**22.55%**		
Total assets	1,661	23,647	9,622	248	276		
Total liabilities	(894)	(21,492)	(9,149)	(150)	(227)		
Net assets	**767**	**2,155**	**473**	**98**	**49**		
Net assets attributable to NCI of the sub-group	–	(17)	–	–	–		
Net assets attributable to owners of the Parent	**767**	**2,138**	**473**	**98**	**49**		
Carrying amount of NCI	127	190	33	39	7	19	415
NCI percentage during the period	**16.60%**	**11.38%**	**7.04%**	**39.93%**	**22.55%**		
Revenue	1,481	5,454	191	77	142		
Profit/(loss)	162	445	94	(22)	5		
Other comprehensive income	(2)	(137)	(26)	–	–		
Total comprehensive income	160	308	68	(22)	5		
Profit/(loss) allocated to NCI	27	51	6	(9)	–	(25)	50
OCI allocated to NCI	–	(14)	(1)	–	–	(2)	(17)
Dividends paid to NCI	**(40)**	**–**	**–**	**–**	**–**	**–**	**(40)**

* On 31 December 2018, the Group acquired an additional 2.5% share, as described in B.2.8.

E.22. Leases

The Group acts as a lessee under lease contracts for stores, office and technical buildings, telecommunications technology, vehicles, and office equipment.

E.22.1. Right-of-use assets

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

In millions of EUR	Land and buildings	Telecom. technology and related equipment	Other tangible assets and equipment	Total
Carrying amount				
Balance as at 1 January 2019	596	72	48	716
Additions resulting from business combinations	2	–	–	2
Additions	100	16	7	123
Disposal	(12)	–	(28)	(40)
Transfers	–	–	1	1
Depreciation charge	(121)	(10)	(7)	(138)
Effects of movements in exchange rates	3	(3)	2	2
Balance as at 31 December 2019	**568**	**75**	**23**	**666**
Cost	686	85	32	803
Accumulated depreciation and impairment	(118)	(10)	(9)	(137)

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

E.22.2. Amounts recognised in profit and loss

In millions of EUR, for the year ended 31 December 2019	
Leases under IFRS 16	2019
Interest on lease liabilities	25
Expenses relating to short- term leases	7
Expenses relating to lease of low-value assets	1
Variable lease payments	(1)

In 2018, the Group recognised lease expenses for operating leases under IAS 17 of MEUR 147.

E.22.3. Extension options

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

The Group has estimated that should it exercise the extension option, potential future lease payments would result in an increase of MEUR 6 in lease liability.

Total cash outflow for leases amounted to MEUR 110 for the year ended 31 December 2019.

E.23. 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	Liabilities due to banks and other financial institution	Lease liabilities	Total
Balance as at 1 January	2,989	18,496	716	22,201
Changes from financing cash flows:				
Proceeds from the issue of debt securities	3,082	–	–	3,082
Proceeds from liabilities due to banks and other financial institutions	–	17,595	–	17,595
Additions due to acquisitions of subsidiaries	–	3	–	3
Decrease due to disposals of subsidiaries	–	(45)	–	(45)
Repayment of debt securities	(1,514)	–	–	(1,514)
Repayment of liabilities due to banks and other financial institutions	–	(19,361)	–	(19,361)
Repayment of principal portion of lease liabilities	–	–	(136)	(136)
Total changes from financing cash flows	1,568	(1,808)	(136)	(376)
The effect of changes in foreign exchange rates and transfers	19	146	88	253
Interest expense	186	1,355	25	1,566
Interest paid	(161)	(1,335)	(17)	(1,513)
Balance as at 31 December	**4,601**	**16,854**	**676**	**22,131**

In millions of EUR, for the year ended 31 December 2018	Debt securities and subordinated liabilities	Liabilities due to banks and other financial institution	Total
Balance as at 1 January	2,048	13,927	15,975
Changes from financing cash flows:			
Proceeds from the issue of debt securities	2,032	–	2,032
Proceeds from liabilities due to banks and other financial institutions	–	17,511	17,511
Additions due to acquisitions of subsidiaries	114	75	189
Repayment of debt securities	(1,194)	–	(1,194)
Repayment of liabilities due to banks and other financial institutions	–	(12,601)	(12,601)
Total changes from financing cash flows	952	4,985	5,937
The effect of changes in foreign exchange rates and transfers	(7)	(96)	(103)
Interest expense	118	1,116	1,234
Interest paid	(122)	(1,436)	(1,558)
Balance as at 31 December	**2,989**	**18,496**	**21,485**

E.24. Net interest income

Interest income comprises the following:

In millions of EUR, for the year ended 31 December	2019	2018
Financial assets at FVTPL	17	14
Financial assets at FVOCI	55	63
Financial assets at AC	14	9
Due from banks and other financial institutions	181	106
Cash loan receivables	4,032	3,465
Consumer loan receivables	1,004	910
Revolving loan receivables	142	106
Car loan receivables	22	19
Mortgage loan receivables	6	5
Loans to corporations	80	76
Net investments in finance lease	1	–
Other	15	5
Total interest income	**5,569**	**4,778**

Interest expense comprises the following:

In millions of EUR, for the year ended 31 December	2019	2018
Due to customers	283	242
Due to banks and other financial institutions	1,355	1,117
Debt securities issued	171	96
Lease liabilities	25	–
Subordinated liabilities	15	22
Other	44	24
Total interest expenses	**1,893**	**1,501**
Total net interest income	**3,676**	**3,277**

E.25. 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	357	551
Penalty fees	129	163
Cash transactions	38	27
Customer payment processing and account maintenance	57	44
Commission income from partners	57	33
Retailers' commissions	16	17
Other	18	6
Total fee and commission income	**672**	**841**

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	25
Payment processing and account maintenance	64	46
Payments to deposit insurance agencies	30	27
Credit and other register expense	39	41
Other	14	11
Total fee and commission expense	**201**	**171**
Total net fee and commission income	**471**	**670**

E.26. Net gain/loss on financial assets

In millions of EUR, for the year ended 31 December	2019	2018
Net trading income/(expense)	(68)	(25)
Debt securities trading	20	15
FX trading	14	2
Derivatives	(102)	(42)
Net gains/(losses) on financial assets/liabilities at FVTPL not held for trading	(65)	14
Net realised gains on financial assets at AC	2	6
Net realised gains financial assets at FVOCI	1	(3)
Net realised gains at loans and receivables	3	–
Dividends	24	23
Other expense from financial assets	(30)	(2)
Total net gain on financial assets	**(133)**	**13**

E.27. Net impairment losses on financial assets

In millions of EUR, for the year ended 31 December	2019	2018
Cash loan receivables	1,546	1,333
Consumer loan receivables	237	350
Revolving loan receivables	25	18
Car loan receivables	2	–
Mortgage loan receivables	(2)	(2)
Loans to corporations	8	11
Trade and other receivables	21	(2)
Financial assets at FVOCI	–	1
Other financial assets*	2	17
Total net impairment losses on financial assets	**1,839**	**1,726**

* incl. impairment losses on undrawn credit limit.

E.28. Net insurance income

In millions of EUR, for the year ended 31 December 2019	Non-life	Life	Total
Gross earned premiums	22	54	76
Earned premiums ceded	–	(1)	(1)
Net insurance benefits and claims	(1)	(34)	(35)
Acquisition cost	(3)	(14)	(17)
Total net insurance income	**18**	**5**	**23**

In millions of EUR, for the year ended 31 December 2018	Non-life	Life	Total
Gross earned premiums	24	47	71
Earned premiums ceded	–	–	–
Net insurance benefits and claims	–	(31)	(31)
Acquisition cost	(5)	(13)	(18)
Total net insurance income	**19**	**3**	**22**

E.29. Net rental and related income

In millions of EUR, for the year ended 31 December	2019	2018
Gross rental income	160	132
Service income	16	13
Service charge income	35	26
Service charge expense	(20)	(17)
Total net rental and related income	**191**	**154**

E.30. Net telecommunications income

E.30.1. Revenues from telecommunications business – major lines of business

Telecommunications income comprises the following:

In millions of EUR, for the year ended 31 December	2019	2018
Mobile originated revenues	2,348	1,609
Fixed originated revenues	422	408
International transit revenues	256	304
Other wholesale revenues	119	91
Other sales	14	2
Revenues from telecommunications business	**3,159**	**2,414**
out of which:		
Services/products transferred over time	2,696	2,127
Services/products transferred at a point in time	463	286
Supplies	642	591
Cost of goods sold	398	254
Commissions	37	30
Costs related to telecommunications business	**1,077**	**875**
Net telecommunications revenues	**2,082**	**1,539**

E.30.2. Revenues from telecommunications business – geographical markets

The revenues from the telecommunications business are geographically disaggregated per the customers' sites, as follows:

In millions of EUR, for the year ended 31 December	2019	2018
Services/products transferred over time	**2,696**	**2,127**
Czech Republic	1,179	1,151
Slovakia	259	258
Germany	38	43
Switzerland	8	47
Hungary	434	178
Bulgaria	244	97
Serbia and Montenegro	302	145
Other	232	208
Services/products transferred at a point in time	**463**	**286**
Czech Republic	97	90
Slovakia	55	56
Germany	1	–
Hungary	84	38
Bulgaria	126	60
Serbia and Montenegro	89	42
Other	11	–

For relevant information on contract assets and contract liabilities, refer to E.5.

E.31. Net mechanical engineering income

E.31.1. Revenues from mechanical engineering business – major lines of business

Mechanical engineering income comprises the following:

In millions of EUR, for the year ended 31 December	2019	2018
Sales of finished goods, services and goods for resale	388	372
Tramcars	77	96
Electric locomotives and suburb units	74	66
Trolleybuses	41	77
Metro	31	14
Electric equipment	7	6
Full service and repairs	94	69
Spare parts	25	20
Modernisation of rail vehicles	4	–
Other products and services	35	24
Revenues from mechanical engineering business	**388**	**372**
out of which:		
Services/products transferred over time	320	319
Services/products transferred at a point in time	68	53
Raw material	176	186
Purchased services related to projects	25	18
External workforce	13	12
Other	18	19
Costs related to mechanical engineering business	**232**	**235**
Net mechanical engineering income	**156**	**137**

E.31.2. Revenues from mechanical engineering business – geographical markets

The revenues from the mechanical engineering business are geographically disaggregated per the customers' sites, as follows:

In millions of EUR, for the year ended 31 December	2019	2018
Services/products transferred over time	320	319
Czech Republic	81	137
Finland	95	76
Slovakia	30	19
Latvia	11	19
Germany	41	22
Russian Federation	35	14
Turkey	–	6
Other	27	26
Services/products transferred at a point in time	**68**	**53**
Czech Republic	54	45
Germany	2	2
Finland	2	–
Slovakia	3	–
Russian Federation	3	–
Other	4	6

The amount of revenue recognised in 2019 from performance obligations satisfied (or partially satisfied) in previous periods, mainly due to the changes in the estimate of the stage of completion of mechanical engineering business construction contracts was nil (2018: nil).

For relevant information on contract assets and contract liabilities, refer to E.5.

E.32. Net toll operations income

In millions of EUR, for the year ended 31 December	2019
Sales of goods	88
Sales of services	3
Cost of sales	(87)
Total net toll operations income	**4**

The Group's toll operating and collection business started its operations at the end of 2019 (refer to B.3.2).

E.33. Net agriculture income

In millions of EUR, for the year ended 31 December	2019	2018
Sales of goods	16	31
Cost of sales	(13)	(25)
Other revenue	1	1
Change in fair value of biological assets	–	1
Total net agriculture income	**4**	**8**

E.34. Other income

In millions of EUR, for the year ended 31 December	2019	2018
Rental income	13	13
Net gain on disposal of property, plant, equipment and intangible assets	–	2
Foreign currency gains	17	–
Gain on a bargain purchase*	38	23
Provision of service to minority partner	13	13
Other	143	82
Total other income	**224**	**133**

* acquisition of Mobi Banka in 2019, refer to B.2.1.

In 2019, the majority of other income represents a gain on the sale of receivables and a tax refund.

E.35. Personnel expenses and other operating expenses

In millions of EUR, for the year ended 31 December	2019	2018
Employee compensation	1,335	1,234
Payroll related taxes (including pension contribution)	292	296
Total personnel expenses	**1,627**	**1,530**
Rental, maintenance and repair expense	118	223
Information technologies	130	133
Professional services	154	117
Advertising and marketing	118	100
Telecommunications and postage	101	87
Taxes other than income tax	78	68
Collection agency fee	69	57
Travel expenses	32	31
Net impairment losses on other intangible assets	1	–
Net impairment losses on goodwill recognised	–	1
Net impairment losses on property, plant and equipment	2	10
Net impairment losses on other assets (including contract assets)	5	11
Amortisation of cost to obtain or fulfil a contract	46	28
Net impairment losses on trading property	1	1
Net loss on disposal of PPE, and intangible assets	2	4
Net foreign currency losses	–	80
Other	189	158
Total other operating expenses	**1,046**	**1,109**

The average rounded number of employees during 2019 was 142,000 (2018: 153,000); 14 employees were employed in the Netherlands (2018: 13 employees).

E.36. Depreciation and amortisation

In millions of EUR, for the year ended 31 December	2019	2018
Depreciation of property, plant and equipment	363	304
Depreciation of property, plant and equipment – ROU (IFRS 16)	138	–
Amortisation of intangible assets	408	304
Total depreciation and amortisation	**909**	**608**

E.37. Repurchase agreements and reverse repurchase agreements

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

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	–	–	173	145
Financial assets at FVOCI	288	180	802	659
Financial assets received in reverse repos	3,475	3,415	3,933	3,783
Total assets	**3,763**	**3,595**	**4,908**	**4,587**

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	7,741	3,933	7,800
Loans and advances to banks	209	–	198	75	–	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.38. Income taxes

E.38.1. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the year ended 31 December	2019	2018
Current tax expense	(385)	(215)
Deferred tax (expense)/benefit	(13)	41
Total income tax expense (net)	**(398)**	**(174)**

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December	2019	2018
Tax rate	25.0%	25.0%
Profit from continuing operations (before taxation)	1,403	1,039
Computed taxation using applicable tax rate	(351)	(260)
Tax non-deductible expenses	(159)	(87)
Non-taxable income	76	70
Non-taxable share of earnings of associates	7	(13)
Tax rate differences on foreign results	96	57
Utilised tax loss not previously recognised	12	47
Deferred tax not previously recognised	–	61
Tax loss carry forward not recognised	(30)	(34)
Withholding tax on intra-group dividends	(35)	(23)
Other	(14)	8
Total income tax expense	**(398)**	**(174)**

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 9.00% in Hungary to 31.00% in France.

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

The principle the Group follows in the recognition of deferred tax assets prescribes that if it is not considered likely that taxable profits will be available against which unused tax losses can be utilised, the deferred tax assets are not recognised. Deferred tax losses 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 would generate sufficient taxable profits to utilise tax losses from previous periods.

E.38.2. 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	(9)	–	(1)	–
Loans	(2)	345	–	330
Trade and other receivables, contract assets	(68)	17	(9)	16
Inventories	(1)	65	–	3
Investment property	(191)	3	(144)	2
Property, plant and equipment	(342)	5	(322)	1
Intangible assets	(170)	46	(192)	49
Other assets	(11)	8	(9)	12
Debt securities issued	–	12	–	–
Financial liabilities at fair value through profit or loss	(1)	3	–	–
Lease liabilities	(1)	9	–	–
Due to banks and other financial institutions	–	–	–	18
Trade and other payables	(3)	25	(5)	34
Provisions	(1)	21	(3)	20
Other temporary differences	(8)	30	(7)	25
Value of loss carry-forwards recognised	–	59	–	59
Deferred tax assets/(liabilities)	**(808)**	**648**	**(692)**	**569**
Net deferred tax assets/(liabilities)	**(639)**	**479**	**(600)**	**477**

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	(123)	(87)
Deferred tax (expense)/income for the period	(13)	41
Deferred tax recognised directly in equity	(8)	59
Additions from business combinations	(32)	(146)
Disposals resulting from business combinations	21	3
Effect of movements in exchange rates	(5)	7
Net deferred tax assets/(liabilities) as at 31 December	**(160)**	**(123)**

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

E.38.3. Tax losses

As at 31 December 2019, the Group incurred tax losses from recent years of MEUR 2,114 (2018: MEUR 2,127) available to be carried forward and off-set against future taxable income. As a rule, if it is not considered likely that taxable profits will be available against which the unused tax losses can be utilised, deferred tax assets are not recognised. The unrecognised deferred tax assets amount to MEUR 423 (2018: MEUR 435). The unutilised tax losses can be claimed in the period from 2020 to 2028 in the Netherlands (2020 to 2024 in the Czech Republic and Cyprus, and for an indefinite time in Hong Kong and the Russian Federation) and expire as follows:

In millions of EUR, as at 31 December 2019 and as at 31 December 2018	2019	2018
2019	–	203
2020	292	335
2021	258	262
2022	422	420
2023	88	58
2024	126	91
2025	149	115
2026	118	105
2027	73	50
2028	61	2
2029	2	–
Tax losses that can be carried forward indefinitely	525	486
Total	**2,114**	**2,127**

E.39. Off-balance sheet items

E.39.1. Commitments and contingent liabilities

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that these amounts have been fully advanced. The amounts set forth in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised as at the reporting date if the counterparties were to completely fail 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 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	1,640	928
Revolving loan commitments	1,390	700
Consumer loan commitments	48	68
Cash loan commitments	29	37
Undrawn overdraft facilities	101	51
Term loan facilities	72	72
Capital expenditure commitments	107	115
Guarantees provided	173	67
Non-payment guarantees	17	18
Non-revocable letters of credit	–	1
Payment guarantees	156	48
Other	282	19
Total commitments and contingent liabilities	**2,202**	**1,129**

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 expected future cash flows.

Other commitments in 2019 represent current bank guarantees issued by local banks in Hungary for Telenor Hungary, requested by the local telecommunications regulator from participants in the upcoming spectrum auction. The Group was given a guarantee of MEUR 282, fully covering the spectrum auction entry requirement.

The following table shows secured liabilities:

In millions of EUR, as at 31 December	2019	2018
Secured bank loans	10,310	10,958
Loans received under repos	3,595	4,587
Debt securities issued	2,215	896
Total secured liabilities	**16,120**	**16,441**

The assets pledged as security were as follows:

In millions of EUR, as at 31 December	2019	2018
Cash and cash equivalents	1,250	821
Financial assets at fair value through profit and loss (repos)	–	173
Financial assets FVOCI (repos)	288	802
Loans and receivables due from customers	13,614	9,791
Trade and other receivables/other assets	19	69
Investment property (incl. assets held for sale)	1,817	1,322
Property, plant and equipment	218	164
Financial assets in off balance sheet (repo operations)	3,475	3,934
Other assets	33	–
Total assets pledged as security	**20,714**	**17,076**

As at 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.

In addition, the Group has pledged certain assets as collateral for its funding liabilities related to the acquisition of Telenor assets. As at 31 December 2019, the pledged assets in particular include receivables from bank accounts, hedging agreements and all shares of PPF Arena 1 B.V, PPF Telco B.V., PPF Infrastructure B.V., the Telenor operating entities in Bulgaria, Serbia and Montenegro, and TMT Hungary B.V. (the Group's effective share).

The Group also pledges certain shares in O2 CR and CETIN. As at 31 December 2019, a 10.27% share in O2 CR (2018: 10.27%) and a 10.27% share in CETIN (2018: 10.27%) were used as collateral for several funding facilities. The disclosed percentage of O2 CR shares under pledge does not take into account any treasury shares held by O2 CR.

E.39.2. Other contingencies

E.39.2.1. Litigation

The Group (as a former sole shareholder of Česká pojišťovna a.s.) is involved in litigation (formally consisting of five disputes merged procedurally into one) in which the adequacy of the consideration paid to minority shareholders arising from the decision of the general meeting of Česká pojišťovna a.s. adopted in July 2005 approving a squeeze-out of minority shareholders, is being challenged in court. On 13 June 2016, the Municipal Court in Prague fully dismissed the action of the ex-minority shareholders, however, some of them have appealed against the dismissal to the High Court in Prague where the first hearing have been scheduled for 25 September 2020. Based on legal analyses carried out by external legal counsel, management believes that it is unlikely that this case will be concluded in favour of the plaintiffs.

Furthermore, the Group (through its subsidiary PPF A4 B.V.) is involved in litigations connected to a squeeze-out of minority shareholders in Česká telekomunikační infrastruktura a.s. ("CETIN"), approved by general meeting of this company on 3 December 2015. Several former minority shareholders filed their actions with the relevant court and asked the court to decide on adequate consideration (i.e. higher than that originally paid by PPF A4 B.V.) for their shares in CETIN. The first hearings took place in March and May 2018. On 3 April 2019, the court appointed its own expert to assess whether the consideration paid by PPF A4 B.V. was adequate or not with no conclusion by the date of the issue of these consolidated financial statements.

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

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

In March 2011, VOLNÝ, a.s. commenced a legal action against O2 CR for an amount of MEUR 154 excluding interest for an alleged abuse of dominant position on the market of internet broadband connection provided to households via ADSL. The amount was calculated as the purported profit the plaintiff lost in the period 2004 to 2010. The plaintiff claimed it had a 30 percent share on the dial-up internet market in 2003 and implied that it would have the same share on the broadband market had it not been for the alleged margin squeeze by O2 CR on the fixed broadband market. O2 CR denied any wrongdoing and noted that the claim and the calculations submitted by the plaintiff were unsubstantiated. VOLNÝ filed the legal action to coincide directly with the opening of ÚOHS proceedings, which were closed by a decision in favour of O2 CR in January 2019. O2 CR replied to the petition in July 2011, noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and pointing out discrepancies in the petition claims. The court started the proceedings in the matter and hearings took place during the year 2013, including the hearings of witnesses and experts. In 2018, the Municipal court in Prague fully dismissed the legal action of Volný, after hearing of an independent expert which the court appointed. The court concluded that O2 CR did not breach competition law rules and therefore could not even cause any damage. O2 CR is convinced that the ÚOHS decision dated 23 January 2019, which was submitted to the court, confirms the O2 CR's consistent position in the civil dispute and the correctness of the first instance dismissal of the legal action. No decision on the merits was issued by the court of appeal during 2019.

The legal action brought by Vodafone Czech Republic a.s. claiming MEUR 15 was delivered to O2 CR on 2 April 2015. The legal action is grounded on an alleged breach of competition rules related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after a two-page notice claiming this amount was delivered to O2 CR. According to O2 CR, the whole claim is a purely artificial case, the sole purpose of which was to damage O2 CR by bad publicity. Vodafone Czech Republic a.s. claims that it did not reach 200,000 customers of xDSL internet services and therefore lost profit. O2 CR provided the court with its statement that there are no grounds for the claim. The Municipal Court in Prague dismissed the plaintiff's petition requesting O2 CR to disclose all information and documents supporting the claim filed in the legal action. The court found that the plaintiff had not yet described the essential facts which would at least indicate that the plaintiff would have ever suffered any damage. This is confirmed also by the decision of ÚOHS dated 23 January 2019 in a separate administrative proceedings. The High Court in Prague confirmed this decision. Vodafone filed an extraordinary appeal to the Supreme Court. No courts hearing were ordered during 2019.

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

In 2017, O2 CR filed the legal action to the Municipal Court in Prague as a reaction to the repeated attempts organised by the connected companies BELL TRADE and PET-PACK SK s.r.o. O2 CR claims that no contracts have ever been concluded and that O2 CR has no obligations under these unconcluded contracts. The Municipal Court in Prague confirmed O2 CR's arguments and upheld the legal action on the hearing on 26 June 2017. BELL TRADE and PET-PACK SK s.r.o. filed the appeal to the High Court in Prague. In the first half of 2018, decisions in favour of O2 CR in the proceedings were issued. On 18 June 2018, the High Court in Prague confirmed the previous decision of the Municipal Court in Prague against PET PACK and BELL TRADE, which determined that no receivables or contracts ever existed. In relation to the company RVI, the High Court changed the previous decision also in favour of the Company. In May 2018, the resolution of the Regional Court in Bratislava also confirmed the decision of the District Court in Malacky. The court confirmed that the Company should not be the defendant in the proceedings which were been still to be held between BELL TRADE and PET PACK and from which the Company had already been exempted by the Constitutional Court of the Slovak Republic.

During 2019, another positive decision was achieved. The Constitutional Court by its resolution dated 30 July 2019 rejected the constitutional complaint of BELL TRADE against the Supreme Court's denial of an extraordinary appeal. The case was thus closed in the courts of the Czech Republic – it is legally established that no contracts or receivables have ever existed.

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

The following legal cases related to Škoda Transportation group is significant from the Group's perspective:

In arbitration proceedings with a major customer (ČD a.s. – Czech Railways, a joint-stock company) regarding the payment of part of the purchase price, late payment interest due to late payments totalling approximately MEUR 42 and the right to substitute the expression of will to conclude an amendment on the increase of the purchase price, the Arbitration Court at the Chamber of Commerce of the Czech Republic and the Agricultural Chamber of the Czech Republic decided in favour of the Company and completely rejected the customer's claims for payment of the contractual fine for an alleged breach of the Company's obligations under the purchase contract (approximately MEUR 36) and the proposal for handing over a license equivalent for Austria and Germany.

All payments connected with this dispute have been paid in previous years. The customer filed an action for the annulment of the above-mentioned arbitration award. On 20 March 2019, the court dismissed the action for the annulment of the arbitration ruling. The judgement has not yet been final and conclusive, as on 9 May 2019, the significant customer appealed against the judgment of the court to the High Court in Prague. Proceedings are in process at the High Court in Prague, and a decision has not yet been issued. On 26 November 2019, the High Court in Prague suspended the proceedings until the arbitrator's expulsion proceedings are finalised.

The Group believes that all litigation risks have been faithfully reflected in the consolidated financial statements.

E.39.2.2. Regulatory investigation

In October 2016, the European Commission announced that it opened formal antitrust proceedings to investigate the network sharing cooperation between O2 CR, CETIN and T-Mobile Czech Republic. The European Commission will examine whether this cooperation restricts competition in the Czech Republic, thereby harming innovation in breach of EU antitrust rules. The investigation before the European Commission relates to the network sharing agreements and their compatibility with EU competition laws. The Group is fully cooperating with the investigation and so far, there has been no indication of a negative response from the European Commission.

In January 2018, the Hungarian Competition Authority carried out an unannounced inspection at the headquarters of Telenor Hungary in relation to two cases: (i) the investigation of the 800 MHz frequency tender auction, in which Telenor Hungary and Magyar Telekom allegedly committed anti-competitive behaviour during the tender in form of bid rigging and information exchange; and (ii) the 800 MHz network sharing cooperation, under investigation since 2015. As of the date of these financial statements, the proceedings were ongoing and Telenor Hungary was cooperating with the Hungarian Competition Authority to show no breach had occurred.

E.39.2.3. 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. Final results are not yet known.

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

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

In millions of EUR, as at 31 December	2019	2018
Guarantees received	82	124
Loan commitments received	218	230
Value of assets received as collateral (including repos)	8,911	9,373
Total contingent assets	**9,211**	**9,727**

In October 2019, the Group signed an agreement with Central European Media Enterprises Ltd. to acquire CME (refer to B2.11). The acquisition has not yet closed and is expected to be financed with a mix of equity and debt. The debt component includes a EUR 1.1 billion senior secured term loan provided on the certain funds basis and a MEUR 50 revolving credit facility. The facilities have been fully underwritten by BNP Paribas, Crédit Agricole CIB, Credit Suisse, HSBC, Société Générale and UniCredit.

E.40. Related parties

E.40.1. Identity of related parties

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

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

The key management personnel of the Group include members of the Board of Directors and the key management personnel of the Parent and its significant subsidiaries.

E.40.2. Transactions with governing bodies and executive officers

For the year ended 31 December 2019 and 2018, the key management personnel were provide with benefits as follows:

In millions of EUR, for the year ended 31 December	2019	2018
Board of Directors of the Parent Company	0.5	0.5
Key executive officers	52	41

These benefits consist of fixed and variable salaries, incentive bonuses, contributions to pension and insurance plans, and cash-settled share-based payment awards granted by PPF Group.

E.40.3. Transactions with associates

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

In millions of EUR, for the year ended 31 December	2019	2018
Interest income	8	9
Telecommunications income	10	–
Mechanical engineering income	2	–
Net gain/(loss) on financial assets	4	–
Total revenue	**24**	**9**

At the reporting date, the Group had the following balances with associates:

In millions of EUR, as at 31 December	2019	2018
Loans due from customers	120	143
Trade and other receivables	3	1
Total assets	**123**	**144**
Due to non-banks	(34)	(30)
Total liabilities	**(34)**	**(30)**

E.40.4. Other related parties including key management personnel

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

In millions of EUR, for the year ended 31 December	2019	2018
Interest income	12	19
Net gain/(loss) on financial assets	3	–
Fee and commission income	5	–
Other income	3	2
Total revenue	**23**	**21**
Mechanical engineering expenses	(2)	–
Interest expense	(1)	–
Other operating expenses	(18)	(19)
Total expenses	**(21)**	**(19)**

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	214	212
Trade and other receivables	5	1
Intangible assets	5	2
Total assets	**224**	**215**
Due to non-banks	(37)	(23)
Total liabilities	**(37)**	**(23)**

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 (the "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 euro at the exchange rates prevailing at the reporting date and announced by European Central Bank.

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

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

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

F.1.2. 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 under IFRS 9 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.

In line with IFRS 9, 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.

Amounts receivable from and payable to other domestic and foreign operators related to transit are netted and settled net on a regular basis.

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

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

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

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

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

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

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

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

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

F.1.5. 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.

In accordance with IFRS 9, 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 can 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;
— breach of contract such as a default; or
— probability that the borrower will enter bankruptcy or other 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

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

For the retail portfolio, PD and EAD are usually estimated together using statistical models (stochastic Markov chain based model or 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 taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and 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

Under IFRS 9, the Group incorporates forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and – where possible – as part of the measurement of ECLs. External information used includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

Based on data availability and credibility of sources, the Group uses an analysis of historical data to estimate the relationships between macro-economic variables and credit risk and credit losses. The key drivers include variables such as interest rates, unemployment rates, gross-domestic-product forecasts and other.

As at 31 December 2019, the Group has estimated the overall impact of forward-looking-information macro model incorporation into ECL calculation process, and the calculated result is reflected in the financial statements.

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 under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

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

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

The Group employs statistical models to analyse the 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 ratings 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 in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment – subject to materiality threshold – has not been received.

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 with IFRS 9 and internal guidelines and settings.

Definition of default

Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on the respective 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 recognized 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 investments 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 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 amounts do not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

F.1.8. Leases

Policy applied after 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus 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 assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements 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, the same line item as it presents underlying assets of the same nature that it owns.

The lease liability is initially measured at the present value of the 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 measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group applies the exemption relating to the short-term leases for all its businesses (except for telecommunications, for which application of this exemption was assessed as not appropriate), and does not capitalise leases with lease term of 12 month or shorter (for telecommunications these short-term lease are capitalised). Regarding the leases with a low-value underlying asset the Group applies this practical expedient as well. Low-value tangible assets like copy machines (below TEUR 5) are not required to capitalise. The Group has also outscoped the leased intangible assets from capitalisation, as allowed by IFRS 16. For all its businesses, the Group does not separate non-lease components and capitalises them as lease payments (except for the finance business for which the non-lease components (like cleaning and maintenance) are separated and not capitalised as lease payments). Lessor accounting remained substantially unchanged.

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 specific asset or assets and 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 termination takes place.

Leases of property, plant and equipment where the Group bears substantially 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 so as 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 are depreciated over the shorter of the useful life of the asset or the lease term.

F.1.9. Inventories

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

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

F.1.10. Biological assets

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

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

F.1.11. 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.1.12. 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.1.13. Investment property

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

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

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

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

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

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

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

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

F.1.14. 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 90 years
Ducts and cables	up to 45 years
Telecommunication technology and equipment	up to 35 years
Other tangible assets and equipment	up to 35 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.

F.1.15. Intangible assets

F.1.15.1. Goodwill and gain on bargain purchase

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

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

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

F.1.15.2. Trademarks

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

F.1.15.3. 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 on the basis of an actuarial computation taking into account assumptions for future premium income, contributions, mortality, morbidity, lapses and returns on investments. PVFP is recognised separately for insurance segments and for the respective companies.

The PVFP is amortised over the average effective life of the contracts acquired, using an amortisation pattern reflecting 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.1.15.4. In-process research and development assets

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends, and has sufficient resources, to complete development and use or sell the asset. In-process research and development (IPRD) assets consist of biotech licence deals acquired in a business combination. These assets are measured at fair value on initial recognition.

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

F.1.15.5. Other intangible assets

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

Software	up to 10 years
Trademark	indefinite/4 years
Licences	up to 20 years
Customer relationships	3–14 years
PVFP	5/35 years (non-life/life portfolio)
Other	up to 20 years

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

As for the life and non-life portfolio, the recoverable amount of the value of the in-force business acquired is determined by conducting a 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.1.16. 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.1.16.1. 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.1.16.2. 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.1.16.3. 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.1.17. 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.1.18. 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.1.19. Insurance provisions

F.1.19.1. 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.1.19.2. Life insurance provisions

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

F.1.19.3. Provisions for outstanding claims

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

F.1.19.4. Other insurance provisions

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

F.1.20. Equity

F.1.20.1. Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the paid consideration, 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.1.20.2. 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.1.20.3. 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.1.21. 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.1.22. 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 as it is 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.1.23. 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 de-recognition of financial assets other than financial assets at fair value through profit or loss. The amount of the realised gain/loss represents the difference between the carrying value of the financial asset and the sale price adjusted for any cumulative gain or loss 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.1.24. 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.1.25. Net insurance benefits and claims

Insurance technical charges include claims (benefit) expenses, a 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.1.26. 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.1.27. Net real estate income

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

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

F.1.28. Net telecommunications income

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

The Group generates revenues through the sale of mobile and fixed telecommunication services such as voice and data services, internet services, SMS services, ICT services as well as the sale of mobile and fixed access devices. Products and services may be sold separately or in bundles. The standard length of contracts with customers that includes a bundle is 24 months.

In the case of contracts containing bundles, the Group accounts separately for specific products or services if these products or services can be separated and have added value for the customer in that stand-alone form. The total price invoiced to customers is allocated to respective products and services based on their stand-alone selling prices.

Commissions paid to agents for activation, marketing, and other activities are included in the cost of sales for the period, unless it is the cost that meets the definition of incremental costs to obtain contracts. Capitalised incremental costs to obtain contracts are amortised over the expected average period that the customer uses the service of the Company.

F.1.28.1. Mobile origination – internet and data, voice services, MMS and SMS

Revenues from mobile services include revenues from both contract and prepaid cards for the provision of telecommunication services (internet and data, voice, MMS and SMS services).

Contract service comprises a flat rate and a variable part invoiced according to the actual usage. Revenues are recognised, invoiced, and paid by customers on a monthly basis according to the actual utilisation of services with the exception of contracts containing multiple services and products where the total transaction price is allocated based on the standalone selling prices of respective performance obligations. A typical contract is for 24 months.

Revenues from prepaid cards are recognised when voice or data traffic is made, other services are provided or the card expires and the associated prepaid credit expires. Prepaid cards are paid by customers purchasing a coupon or recharging an already purchased SIM card.

Interconnection revenues arise from calls and SMSs initiated in the networks of other domestic or foreign operators but terminating in or transiting through the Group's network. These revenues are recognised in profit or loss at the time when the call or SMS is received in the Group's network. Interconnection revenues are invoiced and paid on a monthly basis. The Group pays a part of the proceeds from its customers to domestic and foreign operators whose network is used for calls initiated in the Group's network and which use the networks of other domestic or foreign operators. Receivables and payables in respect of other domestic and foreign operators are regularly offset and settled.

Other mobile revenues include, in particular, revenues from virtual operators (MVNOs) for the use of the Group's mobile network services, roaming revenues and insurance revenues. Revenues from virtual operators for usage of the Group's mobile network and related services are recognised on a monthly basis; the price is usually set at a flat monthly rate with a variable component charged according to the actual usage of individual MVNOs. The services are invoiced to and paid by MVNOs on a monthly basis. Roaming revenues are revenues from foreign partner operators for their customers' usage of the Group's mobile network. The services are invoiced and paid on a monthly basis according to the actual usage. As a rule, agreed volume discounts are calculated annually, for which estimates are created by the Group on a monthly basis. Revenues are recognised on a monthly basis. Revenues from insurance include revenues from insurance of mobile devices and travel insurance sold to the Group's customers. The service is invoiced and paid by customers on a monthly basis, which is in line with the recognition of relevant revenues. Customers have the option to terminate this service at any time without penalty.

F.1.28.2. Fixed services – voice, internet, data and television

Revenues from fixed telecommunication services include revenues from internet connectivity, data, TV, and fixed voice services. The services are offered at a flat monthly rate with the option to purchase additional services, or with variable invoicing according to the actual usage. Revenues are recognised, invoiced, and paid by customers monthly. Currently, a typical contract duration is either 12 or 24 months.

Information and communication technology (ICT) services include complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development. Revenue recognition of such services reflects the substance of the service provided. Generally, it relates to services which are invoiced and paid by customers on a monthly basis, for a period of at least of 24 months. Revenue from fixed price construction contracts (long-term contracts) is recognised using the percentage of completion method, measured by reference to the percentage of the actual costs incurred to date to the estimated total costs of the contract. A loss expected from the construction contract is immediately recognised as an expense, when it is probable that total contract costs will exceed total contract revenue.

F.1.28.3. Equipment sales and sale of other goods

Revenues from the sale of equipment and other goods are recognised at the time of the sale, i.e. at the time the goods were handed over to the distributor or the final customer, which usually occurs when the contract is signed. Where equipment is subsidised and sold together with the services as a bundle, revenue from the subsidised equipment is recognised at the point of sale at a value determined using the stand-alone selling prices of services and products within the bundle.

Mobile devices are usually paid for in full by the customer when sold. Fixed access equipment may also be sold on an instalment basis, with the contracts usually being signed for 12 or 24 months. The financing component is not significant in these contracts.

F.1.28.4. Gross and net revenue recognition

Revenues within the network sharing project are recognised at net value, because mutually provided services within the project are of similar nature and value. Net revenues are generated from provision of premium SMS, audiotex or other services.

F.1.28.5. International transit

Revenue from transit represents the service of routing and termination of mostly international voice traffic of international operators utilising points of presence outside of the Czech Republic. The revenue is calculated by valuation of the incoming and outgoing minutes based on the measurement of monthly traffic.

F.1.28.6. Other wholesale revenues

Other wholesale revenues include but are not limited to revenues from the granting of the right to use the optical fibre (dark fibre); revenues are accrued at the time of signing of the contract and recognised as revenue on straight-line basis over the contract term. Revenue from housing represents data centre services; the revenue occurs continuously in accordance with the invoicing.

F.1.29. Net mechanical engineering income

Revenues from mechanical engineering business, shown net of value added tax, comprise revenues from goods for resale, services rendered and revenues from mechanical engineering construction contracts (finished goods).

Revenues from goods for resale representing notably new rail vehicles and spare parts are recognised at a point in time, when the customer obtains control of the goods and to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The customer obtains control when the goods are delivered and accepted by the customer. Any relevant costs are recognised at the same time as the revenues.

For sales with multiple components in one contract, the Group determines whether the contract contains more than one transactions, performance obligations. Once certain criteria are met, for example the good brings benefit to the customer on its own, the Group applies recognition criteria for the distinct identifiable components in order to reflect the substance of the transaction. For the revenue recognition, two or more transactions can be analysed together, if it is not possible to understand their commercial substance without consideration of series of transactions as a whole, i.e. the unique transaction is not distinct within the context of the contract.

Revenues from services rendered and related costs are recognised at the moment the services are provided. For the long term service contracts, the revenues and the associated costs are recognised over time based on the percentage of completion method.

F.1.29.1. Revenues from mechanical engineering construction contracts

Finished goods in mechanical engineering business represent specialised assets built to a customer's specifications. If a contract for these goods is terminated by the customer, the Group is, under usual contract terms, entitled to reimbursement of the costs incurred to date, including reasonable margin. Therefore, revenues from these contracts and the associated costs are recognised over time, i.e. before the goods are delivered to the customer's premises.

For the consolidation purposes (intercompany sales and purchases eliminations), the contract revenues and the associated costs are aggregated to the project level by the Group. The percentage of completion and related revenues and losses recognition is re-evaluated at the Group level.

F.1.30. Net toll operations income

Net toll operations income comprises sales of goods, representing the delivery of the toll collection system and on-board-units, sales of services comprising revenues from operating the toll collection and maintenance of the system, and related cost of sales.

Revenues from services are recognised over time according to time elapsed. Revenues from the sale of assets are recognised at a point in time.

Cost of sales include primarily the cost of the delivered toll collection system and on-board- units, expenses related to operating of the system and collection, and other services.

F.1.31. Net agriculture income

Net agriculture income comprises sales of agricultural produce, related cost of sales, other revenue from services provided in agriculture, and any change in the fair value of biological assets.

Sales of goods are presented net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Cost of goods includes:

— the value of agricultural inventories expensed in the period when the revenue from sales is recognised; these inventories are accounted for on a first-in, first-out basis;
— personnel expenses;
— depreciation of property, plant and equipment used in the agricultural production and amortisation of land lease rights; and
— other expenses such as repairs, utilities, agricultural services and other services.

F.1.32. Other income and other expenses

F.1.32.1. 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.1.32.2. 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.1.33. General administrative expenses

General administrative expenses include expenses relating to the running of the Group. These include personnel costs, office rental expenses and other operating expenses. Staff costs include employees' salaries and wages, management remuneration and bonuses, and social insurance.

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

F.1.34. 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

The following revised standards and annual improvements to IFRSs effective from 1 January 2019 are mandatory and relevant for the Group, and have been applied by the Group since 1 January 2019

F.2.1. IFRS 16 Leases (effective from 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. For the Group accounting policies for leases refer to F.1.8.

Impact of transition to IFRS 16 Leases
Effective 1 January 2019, the Group adopted IFRS 16 using the modified retrospective approach and 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.

On transition, for leases classified as operating leases under IAS 17, 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 are 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 initially applying IFRS 16 to leases previously classified as operating leases under IAS 17:

— Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
— Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group has 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 recognized on initial application of IFRS 16 at 1 January 2019.

In millions of EUR	1 January 2019
Right-of-use assets	716
Deferred tax asset	–
Lease liabilities	(716)
Retained earnings	–

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 4.1%.

In millions of EUR	1 January 2019
Operating lease commitments at 31 December 2018 as disclosed in E.36	697
Discounted using the incremental borrowing rate at 1 January 2019	**(103)**
Finance lease liabilities recognised as at 31 December 2018	5
Recognition exemption for leases of low-value asset	(3)
Variable lease payments based on an index or a rate	(6)
Recognition exemption for leases with less than 12 months of lease term at transition	(12)
Extension options reasonably certain to be exercised and other	138
Lease liabilities recognised at 1 January 2019	**716**

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised MEUR 666 of right-of-use assets and MEUR 676 of lease liabilities as at 31 December 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest expenses, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised MEUR 138 of depreciation charges and MEUR 25 of interest expenses from these leases.

F.2.2. Other relevant effective requirements

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 companies to use the updated assumptions from this remeasurement to determine current service costs and net interest for the remainder of the reporting period after the change to the plan.

These amendments are not expected to have any 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 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 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 the IFRS 2014–2016 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. The new cycle of improvements contains amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

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

IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019)
IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by 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 to better predict the resolution of the uncertainty, using either the single most likely amount or the 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 did not have a significant impact on the Group's financial statements.

G. Subsequent events

G.1. Bond issues in telecommunications segment

In January 2020, PPF Telecom Group B.V. (formerly PPF Arena 1 B.V.), the holding entity consolidating the Group's telecommunications business, issued a secured bond amounting to MEUR 100 under the established a MEUR 3,000 medium term note programme. On 20 January 2020, the bond was consolidated and now forms a single series with the existing MEUR 500 bonds due 31 January 2025 (refer to E.15). The bonds were used to repay the Group's secured loans.

In May 2020, PPF Telecom Group B.V. successfully placed a four-year senior secured MEUR 500 eurobond. The bond matures on 20 May 2024 and carries a fixed annual coupon at the rate of 3.5 per cent. The bond is rated Ba1 by Moody's, BB+ by Standard & Poor's, and BBB- by Fitch Ratings, in line with PPF Telecom Group's corporate credit ratings. This bond was also issued under the established MEUR 3,000 euro medium term note programme.

G.2. Sale of an additional minority stake in Škoda Transportation

In March 2020, the Group sold a 2.2% stake in the Škoda engineering subgroup to an entity controlled by Mr Korecký, one of the members of Škoda Transportation's Supervisory Board. The total consideration amounting to MEUR 9 comprises the price for shares and the proportionate part of the shareholders' loans provided to the subgroup. After this transaction, the Group's share decreased to 87.8%.

G.3. Ongoing Covid-19 situation

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 Group 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 May 2020

Board of Directors:

Aleš Minx
Chairman of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors

Jan Cornelis Jansen
Member of the Board of Directors

Supervisory Board:

František Dostálek
Chairman of the Supervisory Board

Lubomír Král
Member of the Supervisory Board

Kamil Ziegler
Member of the Supervisory Board

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