Notes to the group financial statements of Erste Group

A. GENERAL INFORMATION

Erste Group Bank AG is Austria's oldest savings bank and listed on the Vienna Stock Exchange. It is also quoted on the Prague Stock Exchange and on the Bucharest Stock Exchange. The registered office of Erste Group Bank AG is located at Am Belvedere 1, 1100 Vienna, Austria.

The group of Erste Group Bank AG (hereinafter referred to as 'Erste Group' or 'Group') offers a complete range of banking and other financial services, such as savings accounts, asset management (including investment funds), consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital market and money market services, foreign exchange trading, leasing and factoring.

These consolidated financial statements have been prepared and authorised for issue by the management board as at the signing date of this report. Both, the supervisory board (26 March 2020) and the annual general meeting (13 May 2020) may amend the individual financial statements of Erste Group Bank AG, which in turn may have an impact on these consolidated financial statements.

Erste Group is subject to the regulatory requirements of Austrian and European supervisory bodies (National Bank, Financial Market Authority, Single Supervisory Mechanism). These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, market risk (including interest rate and foreign exchange risk), and operational risk.

In addition to the banking entities, some Group companies are subject to regulatory requirements, specifically in relation to asset management.

B. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements of Erste Group for the financial year ending on 31 December 2019 and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union on the basis of IAS Regulation (EC) No. 1606/2002. The requirements of Section 59a of the Austrian Banking Act and Section 245a of the Austrian Commercial Code are fulfilled.

The consolidated financial statements have been prepared on a going concern basis.

Except for regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all credit institutions based in the EU, Erste Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling interests in Group subsidiaries do not have rights that can restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

Except as otherwise indicated, all amounts are stated in millions of euro. The tables in this report may contain rounding differences. The abbreviations used in the consolidated financial statements of Erste Group are explained in the appendix 'Abbreviations' at the end of this report.

The consolidated financial statements have not been accepted by the supervisory board and the financial statements of Erste Group Bank AG have not been approved by the supervisory board at the date of this report.

b) Basis of consolidation

Subsidiaries

All entities directly or indirectly controlled by Erste Group Bank AG are consolidated in the Group financial statements on the basis of their annual accounts as of 31 December 2019, and for the year then ended.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Erste Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the bank's subsidiaries are prepared for the same reporting year as that of Erste Group Bank AG and using consistent accounting policies. All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are neither directly nor indirectly attributable to the owners of Erste Group Bank AG. Non-controlling interests are presented separately in the consolidated statement of income, in the consolidated statement of comprehensive income and within equity on the consolidated balance sheet. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised in equity.

Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, an interest in an associate or joint venture is recognised on the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's or joint venture's result is recognised in the consolidated statement of income and comprehensive income. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2019 and for the year then ended.

Associates are entities over which Erste Group exercises significant influence ('associates'). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. As a general rule, significant influence is presumed to mean an ownership interest of between 20% and 50%.

Joint ventures are joint arrangements over which Erste Group exercises control jointly with one or more other venturers, with the venturers having rights to the net assets of the arrangement, rather than to the assets and liabilities relating to the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Erste Group is not involved in joint arrangements which take form of joint operations.

Scope of consolidation

As at 31 December 2019, Erste Group Bank AG, as parent entity of Erste Group, includes in its IFRS scope of consolidation a total of 379 subsidiaries (31 December 2018: 399). This includes a total of 47 local savings banks which, alongside Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings bank sector (please refer to 'd) Significant accounting judgements, assumptions and estimates' for further details).

In 2014, following the implementation of the new agreements of the cross-guarantee system (please refer to chapter 'd) Significant accounting judgements, assumptions and estimates') and the related financial support of the members, an 'ex-ante fund' was established. The fund is managed by a civil law company named IPS GesbR. The assets of the fund – the members of the cross-guarantee system are required to pay into the fund over a period of ten years - are bound and can be used solely for the purpose to cover loss events of members of the cross-guarantee system. The company IPS GesbR was included in the scope of consolidation in year 2014.

Additions in 2019

On 28 February 2019 Steiermärkische Bank und Sparkassen AG signed a share purchase agreement with Société Générale S.A. (SocGen) for the acquisition of 74.53% of the share capital (384,844 shares) of Ohridska Banka AD Skopje (OBS) in North Macedonia. OBS is a North Macedonian based business bank, which offers a range of services in corporate and retail business as well as brokerage services. This transaction enables Steiermärkische Sparkasse to significantly strengthen its existing market position in North Macedonia.

After approval by the European Central Bank (ECB) and the National Bank of the Republic of North Macedonia, the application for the acquisition to the Macedonian Securities and Markets Authority (SEC) was filed, the acquisition process was started and a purchase offer was made to all shareholders. The closing took place on 4 November 2019. On this reporting date, the OBS was included in Erste Group's consolidated financial statements. Additionally taking into account the shares from free float, a total of 91.57% of share capital with voting rights (472,839 shares) were acquired. Furthermore, supplementary capital of OBS was taken over from SocGen.

As of the reporting date, the measurement period for the business combination has not yet been completed. Due to the complexity of the analyses to be performed and the focus on the rapid implementation of immediately necessary integration steps, the purchase price allocation was carried out on a preliminary basis. An extensive data analysis, especially regarding a potential recognition of intangible assets, is expected to be completed by the end of the third quarter of 2020. As a consequence, the amounts recognised are provisional and could be adjusted based on new information. The identifiable assets acquired and liabilities assumed, measured at fair value as part of the preliminary purchase price allocation, had the following composition from the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Cash and cash balances	173.5	0.0	173.5
Financial assets at fair value through other comprehensive income	10.9	0.0	10.9
Financial assets at amortised cost	489.0	-6.3	482.7
Property and equipment	13.2	-2.1	11.1
Intangible assets	1.3	0.0	1.3
Current tax assets	0.6	0.0	0.6
Other assets	1.5	0.0	1.5
Total assets	**690.0**	**-8.4**	**681.6**
Financial liabilities measured at amortised cost	608.4	0.0	608.4
Provisions	1.7	3.7	5.4
Tax liabilities	0.0	0.0	0.0
Other liabilities	3.7	0.0	3.7
Total liabilities	**613.9**	**3.7**	**617.6**
Subscribed capital	22.2	0.0	22.2
Additional paid-in capital	5.7	0.0	5.7
Retained earnings and other reserves	41.8	-12.1	29.7
Net result attributable to owners of the parent	6.4	0.0	6.4
Total equity	**76.2**	**-12.1**	**64.0**
Total liabilities and equity	**690.0**	**-8.4**	**681.6**

The fair value adjustments relate to credit risk valuations and the land and buildings acquired in the course of the OBS acquisition, which were valued on the basis of an appraisal report. The fair value of the acquired loans at the acquisition date amounted to EUR 455.2 million. The total gross contractual amount of these receivables was EUR 491.9 million. The best estimate at the acquisition date of the contractual cash flows not expected to be collected amounts to EUR 36.5 million. The proportionate share of non-controlling interests in the fair value of the acquired net assets amounted to EUR 5.4 million.

The cash consideration transferred for the shares acquired totaled EUR 31.9 million. In addition, acquisition related costs of EUR 2.2 million were recognised as expenses. Taking into account the fair value adjustments to the net assets, the transaction resulted in a gain from bargain purchase as follows:

in EUR million	2019
Purchase price excl. acquisition related expenses	31.9
Direct own interest of Steiermärkische Sparkasse in the net assets	-58.6
Bargain purchase gain	**26.7**

The bargain purchase gain is presented in the statement of income under line item ‚Other operating result‘.

The opportunity for this bargain purchase arose due to the decision of SocGen to dispose of bank investments in Southeastern Europe in order to concentrate its international activities as a retail bank on markets with higher market shares and greater synergy potential.

Since the acquisition date, OBS's contribution to Erste Group's operating income amounted to EUR 4.3 million. The contribution to the net result for the period after taking into account the non-controlling interests amounted to EUR 4.0 million. If OBS had already been included in Erste Group's consolidated financial statements as of 1 January 2019, the contribution to the operating income would have been EUR 27.1 million and the contribution to net result for the period after taking into account the non-controlling interests would have been EUR 10.4 million.

Further additions to the consolidation scope had no material impact on the financial position and performance of the Group.

Disposals in 2019. The disposals had no material impact on the financial position and performance of the Group.

For further details regarding the scope of consolidation please refer to Note 56 Details of the companies wholly or partly owned by Erste Group as of 31 December 2019.

c) Accounting and measurement methods

IFRS 16 Leases

As of 1 January 2019, Erste Group has adopted IFRS 16 'Leases' as issued by IASB in January 2016. IFRS 16 replaced existing guidance for accounting for leases in IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluation the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 introduced a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

At inception date of a contract, the contract is assessed for whether it contains a lease, i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. A right-of-use asset and a lease liability are recognised at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently depreciated from the commencement date to the earlier of the end of its useful life or the end of the lease term. The cost of the right-of-use asset comprises: the present value of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset. Erste Group uses the straight-line method of depreciation. Right-of-use assets are subject to the impairment regulations of IAS 36.

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 the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate and amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option if the lessee is reasonably certain to exercise the options and payments of penalties for terminating the lease are considered.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity's rating, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate (e.g. Euribor) and is derived from existing bank data. The single property rate represents a surcharge to the market rate based on the quality of the single property.

Lessor accounting remains similar to the IAS 17 standard, i.e. the lessor continues to classify leases as finance or operating leases. Compared to IAS 17 the disclosure requirements are more comprehensive under IFRS 16. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as finance lease. All other leases are classified as operating leases. When Erste Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use assets arising from the head lease, not with reference to the underlying asset.

Erste Group transited to IFRS 16 using the modified retrospective approach according to IFRS 16.C5 (b) whereby comparative information was not restated. All contracts which were previously identified as leases applying IAS 17 and IFRIC 4 were taken over into IFRS 16. Erste Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The right-of-use assets were recognised at an amount equal to the lease liabilities (IFRS 16.C8 (b)(ii)). Erste Group's equity was not impacted by the initial application. Erste Group does not apply IFRS 16 to any leases on intangible assets. Erste Group uses the exemption for short-term leases and leases of low-value items whereby the right-of-use asset is not recognised.

In the statement of financial position, right-of-use assets have been included in the line item 'Property and equipment', except for those meeting the definition of investment property.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 is about 6%. The decrease of the CET 1 ratio is immaterial.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

The application of IFRS 16 will have an impact on future profit or loss. While the total amount of the expenses charged over the lease term remains the same, the distribution in time and the disclosure of the related expenses in profit or loss change. According to IAS 17, expenses for operating leases are recognised on a straight-line basis. According to IFRS 16 expenses are to be split between interest expenses and depreciation. Interest expenses decrease over the lease term, but depreciation is generally carried out on a straight-line basis, which results in a shift of expenses into the earlier periods of the lease term.

In the context of transition to IFRS 16, right-of-use assets and lease liabilities in the amount of EUR 431 million were recognised as at 1 January 2019. Mainly land and buildings are subject to lease at Erste Group.

Reconciliation of total lease commitments to lease liabilities

in EUR million	
Operating lease commitments (IAS 17) undiscounted as of 31 December 2018	**371.7**
(-) Discounting (using incremental borrowing rates as of 1 January 2019)	-79.8
Discounted operating lease commitments as of 1 January 2019	**291.9**
Recognition exemption for:	
Less: short-term leases	-4.5
Less: leases of low-value assets	-8.1
Add/Less: extension and termination options reasonably certain to be exercised	136.8
Add/Less: other	14.5
Lease liabilities recognised as of 1 January 2019	**430.6**

For details on the non-cancellable operating leases as of 31 December 2018 please refer to Note 41 Leases.

Financial instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all the contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ('POCI', see part 'Impairment of financial instruments'), credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:
_ EIR applied to the gross carrying amount for financial assets that are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
_ EIR applied to the amortised cost for financial assets that are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
_ credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Interest expense is calculated by applying the EIR to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset were sold or paid if a liability were transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 48 Fair value of financial instruments.

Initial recognition and measurement

i. Initial recognition

Financial instruments are initially recognised when Erste Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at the settlement date, which is the date that an asset is delivered.

ii. Initial measurement

Financial instruments are measured initially at their fair value including transaction costs (except for financial instruments at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss). In most cases, the fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

Classification and subsequent measurement of financial assets

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

(i) The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.

(ii) The cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.

Application of these criteria leads to classification of financial assets into three measurement categories described in the following sections.

i. Financial assets at amortised cost

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows, and their contractual cash flows are SPPI.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables' and 'Cash and cash balances'. Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Interest income on these assets is calculated by effective interest method and is included under the line 'Interest income' under 'Net interest income' in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

At Erste Group, financial assets at amortised cost constitute the largest measurement category, which includes the vast majority of loan business to customers (except for certain loans measured at fair value through profit or loss), interbank lending business (including reverse repo transactions), deposits with central banks, investments in debt securities, amounts in the course of settlement, trade and other receivables.

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield generating activities). Their common attribute is that significant and frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model, see the 'Business model assessment' part in chapter 'd) Significant accounting judgements, assumptions and estimates'.

ii. Financial assets at fair value through other comprehensive income

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI-compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets. On the balance sheet, they are included as 'Debt securities' under the line 'Financial asset at fair value through other comprehensive income'.

Interest income on these assets is calculated using the effective interest method and is included in the line 'Interest income' under 'Net interest income' in the statement of income. Impairment gains and losses are recognised in profit or loss in the line 'Impairment result from financial instruments' with opposite loss allowance entry in OCI rather than against the asset value. As a result, the measurement impact recognised in profit or loss is the same as for financial assets measured at amortised cost.

The difference between the fair value at which the assets are carried in the balance sheet and the amortised cost component is recognised as accumulated OCI in equity specifically under 'Fair value reserve' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Fair value reserve of debt instruments' which also includes the loss allowance OCI entry. When the financial asset is derecognised, the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

Erste Group classifies investments in debt securities as measured at FVOCI, i.e. no loan business is included in this measurement category. Similarly to investments in debt securities measured at amortised cost, they relate to various business objectives such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield-enhancement activities. The common attribute for investments in debt instruments at FVOCI is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities.

For certain investments in equity instruments that are not held for trading, Erste Group makes use of the option to measure them at FVOCI. This election is applied to strategic, significant banking business relationship investments (except for insurance business). The fair value gains or losses for the period are reported as OCI in the line ‘Fair value reserve of equity instruments’ of the statement of comprehensive income. The cumulative gains or losses are included under ‘Fair value reserve’ in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition of the investments in equity instruments at FVOCI the amount accumulated in OCI is transferred to retained earnings. Dividends received on these investments are reported under the line ‘Dividend income’ of the statement of income. On the balance sheet, financial assets measured at fair value through OCI are included as ‘Equity instruments’ under the line ‘Financial asset at fair value through other comprehensive income’.

iii. Financial assets at fair value through profit or loss

There are various reasons for assigning the fair value through profit or loss (FVPL) measurement category to financial assets:

Financial assets whose contractual cash flows are not considered as SPPI have to be measured at FVPL. At Erste Group, this concerns certain debt securities and loans to customers. Other source of FVPL measurement relates to financial assets that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of Erste Group, such business models are typical of assets that are held for trading (i.e. financial assets held by the trading function of the bank), of assets whose value is expected to be primarily realised through sales, such as investments in securitisations or of failed loan syndications when the loan is offered for sale on the market. Further subject to FVPL measurement are financial assets held by funds consolidated by Erste Group since they are managed and their performance is evaluated on a fair value basis.

Erste Group also makes use of the option to designate some financial assets as measured at FVPL at initial recognition. Such a classification is used if it eliminates or significantly reduces an accounting mismatch between fixed interest rate financial assets, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and related derivatives measured at FVPL.

On the balance sheet, debt instrument financial assets measured at FVPL are presented as ‘Financial assets held for trading’, sub-items ‘Other financial assets held for trading’ and ‘Non-trading financial assets at fair value through profit or loss’, sub-items ‘Debt securities’ and ‘Loans and advances to customers’. Non-trading financial assets consist of two sub-categories disclosed in Note 17 which are ‘mandatorily at fair value through profit or loss’ and ‘designated at fair value through profit or loss’. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI or they are held as part of residual business models that are other than held for trading.

Investments in equity instruments that are held for trading (i.e. financial assets held by the trading function of the bank) are measured at FVPL. They are included in the balance sheet under the line ‘Financial assets held for trading’, sub-item ‘Other financial assets held for trading’. Investments in equity instruments that are not held for trading are also measured at FVPL (unless they are designated at FVOCI). They are presented in the balance sheet under ‘Non-trading financial assets at fair value through profit or loss’, sub-item ‘Equity instruments’, sub-category ‘mandatorily at fair value through profit or loss’ in Note 17.

In the statement of income, the profit or loss effects of financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line ‘Other similar income’ under ‘Net interest income’ and is calculated by applying the EIR to the amortised cost component of the financial assets. The dividend income on equity instruments is presented in the line ‘Dividend income’. The fair value gains or losses are calculated net of the interest or dividend income, and they also include transaction costs and origination fees. They are reported in the line ‘Net trading result’ for financial assets held for trading and in the line ‘Gains/losses from financial instruments measured at fair value through profit or loss’ in case of non-trading financial assets at FVPL. For investments in funds, which are not consolidated by Erste Group, the interest or dividend component is not separated from the fair value gains or losses.

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

i. Financial liabilities at amortised cost

For presentation on the balance sheet, the line item ‘Financial liabilities measured at amortised cost’ is used. The liabilities are further broken down into ‘Deposits from banks’, ‘Deposits from customers’, ‘Debt securities issued’ and ‘Other financial liabilities’.

Interest expenses incurred are calculated using effective interest method are reported in the line item ‘Interest expenses’ under ‘Net interest income’ in the statement of income. Gains and losses from derecognition (mainly repurchase) are reported under the line item ‘Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss’.

ii. Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

Non-derivative financial liabilities held for trading are those which are incurred principally for the purpose of repurchasing them in the near term. In the business of Erste Group non-derivative held for trading liabilities largely comprise short sales. These arise from obligations to return securities, which are purchased under agreements to resell or are borrowed through securities lending transactions and subsequently sold to third parties. On the balance sheet such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the statement of income.

Erste Group makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition (referred to as fair value option) if:

_ such classification eliminates or significantly reduces an accounting mismatch between fixed interest rate financial liabilities otherwise measured at amortised cost and related derivatives measured at FVPL. Erste Group assesses quantitatively that the designation actually eliminates or significantly reduces the accounting mismatch in respect of fair value changes attributable to interest rate risk; or
_ the entire hybrid contract contains a non-closely related embedded derivative.

Financial liabilities designated at FVPL are reported on the balance sheet under the line item 'Financial liabilities at fair value through profit or loss' and are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'. Other financial liabilities relate to fund units issued by funds consolidated by Erste Group. Interest incurred is calculated by applying the EIR to the amortised cost of the financial liability and is reported in the statement of income under in line item 'Other similar expenses' under 'Net interest income'. Gains and losses resulting from changes in fair value are recognised net of the interest expense under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'.

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Own credit risk reserve'. The cumulative amount is recognised as accumulated OCI, specifically under 'Own credit risk reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition (mainly repurchases) of the financial liabilities designated at FVPL the amount accumulated in OCI is transferred to retained earnings.

The cumulative amount of the credit risk recognised as accumulated OCI is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in OCI is the difference between the cumulative amount of the credit risk at the end of the period and at the beginning of the period. When calculating the present value of the liability by using the original credit spread, the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time.

Impairment of financial instruments

Erste Group recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its lease receivables, and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments. The impairment is based on expected credit losses whose measurement reflects:

_ an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
_ the time value of money; and
_ reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income, Erste Group distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset (as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, Erste Group generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From a balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is reflected through the allowance account (without impacting the impairment loss).

More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 46 Risk management, part Credit risk.

For financial assets measured at amortised cost, the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at FVOCI, the loss allowance is recognised in the accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity. Loss allowances for loan commitments and financial guarantees are presented under the balance sheet line item 'Provisions'.

For financial assets that are credit-impaired at initial recognition (POCI financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted EIR. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments are presented in the line item 'Impairment result from financial instruments'.

Write-offs

Erste Group writes off a financial asset or a part of it when it has no reasonable expectations of recovering the respective cash flows. When performing the write-off, the gross carrying amount of the asset is reduced simultaneously with the related loss allowance balance.

Erste Group has specified criteria for writing off the unrecoverable balances in its loan business. Write-off can result from forbearance measures whereby the bank contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance (normally this relates to going concern scenarios for corporate customers). In gone concern scenarios with corporate customers, write-offs of the unrecoverable exposure parts are triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case). Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost. For retail customers, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings. Residual uncollectable balances are written off after the collection process.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the contractual rights to receive cash flows from the asset have expired; or
- Erste Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
  - it has transferred substantially all risks and rewards connected with ownership of the asset; or
  - has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, Erste Group may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic substance and financial effect of such contractual modifications, Erste Group has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

Substantial modifications lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include following events:
- change of the contractual counterparty (unless this is a formal change such as changes in legal name);
- change in the currency of the contract (unless the change results from exercising an embedded option in the original contract with pre-agreed conditions of the change, or if the new currency is pegged to the original currency);
- introduction of a non-SPPI contractual feature (unless it is intended to improve recoveries from debtors by granting concessions supporting them to recover from financial difficulties); and
- removal of a non-SPPI contractual feature.

Some derecognition criteria distinguish whether contractual modifications are applied to debtors facing financial difficulties. Application of certain modifications to debtors in financial difficulties is not considered as substantial since they are aimed at improving the prospects of the bank to recover the claims by tailoring the repayment schedules to specific financial conditions of those debtors. On the other hand, such contractual modifications applied to performing debtors may be considered as substantial enough to warrant the derecognition, as further detailed below.

From this perspective, the following criteria lead to derecognition unless they are considered as forbearance measures or they are applied to customers in default or they trigger default (i.e. the derecognition occurs if the modification does not relate to financial difficulties):
- repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and at least two years compared to the original asset;
- change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months); or
- commercial renegotiations initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termination option and a sufficiently competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepayment/early termination would have to be assessed as sufficiently low for not deterring it. This derecognition trigger rarely applies to loan assets in Stage 2 and never in Stage 3.

If contractual modifications that qualify as forbearance measures or they are applied to customers in default or they trigger default (i.e. they relate to customers in financial difficulties) are so significant that they are qualitatively assessed as an extinguishment of original contractual rights, they result in derecognition. Examples of such modifications are:
- a new agreement with materially different terms signed up as part of distressed restructuring following a standstill agreement suspending the rights of the original assets;
- consolidation of multiple original loans into one with substantially different terms; or
- transformation of a revolving loan into non-revolving.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line 'Impairment result from financial instruments'.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost, the unamortised balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line item 'Interest income' under 'Net interest income' at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line 'Impairment result from financial instruments'. The remaining difference is presented in the line 'Gains/losses from derecognition of financial assets measured at amortised cost'.

For financial assets measured at FVPL, irrespective of whether they are in default, the derecognition gains and losses are included in the same line items of the statement of income as their measurement result, i.e. in 'Gains/losses from financial instruments measured at fair value through profit or loss'.

For debt instrument assets not measured at FVPL that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original EIR. In the statement of income, the modification gain or loss is presented in the line 'Interest income' under 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line 'Impairment result from financial instruments'. However, to the extent that the contractual modification involves the bank giving up its rights of collecting cash flows in respect of an outstanding amount of the asset, such as waiving (part of) principal or accrued interest amount, it is treated as a write-off.

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income, the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss', 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

Derivative financial instruments

Derivative financial instruments are used by Erste Group to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by Erste Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps.

For presentation purposes, derivatives are split into:
- Derivatives – held for trading; and
- Derivatives – hedge accounting.

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those that are not designated as hedging instruments for hedge accounting. They are presented in the line item 'Derivatives' under the heading 'Financial assets/Financial liabilities held for trading'. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book, are presented in this line item.

Derivatives – hedge accounting are those that are designated as hedging instruments in hedge accounting relationships fulfilling the conditions of IAS 39 (please refer to the Hedge Accounting part). On the balance sheet, they are presented in the line item 'Hedge accounting derivatives' on the asset or liability side.

Changes in the fair value (clean price) of derivatives – held for trading as well as of derivatives designated as hedging instruments in fair value hedges are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related both to held for trading and hedging derivatives is presented in the statement of income in the line item 'Other similar income' or 'Other similar expenses' under 'Net interest income'. Interest income/expense recognition is based on EIR-like accruals in respect of the derivative notional amount and includes amortisation of the inception value of the derivative (e.g. upfront fees, if any).

The effective part of changes in the fair value (clean price) of derivatives in cash flow hedges is reported as OCI in the line item 'Cash flow hedge reserve' of the statement of comprehensive income. The accumulated OCI is presented under 'Cash flow hedge reserve' in the statement of changes in equity. The ineffective part of changes in the fair value (clean price) of derivatives in cash flow hedges is reported in the statement of income under the line item 'Net trading result'.

Embedded derivatives

Erste Group issues certain financial liabilities which contain structured features. Structured features mean that a derivative is embedded in non-derivative host instruments. Embedded derivatives are separated from the host instruments if
- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- the embedded derivative meets the definition of a derivative; and
- the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the balance sheet under the line item 'Derivatives' in financial assets held for trading and financial liabilities held for trading. At Erste Group, these relate to bonds and deposits whose payments are linked to equity prices or FX rates.

In the business of Erste Group, majority of non-closely related embedded derivatives relates to bonds issued for which fair value option has been applied since 2018. As a result, these embedded derivatives are part of the measurement of the entire hybrid instrument at FVPL and thus are not separated.

Repurchase and reverse repurchase agreements

Transactions involving sales of securities under an agreement to repurchase them at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold in such transactions are not derecognised from the balance sheet, as Erste Group retains substantially all risks and rewards of ownership, because the securities are repurchased at a fixed price when the transaction ends. Furthermore, Erste Group is the beneficiary of all coupons and other income payments received on the transferred assets over the period of the transactions. These payments are remitted to Erste Group or are reflected in the repurchase price.

The cash received upon sale of securities is recognised on the balance sheet with a corresponding obligation to return under the line item 'Financial liabilities at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to Erste Group. The difference between the sale and repurchase prices is treated as interest expense which is accrued over the life of the agreement and recorded in the statement of income in the line item 'Interest expenses' under 'Net interest income'. Financial assets transferred out by Erste Group under repurchase agreements remain on the Group's balance sheet and are presented separately under the original balance sheet items in the 'thereof pledged as collateral' lines. The measurement category of the transferred financial assets does not change.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised on the balance sheet. Such transactions are also known as ‘reverse repos’. The consideration paid is recorded on the balance sheet under the line item ‘Financial assets at amortised cost’, sub-items ‘Loans and advances to banks’ and ‘Loans and advances to customers’ reflecting the transaction’s economic substance as a loan by Erste Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the statement of income in the line item ‘Interest income’ under ‘Net interest income’.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will re-transfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by Erste Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, Erste Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lending. Securities lent are presented separately under the original balance sheet items in the ‘thereof pledged as collateral’ lines. Fee income from securities lending transactions is presented in the statement of income in the line ‘Fee and commission income’ under ‘Net fee and commission income’.

Securities borrowed are not recognised on the balance sheet unless they are then sold to third parties. If such sales occur, the obligation to return the securities is recorded on the balance sheet as a short sale within ‘Financial liabilities held for trading’, sub-item ‘Other financial liabilities’. Fee expense incurred on securities borrowing transactions is presented in the statement of income in the line ‘Fee and commission expenses’ under ‘Net fee and commission income’.

Hedge accounting

Erste Group makes use of derivative instruments to hedge exposures to interest rate risk and foreign currency risk. In order for the derivatives and the exposures to qualify for hedge accounting, at inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk offset the fair value changes of the hedging instrument in a range of 80% to 125%. This is assessed both prospectively, i.e. whether the results are expected to be in the range, and retrospectively, i.e. whether the actual results are in the range. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by Erste Group are specified internally in the hedge accounting guidance. As permitted by the transitional provisions of IFRS 9, Erste Group has elected to continue to apply the hedge accounting requirements of IAS 39.

i. Fair value hedges

For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the statement of income under the line item ‘Net trading result’. Interest income and expenses on hedging derivatives are reported in the line item ‘Other similar income’ or ‘Other similar expenses’ under ‘Net interest income’. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the statement of income under the line item ‘Net trading result’ and adjusts the carrying amount of the hedged item.

Erste Group also applies portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. For this purpose, Erste Group makes use of the relaxation provided by the EU-carve out and hedges the interest rate risk of prepayable loans in respect of the so called ‘bottom layer’ amount. With this approach, prepayments, other derecognitions and impairments are considered as not affecting the hedge effectiveness unless their amount hits the designated hedged bottom layer level. The change in the fair value of the hedged items attributable to the hedged interest risk is presented on the balance sheet under the line item ‘Fair value changes of hedged items in portfolio hedge of interest rate risk’. Further information about the bottom layer portfolio fair value hedges is provided in Note 47 Hedge accounting.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised until maturity of the financial instrument. In the statement of income the amortisation is presented under ‘Net interest income’ in the line item ‘Interest income’ if the hedged item was a financial asset or in the line item ‘Interest expenses’ if the hedged item was a financial liability. For portfolio fair value hedges of interest rate risk the fair value adjustment related to the terminated hedge is amortised to the statement of income on a straight-line basis in the line item ‘Other similar income’ under ‘Net interest income’.

ii. Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised as OCI in the line ‘Cash flow hedge reserve’ of the statement of comprehensive income. The accumulated other comprehensive income is presented under ‘Cash flow hedge reserve’ in the statement of changes in equity. The ineffective portion of the gain or loss on the hedging instrument is recognised in the statement of income under the line item ‘Net trading result’. For determination of the effective and ineffective portions, the derivative is considered at its clean price, i.e. excluding the interest component. When the hedged cash flow affects the statement of income, the gain or loss on the hedging instrument is reclassified from other comprehensive income on the corresponding income or expense line item in the statement of income (mainly 'Other similar income' or 'Other similar expenses' under 'Net interest income'). As far as accounting for hedged items in cash flow hedges is concerned, there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains in 'Cash flow hedge reserve' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Erste Group undertakes interest rate derivative transactions via London Clearing House and credit derivative transactions via ICE Clear Europe Ltd by fulfilling all offsetting requirements according IAS 32. Offsetting is carried out between asset and liability derivative positions, while the net position is further offset with variation margin amounts. The amounts offset are disclosed in Note 15 Derivatives held for trading and Note 22 Hedge accounting derivatives as well as in Note 45 Offsetting of financial instruments.

Financial guarantees

In the ordinary course of business, Erste Group provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

Erste Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. This amount is subsequently amortised to fee income. If no premium is received at contract inception (i.e. the initial transaction price is zero), this is the price that would be paid to transfer the liability in an orderly transaction between market participants. As a result, the fair value of such a financial guarantee and thus the initial measurement is nil. Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model if the amount is higher than the unamortised balance of the initial premium. They are presented on the balance sheet under the line 'Provisions'. The premium received is recognised in the statement of income under the line item 'Fee and commission income' under 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

If Erste Group is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk is guaranteed. Erste Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral.

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. In the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

Leasing

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

i. Erste Group as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from investment properties and other operating leases'. Operating leases mainly include the leasing of commercial real estate, automobiles and small trucks.

The lessor is mitigating the risk associated with any rights it retains in underlying assets. This is achieved especially by means of residual value guarantees, variable lease payments for use in excess of specified limits and buy-back agreements with third parties.

The vast majority of lease agreements in which Erste Group operates as a lessor are finance leases.

ii. Erste Group as a lessee

Under IFRS 16, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and also includes other elements such as initial direct costs incurred by the lessee. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. Erste Group uses the straight-line method of depreciation. The right-of-use assets are presented on the balance sheet as part of 'Property and equipment' or, if they are subleased to third parties, for operating leases as part of 'Investment properties' and for finance leases as a 'Finance lease receivable'.

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 the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options. Extension and termination options are included in a number of real estate leases across Erste Group. The use of extension and termination options gives Erste Group added flexibility in case more suitable premises in terms of costs and/or location are identified or in case it is considered favourable to remain in a location beyond the original lease term.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate Euribor and is derived from existing bank data. The single property rate represents a surcharge to the market rate based on the quality of the single property. On the balance sheet the lease liabilities are presented in the line item 'Lease liabilities'.

In the comparative period when IAS 17 Leases was applied, Erste Group has not entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the statement of income on the line item 'Other administrative expenses' on a straight-line basis over the lease term.

Foreign currency translation

The consolidated financial statements are presented in euro, which is the functional currency of Erste Group Bank AG. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in Erste Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, exchange rates quoted by the central banks in each country are used. For Erste Group entities with the euro as functional currency, these are the European Central Bank reference rates.

i. Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the statement of income under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions, i.e. they do not give rise to exchange differences. Non-monetary items that are measured at fair value (such as equity investments) in a foreign currency are translated using the exchange rates at the date when the fair value is measured, thus the exchange differences are part of the fair value gains or losses.

ii. Translation of the statements of Group companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Erste Group's presentation currency, the euro, at the rate of exchange as of the balance sheet date (closing rate). Their consolidated statement of income and consolidated statement of comprehensive income are translated at the average exchange rate of the respective reporting period calculated on the basis of daily rates. Goodwill, intangible assets (i.e. customer relationships and brand) and fair value adjustments to the carrying amounts of assets and liabilities recognised on acquisition of foreign subsidiaries on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in OCI in the line 'Currency reserve' of the statement of comprehensive income. The accumulated OCI is presented in equity, specifically under 'Currency reserve' in the statement of changes in equity. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the statement of income under the line item 'Other operating result'.

Business combinations and goodwill

i. Business combinations

Business combinations are accounted for using the acquisition method. Goodwill represents the future economic benefits resulting from the business combination arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests, and the fair value of the previously held equity interest over the net of the acquisition date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the statement of income under the line item 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the statement of income line item 'Other operating result'.

ii. Goodwill and goodwill impairment testing

Goodwill arising on acquisition of a business is carried at cost as established on the acquisition date, less accumulated subsequent impairment losses, if any. Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and intangible assets recognised at the time of business combination if they are allocated to the CGU.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. When available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfilment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU. Values for the long-term growth rates are disclosed in Note 29 Intangible assets in the subsection 'Development of goodwill'.

The cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the estimated future earnings. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information. Discount rates applied to determine the value in use are disclosed in Note 29 Intangible assets in the subsection 'Development of goodwill'.

When the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the statement of income under the line item 'Other operating result'. The impairment loss is allocated first to write down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the remaining individual assets of the CGU, though not to an amount lower than their fair value less costs of disposal. No impairment loss is recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

The goodwill included in the acquisition cost of investments in associates and joint ventures is not tested separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount (after application of the equity method) whenever relevant objective evidence of impairment is identified. Such evidence includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environments in which associates and joint ventures operate, indicating that the cost of the investment may not be recovered.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the statement of income in the line item 'Depreciation and amortisation' and impairment in the line item 'Other operating result'.

	Useful lives in years
Buildings	30-50
Re-buildings on own and foreign real estates	15-50
Office furniture and equipment	4-10
Passenger cars	4-8
Computer hardware	4-6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of income under the line item 'Other operating result'.

Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation or both. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction when the future use is expected to be the same as for investment property are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented on the balance sheet in the line item 'Investment properties'.

Rental income is recognised in the statement of income in the line item 'Rental income from investment properties and other operating leases'. Depreciation is presented in the statement of income in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are in the range of 15-100 years. Any impairment losses, as well as their reversals, are recognised under the line item 'Other operating result'.

Intangible assets

In addition to goodwill, Erste Group's intangible assets include computer software and customer relationships, the brand and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Intangible assets are measured on initial recognition at cost, including transaction costs. Costs of internally generated software are capitalised if Erste Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the acquisition date. In the case of Erste Group, these are brands and customer relationships, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under the line item 'Depreciation and amortisation'.

	Useful lives in years
Computer software	4-8
Customer relationships	10-20

Brands have been impaired to nil carrying amount.

Impairment of non-financial assets (property and equipment, investment properties, intangible assets, right-of-use assets)

The bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs, please see the chapter 'Business combinations and goodwill', part ii. Goodwill and goodwill impairment testing.

If any indication of impairment exists or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or the CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring the value in use, the estimated future cash flows are 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.

At each reporting date, an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the bank estimates the asset's or the CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the statement of income under the line item 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of classification as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary), they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the balance sheet line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the balance sheet under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. Erste Group recognises this difference as a provision under the balance sheet line item 'Provisions'.

Defined employee benefit plans

Defined employee benefit plans operated by Erste Group are for pensions, severance and jubilee benefits. From IAS 19 categorisation perspective, pension and severance benefits qualify as post-employment defined benefits plans whereas jubilee benefits are other long-term employee benefits.

In Austria, the defined benefit pension plans relate largely to retired employees. The pension obligations for current employees were transferred to external pension funds. Remaining with Erste Group is a defined benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect and for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements. Also included are entitlements to resulting survivor pensions. In addition, an already closed plan for a small number of active entitled employees exists entitling them to defined benefits from Erste Group upon reaching pension age.

In the case of defined benefit pension plans in other countries, the commitments for active employees are primarily dependent on future salary increases, as well as on the expected entitlement date. Due to the nature of the commitment to the defined benefit pensioners, the future, regularly expected pension adjustments according to the collective agreement and the state pension are estimated and taken into consideration as deduction from the total pension. The inflation rate is not indicated separately, but implicitly represented in the assumption for the future collective agreement development.

Employees of Austrian entities who started their employment before 1 January 2003, are entitled to receive a severance payment if their employment is terminated by the employer or if they retire. The amount to be paid depends on the number of years of service and the employee's salary at termination of the employment. For employees who started their employment after 31 December 2002, a contribution-based system is provided. The contributions to external employee pension funds are recognised as expenses.

Defined benefit plans include jubilee benefits. Jubilee provisions are special one-off payments stipulated in the collective agreement which are dependent on remuneration and duration of service. Eligibility is conditioned on a certain minimum duration of the employment.

In addition, there are defined employee benefit plans for foreign subsidiaries and branches, mainly in Romania, Croatia, Serbia and Slovakia.

Obligations ensuing from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, pensions and vested rights to future pension payments known as of the balance sheet date but also anticipated future rates of increase in salaries and pensions.

The liability recognised under a defined benefit plan represents the present value of the defined benefit obligation less the fair value of the plan assets available for the direct settlement of obligations. For all plans, the present value of the obligation exceeds the fair value of the plan assets. The resulting defined benefit liability is reported on the balance sheet under the line item 'Provisions'. At Erste Group, the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions. Plan assets for pension provision are held by a long-term employee benefit fund.

Remeasurements consist of actuarial gains and losses on the defined benefit obligations and the return on plan assets. Remeasurements of pension and severance defined benefit plans are recognised as accumulated OCI in equity specifically under 'Remeasurement of defined benefit plans' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Remeasurement of defined benefit plans'. Remeasurements of jubilee defined benefit plans are recognised in the statement of income under the line item 'Personnel expenses'.

Erste Group board members bonus program

Every year Erste Group grants to its board members a bonus program. It relates to the services rendered by the board members in that year. The actual payments are conditional on Erste Group's performance in that year and the following five years. In this respect, they are split into an upfront tranche and five deferred tranches. Fifty percent of the bonuses are paid out in cash and meet the definition other long-term employee benefits in IAS 19. The remaining fifty percent depend on changes in the average share price of Erste Group Bank AG and thus meet the conditions of cash-settled share-based payment in IFRS 2.

For both parts of the program, the full bonus is recognised as an expense against a liability. The liability from the cash-settled share-based payment part is recognised in the balance sheet under 'Other liabilities'. The liability from the employee benefit part is recognised in the balance sheet under 'Provisions'. The expenses, including any subsequent adjustments to the liabilities, reflecting the decisions about the actual amount of the bonuses, fulfilment of performance conditions and share price changes are presented in the statement of income under 'Personnel expenses'.

Further details about the bonus program are disclosed in Note 42 Related-party transactions and principal shareholders, section 'Performance-linked remuneration'.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. On the balance sheet, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions (particularly for financial guarantees and loan commitments) as well as provisions for litigations and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees are reported in the statement of income under the line item 'Impairment result from financial instruments'. Expenses or income related to other provisions are reported in the statement of income under the line item 'Other operating result'.

Levies

Erste Group recognises a liability or a provision for the levy when the activity that triggers payment, as identified by the relevant legislation, occurs. In the statement of income levies are reported in under 'Other operating result'.

Income taxes

i. Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

ii. Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed. For subsidiaries, the local tax environments are considered.

Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Treasury shares and contracts on treasury shares

Equity instruments of Erste Group that it or any of its subsidiaries acquire (referred to as treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of Erste Group's own equity instruments, including transaction costs, is recognised directly in equity. No gain or loss is recognised in profit or loss or OCI on the purchase, sale, issue or cancellation of own equity instruments.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of Erste Group.

Distributions on own equity instruments

Distributions on own equity instruments are recognised as a liability and deducted from equity when their payment is confirmed. For dividends on common shares the decision is taken by the Annual General Meeting. For coupons on Additional Tier 1 instruments the payouts do not need approvals but an event of non-payment would require a decision of Erste Group Bank AG Board.

Items of the statement of income

The description and recognition criteria of the line items reported in the statement of income are as follows:

i. Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR method is mandatorily applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held for trading derivatives, hedge accounting derivatives, finance lease receivables and negative interest on financial liabilities.

'Interest expenses' relate to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held for trading derivatives, hedge accounting derivatives, negative interest on financial assets, lease liabilities, provisions recognised under IFRS 9 and IAS 37 (unwinding of the time value of the money effect due to passage of time) and net defined liabilities (net interest cost on severance payments, pensions and jubilee obligations) under IAS 19.

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, on debt securities in all measurement categories of financial assets, on trade and other receivables and on finance lease receivables. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities and interest paid on lease liabilities. Net interest income also includes interest on derivative financial instruments.

Interest income also includes modification gains and losses recognised on financial assets in Stage 1. Further, the unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

ii. Net fee and commission income

Erste Group earns fee and commission income from a diverse range of services that it provides to its customers. The determination of the timing and amount of income recognition follows the five step model of IFRS 15.

Fee and commission income is measured based on the consideration specified in the contract with a customer. Erste Group recognises revenue when it transfers control over a service to a customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, guarantee fees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.

Fee income earned from providing transaction services, such as arranging the acquisition and sale of shares or other securities on behalf of customers or foreign exchange transactions, as well as commission income earned from services such as the sale of collective investments and insurance products, are recognised upon completion of the underlying transaction. Payment services partly include transaction based fees like withdrawal fees.

A contract with a customer that results in the recognition of a financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then Erste Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the net interest income.

iii. Dividend income

Dividend income is recognised when the right to receive the payment is established. This line item includes dividends from all shares and other equity investments, i.e. from those that are held for trading, non-trading equity instruments at FVPL and at FVOCI.

iv. Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. Further, the net trading result includes any ineffective portions recorded in fair value and cash flow hedge transactions. Also, foreign exchange gains and losses on all monetary assets and liabilities and from spot currency conversions are included here.

v. Gains/losses from financial instruments measured at fair value through profit or loss

Changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on their derecognition, are presented under this line item. This concerns both non-trading financial assets designated and those mandatorily measured at FVPL. Gains and losses (clean price) of financial liabilities designated at FVPL, including gains and losses on their derecognition, are also presented under this line item. However, the fair value changes resulting from credit risk of the liability are recognised in OCI.

vi. Net result from equity method investments

The line item contains the result from associates and joint ventures recorded by applying the equity method (measured as the investor's share of profit or loss in the associates and joint ventures).

However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line item 'Other operating result'.

vii. Rental income from investment properties and other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

viii. Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service costs for severance payments, pension and jubilee obligations and remeasurements of jubilee obligations. Furthermore, restructuring provision expenses may be part of personnel expenses.

ix. Other administrative expenses

Other administrative expenses include primarily information technology expenses, expenses for office space, office operating expenses, advertising and marketing, and expenditures for legal and other consultants. Furthermore, the line item contains deposit insurance contributions. Restructuring provision expenses may also be presented in other administrative expenses.

x. Depreciation and amortisation

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

xi. Gains/losses from derecognition of financial assets measured at amortised cost

This line item includes selling and other derecognition gains or losses on financial assets measured at amortised cost. However, if such gains/losses relate to derecognition of financial assets in Stage 3, they are included in the line item 'Impairment result from financial instruments'.

xii. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

This line item includes selling and other derecognition gains or losses on financial assets at FVOCI, financial liabilities measured at amortised cost and other financial instruments not measured at FVPL, such as finance lease receivables or financial guarantees. However, if such gains/losses relate to financial assets in Stage 3 they are included in the line item 'Impairment result from financial instruments'.

xiii. Impairment result from financial instruments

Net impairment losses on financial instruments comprise impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies. The impairment result also includes recoveries on written-off financial assets. Modification gains and losses recognised on financial assets in Stage 2 and Stage 3 and POCI assets are also included in this line item. Moreover, gains/losses from derecognition of financial assets in Stage 3 and POCI assets are presented as part of the impairment result.

xiv. Other operating result

The other operating result reflects all other income and expenses not directly attributable to Erste Group's ordinary activities. Furthermore, levies on banking activities are considered as part of the other operating result.

The other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, investment property and intangible assets. Any impairment losses on goodwill are also included in this line item.

In addition, the other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal, if any); selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.

d) Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process, as they determine whether the asset must be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of Erste Group, significant areas of judgement are prepayment fees, project financing loans and the benchmark test for loans with interest mismatches features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the bank upon the early termination. For these purposes, Erste Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis, such as common market practice regarding the level of prepayment fees and their acceptance by authorities.

For project financing loans Erste Group assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect, credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

The most critical area of SPPI judgements in the business of Erste Group comprises loans with interest mismatch features. Interest mismatches relate to floating rate financial assets (loans and some debt securities, also referred to as 'deals') where: - the reference rate's (such as Euribor) tenor is different to the rate reset frequency (such as 3-year rate reset every year or interest rate 'basket' consisting of short and long-term interest rates reset every 3 months, also referred to as 'tenor mismatch'), - the interest rate is fixed prior to the start of the interest period (such as 3-month Euribor fixed 2 months before the interest period starts), or - time lags arise from average rates over previous periods or - combinations of these features. For this purpose, Erste Group has developed a so called 'benchmark test' to assess whether the interest mismatch feature could result in contractual (undiscounted) cash flows that are significantly different from the benchmark deal.

Apart from the interest mismatch features, the terms of this benchmark deal correspond to the asset in the test (i.e. if the floating rate reset frequency is 3 months then the floating rate would be the 3-month Euribor and/or no time lag exists in the floating rate fixation).

For assets with interest mismatches resulting only from prior and average rates (i.e. with no tenor mismatches), SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month.

The quantitative benchmark test is performed at the deal's initial recognition and uses 250 forward-looking simulations of future market interest rates over the life of the deal. Ratios between the simulated cash flows from the actual deal and the benchmark deal are calculated for each quarter (the 'periodic cash flow ratio') and cumulatively over the life of the deal (the 'cumulative cash flow ratio'). The 5% of outcomes with the highest deviations are considered as extreme and are disregarded. The significance threshold for the periodic cash flow ratio is set to 10%. If simulated cash flows of the tested deal in a specific quarter are less than 1% of the total cash flows over the life of the deal ('de minimis threshold'), they are disregarded. For the cumulative cash flow ratio, the quantitative significance threshold is set to 5%. If any of the two significance thresholds is breached, the benchmark test is not passed, and the financial asset must be measured at fair value through profit or loss.

Generally, the quantitative benchmark test results are more sensitive to the level of the periodic quantitative significance threshold compared to the cumulative one. Decreasing the periodic cash flow ratio threshold to 5% could lead to a significant increase in the volume of loans measured at fair value through profit or loss. Erste Group does not consider that lowering the threshold would properly capture those interest mismatch features that should lead to FVPL measurement since, based on a quantitative study performed for this purpose, it could lead to fair value measurement even for loans that are generally deemed as basic lending agreements.

Upon transition to IFRS 9 for loans and debt securities assets with an overall carrying amount of around EUR 19 billion, the benchmark test was performed with respect to the interest conditions at their initial recognition. The carrying amount of loans with interest mismatch features which failed in the test at the transition and had to be be measured at FVPL was below EUR 150 million. During 2018 and 2019 intensive mitigation activities were carrying out and no new loans with interest mismatch features failing the benchmark test have been provided. As a result, the volume have decreased to around EUR 10 million.

Business model assessment

For each SPPI-compliant financial asset at initial recognition, Erste Group must assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected, and a different measurement method may seem to be appropriate. In accordance with IFRS 9, such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets. The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

At Erste Group, certain sales or other derecognition events are considered as not contradicting the held to collect contractual cash flows business model. Examples are sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) or derecognitions resulting from replacements of bonds based on an issuer's offer. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively, and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, Erste Group performs a prospective test. If the outcome was that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets would be classified in a different business model.

Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, Erste Group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistics of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of various scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life of revolving credit facilities.

Detailed disclosures about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 46 Risk management, part Credit risk. The development of loan loss provisions is described in Note 18 Financial assets at fair value through other comprehensive income, Note 20 Financial assets at amortised cost, and Note 21 Finance lease receivables.

Control

IFRS 10 'Consolidated Financial Statements' defines the investor's control over an investee in terms of the investor having all of the following:

- power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as:

- power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
- exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
- variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter).

In the case of Erste Group, such accounting judgements, assumptions and estimates have been primarily relevant for the assessment of the following cases:

i. The savings bank members of the Austrian cross-guarantee system (Haftungsverbund)

Erste Group Bank AG is a member of the Haftungsverbund (cross-guarantee system) of the Austrian savings bank sector. As of the balance sheet date, all of Austria's savings banks, in addition to Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, formed part of this cross-guarantee system. The provisions of the agreement governing the Haftungsverbund are implemented by the steering company Haftungsverbund GmbH. Erste Group Bank AG always holds directly and indirectly at least 51% of the voting rights of the steering company. The indirect voting rights are held through Erste Bank der oesterreichischen Sparkassen AG and through other savings banks in which companies of Erste Group hold the majority of voting rights.

For all savings banks in which Erste Group holds less than 50% of the voting rights, an assessment of whether control is achieved through the provisions of the Haftungsverbund agreement has been performed.

Based on the contractual agreement, Haftungsverbund GmbH as the steering company is vested with the following substantive rights related to the savings banks:

- participation in the appointment of board members;
- approval of budgets including capital decisions;
- provision of binding guidelines in the areas of risk and liquidity management as well as internal audit; and
- determination of thresholds for capital requirement including the payment of dividends.

Furthermore, taking into account the magnitude of Erste Group's involvement with the member banks – whether in the form of synergies, investments, commitments, guarantees, or access to common resources – the Group has significant exposure to each of the member banks' variable returns. As Haftungsverbund GmbH is able to affect the variable returns through its power, it has been assessed that Haftungsverbund GmbH has control over the savings banks.

As Erste Group Bank AG controls the steering company, it exercises control over the members of the cross-guarantee system.

ii. Investment funds under own management

The Group has assessed whether the investment funds it manages through its asset management subsidiaries are controlled and hence shall be consolidated. This assessment has been made on the basis that power over such investment funds is generally conferred based on the contractual arrangements appointing an Erste Group subsidiary as fund manager without any substantive removal rights by fund's investors. Furthermore, Erste Group made the conclusive judgement that its exposure to such own-managed funds' variable returns is basically considered as significant if, additionally to the exposure through management fees, Erste Group is also exposed in the form of at least 20% investment in the fund. Furthermore, in its capacity as fund manager, Erste Group is also able to affect the returns of the funds through its power. Following this assessment, investment funds under own management in which Erste Group – directly or through its subsidiaries – has significant unit holdings (i.e. holds at least 20% of the units issued by the fund) are deemed to be controlled and included in the scope of consolidation.

iii. Pension funds under own management

The Group has assessed whether the contractual arrangements appointing an Erste Group subsidiary as pension fund manager (with no substantive removal rights by the fund's participants) are generally expected to confer power over such funds, followed by an assessment of the Group's exposure/rights to the pension fund's variable returns. The relevant legal requirements regulating the activities of such pension funds in their respective jurisdictions were also considered, notably in assessing the significance of the rights to variable returns from management fees, as well as of the exposure to losses from any guarantees that the fund manager may be legally bound to. As a result of this review, the Czech pension fund 'Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a.s' (the 'Transformed pension fund') is not consolidated. There are no further cases of application in Erste Group.

Significant influence

IAS 28 'Investments in Associates and Joint Ventures' defines significant influence as the power to participate in the financial and operating policy decisions of the investee without having control or joint control of those policies. Furthermore, IAS 28 indicates that if an entity holds, directly or indirectly 20% or more of the voting power of the investee, it is presumed that the entity has significant influence unless it can be clearly demonstrated that this is not the case.

In the case of Erste Group, all equity method investments are direct or indirect investments in associates and joint ventures over which the Group exercises significant influence or joint control stemming from voting power greater than 20% up to 50%.

Interests in structured entities

IFRS 12 'Interests in Other Entities' defines structured entities as entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to the administrative tasks only, and the relevant activities are directed by means of contractual arrangements. IFRS 12 defines the interests as contractual and non-contractual involvements exposing an entity to the variability of returns from the performance of the other entity.

Assessing which entities are structured entities, and which involvements in such entities are interests, may require considerable accounting judgements and assumptions. In the case of Erste Group, such accounting judgements, assumptions and estimates have been primarily relevant for assessing involvements with investment funds and securitisation vehicles.

For investment funds, Erste Group reached the conclusion that direct Group exposure would typically indicate an interest in these structured entities, irrespective of whether such exposure comes from on-balance financial assets – mostly in the form of units held in such funds, off-balance commitments given or management fees varying in relation to the assets under management (for own-managed funds in general). As described under the paragraph 'Investment funds under own management' above, own-managed funds where the Group cumulatively holds less than 20% of the related fund units in issue are not consolidated due to lack of control and thus are subject to specific disclosures for unconsolidated structured entities.

For the IFRS 12-driven disclosures applicable to structured entities, please refer to Note 26 Unconsolidated structured entities.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Using of unobservable inputs is particularly relevant for models used for valuations of loans and unquoted equity investments. Disclosures on valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 48 Fair value of financial instruments. Based on an analysis carried out by Erste Group it was decided that for the valuation of OTC derivatives no Funding Value Adjustment (FVA) would be considered.

Impairment of non-financial assets

Erste Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss that should be recorded in the statement of income. Furthermore, cash-generating units to which goodwill is allocated are tested for impairment on a yearly basis. Judgement and estimates are required to determine the value in use and fair value less costs of disposal by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used in the calculation of impairment of non-financial asset are described in the parts 'Business combinations and goodwill' and 'Impairment of non-financial assets (property and equipment, investment property, intangible assets)' in the Accounting Policies. Inputs used for goodwill impairment testing and their sensitivities can be found in Note 29 Intangible assets in the section 'Development of goodwill'.

Taxes on income and deferred tax assets

The determination of tax bases are underlying a general level of uncertainty by nature, as interpretation of tax legislation might require judgement. Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. For this purpose a planning period of 5 years is used. Disclosures concerning deferred taxes are in Note 30 Tax assets and liabilities.

Defined benefit obligation plans

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumptions, estimates and sensitivities used for the defined benefit obligation calculations, as well as related amounts are disclosed in Note 36 Provisions in the section 'Long-term employee provisions'.

Provisions

Recognition of provisions requires judgement with respect to whether Erste Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Provisions are disclosed in Note 36 Provisions, and further details on provisions for off-balance credit risk exposures in Note 46 Risk Management, part Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 51 Contingent liabilities.

e) Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning after 1 January 2019. As regards new standards and interpretations and their amendments, only those that are relevant for the business of Erste Group are listed below.

Effective standards and interpretations

The following standards, their amendments and interpretation have become mandatory for the financial year 2019 and have been endorsed by the EU:

_ IFRS 16: Leases
_ Amendments to IFRS 9: Prepayment features with negative compensation
_ Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
_ Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
_ Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)
_ IFRIC 23: Uncertainty over Income Tax Treatments

The effects of application of IFRS 16 are decribed in chapter 'c) Accounting and measurement methods' above. Otherwise application of the above mentioned amendments and interpretation did not have a significant impact on Erste Group's financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are already endorsed by the EU:

_ Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
_ Amendments to IAS 1 and IAS 8: Definition of Material

Following standards, amendments and interpretations have not yet been endorsed by the EU until 21 February 2020:

_ IFRS 17: Insurance contracts
_ Amendments to IFRS 3: Definition of a Business

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform. Amendments to IFRS 9, IAS 39 and IFRS 7 were issued in September 2019 and are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments bring reliefs enabling not to discontinue hedge accounting for hedges exposed to uncertainties arising from the reform. Erste Group has decided to apply the amendments to IAS 39 and related IFRS 7 disclosures early. For details refer to Note 47 Hedge accounting which provides related disclosures and also describes specific requirements of the amendments relevant for Erste Group.

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Application of IFRS 17 is not expected to have a significant impact on Erste Group's financial statements due to very limited activities which could fall in scope of the standard.

Amendments to IFRS 3: Definition of a Business. Amendments to IFRS 3 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify the three elements, i.e. inputs, process and outputs in the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also, the amendments include an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is an asset acquisition rather than a business combination. The test is met if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material. Amendments to IAS 1 and IAS 8 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.