Erste Bank Hungary Zrt.

FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY THE EUROPEAN UNION
FOR THE YEAR ENDED
31 DECEMBER 2019

Financial Statements 2019 IFRS

I. Income Statement for the year ended 31 December 2019

in HUF million	Notes	2018	2019
Net interest income	1)	66,855	71,030
Interest income		67,561	73,527
Other similar income		10,905	10,704
Interest expenses		(7,182)	(8,259)
Other similar expenses		(4,429)	(4,942)
Net fee and commission income	2)	45,892	51,312
Fee and commission income		58,308	63,742
Fee and commission expenses		(12,416)	(12,430)
Dividend income	3)	4,337	1,037
Net trading result	4)	13,559	9,246
Foreign exchange transactions		(4,537)	1,766
Other		18,096	7,480
Gains/losses from financial instruments measured at fair value through profit or loss	5)	(2,208)	137
Rental income from investment properties & other operating leases	6)	-	33
Personnel expenses	7)	(27,021)	(29,678)
Other administrative expenses	7)	(23,880)	(22,295)
Depreciation and amortisation	7)	(9,712)	(11,365)
Gains/losses from derecognition of financial assets measured at amortised cost	8)	-	9
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	9)	(15)	2,088
Impairment result from financial instruments	10)	7,007	598
Other operating result	11)	(15,764)	(13,371)
Other operating income	11)	7,543	7,446
Other operating expense	11)	(23,307)	(20,817)
Pre-tax result from continuing operations		**59,050**	**58,781**
Taxes on income	12)	(1,551)	(3,244)
Net result for the period		**57,499**	**55,537**

II. Statement of Comprehensive Income for the year ended 31 December 2019

in HUF million	2018	2019
Net result for the period	57,499	55,537
Other comprehensive income		
Items that may not be reclassified to profit or loss		
Fair value reserve of equity instruments	263	18
Income tax relating to items that may not be reclassified	(24)	(2)
Items that may be reclassified to profit or loss		
Fair value reserve of debt instruments	(3,792)	3,970
Gain/(loss) during the period	(3,813)	6,037
Reclassification adjustments	21	(2,088)
Credit loss allowances	-	21
Deferred taxes relating to items that may be reclassified	344	(360)
Gain/loss during the period	345	(548)
Reclassification adjustments	(1)	188
Total other comprehensive income	(3,209)	3,626
Total comprehensive income	54,290	59,163

Date: Budapest, 3 April 2020

Radován Jelasity
Chairman and CEO

Ivan Vondra
Chief Financial Officer

III. Statement of Financial Position at 31 December 2019

in HUF million	Notes	2018	2019
Assets			
Cash and cash balances	13)	26,845	136,020
Financial assets held for trading		91,131	50,989
Derivatives	14)	25,930	35,053
Other financial assets held for trading	15)	65,201	15,936
Non-trading financial assets at fair value through profit or loss	16)	73,572	115,360
Equity instruments		1,138	1,229
Debt securities		30,702	1,821
Loans and advances to customers		41,732	112,310
Financial assets at fair value through other comprehensive income	17)	137,052	112,815
Equity instruments		1,483	-
Debt securities		135,569	112,815
Financial assets at amortised cost	19)	1,966,454	2,251,504
Pledged as collateral	37)	236,210	259,566
Debt securities		657,981	753,411
Loans and advances to banks		95,630	93,744
Loans and advances to customers		1,212,843	1,404,349
Finance lease receivables	22)	37,602	43,568
Property and equipment	25)	8,321	29,663
Investment properties	25)	-	214
Intangible assets	25)	21,153	25,790
Investments in associates and joint ventures	48)	54,567	56,412
Current tax assets	26)	1,380	-
Deferred tax assets	26)	3,321	4,503
Assets held for sale	27)	30	-
Trade and other receivables	23)	14,113	10,670
Other assets	28)	23,222	24,629
Total assets		**2,458,763**	**2,862,137**

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in HUF million			
Liabilities and equity	**Notes**	**2018**	**2019**
Financial liabilities held for trading		19,839	30,241
Derivatives	14)	19,839	30,241
Financial liabilities at amortised cost	29)	2,052,164	2,388,999
Deposits from banks		391,639	363,015
Deposits from customers		1,649,231	2,011,033
Debt securities issued		8,471	10,789
Other financial liabilities		2,823	4,162
Finance lease liabilities		-	21,204
Provisions	30)	7,270	6,765
Current tax liabilities	26)	-	177
Other liabilities	31)	31,166	27,264
Total equity	32)	348,324	387,487
Equity attributable to owners of the parent		348,324	387,487
Subscribed capital		146,000	146,000
Additional paid-in capital		117,492	117,492
Retained earnings and other reserves		84,832	123,995
Total liabilities and equity		2,458,763	2,862,137

Date: Budapest, 3 April 2020

Radován Jelasity
Chairman and CEO

Ivan Vondra
Chief Financial Officer

IV. Statement of Changes in Equity

Statement of changes in total equity for the year ended 31 December 2019

in HUF million	Notes	Subscribed capital[1]	Additional paid-in capital	Retained earnings	Fair value reserve[2]	Deferred tax	Total equity
Total equity at 01 January 2019	32)	**146,000**	**117,492**	**82,866**	**2,158**	**(192)**	**348,324**
Dividends				(20,000)			**(20,000)**
Transfer				560	(615)	55	**-**
Total comprehensive income		-	-	55,537	3,988	(362)	**59,163**
of which: Net profit / (loss) for the year				55,537			**55,537**
of which: Other comprehensive income				-	3,988	(362)	**3,626**
Total equity at 31 December 2019	32)	**146,000**	**117,492**	**118,963**	**5,531**	**(499)**	**387,487**

1) See details in Note 32) Total equity, section Subscribed capital and additional paid-in capital, page 61.

2) All items are to reclassify subsequently into profit and loss, in both year.

Statement of changes in total equity for the year ended 31 December 2018

in HUF million	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Available for sale reserve	Fair value reserve	Deferred tax	Total equity
Total equity at 01 January 2018		**146,000**	**117,492**	**56,914**	**6,164**	**-**	**(555)**	**326,015**
Changes of initial application of IFRS 9		**-**	**-**	**3,773**	**(6,164)**	**5,687**	**43**	**3,339**
Changes of first time IFRS adoption		**-**	**-**	**4,680**	**-**	**-**	**-**	**4,680**
Restated as of January 2018		**146,000**	**117,492**	**65,367**	**-**	**5,687**	**(512)**	**334,034**
Dividends		-	-	(40,000)		-	-	**(40,000)**
Total comprehensive income		-	-	57,499	-	(3,529)	320	**54,290**
of which: Net profit for the year		-	-	57,499	-	-	-	**57,499**
of which: Other comprehensive income		-	-	-	-	(3,529)	320	**(3,209)**
Total equity at 31 December 2018	32)	**146,000**	**117,492**	**82,866**	**-**	**2,158**	**(192)**	**348,324**

V. Statement of Cash Flows

in HUF million	2018	2019
Net result for the period	**57,499**	**55,537**
Income tax adjustment	1,551	3,244
Income tax adjusted result for the period	**59,050**	**58,781**
Non-cash adjustments for items in net profit for the year		
Depreciation, amortisation and net impairment of non-financial assets	11,192	10,001
from which regarding right-of-use assets - Land and buildings Leasing	-	2,538
Net allocation of credit loss allowances and other provisions	(18,985)	(3,582)
Gains/losses from measurement and derecognition of financial assets and financial liabilities	(32)	(2,642)
Revaluation of subordinated liabilities	(1,950)	1,471
Revaluation of derivatives	90	(285)
Other adjustments	3,357	1,325
from which changes of initial application of IFRS 9	3,339	-
from which changes of first time IFRS adoption (see in Note B)	4,680	-
from which regarding Finance lease liabilities under IFRS 16	-	1,358
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Financial assets - held for trading	(14,113)	49,983
Non-trading financial assets at fair value through profit or loss		
Equity instruments	(1,138)	(91)
Debt securities	(30,702)	30,364
Loans and advances to customers	(41,732)	(70,578)
Financial assets at fair value through other comprehensive income		
Equity instruments	239	18
Debt securities	(2,929)	6,328
Financial assets at amortised costs		
Debt securities	661	576
Loans and advances to banks	(34,388)	1,899
Loans and advances to customers	(15,729)	(187,681)
Finance lease receivables	(37,903)	(6,676)
Other assets from operating activities	(19,073)	2,552
Financial liabilities - held for trading	(8)	846
Financial liabilities measured at amortised cost		
Deposits from banks	113,927	(30,095)
Deposits from customers	170,115	361,802
Debt securities issued	1,635	2,792
Other financial liabilities	2,823	1,339
Other liabilities from operating activities	3,950	(3,902)
Payments for taxes on income	(5,886)	(3,228)
Cash flow from operating activities	**142,472**	**221,317**

in HUF million	2018	2019
Proceeds of disposal		
Financial assets at fair value through other comprehensive income - Equity investments	142	-
Financial assets at fair value through other comprehensive income - Debt instruments	44,972	51,431
Financial assets at amortised costs - Debt securities	93,783	95,802
Property and equipment, intangible assets and investment properties	71	441
Investments in subsidiaries	8,130	30
Acquisition of		
Financial assets at fair value through other comprehensive income - Equity investments	(294)	-
Financial assets at fair value through other comprehensive income - Debt instruments	(53,175)	(28,968)
Financial assets at amortised costs - Debt securities	(176,674)	(191,833)
Property and equipment, intangible assets and investment properties	(9,905)	(15,411)
Investments in subsidiaries	(4,000)	-
Cash flow from investing activities	**(96,950)**	**(88,508)**
Dividends paid to equity holders of the parent	(40,000)	(20,000)
Subordinated loan repayment	-	(474)
Finance lease liabilities repayment	-	(3,160)
Cash flow from financing activities	**(40,000)**	**(23,634)**
Cash and cash equivalents at beginning of period	**21,323**	**26,845**
Cash flow from operating activities	142,472	221,317
Cash flow from investing activities	(96,950)	(88,508)
Cash flow from financing activities	(40,000)	(23,634)
Cash and cash equivalents at end of period	**26,845**	**136,020**
Cash flows related to interest and dividends (included in cash flow from operating activities)		
Interest received	76,330	96,732
Dividends received	4,337	1,037
Interest paid	(9,673)	(13,229)

VI. Notes to the Financial Statements

A. GENERAL INFORMATION

Erste Bank Hungary Zrt. *(referred to as 'Bank'or 'Erste Bank')* is a member of Erste Group, the largest privately owned Austrian banking group, listed on the Vienna, Prague and Bucharest Stock Exchanges (Erste Group Bank AG). The Bank with its fully owned subsidiaries forms Erste Hungary. The Bank is a limited liability company, incorporated and domiciled in Hungary. The registered office of the Bank is 24-26. Népfürdő utca, 1138 Budapest, Hungary.

The annual financial statement, that is prepared as separate financial statement, is published and available on the following website: https://www.erstebank.hu/hu
The Bank prepares its consolidated financial statement under IFRS that is published and available on the following website: https://www.erstebank.hu/hu

The financial statements are prepared in English and Hungarian. In case of divergence between the language versions, the English version shall prevail.

As of 31 December 2019, the direct parent of the Bank– owning 70% of the shares – was Erste Group Bank AG, whose registered office at that date was Am Belvedere 1, 1100 Vienna, Austria. The Financial Statements of Erste Group are prepared by the ultimate parent of Erste Group 'Erste Group Bank AG', and are available after their completion at the Court of Registry of Vienna, Marxergasse 1a, 1030 Vienna, Austria.

As of 31 December 2019, DIE ERSTE Österreichische Spar-Casse Privatstiftung ('ERSTE Foundation), a foundation, holds together with its partners to shareholder agreements approximately 29.62% of the shares in Erste Group Bank AG and is with 15.62% main shareholder. The Erste Foundation is holding 6.5% of the shares directly, the indirect participation of the ERSTE Foundation amounts to 9.12% of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated company of the ERSTE Foundation and affiliated with Erste Group Bank AG through the Haftungsverbund. 9.92% of the subscribed capital is held by the ERSTE Foundation on the basis of a shareholder agreement with CaixaBank A.S. 3.08% are held by other partners to other shareholder agreements.

Hungarian State and EBRD acquired minority stakes in Erste Bank Hungary Zrt.
In June 2016 Corvinus Nemzetközi Befektetési Zrt. (representing the Hungarian State) and the European Bank for Reconstruction and Development (EBRD) signed the contractual framework with Erste Group Bank AG to acquire minority equity stakes of 15 per cent each in Erste Bank Hungary Zrt. The purchase price was 77.78 billion forint. After the regulatory approvals regarding the transaction and completion of other conditions of the contracts, the transfer of ownership occurred in August 2016.
The share purchase was approved by the National Bank of Hungary (NBH) on August 4, 2016 (H-EN-I-693/2016), and the change in the ownership was registered in the company register on August 24, 2016

The ownership structure of Erste Bank Hungary Zrt. is the following as of 31 December 2019 (it was the same in 2018):

Owner	Number of shares	Ownership share
Erste Group Bank AG	102,200,000,000	70%
Corvinus Nemzetközi Befektetési Zrt.	21,900,000,000	15%
European Bank for Reconstruction and Development	21,900,000,000	15%
Total	**146,000,000,000**	**100%**

As part of the agreement, both EBRD and Corvinus Zrt. delegated one member to the Supervisory Board and one non-executive member to the Board of Directors of Erste Bank Hungary.

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Erste Bank's activity
The Bank with its subsidiaries offers a complete range of banking and other financial services to customers, such as savings accounts, asset management, consumer credit and mortgage lending, building society services, 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. Erste Bank concentrates its activity in the Hungarian market.

Erste Banks's financial statements are legally required to be audited in order to ensure independent control and review of the accounts.

B. ACQUISITIONS, MERGERS AND DISPOSALS

The Bank signed a preliminary contract at the end of 2018 on selling the company Erste Lakáslízing Zrt. The contract covered all the material conditions of the sale, including the price. On that base the company was reclassified into 'Assets held for sale' as a disposal group of assets, under IFRS5 as of 31 December 2018 and presented in the financial statement in the line item 'Asset held for sale' in the value of 1.405 million forint, representing assets decreased by liabilities after intercompany elimination.
After closing all the contractual administration processes, the sale was realised by the third quarter of 2019 leading to de-recognition of the investment. The de-recognition effect of 42 million forint is presented in Note IV. Consolidated Statement of Changes in Equity, line item 'Changes in scope of consolidation and ownership interest'.

Erste Lakástakarék Zrt., the fully owned building society subsidiary of the Bank acquired the deposit portfolio of Aegon Lakástakarék Zrt. in an arms length transaction. Aegon Lakástakarék Zrt. was a major player of the building society business decided to cease its activity. A two-phase transition was contractually scheduled tailored to the specialities of the building society business. The first phase involving the majority of the portfolio ended in October 2019 resulting in recognition of a 34.6 billion forint deposit portfolio, while the residual deposit of 474.1 million forint was recognised in January 2020 within the second phase.

C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS

i)
Family Protection Action Plan
The Hungarian Government launched its Family Protection Action Plan 1 July 2019.The most important pillar of the action plan is a childbirth incentive product, commonly referenced as baby loan ('babaváró hitel') a loan offering subsidy or preferential conditions for young married couples.
If three children are boring during a given term the loan could be converted into a non-repayable subsidy, while families with one or two children might also be eligible for preferential condition and subsidy elements:
The loan immediately becomes interest-free on the birth of the couple's first child and will also be suspended for a period of three years. Upon the birth of a second child, the repayment of the loan will be suspended for a further three years and thirty percent of the remaining debt will be waived.
The loan becomes a market-priced loan if childbirth dependent conditions are not met during the term.

The accounting characteristic of the scheme is detailed in D. ACCOUNTING POLICIES; d, Significant accounting judgments, assumptions and estimates; Business model assessment and SPPI test part.

ii)
Bond Funding for Growth Scheme (Growth Bond Program)
The National Bank of Hungary (NBH) announced Bond Funding for Growth Scheme (Growth Bond Program) 1 July 2019 in order to place corporate fund raising on multiple pillars. The National Bank assumes that an advanced bond market influences corporations' funding costs in a positive way generating competition to bank loans. NBH also expressed its intention to be an active player on the secondary market of bonds issued within the scheme.

Filtering the eligible corporations a preliminary rating process is provided by a third party agency conform to the scheme while banks are preparing their own scoring for individual decision making before purchasing.

The accounting characteristic of the scheme is detailed in D. ACCOUNTING POLICIES; d, Significant accounting judgments, assumptions and estimates; Business model assessment and SPPI test part.

iii)
The rate of banking tax changes to 0.2% from 0.21% as of 1 January 2019. The fix rate of 0.15% applied up to 50 billion forint remained at the same level. Details of the banking tax can be seen in D. ACCOUNTING POLICIES; Taxes; *(iii)* Banking tax.

D. ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements of Erste Bank for the 2019 financial year and the comparable data for 2018 were prepared in compliance with applicable International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) published by the International Accounting Standards Board (IASB) and with their interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC, formerly Standing Interpretations Committee or SIC) as adopted by the European Union. Except as otherwise indicated, all amounts are stated in millions of Hungarian forint (HUF).

The Bank prepares consolidated annual financial statements according to the same accounting framework as the separate annual financial statements. The Bank's separate and consolidated annual financial statements are approved and published on the same day.

In accordance with the applicable measurement models prescribed or permitted under IFRS, the consolidated financial statements have been prepared on a cost (or amortised cost) basis, except for financial assets measured at fair value through other comprehensive income, financial assets and liabilities measured at fair value through profit or loss.
Accounting policies are consistent with those applied in 2018 except for the implementation of IFRS 16.

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

Except as otherwise indicated, all amounts are stated in millions of Hungarian forint (HUF). The tables in this report may contain rounding differences.

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 3 April 2020.

ACCOUNTING AND MEASUREMENT METHODS

Foreign currency translation

The financial statements are presented in Hungarian forint (HUF) which is the functional currency of the parent entity. The functional currency is the currency of the primary business environment in which an entity operates.

For foreign currency translation, exchange rates quoted by the National Bank of Hungary are used. Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the balance sheet date. All resulting foreign exchange differences that arise are recognised in the Income Statement, in the Trading result. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions.

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 under IFRS 9'), 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 under IFRS 9');
- EIR applied to the amortised cost for financial assets that are credit-impaired (Stage 3, see 'Impairment of financial instruments');
- and credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Interest expense is calculated by applying the effective interest rate 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 'Fair value of financial instruments'.

Initial recognition and measurement

i. Initial recognition

Financial instruments are initially recognised when Erste Bank 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.

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 Bank, 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, 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 allowed. 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 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 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'. 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 Bank classifies certain investments in debt securities as measured at FVOCI. They are part of 'held to collect and sell' business models. Similarly to debt instruments, assets 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 the 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 Bank 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. In the business of Erste Bank, this concerns certain loans to customers and debt securities. The main reason for the loans failing the SPPI assessment is that they have interest mismatch features that do not pass the quantitative testing required by IFRS 9 (see description in the part 'SPPI assessment' of chapter Significant accounting judgements, assumptions and estimates').

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 Bank, 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.

Erste Bank also might 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 the financial asset, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and the related derivative measured at FVPL.

On the balance sheet, debt instrument financial assets and derivatives measured at FVPL are presented in line item 'Financial assets held for trading', sub-items 'Other financial assets held for trading' and ‚Derivatives'. 'Non-trading financial assets at fair value through profit or loss' contains loans to customers valued 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 16).

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. In sub-item 'Other similar income', line item 'Net interest income' interest income on financial assets at FVPL are presented. This category also includes negative interest rate related interest income on financial liabilities. 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 by Erste Bank, the interest or dividend component is not separated from the fair value gains or losses.

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Classification and subsequent measurement of financial liabilities under IFRS 9

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 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 Bank 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 Bank 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 the financial liability otherwise measured at amortised cost and the related derivative measured at FVPL; or
- the entire hybrid contract is designated at FVPL due to the existence of a non-closely related embedded derivative (Erste Bank comprises currently no such instrument).

On the balance sheet debt instrument financial liabilities and derivatives are reported in line item 'Financial liabilities held for trading', sub-items ‚Other financial liabilities held for trading' and ‚Derivatives'. In the line item ‚Financial liabilities at fair value through profit or loss' contains sub-item ‚Debt securities issued'. Interest incurred 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. For the purpose of calculation of the present value of the liability, the original credit spread remains fixed over the whole life of the liability.

Impairment of financial instruments under IFRS 9

Erste Bank 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 Bank 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. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the expected lifetime cash shortfalls in case a default occurs within 12 months from reporting date (or a shorter period if the expected remaining life of a financial instrument is less than 12 months), weighted by the probability of that default occurring. Interest income is recognised by effective interest rate 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. For lifetime expected credit losses, Erste Bank estimate the risk of a default occurring on the financial instrument during its expected remaining life. Interest income is recognised by effective interest rate 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 Bank 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 page 78. 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 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 gross carrying amount. 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'.

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Write-offs

Erste Bank 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 Bank 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 Bank 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'.

In the comparative period, line items 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net', 'Result from financial assets and liabilities designated at fair value through profit or loss' and 'Net trading result' are used depending on the measurement category of the derecognised financial assets.

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 Bank 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 Bank 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, they are applied to customers in default or they trigger default:

- repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and not less than 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 are applied to customers in default or trigger default 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 '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 effective interest rate. 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' (in the comparative period, 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'), '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 Bank to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by Erste Bank 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, including interest) 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.

Changes in the fair value (clean price, excluding interest) of derivatives – held for trading 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 based on the derivative notional amount and includes amortisation of the inception value of the derivative.

Changes in the fair value (clean price) of derivatives designated as hedging instruments in fair value hedges are recognised in the statement of income in the line item 'Net trading result'.

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 Bank retains substantially all risks and rewards of ownership, because the securities are repurchased at a fixed price when the repo transaction ends. Furthermore, Erste Bank is the beneficiary of all coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to Erste Bank 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 measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to Erste Bank. The difference between the sale and repurchase prices is treated as interest expense and recorded in the statement of income in the line item 'Interest expenses' under 'Net interest income' and is accrued over the life of the agreement. Financial assets transferred out by Erste Bank under repurchase agreements remain on the Bank'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 Bank. 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. Similarly to 'reverse repos', the transfer of the securities to counterparties via securities lending does not result in derecognition unless the risks and rewards of ownership are also transferred. Securities borrowed are not recognised in the Statement of Financial Position, unless they are then sold to third parties.

Hedge accounting (on IAS 39 basis)

Erste Bank makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. 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 expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%.

(i) Fair value hedge

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value of a hedging instrument is recognised in the income statement in the line 'Net trading and fair value result'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement in 'Net trading and fair value result' and the carrying amount of the hedged item has to be adjusted in the Statement of Financial Position. The hedged item for individual hedges is recorded together with underlying instrument on the respective Statement of Financial Position line. 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 shall be amortised to the income statement in the 'Net interest income' until maturity of the underlying financial instrument (hedged item). The amortisation of the fair value adjustment shall be done based on a recalculated effective interest rate at the date amortisation begins. However, if, in the case of a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities, amortising using a recalculated effective interest rate is not practicable, the adjustment shall be amortised using a straight line method. If the hedged item is sold the hedging relationship is terminated at the date of sale. Any accumulated fair value adjustment in relation to the hedged risk of the hedged item (that adjusts the carrying amount of the hedged item) adjusts the net profit or loss from the sale of the hedged item. Accordingly this result is presented in same line as the result from the sale of the hedged item.

(ii) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss. Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement in the 'Net trading and fair value result'. When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income into the corresponding income or expense line in the income statement (mainly 'Net interest income').

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.

In the books of Erste Bank, no hedging relationship has been designated since 2016.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position 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.

Financial guarantees

In the ordinary course of business, Erste Bank 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. If Erste Bank is in the position of being a guarantee holder, the financial guarantee is not recorded on the balance sheet but is taken into consideration as collateral when determining the impairment of the guaranteed asset.

Erste Bank 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. They are presented on the balance sheet under the line 'Provisions'. In the comparative period, the financial guarantee contracts were reviewed for the possibility that provision recognition under IAS 37 was required. 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.

IFRS 15 Revenue from Contracts with Customers

As of 1 January 2018, Erste Bank has adopted IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers, except for those revenue streams for which other standards like IFRS 9 provide more specific regulations. As a consequence, the standard is not focused on recognition of revenues from financial instruments. For Erste Bank the scope of application is therefore substantially restricted to revenue streams presented under fee and commission income. The adoption of the five step model did not impact the timing or amount of fee and commission income and the related assets and liabilities recognised by the Bank.

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 Bank 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'.

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

ii. Erste Bank as a lessee

In the comparative period when IAS 17 Leases was applied, Erste Bank 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.

IFRS 16 Leases

As of 1 January 2019, Erste Bank 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 Bank 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 applicable discount rate (incremental borrowing rate) shows the refinancing rate conform to the given asset and risk associated. The method and the tool to calculate the rate is fundamentally the same Erste Bank is using for pricing its loans.

Erste Bank transited to IFRS 16 using the modified retrospective approach according to IFRS 16.C5 (b) whereby comparative information was not restated. Erste Bank 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 (weighted average about 7% at the time of the transition) 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 Bank's equity was not impacted by the initial application. Erste Bank does not apply IFRS 16 to any leases on intangible assets. Erste Bank uses the exemption for short-term leases and leases of low-value items whereby the right-of-use asset is not recognised. Erste Bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date Erste Bank relied on its assessment made applying IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease. Erste Bank assessed the lease term based on the periods covered by any non-cancellable option to extend the lease, or non-cancellable option to terminate the lease if Erste Bank is reasonably certain to exercise that option. Erste Bank relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous con-tracts as at 1 January 2019.

In the statement of financial position, right-of-use assets have been included in the line item 'Property and equipment'. Interest expense on the liability is reported in the statement of income in the line item 'Other similar expenses' under 'Net interest in-come' and the depreciation related the right-of-use assets in the line item 'Depreciation and amortisation'.

The application of IFRS 16 impacts future profit or loss in a way that 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 14,571 million forint and 14,521 million forint were recognised as at 1 January 2019. The difference between the recognised right-of-use assets and lease liabilities are due to the 2018 year-end accrued and deferred expenses related to operating leases. Only land and buildings are subject to lease at Erste Bank, which are contracts for office space and branches.

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Reconciliation of total lease commitments to lease liabilities

in HUF million	
Operating lease commitments (IAS 17) undiscounted as of 31 December 2018	**17,601**
(-) Discounting (using incremental borrowing rates as at 1 January 2019)	**(3,651)**
Discounted operating lease commitments as of 1 January 2019	**14,030**
Recognition exemption for:	
Less: short-term leases	(455)
Less: leases of low-value assets	(74)
Add: Extension and termination options reasonably certain to be exercised	4,675
Less: Other[1)]	(3,575)
Lease liabilities recognised as of 1 January 2019	**14,521**

1) The category 'Other' contains mainly related VAT that is not included in Right-of-use assets.

For details on the non-cancellable operating leases as of 31 December 2018 please refer to Note 35) Leases.

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 on the line item 'Depreciation and amortisation' and impairment under the line item 'Other operating result'.
The estimated useful lives are as follows:

	in years
Own land and buildings	15-50
Office furniture and equipment/other fixed assets	4-10
IT assets (hardware)	4-6
Right-of-use assets (Lands and buildings)	1-10

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'.

Repossessed assets

Erste Bank generally takes possession of such assets that are related to leasing contracts, loan contracts of property developments or when properties that previously served as collateral are taken over. Repossessed cars are classified in the 'Assets held for sale' category. Repossessed properties are classified under 'Other assets' as inventories and are recorded at the lower of cost or net realisable value.

Erste Bank does not occupy repossessed assets for business use as it is the policy of Erste Bank to dispose of such assets in an orderly fashion.

Repossessed properties are transferred into "Investment properties" if based on economic analysis there is no demonstrable prospective on a midterm basis to sell the property and loss minimising measurements lead to beneficiary rental contracts continuously generating income over more than a year, relating of more than 50% of the rental potential of the property.

Intangible assets

Erste Bank's intangible assets mainly comprise of computer software. 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 acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic life. The amortisation period and the amortisation 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 Income Statement under 'General Administrative expenses'.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives. 'Software acquired' and 'Other intangible assets' are amortised over 3 - 15 years.

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

Investments in subsidiaries

In this line item investments in subsidiaries are presented. List of subsidiaries see in Note 48).
According to IAS27 the Bank opted to measure its investments at cost.

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 the classification as held for sale. Assets classified as held for sale are reported under the Statement of Financial Position as 'Assets held for sale', under the segment reporting 'Retail'. Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A disposal group is a group of assets, possibly with associated liabilities, which an entity intends to dispose of in a single transaction. The measurement basis, as well as the criteria for classification as held for sale is applied to the group as a whole. Assets being part of a disposal group are reported under the Statement of Financial Position line 'Assets held for sale'. Plant and equipment once classified as held for sale are not depreciated.

Defined employee benefit plans

The defined employee benefit plan operated by Erste Bank is for jubilee benefits to which all employees are entitled. Jubilee benefits (long service/ loyal-service benefits) are gifts and vouchers tied to the length of employees' service to an employer, expensed in the relevant year. The entitlement to jubilee benefits is established by local policy which defines both the conditions of the entitlement and the related types of benefits. Erste Bank does not operate any employee benefit plans for pensions and severance benefits.

Deferred and non-cash payments remuneration of executives officers

The Bank provides both the current year's and the deferred bonus amounts 50% in cash and 50% in the form of phantom shares (non-cash payment). The entitlement to 60% of the bonus in the form of cash determined on the basis of the current year's performance may be acquired during the current year, and 40% is deferred and distributed over 4 years, in equal instalments. The entitlement to 49% of the bonus in the form of phantom shares in cash determined on the basis of the current year's performance may be acquired during the current year, and 51% is deferred and distributed over 4 years, in equal instalments. When paying the deferred bonus of Management Board members the rules of Erste Group must also be taken into account. When a bonus amount exceeds the predefined limit in the Remuneration Policy a ratio of 40% upfront payment and 60% deferral is applied. Still, 50% of all such payments have to be effected in instruments. The effective payment is always in cash (in case of phantom shares as well).

Provisions

Provisions are recognised when Erste Bank has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In the Statement of Financial Position provisions are reported under 'Provisions'. They include credit risk provisions for off-balance-sheet transactions (other commitments given) 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'.

Trade and other receivables

Under this line item receivables from factoring transaction are presented.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted by the balance sheet date.
Current taxes comprise income taxes such as corporate income tax, local business tax and local innovation tax.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts at 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 profits will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination.

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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance sheet date.

Deferred tax relating to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the income statement. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

(iii) Banking Tax

The Hungarian Parliament approved a new Act in August 2010 which provides a framework for the levying of a "banking tax" on financial institutions in the forthcoming years. According to this Act each financial institution - that already had a closed financial year and related financial statements on 1 July 2010 - would be subject to assessment and payment of the banking tax. The basis and the rate of the banking tax that is payable differs depending on the type of financial institution. The rates are uniformly based on statutory reported financial data of the reporting entity for the period ended 31 December 2009 till 31 December 2016 and was changed to the second fiscal year before the tax year from 1 January 2017. For credit institutions the tax rates are 0.15% of adjusted total asset value for the first 50 billion forint; and 0.21% (same rate in 2017; 0.24% in 2016) for the amount exceeds 50 billion forint. From 1 January 2019 the tax rate changed to 0.2%.

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For investment companies the tax base is the income from investment service activities less expenses on investment service activities shown in the annual report by local GAAP for the year 2009 till 31 December 2016 and was changed to the second fiscal year before the tax year from 1 January 2017 and the tax rate remained 5.6 %. From 1 January 2019 the investment companies tax obligation was ceased.

As the banking tax is payable based on (second) prior year non net income measures it does not meet the definition of income tax under IFRS and is therefore presented as an operating expense in the income statement.

Treasury shares and contracts on treasury shares

Equity instruments of Erste Bank 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 the Bank's own equity instruments, including transaction costs, is recognised directly in equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of its own equity instruments.

Fiduciary assets

Erste Bank 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 the Bank.

Dividends on own equity instruments

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholder.

Business combinations and goodwill

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets such as customer relationships and brand) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets acquired, the gain from the bargain purchase is recognised in Income Statement in the line 'Other operating result' in the year of acquisition.

(ii) Goodwill and impairment testing

Goodwill is not amortised but tested for impairment annually in November with any impairment determined recognised in the income statement.

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 and negative interest on financial liabilities. 'Other similar income' also includes the income relating to finance lease receivables in 2019, this is a change compared to the prior year when it was presented as part of 'Interest income'. The reclassification was also applied retrospectively for 2018.

'Interest expenses' relates 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, negative interest on financial assets, 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 liability (net interest cost on severance payment, pension 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, and on debt securities in all measurement categories of financial assets. 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. 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 Bank 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 Bank 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 and other fees like fee for bank account management or mobile banking.
Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is 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 a recognised financial instrument in the Bank's financial statement may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then Erste Bank 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 effective interest rate.

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, excluding interest) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments.

The net trading result also includes any ineffective portions recorded in fair value and cash flow hedge transactions as well as foreign exchange gains and losses on all monetary assets and liabilities.

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

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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. 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.

vii. 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. Furthermore, restructuring provisions expenses may be part of personnel expenses.

vii. 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 expenses. Restructuring provisions expenses may also be presented in other administrative expense.

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

x. 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'.

xi. 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'.

xii. 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 presented as the impairment result. Moreover, gains/losses from derecognition of financial assets in Stage 3 and POCI assets are included as part of the impairment result.

xiii. Other operating result
Other operating result reflects all other income and expenses not directly attributable to Erste Bank's ordinary activities. Furthermore, levies on banking activities are considered as part of the other operating result. Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets.

In addition, 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) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.

Significant accounting judgements, assumptions and estimates

The 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:

Business model assessment

For each SPPI-compliant financial asset at initial recognition, Erste Bank 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 Bank, 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 Bank 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.

Erste Bank applies an exception of its general classification described above in the following case:

The Hungarian Government launched its Growth Bond Program (NKP) aiming increasing the corporate bond market liquidity, scoping in Hungarian resident non-financial corporations, bearing a pre-defined risk rating. In the frame of the program the National Bank of Hungary (NBH) purchasing as well at secondary market, from the IPO purchaser, up to an estimated 300 billion forint as announced in the program info published at NBH official website (https://www.mnb.hu/monetaris-politika/novekedesi-kotvenyprogram-nkp)

Given this latter characteristic of the program, as a purchaser of these bonds Erse Hungary applies a shared business model explained by the following general rules

- classifies into the HtC (held to collect) portfolio the bonds to keep in order to collect the contractual cash flows
- classifies into HtCS (held to collect or sale) or HfT (held for trading) portfolio the bonds that are assumed to be purchased by NBH or by other market players.

Beside this general logic, as the corporate bond market in Hungary is in a pre-mature phase and the participating issuer corporations show a wide range of variety from size and activity point of view, Erste Bank applies an individual assessment to define the business model on individual basis.

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

Bank, significant areas of judgement are prepayment fees, project financing loans and 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. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level prepayment fees and their acceptance by authorities.

For project financing loans Erste Bank 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 Bank comprises retail loans with a government subsidy element granted to the customer priced in a way that contractual cash flow characteristics contain a leverage. Qualitative benchmark test proved that the leverage identified increases the variability of contractual cash flows with the result that they do not have the economic characteristics of interest.

Portfolio mandatorily valued at FVPL:

- from 2018 (classified into FVPL during the IFRS9 transition)
  Lending business portfolio subject of government subsidiary scheme referring as 'CSOK' falls under the mandatorily FVPL valuation as failed at SPPI test due to leverage within the government defined reference rate of AKK multiplied by 130%.The subsidiary scheme is published in the legal act of "16/2016. (II. 10.) Korm. rendelet az új lakások építéséhez, vásárlásához kapcsolódó lakáscélú támogatásról".

- from 2019
  Lending business portfolio subject of government subsidiary scheme referring as 'baby loan' falls under the mandatorily FVPL valuation as failed at SPPI test due to leverage within the government defined reference rate of AKK multiplied by 130%.
  The subsidiary scheme is published in the legal act of „44/2019. (III. 12.) Korm. rendelet a babaváró támogatásról". These loans are presented in Note 16) Non-trading financial assets at fair value through profit or loss.

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 Bank 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 40) Risk management, part Credit risk. The development of loan loss provisions is described in Note 17) Financial assets at fair value through other comprehensive income, Note 19) Financial assets at amortised cost, and Note 22) Finance lease receivables.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position 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, judgment is required to establish fair values. Disclosures for valuation models, fair value hierarchy and fair values of financial instruments can be found in Note 'Fair value of financial and non-financial instruments'.

Deferred tax assets

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 the losses 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. Disclosures concerning deferred taxes are in Note 26) Tax assets and liabilities.

Provisions

Recognition of provisions requires judgement with respect to whether Erste Bank 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 30) Provisions, and further details on provisions for contingent credit liabilities in Note 40) Risk Management, part credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 43) 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 Bank 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 described in chapter B. ACCOUNTING AND MEASUREMENT METHODS' above. Otherwise application of the above mentioned amendments and interpretation did not have a significant impact on Erste Bank'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 the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)
- Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Amendments to IAS 1 and IAS 8: Definition of Material

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. Application of these amendments is not expected to have a significant impact on Erste Bank's financial statements.

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Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

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 Bank's financial statements.

Following standards, amendments and interpretations have not yet been endorsed by the EU until 22 February 2020:

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 Bank's financial statements.

E. NOTES TO THE FINANCIAL STATEMENTS

1) Net interest income

in HUF million	2018	2019
Financial assets at AC	64,842	70,998
Financial assets at FVOCI	2,719	2,529
Interest income	67,561	73,527
Non-trading financial assets at FVPL	4,219	3,568
Financial assets HFT	4,946	5,100
of which: Derivatives	3,954	4,151
Other assets - Finance lease receivables	776	925
Negative interest from financial liabilities	964	1,111
Other similar income	10,905	10,704
Interest and other similar income	**78,466**	**84,231**
Financial liabilities at AC	(7,182)	(8,259)
Interest expenses	(7,182)	(8,259)
Financial liabilities HFT	(4,265)	(3,801)
of which: Derivatives	(4,265)	(3,801)
Other liabilities	(43)	(953)
Negative Interest from financial assets	(121)	(188)
Other similar expenses	(4,429)	(4,942)
Interest and other similar expenses	**(11,611)**	**(13,201)**
Net interest income	**66,855**	**71,030**

Modification losses of financial instruments allocated to Stage 1 in the amount of 31 million forint is reported in line item ‘Financial assets at AC’ in 2019, and 123 million forint in 2018.

Since December 2014, important benchmark interest rates – particularly Euribor – turned negative. This development affected interest income and interest expense of Erste Bank. Negative interest from financial liabilities and financial assets are shown in a separate line. The amounts mainly relate to the interbank and corporate business.

2) Net fee and commission income

in HUF million	2018		2019	
	Income	Expenses	Income	Expenses
Securities	13,128	(151)	14,930	(111)
Issues	-	(101)	-	(64)
Transfer orders	11,531	(50)	12,954	(47)
Other	1,597	-	1,976	-
Custody	-	(232)	-	(240)
Payment services	38,360	(7,518)	41,286	(9,715)
Card business	14,713	(4,873)	15,580	(6,822)
Other	23,647	(2,645)	25,706	(2,893)
Customer resources distributed but not managed	4,002	(19)	4,069	(4)
Insurance products	3,104	(19)	3,989	(4)
Building society brokerage	838	-	19	-
Other	60	-	61	-
Lending business	2,677	(2,593)	3,126	(2,357)
Guarantees given, guarantees received	262	(53)	380	(16)
Loan commitments given, loan commitments received	6	-	-	-
Other lending business	2,409	(2,540)	2,746	(2,341)
Other	141	(1,903)	331	(3)
Total fee and commission income and expenses	**58,308**	**(12,416)**	**63,742**	**(12,430)**
Net fee and commission income	**45,892**		**51,312**	

Net fee and commission income above include income of 2,261 million forint relating to financial assets and financial liabilities not measured at FVPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

3) Dividend income

in HUF million	2018	2019
Non-trading financial assets at FVPL	-	37
Financial assets at FVOCI	37	-
Financial assets at cost (subsidiaries)	4,300	1,000
Dividend income	**4,337**	**1,037**

4) Net trading result

in HUF million	2018	2019
Securities and derivatives trading	18,096	7,480
Foreign exchange transactions	(4,537)	1,766
Net trading result	**13,559**	**9,246**

In 2018 a significant gain war realised, as NBH launched the monetary interest rate swap program (MIRS) in January 2018, available for financial institutions. NBH pays 6 month BUBOR, while the counterparty institution pays a fix interest rate. The participation in the program is unconditional, so the gain, including the 'day one gain', is realized in 2018, presented in line items 'Net trading result' and 'Net interest income'. Realised day one gain is amounted to 4 billion forint, presented in 'Securities and derivatives trading'. The program did not continue in 2019.

The most underlying FX rate change could be observed in EUR in 2019 compared to the previous year: while the EUR/HUF rate was at a below-310 level in 2018 January, reached the level of 330 in two years, by the end of December 2019.

5) Gains/losses from financial instruments measured at fair value through profit or loss

in HUF million	2018	2019
Result from measurement/sale of financial assets designated at FVPL	(1,995)	84
Result from financial assets and liabilities designated at FVPL	**(1,995)**	**84**
Result from measurement/sale of financial assets mandatorily at FVPL	(213)	53
Gains/losses from financial instruments measured at FVPL	**(2,208)**	**137**

The 'Result from measurement/sale of financial assets mandatorily at FVPL' includes the Fair value change of baby loan product. For further information please see page 31.

6) Rental income from investment properties & other operating leases

in HUF million	2018	2019
Investment properties	-	33
Rental income from investment properties & other operating leases	**-**	**33**

The relating depreciation was 4 million forint in 2019.

7) General administrative expenses

in HUF million	2018	2019
Personnel expenses	**(27,021)**	**(29,678)**
Wages and salaries	(20,982)	(23,158)
Compulsory social security [2)]	(4,844)	(5,176)
Long-term employee provisions	(80)	(82)
Other personnel expenses	(1,115)	(1,262)
Other administrative expenses	**(23,880)**	**(22,295)**
Deposit insurance contribution	(1,172)	(771)
IT expenses	(9,020)	(10,706)
Expenses for office space [1)]	(5,902)	(3,063)
Office operating expenses	(2,027)	(2,003)
Advertising/marketing	(1,723)	(2,073)
Legal and consulting costs	(1,189)	(1,074)
Sundry administrative expenses	(2,847)	(2,605)
Depreciation and amortisation	**(9,712)**	**(11,365)**
Software and other intangible assets	(6,074)	(5,146)
Owner occupied real estate	(914)	(882)
Right-of use assets	-	(2,538)
Investment properties	-	(4)
Customer relationships	(1,274)	(1,261)
Office furniture and equipment and sundry property and equipment	(1,450)	(1,534)
General administrative expenses	**(60,613)**	**(63,338)**

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1. ‘Expenses for office space’ includes rental expense related to headquarter office building and branches, presented in Note 35) and Note 25).
2. In 2019 the social contribution rate has decreased so the amount of ’Compulsory social security’ did not change proportionally with ’Wages and salaries’.

Average number of employees during the financial year (weighted according to the length of employment)

in Full Time Employee	2018 year end	2018 average	2019 year end	2019 average
Erste Bank Hungary	2,903	2,858	2,957	2,917

8) Gains/losses from derecognition of financial assets measured at amortised cost

in HUF million	2018	2019
Gains from sale of financial assets at AC	-	11
Losses from sale of financial assets at AC	-	(2)
Gains/losses from derecognition of financial assets measured at amortised cost	**-**	**9**

The gross carrying amount of the financial assets (at AC) sold in 2019 was HUF 28 billion (HUF 11.6 billion in 2018). All sales are considered to be compliant with the held to collect contractual cash flows business model, as described in part ‘Business model assessment’ in chapter ‘Significant accounting judgements, assumptions and estimates’ on page 30.

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

in HUF million	2018	2019
From sale of financial assets at FVOCI	(15)	2,088
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**(15)**	**2,088**

10) Impairment result from financial instruments

in HUF million	2018	2019
Financial assets at FVOCI	(6)	(21)
Financial assets at AC	6,654	753
Net allocation to credit loss allowances	6,314	888
Direct write-offs	(1,851)	(2,548)
Recoveries recorded directly to the income statement	2,573	2,440
Modification gains or losses	(381)	(27)
Finance lease	304	(762)
Net allocation of credit loss allowances for loan commitments and financial guarantees given	55	628
Impairment result from financial instruments	**7,007**	**598**

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11) Other operating result

in HUF million	2018	2019
Other operating expenses	**(23,307)**	**(20,817)**
Allocation/(release) to other provisions	-	(41)
Allocation/(release) to provisions for other commitments given	(458)	(68)
Levies on banking activities	(18,384)	(19,371)
Banking tax	(3,904)	(3,889)
Financial transaction tax	(14,480)	(15,482)
Other taxes	(45)	(41)
Recovery and resolution fund contributions[1)]	(778)	(847)
Impairment of properties/movables/other intangible assets other than goodwill	(1,297)	(449)
Result from other operating expenses	(2,345)	-
Other operating income	**7,543**	**7,446**
(Allocation)/release of other provisions	900	-
Government grant[2)]	1,750	366
Result from sales of properties/movables/other intangible assets other than goodwill	63	38
Result from sales of other assets	42	15
Income from upgrade on loans previously subject to FX settlement[3)]	4,788	5,402
Result from other operating income	-	1,625
Other operating result	**(15,764)**	**(13,371)**

1) In the line ‘Recovery and resolution fund contributions’ contributions to the national resolution funds in amount of 847 million (778 million forint in 2018) are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. As a consequence, banks are required to contribute annually to a resolution fund, which in a first step is installed on a national level. According to these regulations, until 31 December 2024 the available financial means of the resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorised within the European Union. Therefore the resolution funds have to be built over a period of 10 years, during which the contributions shall be spread out as even as possible until the target level is reached.

2) Conforming to its accounting policies (see chapter D. ACCOUNTING POLICIES, page 13 Erste Bank recognises government grant in ‘Deferred income’ till the reasonable assurance on realisation. After reasonable assurance earned, realised government grant is presented within ‘Other operating result’.
Details on balances regarding government grant see in Note 31), page 60.

Erste Bank recognises government grant related to the following:

- National Bank of Hungary (NBH) security program
  NBH introduced a floating-rate-payer forint interest rate swap (IRS) facility with terms of three and five years starting from June 2014 and one with a term of ten years starting from July 2015. This facility applies some preferential elements to intensify usage of IRS tenders and also additional purchase of government securities by Banks. Banks are entitled to the preferential element if the government security portfolio is kept at a given level. The IRS ended in 2019 by recognising a residual gain of 116 million forint and it is presented as government grant related to IRS. The amount equals to 202 million forint in 2018.
- NBH SME lending program (PHP)
  NBH introduced a lending activity linked floating-rate-payer forint interest rate swap (HIRS) with terms of one and three years starting from February 2016. Banks are entitled to the preferential gain if criteria combining growth and stability elements related to lending activity in SME sector are met. The HIRS also ended in 2019 and 250 million forint is presented as government grant related to it (1,548 million forint in 2018).

3) FX portfolio subject to legally obliged conversion into forint were derecognised and recognised as new loans. There was no impairment presented at recognition, so upgrade of clients out of positive change in CF expectation was recognised as increase of exposure in ‘Loans and receivables to customers’ in statement of financial position and in ‘Other operating result’ in income statement.
Legally obliged conversion was based on *Conversion law of 2014:LXXVII (passed November 2014)* that introduced the concept of a compulsory conversion of foreign currency denominated consumer loans in-scope into HUF, at a rate fixed by the law. This law was

further amended by *FX car loan, financial leasing and unsecured loan conversion law CXLV of 2015 (passed 6 October 2015)* to widened the loans subject to the compulsory conversion. In scope are foreign currency denominated consumer mortgage loans, real estate leasing, car loans agreements. The effective conversion date for the first law was 1 February 2015, while the second law was 1 January 2016.

12) Taxes on income

Taxes on income are made up of current taxes on income calculated in each company based on the results reported for tax purposes, prior period taxes, and the change in deferred taxes.

in HUF million	2018	2019
Current tax expense / income		
Current period taxes	(5,047)	(4,804)
of which local business tax	(3,492)	(3,480)
of which local innovation tax	(524)	(524)
Prior period taxes	(17)	17
Deferred tax expense / income		
Current period deferred tax benefit / (expense)	3,513	1,543
Total	**(1,551)**	**(3,244)**

Deferred tax related to 'Fair Value reserve' has been recognised in other comprehensive income in the amount of (360) million forint in 2019 and 552 million forint in 2018.

The following table reconciles income taxes as reported in the income statement.

in HUF million	2018	2019
Profit before tax	**59,050**	**58,781**
At statutory income tax rate	(5,315)	(5,290)
Income not subject to tax	1,679	1,503
Non tax deductible expenses	(1,182)	(1,161)
Local business and innovation tax	(4,016)	(4,004)
Tax loss carry forward usage	2,025	2,077
HAS to IFRS transition difference	2,303	768
Current period deferred tax benefit / (expense)	3,513	1,543
Other	(558)	1,320
Total tax expense	**(1,551)**	**(3,244)**

In the ‘Other’ category 1,278 million forint is related to deductible subsidy (999 million forint in 2018).

At 31 December 2019 the tax loss carried forward amounts to 104,161 million forint (2018: 127,549 million forint).
Using the tax loss carried forward is based on the following rules:

- Tax loss carry forwards arisen till 31 December 2014 and before are consumable for a limited period of 10 years, till 31 December 2030 (60,253 million forint);
- Tax loss carry forwards after 31 December 2014 is consumable for a limited period of 5 years, till 31 December 2020 (43,908 million forint).

Annually used tax loss carry forward amount could be only 50% of the profit before tax. Former tax loss carry forward amounts must be utilised first.

Deferred taxes are disclosed in Note 26).

13) Cash and cash balances

in HUF million	2018	2019
Cash on hand	21,689	23,706
Cash balances at central banks	263	92,748
Other demand deposits at credit institutions	4,893	19,566
Cash and cash balances	**26,845**	**136,020**

The Bank is obliged to keep a minimum mandatory reserve at the central bank amounting to 1% of its domestic customers' deposits, foreign customers' FX deposits and foreign customers' forint deposits with maturities less than one year. The average of monthly mandatory minimum reserves at 31 December 2019 and 31 December 2018 was 20.11 billion forint and 16.07 billion forint respectively. The minimum mandatory reserve balances are included within the above balances of cash and balances with central banks. The mandatory minimum reserve requirement is calculated from defined balance sheet items and has to be fulfilled in average through an extended period of time. Therefore, the mandatory minimum reserve requirement deposits are not subject to any restraints.

14) Derivatives – held for trading

	2018			2019		
in HUF million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book [1)]	**6,187,439**	**21,022**	**18,218**	**10,302,798**	**29,579**	**27,005**
Interest rate	1,015,767	7,973	5,536	1,146,057	8,724	6,356
Foreign exchange	5,171,672	13,049	12,681	9,156,741	20,855	20,649
Derivatives held in the banking book	**937,742**	**4,908**	**1,622**	**428,853**	**5,474**	**3,236**
Interest rate	811,993	4,908	1,488	343,781	5,474	2,890
Foreign exchange	125,749	-	134	85,072	-	346
Total gross amounts	**7,125,181**	**25,930**	**19,839**	**10,731,651**	**35,053**	**30,241**
Total	**7,125,181**	**25,930**	**19,839**	**10,731,651**	**35,053**	**30,241**

1) Trading and banking book are disclosed in detail in Note 42) Risk management.

15) Other financial assets held for trading

in HUF million	2018	2019
Debt securities	65,201	15,936
General governments	36,207	3,817
Credit institutions	28,994	12,119
Other financial assets held for trading	**65,201**	**15,936**

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16) Non-trading financial assets at fair value through profit or loss

	2018		2019	
in HUF million	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	-	1,138	-	1,229
Debt securities	30,702	-	-	1,821
General governments	30,702	-	-	-
Non-financial corporations	-	-	-	1,821
Loans and advances to customers	-	41,732	-	112,310
General governments	-	78	-	68
Non-financial corporations	-	668	-	297
Households	-	40,986	-	111,945
Financial assets designated and mandatorily at FVPL	**30,702**	**42,870**	**-**	**115,360**
Non-trading financial assets at fair value through profit or loss		**73,572**		**115,360**

Under 'Loans and advances to customers' contain retail loans having non SPPI characteristics, also see in SPPI assessment chapter page 30. Debt securities contain government bonds and shares in Visa Inc.

17) Financial assets at fair value through other comprehensive income

Equity instruments

The only equity instrument at FVOCI (fair value through other comprehensive income) of Erste Bank, which were shares in Visa Inc. were reclassified to Non-trading financial assets at fair value through profit or loss in 2019.

Debt instruments

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount				Credit loss allowances					
in HUF million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Accumulated fair value changes	Fair value
2019										
Debt securities										
General governments	95,526	-	-	95,526	(14)	-	-	(14)	5,374	100,900
Credit institutions	10,044	-	-	10,044	(8)	-	-	(8)	134	10,178
Non-financial corporations	1,762	-	-	1,762	(26)	-	-	(26)	(25)	1,737
Total	**107,332**	**-**	**-**	**107,332**	**(47)**	**-**	**-**	**(47)**	**5,483**	**112,815**

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in HUF million	Gross carrying amount				Credit loss allowances				Accumulated fair value changes	Fair value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total		
2018										
Debt securities	**134,035**	**-**	**-**	**134,035**	**(26)**	**-**	**-**	**(26)**	**1,534**	**135,569**
General governments	123,965	-	-	123,965	(18)	-	-	(18)	1,482	125,447
Credit institutions	10,070	-	-	10,070	(8)	-	-	(8)	52	10,122
Total	**134,035**	**-**	**-**	**134,035**	**(26)**	**-**	**-**	**(26)**	**1,534**	**135,569**

There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2019.

Movement in credit loss allowances

in HUF million	2019.01.01	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	2019.12.31
Stage 1	(26)	(26)	-	-	4	(47)
Total	**(26)**	**(26)**	**-**	**-**	**4**	**(47)**

in HUF million	2018.01.01	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	2018.12.31
Stage 1	(19)	(17)	6	-	5	(26)
Total	**(19)**	**(17)**	**6**	**-**	**5**	**(26)**

In the column 'Additions' increases of CLA (credit loss allowance) due to the initial recognition of debt securities at FVOCI during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities at FVOCI are reported in column 'Derecognitions'. In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related FVOCI debt securities from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognised prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'. Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

18) Securities

	2018					2019				
			Financial assets					Financial assets		
in HUF million	At AC	Trading assets	Mandatorily at FVPL	Designated at FVPL	At FVOCI	At AC	Trading assets	Mandatorily at FVPL	Designated at FVPL	At FVOCI
Bonds and other interest-bearing securities	**657,981**	**65,201**	**-**	**30,702**	**135,569**	**753,411**	**15,936**	**1,821**	**0**	**112,815**
Listed	625,072	64,340	-	30,702	135,569	721,695	14,358	0	0	112,188
Unlisted	32,909	861	-	-	-	31,716	1,578	1,821	0	626
Equity-related securities	**x**	**-**	**1,138**	**x**	**1,483**	**x**	**-**	**1,229**	**x**	**0**
Listed	x	-	-	x	-	x	-	0	x	0
Unlisted	x	-	1,138	x	1,483	x	-	1,229	x	0
Total	**657,981**	**65,201**	**1,138**	**30,702**	**137,052**	**753,411**	**15,936**	**3,050**	**0**	**112,815**

19) Financial assets at amortised cost

Debt securities at amortised cost

Gross carrying amounts and credit loss allowances per impairment buckets

	GCA				CLA				
in HUF million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2019									
General governments	605,149	-	-	605,149	(89)	-	-	(89)	605,060
Credit institutions	139,174	-	-	139,174	(92)	-	-	(92)	139,082
Non-financial corporations	8,875	-	1,026	9,901	- 65.00	-	(567)	(632)	9,269
Total	**753,198**	**-**	**1,026**	**754,224**	**(246)**	**-**	**(567)**	**(813)**	**753,411**

	GCA				CLA				
in HUF million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2018									
General governments	625,133	-	-	625,133	(92)	-	-	(92)	625,041
Credit institutions	32,474	-	-	32,474	(18)	-	-	(18)	32,456
Non-financial corporations	27	-	1,083	1,110	-	-	(626)	(626)	484
Total	**657,634**	**-**	**1,083**	**658,717**	**(110)**	**-**	**(626)**	**(736)**	**657,981**

There were no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2019.

Movement in credit loss allowances

in HUF million	As of	Additions	Derecognitions	Transfers between Stage 1 and 2/3(+/-)	Other changes in credit risk (net)	Other	As of
	01 January 2019						31 December 2019
Stage 1	(110)	(86)	(1)	-	(50)	-	(247)
Stage 2	-	-	1	-	-	-	1
Stage 3	(627)	-	-	-	100	(40)	(567)
Total	**(737)**	**(86)**	**-**	**-**	**50**	**(40)**	**(813)**

in HUF million	As of	Additions	Derecognitions	Transfers between Stage 1 and 2/3(+/-)	Other changes in credit risk (net)	Other	As of
	01 January 2018						31 December 2018
Stage 1	(117)	(40)	29	-	18	-	(110)
Stage 2	(287)	-	113	-	175	-	1
Stage 3	-	-	-	-	(583)	(44)	(627)
Total	**(404)**	**(40)**	**142**	**-**	**(390)**	**(44)**	**(736)**

In the column 'Additions' increases of CLA due to the initial recognition of debt securities at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities at AC are reported in column 'Derecognitions'. In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC debt securities from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognised prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'. Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. There were no stage transfer under debt securities at amortised cost in 2019.

in HUF million	2018	2019
Transfers between Stage 2 and Stage 3	**1,083**	-
To Stage 3 from Stage 2	1,083	-

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2019 and are still in the balance sheet as of 31 December 2019 amounts to 192,199 million forint. The GCA of AC debt securities that were held at 1 January 2019 and de-recognized (matured or sold compliant to sale from HTC business model) during the year 2019 amounts to 88,443 million forint.

20) Loans and advances to banks at amortised cost

	GCA				CLA				
in HUF million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2019									
Central banks	38,290	-	-	38,290	(4)	-	-	(4)	38,286
Credit institutions	55,504	-	-	55,504	(46)	-	-	(46)	55,458
Total	**93,794**	**-**	**-**	**93,794**	**(50)**	**-**	**-**	**(50)**	93,744

	GCA				CLA				
in HUF million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2018									
Central banks	23,489	-	-	23,489	(2)	-	-	(2)	23,487
Credit institutions	72,203	-	-	72,203	(60)	-	-	(60)	72,143
Total	**95,692**	**-**	**-**	**95,692**	**(62)**	**-**	**-**	**(62)**	95,630

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2019.

Movement in credit loss allowances

in HUF million	As of	Additions	Derecognitions	Transfers between Stage 1 and 2/3(+/-)	Other changes in credit risk (net)	Other	As of
	01 January 2019						31 December 2019
Stage 1	(62)	(178)	27	-	164	(1)	(50)
Total	**(62)**	**(178)**	**27**	**-**	**164**	**(1)**	**(50)**

in HUF million	As of	Additions	Derecognitions	Other changes in credit risk (net)	Other	As of
	01 January 2018					31 December 2018
Stage 1	(27)	(39)	32	(30)	2	(62)
Stage 2	-	-	4	(4)	-	-
Stage 3	-	-	114	(239)	125	-
Total	**(27)**	**(39)**	**150**	**(273)**	**127**	**(62)**

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In the column ‘Additions’ increases of CLA due to the initial recognition of loans and advances to banks at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loans and advances to banks at AC are reported in column ‘Derecognitions’. In the column ‘Transfers between stages’ CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to banks from Stage 1 at 1 January 2019 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line ‘Stage 1’. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognised prior to stage re-assignments are presented above in the column ‘Other changes in credit risk (net)’. Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’.

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2019 and not fully de-recognized by 31 December 2019 amounts to 91,989 million forint. The GCA of AC loans and advances to banks that were held as of 1 January 2019 and fully de-recognized during the year 2019 amounts to 103,395 million forint.

21) Loans and advances to customers at amortised cost

Gross carrying amounts and credit loss allowances per impairment buckets

	GCA					CLA					
in HUF million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	To-tal	Carrying amount
As of 31 December 2019											
General governments	57,527	-	-	11	57,538	(3)	(0)	-	-	(3)	**57,535**
Other financial corporations	60,043	22	-	4	60,069	(104)	(1)	-	-	(105)	**59,964**
Non-financial corporations	562,203	18,721	5,407	9,995	596,326	(1,447)	(977)	(3,146)	(638)	(6,208)	**590,118**
Households	639,158	46,473	20,041	20,805	726,477	(2,516)	(6,533)	(14,339)	(6,357)	(29,745)	**696,732**
Total	**1,318,931**	**65,216**	**25,448**	**30,815**	**1,440,410**	**(4,070)**	**(7,511)**	**(17,485)**	**(6,995)**	**(36,061)**	**1,404,349**

	GCA					CLA					
in HUF million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
As of 31 December 2018											
General governments	14,597	-	-	-	14,597	(1)	-	-	-	(1)	**14,596**
Other financial corporations	69,303	1	-	11	69,315	(151)	-	-	-	(151)	**69,164**
Non-financial corporations	476,176	8,245	2,841	12,206	499,468	(1,396)	(485)	(2,187)	(544)	(4,612)	**494,856**
Households	591,664	29,356	22,495	25,839	669,354	(3,017)	(4,596)	(17,005)	(10,509)	(35,127)	**634,227**
Total	**1,151,740**	**37,602**	**25,336**	**38,056**	**1,252,734**	**(4,565)**	**(5,081)**	**(19,192)**	**(11,053)**	**(39,891)**	**1,212,843**

Movement in credit loss allowances

in HUF million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	01 January 2019								31 December 2019
Stage 1	**(4,565)**	**(3,463)**	**813**	**5,999**	**(2,841)**	**-**	**14**	**(27)**	**(4,070)**
General governments	(1)	-	-	-	(2)	-	-	-	(3)
Other financial corporations	(151)	(243)	-	-	297	-	-	(4)	(101)
Non-financial corporations	(1,396)	(657)	296	397	(65)	-	-	(23)	(1,448)
Households	(3,017)	(2,563)	517	5,602	(3,071)	-	14	-	(2,518)
Stage 2	**(5,081)**	**(231)**	**792**	**(8,457)**	**4,743**	**(1)**	**734**	**(10)**	**(7,511)**
Other financial corporations	-	-	-	(162)	161	-	-	-	(1)
Non-financial corporations	(485)	(21)	168	(1,230)	588	-	10	(7)	(977)
Households	(4,596)	(210)	624	(7,065)	3,994	(1)	724	(3)	(6,533)
Stage 3	**(19,192)**	**(83)**	**5,500**	**(1,843)**	**(2,699)**	**(3)**	**864**	**(29)**	**(17,485)**
Non-financial corporations	(2,187)	(3)	2,163	(243)	(3,200)	-	351	(27)	(3,146)
Households	(17,005)	(80)	3,337	(1,600)	501	(3)	513	(2)	(14,339)
POCI	**(11,054)**	**-**	**1,908**	**-**	**1,976**	**(4)**	**187**	**(8)**	**(6,995)**
Non-financial corporations	(545)	-	28	-	(119)	-	6	(8)	(638)
Households	(10,509)	-	1,880	-	2,095	(4)	181	-	(6,357)
Total	**(39,892)**	**(3,777)**	**9,013**	**(4,301)**	**1,179**	**(8)**	**1,799**	**(74)**	**(36,061)**

in HUF million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	01 January 2018								31 December 2018
Stage 1	**(4,774)**	**(1,286)**	**809**	**679**	**-**	**(6)**	**37**	**(24)**	**(4,565)**
General governments	(2)	(1)	2	-	-	-	-	-	(1)
Other financial corporations	(220)	(95)	158	9	-	-	-	(2)	(150)
Non-financial corporations	(1,347)	(359)	325	5	-	-	1	(22)	(1,397)
Households	(3,205)	(831)	324	665	-	(6)	36	-	(3,017)
Stage 2	**(6,829)**	**(544)**	**1,099**	**(1,535)**	**866**	**(19)**	**1,895**	**(14)**	**(5,081)**
Non-financial corporations	(2,162)	(54)	820	-	866	-	55	(9)	(484)
Households	(4,667)	(490)	279	(1,535)	-	(19)	1,840	(5)	(4,597)
Stage 3	**(22,609)**	**(671)**	**4,112**	**(623)**	**9**	**(170)**	**786**	**(26)**	**(19,192)**
Other financial corporations	(9)	-	-	-	9	-	-	-	-
Non-financial corporations	(2,696)	(157)	1,183	(533)	-	-	38	(21)	(2,186)
Households	(19,904)	(514)	2,929	(90)	-	(170)	748	(5)	(17,006)
POCI	**(17,044)**	**-**	**2,127**	**-**	**3,576**	**(71)**	**371**	**(12)**	**(11,053)**
Non-financial corporations	(2,677)	-	381	-	1,760	-	2	(11)	(545)
Households	(14,367)	-	1,746	-	1,816	(71)	369	(1)	(10,508)
Total	**(51,256)**	**(2,501)**	**8,147**	**(1,479)**	**4,451**	**(266)**	**3,089**	**(76)**	**(39,891)**

In category POCI Erste Bank doesn't recognize purchased credit impaired instruments, but presents instrument subject to derecognition and recognition as new instruments. These instruments are typically subject to contractual changes bearing characteristics with de-recognition criteria like change in currency of the contract.

In the column 'Additions' increases of CLA due to the initial recognition of loans and advances to customers at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loans and advances to customers at AC are reported in column 'Derecognitions'. In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to customers from Stage 1 at 1 January 2019 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognised prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'. Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. The unwinding correction accumulated during the reporting period amounted to 1,055 million Forint in case of debt instruments at amortised cost.

This adverse effect amounted to 2,586 million forint cumulatively for the year 2019, which also reflects the unrecognized interest income out of the related AC loans and advances to customers throughout the year. The column 'Insignificant modifications (net)' reflects the effect on CLA arising from contractual modifications of loans and advances to customers at AC which do not trigger their full derecognition. The use of CLA triggered by full or partial write-offs of AC loans and advances to customers is reported in columns 'Write-offs'.

In general impairment release was the consequence of the portfolio quality improvement of the loan portfolio. The NPL rate of the loan portfolio is decreasing continuously reaching a record low level in retail segment, while corporate NPL rate remained low. The increased level of stage 2 credit loss allowances is the result of the introduction of new IFRS9 parameters, the new default definition and the new stage 2 threshold that increased stage 2 portfolio, therefore credit loan allowances grew as well.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2019 to a different stage compared to 1 January 2019 (or to the initial recognition date, if originated during the year) are summarised below:

	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in HUF million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from De-faulted
Other financial corporations	22	-	-	-	-	-	-	-
Non-financial corporations	10,095	2,299	995	-	2,029	68	429	68
Households	14,479	3,419	2,222	888	3,881	2,671	314	2,786
Total	**24,596**	**5,718**	**3,217**	**888**	**5,910**	**2,739**	**743**	**2,854**

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2019 and not fully de-recognized by 31 December 2019 amounts to 371,101 million forint. The GCA of the AC loans and advances to customers that were held at 1 January 2019 and fully de-recognized during the year 2019 amounts to 178,269 million.
The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognized and identified as POCI during the year 2019 amounted to 1,652 million forint.

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22) Finance lease receivables

Gross carrying amounts and credit loss allowances per impairment buckets

	GCA					CLA					
in HUF million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2019											
Other financial corporations	27	-	-	-	**27**	-	-	-	-	**-**	**27**
Non-financial corporations	25,508	15,577	19	23	**41,127**	(134)	(707)	(14)	(6)	**(861)**	**40,266**
Households	2,543	788	269	71	**3,671**	(37)	(121)	(202)	(36)	**(396)**	**3,275**
Total	**28,078**	**16,365**	**288**	**94**	**44,825**	**(171)**	**(828)**	**(216)**	**(42)**	**(1,257)**	**43,568**

	GCA					CLA					
in HUF million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2018											
Other financial corporations	35	1	-	-	**36**	-	-	-	-	**-**	**36**
Non-financial corporations	33,363	787	94	41	**34,285**	(116)	(34)	(83)	(8)	**(241)**	**34,044**
Households	3,247	185	316	81	**3,829**	(14)	(23)	(231)	(39)	**(307)**	**3,522**
Total	**36,645**	**973**	**410**	**122**	**38,150**	**(130)**	**(57)**	**(314)**	**(47)**	**(548)**	**37,602**

Movement in credit loss allowances

in HUF million	As of	Additions	Charge-offs	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	01 January 2019								**31 December 2019**
Stage 1	(130)	(47)	-	5	3	-	-	(3)	(172)
Stage 2	(56)	-	-	-	(766)	-	-	(4)	(826)
Stage 3	(314)	-	-	(2)	50	-	27	22	(217)
POCI	(47)	-	-	-	3	-	-	2	(42)
Total	**(547)**	**(47)**	**-**	**3**	**(710)**	**-**	**27**	**17**	**(1257)**

in HUF million	As of	Additions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	01 January 2018						**31 December 2018**
Stage 1	(114)	(34)	5	4	-	8	(131)
Stage 2	(76)	(11)	-	25	-	6	(56)
Stage 3	(394)	-	(2)	47	9	26	(314)
POCI	(231)	-	-	184	-	-	(47)
Total	**(815)**	**(45)**	**3**	**260**	**9**	**40**	**(548)**

In the column 'Additions' increases of CLA due to the initial recognition of finance lease receivables during the current reporting period are disclosed. Releases of CLA following the derecognition of the related finance lease receivables are reported in column 'Derecognitions'. In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related finance lease receivables from Stage 1 as of 1 January 2019 (or initial recognition date, if later) to Stages 2 or 3 as of 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line ‘Stage 1’. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognised prior to stage re-assignments are presented above in the column ‘Other changes in credit risk (net)’. Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’. This column also captures the passage-of-time adverse effect (‘unwinding correction’) over the lifetime expected cash shortfalls of finance lease receivables that were assigned to Stage 3 for any period throughout the year, as well as of any POCI finance lease receivables. The column ‘Insignificant modifications (net)’ reflects the effect on CLA arising from contractual modifications of finance lease receivables which do not trigger their full derecognition. The use of CLA triggered by full or partial write-offs of finance lease receivables is reported in columns ‘Write-offs’.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2019 to a different stage compared to 1 January 2019 (or to the initial recognition date, if originated during the year) are summarised below (there were no transfer between stages in 2018):

in HUF million	2019
Transfers between Stage 1 and Stage 2	
To Stage 2 from Stage 1	11,505
To Stage 1 from Stage 2	543
Transfers between Stage 2 and Stage 3	
To Stage 3 from Stage 2	8
To Stage 2 from Stage 3	1
Transfers between Stage 1 and Stage 3	
To Stage 3 from Stage 1	42
To Stage 1 from Stage 3	20

23) Trade and other receivables

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount				Credit loss allowances				
in HUF million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2019									
General governments	301	-	-	301	-	-	-	-	301
Credit institutions	2	-	-	2	-	-	-	-	2
Other financial corporations	183	-	-	183	-	-	-	-	183
Non-financial corporations	10,214	9	16	10,239	(43)	-	(12)	(55)	10,184
Households	-	-	-	-	-	-	-	-	-
Total	**10,700**	**9**	**16**	**10,725**	**(43)**	**-**	**(12)**	**(55)**	**10,670**

	Gross carrying amount				Credit loss allowances				
in HUF million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2018									
General governments	719	-	-	719	-	-	-	-	719
Credit institutions	1	-	-	1	-	-	-	-	1
Other financial corporations	2,104	-	-	2,104	-	-	-	-	2,104
Non-financial corporations	11,297	46	-	11,343	(56)	(1)	-	(57)	11,285
Households	3	-	-	3	-	-	-	-	3
Total	**14,125**	**46**	**-**	**14,171**	**(57)**	**(1)**	**-**	**(58)**	**14,113**

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There are no purchased or originated credit-impaired (POCI) Trade and other receivables as of 31 December 2019.

Movement in credit loss allowances

in HUF million	2019.01.01	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	2019.12.31
Stage 1	(56)	(273)	2	-	284	(43)
Stage 2	(1)	-	2	-	(1)	-
Stage3	-	-	-	-	(12)	(12)
Total	**(57)**	**(273)**	**4**	**-**	**271**	**(55)**

in HUF million	2018.01.01	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	2018.12.31
Stage 1	(59)	(65)	105	2	(40)	(56)
Stage 2	(0)	(1)	1	(1)	0	(1)
Total	**(59)**	**(66)**	**106**	**1**	**(40)**	**(58)**

24) Debt instrument subject to contractual modifications

Impact of non-significant contractual modifications of debt instruments AC assigned to Stage 2 and 3

	2018		2019	
in HUF million	Amortised cost before the modification	Net modification gains/losses	Amortised cost before the modification	Net modification gains/losses
Loans and advances	**4,031**	**381**	**1,387**	**27**
Non-financial corporations	0	0	821	1
Households	4,031	381	566	26
Total	**4,031**	**381**	**1,387**	**27**

As at 31 December 2019, the total GCA of Erste Bank Hungary's debt instruments measured at AC, which were impacted by non-significant contractual modifications while they were assigned to Stage 2 or 3 and re-assigned to Stage 1 during the year 2019 amounted to HUF 12 million (2018: HUF 653 million).

25) Fixed assets movement

Movements in fixed assets schedule

COST in HUF million	Software acquired	Other intangible assets (licenses, patents, customer lists etc.)	Own land and buildings	Office and plant equipment/other fixed assets	IT-assets (hardware)	Right-of-use land and buildings[1)]	Subtotal	Investment properties[2)]
Value 01.01.2019	**46,950**	**9,230**	**9,769**	**4,679**	**10,681**	**14,571**	**95,880**	**-**
Additions	11,553	-	1,688	940	1,196	8,526	23,903	35
Disposals	(1,880)	(83)	(1,572)	(255)	(445)	(97)	(4,332)	-
Reclassification	(103)	-	(255)	-	103	-	(255)	255
Value 31.12.2019	**56,520**	**9,147**	**9,630**	**5,364**	**11,535**	**23,000**	**115,196**	**290**

DEPRECIATION AND IMPAIRMENT in HUF million	Software acquired	Other intangible assets (licenses, patents, customer lists etc.)	Own land and buildings[3)]	Office and plant equipment/other fixed assets	IT-assets (hardware)	Right-of-use land and buildings	Subtotal	Investment properties
Value 01.01.2019	**31,678**	**3,349**	**5,020**	**3,905**	**7,883**	**-**	**51,835**	**-**
Additions	5,145	1,262	882	444	1,090	2,538	11,361	4
Disposals	(1,860)	(106)	(1,161)	(227)	(440)	(17)	(3,811)	-
Reclassification	(9)	3	(75)	-	9	-	(72)	72
Impairment	395	20	-	3	-	12	430	-
Value 31.12.2019	**35,349**	**4,528**	**4,666**	**4,125**	**8,542**	**2,533**	**59,743**	**76**

NET CARRYING AMOUNT in HUF million	Software acquired	Other intangible assets (licenses, patents, customer lists etc.)	Own land and buildings	Office and plant equipment/other fixed assets	IT-assets (hardware)	Right-of-use land and buildings	Subtotal	Investment properties
Value 01.01.2019	**15,272**	**5,881**	**4,749**	**774**	**2,798**	**14,571**	**44,045**	**-**
Value 31.12.2019	**21,171**	**4,619**	**4,964**	**1,239**	**2,993**	**20,467**	**55,453**	**214**

1) Please see details in Section D. ACCOUNTING POLICIES page 25.

2) The useful life is 20 years, linear method is applied.

3) The depreciation relates to buildings within ‚Own land and buildings‘.

4) In the course of 2019 Right-of-use assets useful life was adjusted together with the discount factor in use.

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COST in HUF million	Software acquired	Other intangible assets (licenses, patents, customer lists etc.)	Own land and buildings	Office and plant equipment/other fixed assets	IT-assets (hardware)	Total
Value 01.01.2018	**41,192**	**9,359**	**9,470**	**4,906**	**10,399**	**75,326**
Additions	7,485	-	630	129	1,661	9,905
Disposals	(1,726)	(427)	(33)	(356)	(1,380)	(3,922)
Reclassification	(1)	298	(298)	-	1	-
Value 31.12.2018	**46,950**	**9,230**	**9,769**	**4,679**	**10,681**	**81,309**

DEPRECIATION AND IMPAIRMENT in HUF million	Software acquired	Other intangible assets (licenses, patents, customer lists etc.)	Own land and buildings[1)]	Office and plant equipment/other fixed assets	IT-assets (hardware)	Total
Value 01.01.2018	**26,028**	**2,208**	**4,417**	**3,871**	**8,147**	**44,671**
Additions	6,074	1,274	914	336	1,114	9,712
Disposals	(1,726)	(426)	(18)	(302)	(1,379)	(3,851)
Reclassification	(1)	293	(293)	-	1	-
Impairment	1,303	-	-	-	-	1,303
Value 31.12.2018	**31,678**	**3,349**	**5,020**	**3,905**	**7,883**	**51,835**

NET CARRYING AMOUNT in HUF million	Software acquired	Other intangible assets (licenses, patents, customer lists etc.)	Own land and buildings	Office and plant equipment/other fixed assets	IT-assets (hardware)	Total
Value 01.01.2018	**15,164**	**7,151**	**5,053**	**1,035**	**2,252**	**30,655**
Value 31.12.2018	**15,272**	**5,881**	**4,749**	**774**	**2,798**	**29,474**

1) The depreciation relates to buildings within ‚Own land and buildings‘.

Net carrying amount

in HUF million	2018	2019
Intangible assets	**21,153**	**25,790**
Software acquired	15,272	21,171
Other intangible assets (licenses, patents, customer lists etc.)	5,881	4,619
Property and equipment	**8,321**	**29,663**
Own land and buildings	4,749	4,964
Office and plant equipment/other fixed assets	774	1,239
IT-assets (hardware)	2,798	2,993
Right-of-use land and buildings	-	20,467
Total intangible and tangible assets	**29,474**	**55,453**
Investment properties	**-**	**214**

Fully amortised intangible assets which were still in use amounted to HUF 5,010 million as at 31 December 2019 (HUF 5,726 million as at 31 December 2018). Fully depreciated tangible assets which were still in use amounted to HUF 10,756 million as at 31 December 2019 (HUF 9,796 mil-lion as at 31 December 2018).

26) Tax assets and liabilities

Major components of deferred tax assets and deferred tax liabilities

	Tax assets		Tax liabilities		Net variance 2019		
in HUF million	2018	2019	2018	2019	Total	through profit or loss	through other comprehensive income
Deferred taxes	**3,321**	**4,503**	**-**	**-**	**1,182**	**1,605**	**(423)**
Temporary differences related to the following items:					-		
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	-	36	-	-	36	36	-
Financial assets at fair value through other comprehensive income	-	-	(192)	(615)	(423)	-	(423)
Property and equipment (useful life in tax law different)	82	176	-	-	94	94	-
Other provisions (tax valuation different)	11	15	-	-	4	4	-
Tax loss carry-forward	1,839	4,074	-	-	2,235	2,235	-
HAS - IFRS transition	1,581	768	-	-	(813)	(813)	-
Other	-	49	-	-	49	49	-
Effect of netting gross deferred tax position	(192)	(615)	192	615	-	-	-
Current taxes	**1,380**	**-**	**-**	**(177)**	**(4,787)**	**(4,787)**	**-**
Total taxes	**4,701**	**4,503**	**-**	**(177)**	**(3,605)**	**(3,182)**	**(423)**

Erste Bank Hungary allocated 4.5 billion forint deferred tax asset at the nominal corporate income tax rate of 9% as of 31 December 2019, having the breakdown as follows:

- 0.8 billion forint is in relation with the positive transitional difference to be used in the next tax year (first two third was used in 2018 and 2019, no more subject to deferred tax asset allocation), due to the fact that credit institutions were obliged to transfer as of 1 January 2018 from local accounting standard (HAS) to IFRS adopted by EU.
- 4.1 billion forint is allocated in accordance with IAS12 saying a deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Taking into consideration that legal act relative to utilization of tax loss carried forward prescribes a 'first in first out' logic, future profitability perspective limits the theoretical tax loss carry forward of 104 billion as of 31 December 2019 to 60 billion forint on consolidated level representing the amount to be used first (next lots in the usage ranking expires earlier). Incorporating economic trends, changes in legal environment especially in relation of bank-ing sector covering both the near past events and those in the last five years, Erste Bank set up three alternative budget scenarios (realistic, conservative, macroeconomic downturn) and allocated probabilities amongst them, defining that a haircut for each years, starting from below 5% reaching 55% by the end of a five-year period, converging to 100% after on. These scenarios are subject to regular follow-up to identify need for adjustment.
- (0.4) billion forint as a net liability in relation to other temporary differences.

27) Assets held for sale

in million HUF	2018	2019
Assets held for sale	30	-

In 2018 Erste Lakáslízing Zrt. was classified as asset held for sale. Please see further details about the sale of Erste Lakáslízing Zrt. in Section **Hiba! A hivatkozási forrás nem található.**.

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28) Other assets

in HUF million	2018	2019
Clearing accounts with tax authorities	736	816
Other clearing accounts	5,911	11,155
Other financial assets[2)]	4,012	2,974
Other accrued income	3,146	4,015
Inventories	120	196
Repossessed assets[1)]	63	13
Prepaid expenses	1,919	2,317
Other	7,315	3,143
Total	**23,222**	**24,629**

1) Repossessed assets primarily consist of properties, and are shown at the lower of cost or net realisable value. The possession of these assets is generally taken related to loan contracts of property development projects or properties where previously served as collateral are taken over. These assets are not readily convertible into cash and Erste Bank Hungary's policy is to dispose of them in an orderly fashion. Erste Bank Hungary does not occupy repossessed assets for its own business use.

2) Other financial assets balance contains customer receivables.

29) Financial liabilities at amortised costs

Deposits from banks

in HUF million	2018	2019
Deposit from domestic banks	330,770	290,048
Deposit from foreign banks	60,869	72,967
of which by Austrian banks	57,593	70,523
of which subordinated liabilities	52,512	53,983
Total	**391,639**	**363,015**

Deposits from banks - subordinated liabilities

Maturity	Notional amount 2018		Notional amount 2019		Interest conditions
	in thousand EUR	in million HUF	in thousand EUR	in million HUF	
01 March 2026	100,000	32,151	100,000	33,052	3M EURIBOR+ 3,36%, quarterly*
01 March 2026	28,312	11,253	28,312	9,358	3M EURIBOR+ 3,36%, quarterly*
01 March 2026	35,000	9,102	35,000	11,568	3M EURIBOR+ 3,36%, quarterly*
Total subordinated loans	**163,312**	**52,506**	**163,312**	**53,978**	

1) 3M EURIBOR is floored at 0.00%.

2) The Bank has not paid back material amount of subordinated deposits during 2018 and 2019.

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Deposits from customers

in HUF million	2018	2019
Saving deposits	2,352	2,343
Other deposits	1,646,879	2,008,690
Public sector	35,059	36,026
Commercial customers	473,752	603,382
Private customers	820,689	921,695
Other financial institutions	317,379	447,587
Total	**1,649,231**	**2,011,033**

Debt securities issued

in HUF million	2018	Notional amount 2018	2019	Notional amount 2019
Bonds	7,647	4,227	9,976	3,763
of which subordinated liabilities	4,307	4,215	3,488	3,741
Certificate of deposits	824	824	813	813
Total	**8,471**	**5,051**	**10,789**	**4,587**

Debt securities issued - non-subordinated liabilities

Certificates of deposit were issued by the legal predecessor of the Bank, showing a decreasing balance year by year.

issued non subordinated securities as at 31 December 2019	ISIN code	Date of issue	Date of maturity	Notional amount in HUF million	Interest conditions
Bonds					
2,00% ERSTE USD KÖTVÉNY III 2019-2020	HU0000358874	2019.05.03	2020.05.02	1.44	fixed 2,00% interest payments: yearly
2,00% ERSTE USD KÖTVÉNY IV 2019-2020	HU0000358890	2019.06.04	2020.06.03	0.93	fixed 2,00% interest payments: yearly
ERSTE USD KÖTVÉNY 2 2019-2020	HU0000358593	2019.01.03	2020.01.03	1.07	fixed 2,00% interest payments: yearly
ERSTE USD KÖTVÉNY 2 II. 2019-2020	HU0000358791	2019.04.02	2020.04.01	1.43	fixed 2,00% interest payments: yearly
ERSTE USD KÖTVÉNY 2.2 2019-2020	HU0000358668	2019.02.04	2020.02.04	3.54	fixed 2,20% interest payments: yearly
ERSTE USD KÖTVÉNY 2.2 II. 2019-2020	HU0000358718	2019.03.04	2020.03.03	2.64	fixed 2,20% interest payments: yearly
ERSTE USD KÖTVÉNY 2.3 2018-2021	HU0000358460	2018.10.02	2021.10.01	2.59	fixed 2,30% interest payments: yearly
ERSTE USD KÖTVÉNY 2.4 2019-2022	HU0000358601	2019.01.03	2022.01.02	1.30	fixed 2,40% interest payments: yearly
ERSTE USD KÖTVÉNY 2.40 2018-2021	HU0000358536	2018.12.04	2021.12.03	4.17	fixed 2,40% interest payments: yearly
ERSTE USD KÖTVÉNY II 2.3 2018-2021	HU0000358510	2018.11.05	2021.11.04	2.22	fixed 2,30% interest payments: yearly
ERSTE USD KÖTVÉNY V. 2019-2020 2.00	HU0000359013	2019.07.02	2020.07.01	0.44	fixed 2,00% interest payments: yearly
Total				**21.76**	
certificate of deposit	AT2222222222	1990.01.01	N/A	813	
Total				**813**	

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issued non subordinated securities as at 31 December 2018	ISIN code	Date of issue	Date of maturity	Notional amount in HUF million	Interest conditions
Bonds					
ERSTE USD KÖTVÉNY 2.3 2018-2021	HU0000358460	2. October 2018	1 October 2021	3	fixed 2,30% interest payments: yearly
ERSTE USD KÖTVÉNY II 2.3 2018-2021	HU0000358510	5 November 2018	4 November 2021	2	fixed 2,30% interest payments: yearly
ERSTE USD KÖTVÉNY 2.40 2018-2021	HU0000358536	4 December 2018	3 December 2021.	4	fixed 2,40% interest payments: yearly
ERSTE USD KÖTVÉNY 2.00 2018-2019	HU0000358544	4 December 2018	4 December 2019	3	fixed 2,00% interest payments: yearly
Total				**12**	
certificate of deposit	AT2222222222	1 January 1990	N/A	824	
Total				**824**	

Debt securities issued - subordinated liabilities

As of 31 December 2019

Issuer	Notional amount in HUF million	Date of issue	Maturity date	Interest conditions
Erste Bank Hungary Ltd.	389	1 December 2008	1 December 2020	fixed, interest 122.22%, payable at maturity
Erste Bank Hungary Ltd.	3,352	28 March 2014	28 March 2024	fixed, coupon: 0.9% p.a.; interest payments: yearly; issued at 49.92%
Total subordinated securities	**3,741**			

As of 31 December 2018

Issuer	Notional amount in HUF million	Date of issue	Maturity date	Interest conditions
Erste Bank Hungary Ltd.	389	1 December 2008	1 December 2020	fixed, interest 122.22%, payable at maturity
Erste Bank Hungary Ltd.	474	30 April 2009	30 April 2019	fixed, interest 119.7802%, payable at maturity
Erste Bank Hungary Ltd.	3,352	28 March 2014	28 March 2024	fixed, coupon: 0.9% p.a.; interest payments: yearly; issued at 49.92%
Total subordinated securities	**4,215**			

30) Provisions

in HUF million	2018	2019
Pending legal issues and tax litigation	1,602	1,535
Loan commitments and financial guarantees given	2,510	1,901
CLA for loan commitments and financial guarantees in Stage 1	956	707
CLA for loan commitments and financial guarantees in Stage 2	181	435
CLA for loan commitments and financial guarantees - Defaulted	1,372	759
Other provisions	3,158	3,329
Other	3,158	3,329
Provisions	**7,270**	**6,765**

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Pending legal issues and tax litigations

Provision for pending legal issues and tax litigations covers both allowances for legal cases related to lending activities and such legal cases that have no direct linkage to the core business of the company such as, for example, labour and employment related issues. Erste Bank was not involved in tax litigations neither in 2018, nor in 2019.

This category also includes 0.8 billion forint) related to a Supreme Court (Curia) decision:
By the decision of the Hungarian Competition Authority of 19 November 2013 11 leading Hungarian banks were fined for harmonised activities in setting their practices in the case of the “Endpayment” scheme in the period of 15 September 2011 - 30 January 2012. The decision was appealed and the legal case continued at Supreme Court (Curia). By the Curia decision due to the imperfection of the legal procedure the original decision is nailed, the amount of the fine was paid back to the Bank and new procedure is ordered. Conforming to the decision the Bank allocated legal provision in 2017, in the amount of the original fine of 1.7 billion forint. In the course of the new procedure the Bank needed to pay a fine, but as this decision was also appealed, the residual provision was decided to keep in the books as of 31 December 2019.

Other provisions

Both in 2019 and 2018 the determining majority of other provisions are coming from items already recognised in earlier years, like 1.78 billion forint warranty like provision related to ‘Large debt sale’ (allocated in 2016), 551 million forint related to a stamp duty obligation (allocated in 2015) and 160 million forint concerning the residual items out of the legally obliged forced conversion related to factored deals– details see below in comparative period section.

Provision movement tables

Credit loss allowances for loan commitments and financial guarantees 2019

in HUF million	As of 01 January 2019	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of 31 December 2019
Stage 1	956	975	(47)	(726)	(458)	5	706
Stage 2	181	-	(7)	854	(594)	-	435
Defaulted	1 372	242	(27)	300	(1 128)	-	759
Total	**2 509**	**1 217**	**(81)**	**428**	**(2 180)**	**5**	**1 900**

Sundry provisions 2019

in HUF million	As of 01 January 2019	Allocations	Use	Releases	Unwind of discount	Exchange rate and other changes (+/-)	As of 31 December 2019
Pending legal issues and tax litigation	1,602	165	(4)	(228)	-	-	1,535
Commitments and guarantees given out of scope of IFRS9	659	1,021	-	(952)	-	-	728
Other provisions	2,499	1,721	(1,618)	-	-	-	2,602
Other	2,499	1,721	(1,618)	-	-	-	2,602
Provisions	**4,760**	**2,907**	**(1,622)**	**(1,180)**	**-**	**-**	**4,865**

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Credit loss allowances for loan commitments and financial guarantees 2018

in HUF million	As of 01 January 2018	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of 31 December 2018
Stage 1	1,154	341	(74)	(465)	-	-	956
Stage 2	167	-	(46)	59	-	1	181
Defaulted	1,070	647	(1,323)	1,013	(35)	-	1,372
Total	**2,391**	**988**	**(1,443)**	**607**	**(35)**	**1**	**2,509**

Sundry provisions 2018

in HUF million	As of 01 January 2018	Allocations	Use	Releases	Exchange rate and other changes (+/-)	As of 31 December 2018
Pending legal issues and tax litigation	2,409	1,113	(154)	(1,765)	-	1,603
Commitments and guarantees given out of scope of IFRS9	-	1,162	-	(704)	200	658
Other provisions	2,660	-	(66)	(248)	154	2,500
Other	2,660	-	(66)	(248)	154	2,500
Provisions	**5,069**	**2,275**	**(220)**	**(2,717)**	**354**	**4,761**

31) Other liabilities

in HUF million	2018	2019
Deferred income [1)]	427	204
Clearing accounts	16,197	11,167
Tax liabilities	619	-
Other financial liabilities [2)]	1,083	1,858
Received payments on advance	5	5
Accruals of other expenses	10,516	10,473
Other liabilities	2,319	3,557
Total	**31,166**	**27,264**

1) Erste Bank Hungary recognises government grant related to the following:

- National Bank of Hungary (NBH) security program

  NBH introduced a floating-rate-payer forint interest rate swap (IRS) facility with terms of three and five years starting from June 2014 and one with a term of ten years starting from July 2015. This facility applies some preferential elements to intensify usage of IRS tenders and also additional purchase of government securities by Banks. Banks are entitled to the preferential element if the government security portfolio is kept at a given level. In 2019 116 million forint (in 2018: 202 million forint) is presented as government grant related to IRS, the deferred income is zero as the IRS ended in 2019 (in 2018: 116 million forint).
- NBH SME lending program (PHP)

  NBH introduced a lending activity linked floating-rate-payer forint interest rate swap (HIRS) with terms of one and three years starting from February 2016. Banks are entitled to the preferential gain if criteria combining growth and stability elements related to lending activity in SME sector are met. In 2019 250 million forint (in 2018: 1,548 million forint) is presented as government grant related to HIRS, the deferred income is zero as the HIRS ended in 2019 (in 2018: 144 million forint).

Government grant is presented starting from 2018:

At 1 January 2018 2,010 million forint

Received during the year	0 million forint
Released to the income statement	1,750 million forint
At 31 December 2018	260 million forint
At 1 January 2019	260 million forint
Received during the year	106 million forint
Released to the income statement	366 million forint
At 31 December 2019	0 million forint

2) Other financial liabilities balance contains supplier liabilities.

32) Total equity

in HUF million	2018	2019
Subscribed capital	146,000	146,000
Additional paid-in capital	117,492	117,492
Retained earnings and other reserves	84,832	123,995
Total	**348,324**	**387,487**
Attributable to owners of the parent	348,324	387,487

Subscribed capital and Additional paid-in capital

As 31 December 2019 subscribed capital amounted to 146,000,000,000 forints (in words: one hundred and forty six billion). The subscribed capital consisted of 146,000,000,000 (in words: one hundred and forty six billion) pieces of dematerialised ordinary shares of 1 forint nominal value each.

Owners of the Bank
As of 31 December 2019, the direct parent of the Bank – owning 70% of the shares – was Erste Group Bank AG, whose registered office at that date was Am Belvedere 1, 1100 Vienna, Austria. The Financial Statements of Erste Group are prepared by the ultimate parent of Erste Group 'Erste Group Bank AG', and are available after their completion at the Court of Registry of Vienna, Marxergasse 1a, 1030 Vienna, Austria.

Corvinus Nemzetközi Befektetési Zrt. [Corvinus International Investment Private Limited Company] (on behalf of the Government of Hungary) and the European Bank for Reconstruction and Development (EBRD) entered into share purchase agreements with Erste Group Bank AG in respect of each acquiring a 15 per cent shareholding in Erste Bank Hungary Zrt. The purchase price is 77.78 billion forint in total. The details of the transaction were laid down in general agreements signed by the parties on 20 June 2016. Following the approvals of the competent authorities and meeting other conditions set out in the agreements, the actual transfer of ownership rights took place on 11 August 2016.

The share purchase was approved by the National Bank of Hungary on August 4, 2016 (H-EN-I-693/2016), and the change in the ownership was registered in the company register on August 24, 2016.

	31 December 2018		31 December 2019	
Owner	**Number of shares**	**Ownership share**	**Number of shares**	**Ownership share**
Erste Group Bank AG	102,200,000,000	70%	102,200,000,000	70%
Corvinus Nemzetközi Befektetési Zrt.	21,900,000,000	15%	21,900,000,000	15%
European Bank for Reconstruction and Development	21,900,000,000	15%	21,900,000,000	15%
Total	**146,000,000,000**	**100%**	**146,000,000,000**	**100%**

In the below tables the equity of Erste Bank is presented in two different structures as required by the Hungarian accounting law (Law of 2000: C., 114 / B. §) to ensure the comparability between components of equity in the IFRS and HAS financial statements.

in HUF million	2018	2019
IFRS financial statements		
Subscribed capital	146,000	146,000
Additional paid-in capital	117,492	117,492
General reserve	11,624	17,374
Fair value reserve	1,965	5,032
Retained earnings	71,243	101,589
Total equity	**348,324**	**387,487**
Based on Hungarian accounting law (Law of 2000: C., 114 / B. §)		
Subscribed capital	146,000	146,000
Capital reserve	117,492	117,492
Tied-up reserve	11,624	17,374
Revaluation reserve	1,965	5,032
Retained earnings	13,742	46,052
Net result for the year	57,499	55,536
Total equity	**348,324**	**387,487**
of which		
Capital subscribed by the Court of Registry	146,000	146,000
Reserve available for dividend payment	71,243	101,589

Retained earnings and other reserves

Within 'Retained earnings and other reserves' the Bank records a 'General Reserve'. Section 83 of the Credit Institutions and Financial Enterprises Act obliges the Bank to allocate 'General Reserve' amounting to 10% of the actual year's profit after tax, as a non-distributable income. Any use of the reserve needs to be in connection to losses on the Bank's core activity. The total amount of the general reserve is 22,927 million forint at the end of 2019 (in 2018: 17,374 million forint). 'Retained earnings and other reserves' also includes 'Retained earnings' of 95,476 million forint and 'Fair value reserve' of 6,146 million forint with related deferred tax of (554) million forint in 2019. In 2018 the amount of 'Retained earnings' was 65,493 million forint and the amount of 'Fair value reserve' was 2,158 million forint with related deferred tax of (192) million forint.

33) Segment reporting

The segment reporting of Erste Bank follows the presentation and measurement requirements of IFRS. For management purposes, the bank is organised into four operating segments based on products and services as follows:

Retail

The Retail segment is constituted by the branch network where Erste Bank sells products mainly to private and micro customers (up to 1.0 million euro GDP weighted turnover). The Retail business line at Erste Bank Hungary is divided into 5 regions and 110 branches in 2019 (5 regions and 112 branches in 2018).

Corporates

The Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SME) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies with an annual turnover from EUR 1.0 million to EUR 50 million.

Local Large Corporates (LLC) are clients with specific annual turnover thresholds above EUR 50 million to EUR 500 million which are not defined as Group Large Corporate customers according to the Group Large Corporate client list.

Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group with an indicative consolidated annual turnover of at least EUR 500 million. GLC clients can be found on the GLC client list.

Commercial Real Estate (CRE) covers for example investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale, asset management services.

Public Sector consists of three sets of customers: public sector, public corporations and non-profit sector. Most of the local governments are in Public Sector as well.

Group Markets (GM)

The Group Markets (GM) segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Bank Hungary, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade & export finance).

Asset/Liability Management & Local Corporate Center

The Asset/Liability Management & Local Corporate Center (ALM & LCC) segment comprises on the one side the management of bank assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions. The Corporate Center includes the reconciliations to the accounting result.

Transactions between operating segments are on an arm’s length basis.

Business Segments

in HUF million	Retail 2019	Corporates 2019	Group Markets 2019	ALM & LCC 2019	Total group 2019
Net interest income	53 170	19 063	1 901	(3 104)	71 030
Net fee and commission income	40 730	9 252	2 392	(1 062)	51 312
Dividend income	-	-	-	1 037	1 037
Net trading result	3 804	3 287	3 633	(1 478)	9 246
Gains/losses from financial instruments at FVPL	(369)	(3)	-	508	136
Rental income from investment properties & other operating leases	-	-	-	33	33
General administrative expenses	(51 437)	(8 890)	(2 336)	(675)	(63 338)
thereof depreciation and amortization	(10 166)	(816)	(315)	(68)	(11 365)
Gains/losses from derecognition of financial assets at AC	(2)	-	-	11	9
Other gains/losses from derecognition of financial instruments not at FVPL	-	146	-	1 942	2 088
Impairment result from financial instruments	7 997	(1 978)	62	(5 483)	598
Other operating result	(13 036)	(5 802)	(941)	6 408	(13 371)
Levies on banking activities	(12 522)	(5 950)	(791)	(108)	(19 371)
Pre-tax result from continuing operations	40 858	15 074	4 711	(1 862)	58 781
Taxes on income	(2 920)	(948)	(238)	862	(3 244)
Post-tax result from continuing operations	37 938	14 126	4 473	(1 000)	55 537
Net result for the period	37 938	14 126	4 473	(1 000)	55 537
Net result attributable to owners of the parent	37 938	14 126	4 473	(1 000)	55 537
Operating income	97 335	31 599	7 926	(4 065)	132 795
Operating expenses	(51 437)	(8 890)	(2 336)	(675)	(63 338)
Operating result	45 899	22 708	5 590	(4 740)	69 457
Cost/income ratio	52,8%	28,1%	29,5%	-16,6%	47,7%
Total assets (eop)	822 243	760 520	192 404	1 086 969	2 862 136
Total liabilities excluding equity (eop)	997 295	627 151	449 889	400 315	2 474 650
Impairment gain / (loss)	7 997	(1 978)	62	(4 087)	1 994
Net impairment loss on financial assets AC	7 452	(1 260)	37	(5 476)	753
Net impairment loss on financial assets FVOCI	-	(26)	1	3	(22)
Net impairment loss on finance lease receivables	30	(793)	-	-	(763)
Net impairment loss on commitments and guarantees given	514	101	24	(11)	628
Net impairment on investments in subsidiaries, joint ventures and associates	-	-	-	1 845	1 845
Net impairment on other non-financial assets	-	-	-	(449)	(449)

Business Segments

in HUF million	Retail 2018	Corporates 2018	Group Markets 2018	ALM & LCC 2018	Total group 2018
Net interest income	49 294	17 387	2 334	-2 160	66 855
Net fee and commission income	36 777	8 218	1 895	-998	45 892
Dividend income	0	0	0	4 337	4 337
Net trading result	3 438	2 831	4 512	2 778	13 559
Gains/losses from financial instruments at FVPL	-386	5	0	-1 827	-2 208
General administrative expenses	-50 213	-8 482	-2 091	173	-60 613
thereof depreciation and amortization	-8 318	-1 122	-242	-30	-9 712
Other gains/losses from derecognition of financial instruments not at FVPL	0	0	0	-15	-15
Impairment result from financial instruments	2 081	4 858	67	1	7 007
Other operating result	-7 558	-4 462	-659	-3 085	-15 764
Levies on banking activities	-11 883	-5 293	-656	-552	-18 384
Pre-tax result from continuing operations	**33 433**	**20 355**	**6 058**	**-796**	**59 050**
Taxes on income	-2 674	-853	-268	2 244	-1 551
Post-tax result from continuing operations	30 759	19 502	5 790	1 448	57 499
Net result for the period	**30 759**	**19 502**	**5 790**	**1 448**	**57 499**
Net result attributable to owners of the parent	**30 759**	**19 502**	**5 790**	**1 448**	**57 499**
Operating income	89 123	28 441	8 741	2 130	128 435
Operating expenses	-50 213	-8 482	-2 091	173	-60 613
Operating result	**38 910**	**19 959**	**6 650**	**2 303**	**67 822**
Cost/income ratio	56,3%	29,8%	23,9%	-8,1%	47,2%
Total assets (eop)	685 595	604 134	165 082	1 003 951	2 458 762
Total liabilities excluding equity (eop)	876 474	475 500	453 909	304 555	2 110 438
Impairment gain / (loss)	**2 081**	**4 858**	**67**	**-1 511**	**5 495**
Net impairment loss on financial assets AC	1 817	4 735	102	0	6 654
Net impairment loss on financial assets FVOCI	0	0	-6	0	-6
Net impairment loss on finance lease receivables	121	183	0	0	304
Net impairment loss on commitments and guarantees given	143	-60	-29	0	55
Net impairment on investments in subsidiaries, joint ventures and associates	0	0	0	-214	-214
Net impairment on other non-financial assets	0	0	0	-1 297	-1 297

Geographical segmentation is not applied as Hungary is in the focus of Erste Bank Hungary's business activity (above 95% of the revenues are realised domestic).

34) Assets and liabilities denominated in foreign currencies

Assets and liabilities not denominated in forint were as follows:

			of which outside Hungary	
in HUF million	**2018**	**2019**	**2018**	**2019**
Assets	**463,114**	**503,555**	**29,653**	**18,499**
EUR	401,395	472,737	8,601	13,763
CHF	11,257	11,399	52	15
USD	49,989	16,722	20,773	2,341
JPY	17	10	8	-
Other	456	2,687	219	2,380
Liabilities	**514,660**	**612,229**	**69,630**	**77,247**
EUR	418,462	439,994	63,287	67,628
CHF	6,340	6,936	1,051	1,187
USD	80,174	154,542	4,559	6,565
JPY	1,370	805	9	165
Other	8,314	9,952	724	1,702

Further details of the exchange rate open positions in Note 40), chapter ‘Market Risk’.

35) Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

a) Finance leases

Erste Bank as a lessor leases both movable property and real estate to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in HUF million	**2018**	**2019**
Outstanding minimum lease payments	31,637	37,669
Non-guaranteed residual values	8,936	9,839
Gross investment	**40,573**	**47,508**
Unrealised financial income	2,424	2,682
Net investment	**38,149**	**44,826**
Present value of non-guaranteed residual values	8,936	9,284
Present value of minimum lease payments	**29,213**	**35,542**
Risk provision related to outstanding minimum lease payments	**(547)**	**(1,258)**

Maturity analysis of leases by residual maturities under IFRS 16

	Gross investment	Present value of minimum lease payments
in HUF million	2019	2019
< 1 year	13,094	10,400
1-2 years	11,232	9,182
2-3 years	9,855	7,178
3-4 years	7,351	4,801
4-5 years	2,978	1,982
> 5 years	2,998	1,999
Total	**47,508**	**35,542**

Maturity analysis of leases by residual maturities under IAS 17

	Gross investment	Present value of minimum lease payments
in HUF million	2018	2018
< 1 year	9,901	7,937
1-5 years	27,296	19,137
> 5 years	3,376	2,139
Total	**40,573**	**29,213**

b) Operating leases

Under operating leases, Erste Bank leases real estates. Future minimum lease payments under non–cancellable operating leases as at 31 December are, as follows:

Maturity analysis of lease payments from operating leases under IFRS 16

in HUF million	2019
< 1 year	44
1-2 years	44
2-3 years	44
3-4 years	44
4-5 years	44
> 5 years	188
Total	**408**

During 2019, Erste Bank recognised income relating to variable lease payments in the amount of 33 million forint. For information about rental income please refer to Note 6) Rental income from investment properties and other operating leases.

Erste Bank as lessor had no operative leasing activity in 2018.

Leases where Erste Bank is a lessee

For details about right-of-use assets capitalized in balance sheet arising from leases where Erste Bank is lessee, please see Note 25) Fixed assets movement.

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Maturity analysis of lease liabilities under IFRS 16

in HUF million	2019
< 1 year	2,885
1-5 years	10,285
> 5 years	8,034
Total	**21,204**

Leasing contracts recognised as right-of-use assets and lease liabilities from 01.01.2019 are contracts for office space and branches.

During 2019, interest expenses on lease liabilities were recognised in the amount of 939 million forint. In 2019, expenses in the amount of 174 million forint relating to short term leases and 110 million forint relating to low value assets, for which the recognition exemption of IFRS 16 applies, were recognised.

Total cash outflow for leases recognised as right-of-use assets and lease liabilities in 2019 was 3,160 million.

Minimum lease payments from non-cancellable operating leases under IAS 17

in HUF million	2018
< 1 year	4,001
1-5 years	9,479
> 5 years	4,121
Total	**17,601**

In 2018, lease payments from operating leases recognised as expense in the period amounted to 3,211 million forint.

36) Related party transactions

Besides subsidiaries, the principal shareholder (parent) and minority owners, Erste Bank also defines other entities and associates which are members of Erste Group as related parties. Furthermore related parties consist of Management and Supervisory Board Members as well as companies over which these persons have control or significant influence. Transactions with related parties are undertaken on an arm's length basis.
The following terms are used in the below table:

Parent: being the ultimate parent 'Erste Group Bank AG' for all two periods presented
Subsidiaries: the subsidiaries are listed in section 48) of the notes
Other related parties (Erste Group): all companies in Erste Group other than the Hungarian subsidiaries

Loans and advances and amounts owed to related parties

in HUF million	2018	2019
Other demand deposits	**2,641**	**8,699**
Parent	2,641	8,699
Loans and advances to credit institutions [1)]	**40,894**	**18,806**
Parent	26,111	4,112
Subsidiaries	14,783	12,195
Other related parties (Erste Group)	-	2,499
Loans and advances to customers	**34,571**	**18,363**
Subsidiaries	22,225	6,166
Other related parties (Erste Group)	12,346	12,197
Derivative financial instruments - asset	**11,809**	**18,779**
Parent	10,814	17,105
Subsidiaries	-	746
Other related parties (Erste Group)	995	927
Other assets	**4,917**	**5,495**
Parent	2,471	2,273
Subsidiaries	1,468	1,884
Other related parties (Erste Group)	979	1,338
Deposits by banks	**140,210**	**228,995**
Parent	5,066	16,457
Subsidiaries	132,021	210,549
Other related parties (Erste Group)	3,123	1,989
Customer deposits	**108,901**	**113,599**
Subsidiaries	106,459	109,950
Other related parties (Erste Group)	2,442	3,648
Derivative financial instruments - liabilities	**12,549**	**18,871**
Parent	11,405	17,426
Subsidiaries	1,144	1,445
Other liabilities	**2,620**	**2,515**
Parent	284	272
Subsidiaries	81	174
Other related parties (Erste Group)	2,255	2,069
Subordinated liabilities	**52,512**	**53,983**
Parent	52,512	53,983
Other commitments	**745**	**870**
Parent	30	15
Other related parties (Erste Group)	715	855
Loan commitments	**26,635**	**20,155**
Subsidiaries	26,635	20,155

1) Average contractual interest rate:
2019: 0.27%
2018: 1.49%

Income and expenses to related parties

in HUF million	2018	2019
Interest Income	**3,735**	**3,463**
Parent	2,902	2,637
Subsidiaries	394	474
Other related parties (Erste Group)	439	353
Interest Expense	**(6,264)**	**(7,985)**
Parent	(3,532)	(3,710)
Subsidiaries	(2,730)	(4,275)
Other related parties (Erste Group)	(1)	(1)
Fee and commission income	**8,552**	**9,880**
Parent	36	44
Subsidiaries	8,455	9,818
Other related parties (Erste Group)	62	18
Fee and commission expense	**(328)**	**(286)**
Parent	(29)	(33)
Subsidiaries	(276)	(248)
Other related parties (Erste Group)	(23)	(5)
Dividend income	**4,300**	**1,000**
Subsidiaries	4,300	1,000
Other operating Income/(Expense)	**663**	**3,237**
Parent	168	212
Subsidiaries	473	2,692
Other related parties (Erste Group)	22	333

Related party transactions to Management and Supervisory Board Members and Board of Directors

Management compensation

in HUF million	2018	2019 plan
Fixed salary	376	403
Performance related compensation	338	403
Other compensation	35	32
Total	**749**	**838**

The internal members of the Management Board (the internal members of the Board of Directors) do not receive any additional compensation for their board memberships. The compensation of management board members is based on the individual's responsibilities, the achievement of corporate targets and the group's financial situation.
The above includes employment related compensation only, severance payments are not included.
'Other compensation' includes other contractual allowances.

From 2011, in accordance with Erste Bank's Remuneration Policy – which is based on CRDIV by EU (Capital Requirements Directive IV) on remuneration policies and the Hungarian Banking Act - management board members are recognised as identified staff and the following special rules are applied for their performance related compensation:
The performance related compensation is based both on Erste Bank financial results and individual performance. The bonus amount is defined by qualitative and quantitative key performance indicators (KPIs) agreed by Erste Group HR and Erste Group Performance Management. Applied KPIs are risk adjusted financial result indicators, business specific objectives and leadership competencies.

60% of the performance related compensation is granted as upfront payment and 40% is deferred for 3 years in equal instalments. Deferred amounts are subjects to re-evaluation and might be decreased based on its result.
50% of both upfront and deferred payments have to be non-cash instruments. Erste Bank chooses the phantom stock plan of Erste Group as a non-cash instrument. Non-cash instruments have to be held for a retention period of 1 year.
Since the financial year 2010, the variable part of the management board's remuneration, including both cash payments and share-equivalents, is distributed over five years in accordance with legal requirements and is paid out only under certain conditions. Share-equivalents are not exchange-traded shares but phantom shares that are paid out in cash after a one-year vesting period based on defined criteria.

For 2019, performance-linked remuneration and share-equivalents are planned to paid out as the follows:

Performance related compensation

in HUF million	2018	2019 plan
Cash payment for performance period 2018	68	81
Deferred Bonus in cash for next performance periods	102	121
Deferred Bonus in share equivalent for next performance periods	169	202
Total	**339**	**403**

Breakdown of Supervisory Board and Board of Directors compensation:

in HUF million	2018	2019 plan
Supervisory Board compensation	39	41
Board of Directors compensation	775	838
Total	**814**	**880**

Supervisory Board compensation includes only the external members remuneration received for the duties in the supervisory body; severance payments are not included.
The remuneration of the internal members of the Board of Directors includes employment related compensation only received by in their functional positions. They are not paid any additional compensation for their board memberships.
The Supervisory Board of the Bank is set-up of three local employee members (who do not receive any payment for their memberships) and six external members who do not have any functional responsibility within the company. In 2019 the external members of the Supervisory Board received a compensation of 41 million forint per year for the membership (in 2015 7.7; in 2016 23; in 2017 37, in 2018 39 million forint).
The Board of Directors of the Bank is set-up of the members of the managerial board and five external members who do not have managerial responsibility within the company. The external members received a compensation of 25.5 million forint per year for 2019 (in 2015 7.1, in 2016 12; in 2017 24, in 2018 26 million forint).

Organization of Erste Bank Hungary Zrt.

(i) the General Meeting;
(ii) the Board of Directors;
(iii) the Supervisory Board;
(iv) the Audit Committee (as sub-committee of the Supervisory Board;
(v) the Remuneration and Nomination Committee ;
(vi) the Risk Governance Committee and
(vii) the Managing Board.

The General Meeting is the supreme body of the Bank. The General Meeting shall be called by the Board of Directors as soon as reasonably practicable upon the written request of one or more Shareholders or by any Supervisory Board member. In the cases set out in the applicable laws, the competent authority, the Auditor, and the court of registration may also initiate the decision-making of the General Meeting.

Members of the Board of Directors

The Board of Directors is the managing body of the Bank, which directs the operation, as well as the management of the Bank within the framework of the laws, the Statutes, and the resolutions passed by the General Meeting of the Bank, as well as with taking into consideration the recommendations made by the Supervisory Board.
The Board of Directors consists of 3 (three) members at the minimum (10 members both in 2018 and 2019). The members of the Board of Directors shall be elected by the General Meeting for a maximum of 5 (five) years (9 members both in 2018 and 2019). The members of the Board of Directors may be re-appointed and recalled at any time by the General Meeting. Such persons may be elected as members of the Board of Directors who comply with the conditions set out in the Civil Code, the Banking Act, other laws and Erste Bank Hungary Zrt.'s Statutes.

Members of the Supervisory Board

The Supervisory Board consists of a minimum of 3 (three) and a maximum of 9 (nine) members who are elected by the General Meeting for a maximum of 5 (five) years. The members of the Supervisory Board may be re-elected and recalled by the General Meeting.

The members of the Supervisory Board may be executive officers and Supervisory Board members in other business organizations pursuing – among others – the same activity as the Bank. If such business organization pursuing (among others) the same activity is not a member of Erste Group, the approval of the General Meeting is necessary for holding such position in the other business organisation.
The General Meeting shall elect the chairman of the Supervisory Board from its members.
The Chairman of the Supervisory Board may be invited to the meetings of the Board of Directors with consultation rights.

Members of the Remuneration and Nomination Committee

The members of the Committee shall be 3 (three) delegated person from the external members of the Board of Directors.
The chairman of the Committee is elected by the Committee itself from the members of the Committee.

Members of the Risk Governance Committee

The members of the Committee shall be 3 (three) delegated person from the external members of the Board of Directors.
The Risk Governance Committee elects the chairman of the Committee from among the members of the Committee.

Members of the Managing Board

The Managing Board (the "Managing Board") is a body that exercises operative control over the Bank, makes the necessary decisions and specifies principles to manage the daily operation of the Bank and shall be established by the Board of Directors, within its own organisation. Members of the Managing Board are the Chairman of the Board of Directors, the Chief Executive Officer of the Bank and each deputy CEO if such person is a member of the Board of Directors.

37) Collateral

The following assets were pledged as security for liabilities:

in HUF million	2018	2019
Financial assets at amortised cost	**236 210**	**259 566**
Loans and advances to customers	165 562	209 689
Debt securities at AC	70 648	49 877
Total	**236 210**	**259 566**

The financial assets pledged as collateral consist of loan receivables, bonds and other interest-bearing securities.
Collaterals were pledged as a result of repo, refinancing, derivative and card transactions.

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Loans and receivables to customers contain refinanced mortgage loans in the amount of 164,041 million forint in 2019 (82,692 million forint in 2018) as well as SME loans for a refinancing program with the National bank of Hungary, of 4,478 million forint in 2019 (6,086 million forint in 2018). Details of the program see in Note 11), Other operating result table, comment 2), page 39.
This category also contains encumbered deposits placed for derivative and card transactions.

38) Transfers of financial assets – repurchase transactions and securities lending

Securities lending and repurchase transactions

in HUF million	2018		2019	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	**15,377**	**15,024**	**30**	**33**
Financial assets - at AC	15,377	15,024	30	33
Total	**15,377**	**15,024**	**30**	**33**

The transferred financial instruments consist of bonds and other interest-bearing securities. The total amount of transferred financial assets represent the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledge. The associated liabilities from repo transaction, which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows fair values of the transferred assets and associated liabilities for repo transactions with an existing recourse right only on the transferred assets.

in HUF million	2018			2019		
	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
Financial assets - at AC	15,104	15,024	(81)	33	33	-
Total	**15,104**	**15,024**	**(81)**	**33**	**33**	**-**

Assets received and transferred by Erste Bank under sale and repurchase agreements consist of securities.

39) Offsetting of financial instruments

The below tables include once all the repurchased agreements, twice all the derivatives deals where ISDA agreement provides the potential for offsetting.

Erste Bank Hungary employs repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the values of assets and liabilities that would be set off as a result of master netting agreements are presented in the column 'Financial instruments'. If the net position is further secured by cash collateral or non-cash financial collaterals the effects are disclosed in columns 'Cash collateral received / pledged' and 'Non-cash financial collateral received / pledged' respectively.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities remain in the hands of the lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column 'Non-cash financial collateral received / pledged' respectively. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from being used it by the transferor during the time of the pledge.

Financial assets subject to offsetting and potential offsetting agreements in 2019

in HUF million	Gross amounts in Statement of Financial Position	Amounts set off against financial liabilities	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	35,053	-	35,053	20,075	-	-	14,978
Total	**35,053**	**-**	**35,053**	**20,075**	**-**	**-**	**14,978**

Liabilities subject to offsetting and potential offsetting agreements 2019

in HUF million	Gross amounts in Statement of Financial Position	Amounts off against financial assets	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	30,241	-	30,241	20,075	-	-	10,166
Repurchase agreements	33	-	33	-	-	33	-
Total	**30,274**	**-**	**30,274**	**20,075**	**-**	**33**	**10,166**

Financial assets subject to offsetting and potential offsetting agreements in 2018

in HUF million	Gross amounts in Statement of Financial Position	Amounts set off against financial liabilities	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	25,930	-	25,930	10,686	-	-	15,243
Total	**25,930**	**-**	**25,930**	**10,686**	**-**	**-**	**15,243**

Liabilities subject to offsetting and potential offsetting agreements 2018

in HUF million	Gross amounts in Statement of Financial Position	Amounts off against financial assets	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	19,839	-	19,839	10,686	-	-	9,153
Repurchase agreements	15,024	-	15,024	-	-	15,021	2
Total	**34,863**	**-**	**34,863**	**10,686**	**-**	**15,021**	**9,156**

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40) Risk management

Risk policy and strategy

A core function of a bank is taking risks in a conscious and selective manner and professionally steering those risks. Adequate risk policy and risk strategy is essential to a bank's fundamental financial health and operational business success.

Erste Bank has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

The risk strategy describes the current risk profile, defines risk management principles, strategic goals and initiatives for the main risk types as well as sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy is executed within a clear defined governance structure. This structure also applies to monitoring risk appetite, additional metrics, as well as to the escalation of limit breaches.

In 2019, management has continued to steer credit portfolios, including active management of non-performing exposures to further strengthen the risk profile (e.g. enhanced workout measures, monitoring and reporting of long-term operational plans for legacy NPL stock and new NPL inflow etc.). This has been demonstrated in particular by the continuous improvement of credit quality and the ongoing decrease of non-performing loans and low risk costs.

The disclosure requirements of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter Hpt.) Article 122 and the Regulation (EU) No 575/2013 of the European Parliament and the Council on prudential requirements for credit institutions and investment firms; amending regulation (EU) No 648/2012 (CRR) have been implemented throughout the Bank since 1 January 2007. The current Pillar 3 Disclosure Report of Erste Bank is made in accordance with the CRR and the Hungarian legislation, specifically Hpt. The Disclosure Report provides comprehensive disclosure on risks, risk management and capital management. The Report is required to be published on a regular basis – once a year – in Hungarian as well as in English. Erste Bank has opted for the Internet as the medium of this publication.

Risk management organisation

Risk management is achieved through a clear organizational structure with defined roles and responsibilities, delegated authorities and risk limits. Risk management units are completely separate from each business unit. Besides the Risk Governance Committee (RGC) the Bank has also established local committees in order to support efficient decision process and in order to ensure a multi-functional supervision (i.e. ensuring the participation of various fields professions) in risk management, in related principles, in risk strategy forming, harmonizing with business strategy, following up and monitoring the strategy and its execution, as well as strengthening the risk awareness and risk culture. The main objectives of the committees include the promotion of mutual understanding and coordination in the field of corporate and retail lending activities and between the internal management functions.

The following chart illustrates the organizational structure of the risk management area:

Risk management structure

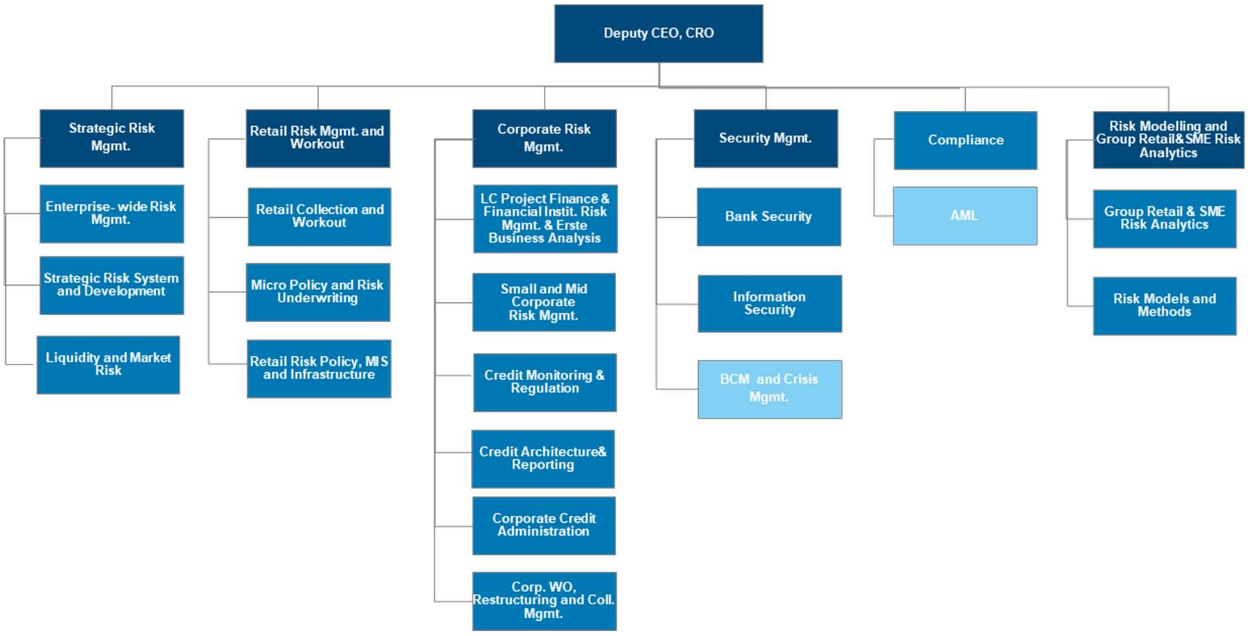
In order to ensure that the risk management system is in line with the profile and strategy, the Bank has implemented a comprehensive Enterprise-wide Risk Management (ERM hereinafter) Framework. Key components of this framework are:

- the Risk Appetite Statement (RAS);
- Risk Materiality Assessment (RMA);
- Risk-bearing Capacity Calculation (RCC);
- and the Risk Strategy, which frames the above three.

In addition to the elements of the above mentioned ERM framework, the Bank's risk management performs also the following functions:

- Risk planning and forecasting
- Stress Tests
- Recovery Plan
- Risk Reporting System

A fundamental objective of the Bank is to implement its strategic objectives by driving prudent and risk-conscious operations. The Bank lays down its risk management principles in its Risk Strategy. Erste Bank uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear Risk Appetite Statement (RAS) that is consistent with the Bank's business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and



efficient risk management, the Bank's risk management and control system has been developed to fulfil external and, in particular, regulatory requirements. The Bank defines its Risk Strategy and Risk Appetite through the annual planning process to ensure proper alignment of risk, limit system, capital, liquidity and performance targets.

The Bank has always focused on a reliable risk culture. As part of this, proactive behaviour and a strong risk management culture are expected from all employees. In terms of individual behaviour and decision-making, personal integrity and a high level of professionalism are essential.

Risk Appetite Statement (RAS)

The Bank's Risk Appetite Statement (RAS hereinafter) expresses the maximum level of risk that the Bank is willing to accept in order to deliver its business objectives by serving as a starting point for the implementation of the risk limit framework. The risk appetite thus provides a meaningful guidance for the planning process, the tolerances for the core risk metrics and key risk principles to manage risks. It sets the boundary for limits & target setting, and forms a key input into the annual strategic planning process, creating a holistic perspective on capital, liquidity and risk-return trade-offs.

Risk Materiality Assessment (RMA)
The RMA contains the identifications of the risks and the required methodology and testing to determine the materiality of the risk. The main purpose of the risk assessment is to identify and assess material risks and consequently to analyse the risk profile of Erste Bank. Key outputs are used for the limit system of the RAS, for designing elements of a risk management framework, and in the scenario design and selection of the comprehensive stress test.

Risk Strategy
Erste Bank's Risk Strategy forms an essential part of the ERM framework. The Risk Strategy defines the general principles and key elements of the risk management framework to ensure an adequate and consistent implementation of the Risk Strategy. The Strategy combines the principles of prudent risk-taking and risk culture, the outcomes of the RAS and RMA, and the initiatives needed to achieve strategic goals at the level of each type of risk or key business line.

Risk-bearing capacity calculation (RCC)
Within the RCC, all material risks are regularly quantified, aggregated and compared to the coverage potential, to the bank's own funds and to limits set in risk appetite. The result and evaluation of the calculation are part of the regular reports prepared for management, supporting senior management in their decision making processes, in order to comply with prudent risk-taking and risk limits. Insights generated by the assessment are used to improve risk management practices and further mitigate risks within EBH.

Risk reporting systems
The cooperation of the Bank's units in charge of risk management and the managerial reporting system ensures that management is provided with a comprehensive view of the Bank's risk position at all times.
In relation to its risk position, the Bank regularly prepares reports about its risk exposure, actual and forecasted capital position under Pillar I and Pillar II, results of comprehensive and supervisory Stress Testing, liquidity and market risk profile and concentration risk for discussion and approval for decision-making bodies and committees: for the Board of Directors, for the Managing Board, for the Supervisory Board, for the Risk Governance Committee as well as for the Risk Committees.

Risk planning and forecasting
The responsibility for risk management within the Bank includes ensuring sound risk planning and forecasting processes, focusing on both portfolio and economic environment changes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the Bank's overall planning process, and in particular, with Controlling, Finance and Accounting, Strategic/Corporate/Retail Risk Management and the Asset Liability Management by assessing:

- the expected portfolio quality and impairment levels
- risk-weighted asset management and ensuring capital adequacy
- capital allocation to entities, business lines and segments
- forecasting the liquidity and interest rate risk.

All insights from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

Recovery plans
In compliance with the Hpt. 114.§ Erste Bank is required to draw up a recovery plan for potential crisis situations. In 2019 an updated Recovery Plan was submitted to the Regulator by the Bank. The Recovery Plan identifies options for restoring financial strength and viability if Erste Bank comes under severe economic stress. The plan specifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress.

Stress Tests
The Bank annually conducts its own impact assessment as the Bank's risk management framework, aiming to assess the Bank's resilience on its consolidated portfolio in a variety of stress situations along with each type of risk. The applied scenarios include possible macroeconomic/business shocks after the acceptance of the participants of the respective decision forum. Stress testing is complemented with target-specific sensitivity tests using tools developed by the Bank. The results revealed by the analysis are fundamental to determining the Bank's risk appetite, which is an integral part of the Bank's risk strategy.
The Bank pays special attention to prevent the reproduction of the problematic portfolio and to reduce the previously non-performing portfolio.

Credit risk

Credit risk is a fundamental risk for banks, the borrowers are unable to repay the loan and interest at maturity, or do not pay. Lending is one of the main activities in the profile of Erste Bank.
Credit risk related to retail, corporate, municipality, real estate and project loan portfolios are managed to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities.
The special risk policies and rules of procedures:

- for retail customers are regulated by the Retail Risk Procedure;
- for SMEs and large corporations are regulated by the Corporate Risk Policy and Corporate risk taking approval authorities policy
- for municipalities are regulated by the Municipality Risk Policy and
- for real estate and project transactions are regulated by the Real Estate Financing Policy.

Quantitative portfolio limits and qualitative risk principles are defined to ensure that the risk profile remains in line with the risk strategy. Moreover the Bank's risk management ensures that any new products or change in lending criteria are in line with the group-wide lending framework requirements and are adequately supported by the existing risk infrastructure. Erste Bank also ensures that the local environment (market, competitive, economic, political, and legal/regulatory) is appropriately addressed. A management summary of the key developments is distributed at least quarterly to senior management and key decision makers.

Structure and organisation

As lending is a core profile of the Bank, the Bank regularly identifies, evaluates, manages and monitors credit risk, carried out by the following risk management units:

- Strategic Risk Management,
- Retail Risk and Workout Management,
- Corporate Risk
- Risk Modelling

Internal policies define the retail lending framework by establishing policy rules for the entire retail lending cycle covering underwriting, portfolio management, early and late collection. Thus retail lending and analytical framework serves as a basis for the Bank's retail lending practices and for identifying potential adverse portfolio developments.
The compliance with internal policies is carried out by the Retail Risk and Workout Management. For new products or sub-products to ensure proper risk rules the Retail Risk and Workout Management also prepares proposal about minimum lending criteria, score cut-off, debt burden % criteria, documentation requirements, verification steps and other risk related parameters to gain approval and ensure proper introduction.
The portfolio risk analytics are operated and managed by the operative risk areas through the 'management information system' (MIS) which serves as the analytical background that supports retail risk management decisions with various regular and specific analyses and ensures prudent lending while promoting the 'Managing-through-MIS' approaches and the pro-active, analytics based management of retail loan portfolios on a Bank wide basis.
Strategic Risk Management is responsible for the risk strategy and the related frameworks.
Corporate Risk evaluates credit risks related to large corporate, project and real estate financing, financial institution and municipality clients, makes proposals for credit decision-making as well as controls credit proposals in terms of risk management and compliance with rules.
Risk Modelling's responsibility is to collect data for the development of rating models and for model development (Basel and IFRS9 parameters), monitoring and validation purposes, and ad hoc analyzes. Developing a rating methodology that meets current strategic objectives and expectations. Development, maintenance, monitoring and validation of rating models and credit risk parameters based on relevant methodologies.

Credit risk measurement and control

Prior to granting a loan, the creditworthiness of a client is determined and confirmed in view of the risk/reward trade-off. Loans can only be granted if the repayment capacity of the borrower is sufficient to serve the regular repayments. Risk-adjusted pricing ensures a balanced relationship between risk and return.
The regular credit risk reports contain information for the Management Board and the risk management committee related to the developments of loan exposures in each key segment, the quality of the portfolio by rating category and detailed risk-relevant information on customers at risk of default or already defaulted. The regular credit risk reports serve as the basis for the business and risk strategy.

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The Retail Risk and Workout ensures historical data gathering regarding changes in the risk rule set. It reports the risk rule set changes toward the Group Retail Risk Management (GRRM) on a regular basis to build on up-to-date portfolio monitoring techniques (vintage analysis, delinquency trends, segment analyses, etc.) and to show key drivers behind specific portfolio developments.

Risk mitigation rules

In order to secure its claims, the Bank only takes risk with the proper collaterals. The Bank checks the existence of the collateral, their real value and enforceability, and continuously monitors them during the period of risk.
Interest rate hedging is provided to the extent necessary.

Internal rating system

Approved approaches and transitional rules by the regulator

Erste Bank was authorised by the supervisory authority FMA (Austrian Financial Market Authority) for indefinite time to calculate risk-weighted exposure amounts for credit risk using the IRB Approach from 1st April 2008. (IRB Official Notice 28 Mar 2008; IRB official notice for single banking entities and at consolidated level for institutions abroad.)

It annually performs validation of the credit risk models according to the applicable regulations.
The following segments fall under the Advanced IRB Approach:

- Retail

The following segment falls under the Foundation IRB Approach:

- Corporate
- Institutions
- Central government and central bank
- Corporate / Special Lending (Real Estate Financing).

Rating systems and use of ECAIs

A rating system comprises all models, methods, processes, controls, data collection and data processing processes that serve the assessment of credit risks, the allocation of exposures to rating grades and the quantification of default probabilities for certain types of exposures.
The rating systems used by Erste Bank meet the requirements for the application of the IRB Approach.
External rating are applied on sovereign customers as an input (Moody's rating is applied) to the local model. Other clients are rated internally.

Rating Models and Methods

The internal rating models and the estimates of the risk parameters play a key role in credit risk management, in the decision-making processes and in lending operations. Furthermore, they deliver the main determinants for the procedures to assess the capital requirement. Erste Bank uses empirical-statistical and expert-based model types. A periodical validation assures the quality of the rating models and risk parameters.

The purpose of customer rating is the best possible estimation of customer related risks, i.e. to establish the probability of default of the customer within one year (Probability of Default, PD).

Risk assessment is primarily based on the customer rating, however decisions regarding the individual credit risks are not based solely on the customer rating, but they are made with the apprehensive consideration of risk factors.

Within this framework, in addition to the customer and the customer risks any potential third party in the transaction and, in certain cases, the collateral are also the subject of the review.

The rating method to be used is determined depending on customer classification:

- Retail
- Corporates
- Banks
- Sovereigns

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Every customer is assigned a certain rating method, as follows:

Exposure Classes	STATISTICAL MODEL	EXPERT MODEL
Retail, commercial	✓	
Corporate	✓	✓
SME	✓	
Special Lending (IPRE)		✓
Banks		✓
Other financial institutions		✓
Central government and central banks		✓
Country		✓
Sovereign		✓
Equities	✓	✓

The rating methods Bank rating and Sovereign rating are used as centralised methods throughout Erste Group without any regional modifications and are made available to the Group companies.
The other rating methods (rating private individuals, rating SME, rating corporates and rating specialised lending) follow uniform modelling guidelines. At Erste Bank model structures feature regional adaptations appropriate to the respective portfolios.

Procedures for checking the reliability of rating systems

Rating systems are reviewed at least once a year. The review is based on Group standards. For retail portfolios both the application and the behavioural scorecards are checked. In the course of back-testing the Bank examines, among others, the rating distribution, calibration and discriminatory power. If required based on the review, the models are adjusted or redeveloped.
Customer rating is used for corporate credit portfolios, the review of which is carried out similarly to that of the retail portfolio.

The structure of the internal rating system and the link between internal and external ratings

Depending on the customer type and the product the Bank uses systems that are using customer and product data to establish the rating. Where this is not available, the rating is established based on the procedure set forth in a separate policy.
The rating systems applied by the Bank have been established based on the standards valid for the Erste Holding subsidiaries and in accordance with the Hungarian regulations. The rating system of the Bank is validated by Erste Holding Validation Unit with annual frequency. The management of the Bank is regularly notified about the validation results. If the validation process discovers deficiencies concerning rating system of the Bank, and the related processes, the Bank is required to define and implement risk mitigation measures in the relevant fields of the Risk Management of the Bank.

Ratings provided by external credit rating agencies are matched to the ratings provided by the internal rating system for each agency.

According to Article 4 (98) CRR, external credit assessment institution (ECAI) means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009.
The Bank used by external rating agencies and credit quality categories are as follows:

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Moody's	OECD Country Risk Ratings	Credit Quality Step
Aaa to Aa3	0 to 1	1
A1 to A3	2	2
Baa1 to Baa3	3	3
Ba1 to Ba3	4 to 5	4
B1 to B3	6	5
Caa1 and below	7	6

Art. 444. d) CRR - Allocation of the external ratings to credit quality steps

Description of the rating process

The Bank uses different rating systems for central governments and central banks, credit institutions, local governments, leasing companies, insurance companies, business entities, project companies, retail customers and other organizations.
When rating any customer, the Bank considers objective and quantifiable as well as subjective and non-quantifiable aspects. With reliance on the review of the portfolio, the information originating from the rating process is continuously measured against historic data.
The Bank's IRB rating systems and its rating methods are back-tested and validated yearly, in line with regulatory requirements.

Rating of central governments or central banks
Central governments and central (or national) banks are rated on the level of Erste Holding with the use of a special rating system which is regularly reviewed. The rating has a special focus on the short-, medium- and long-term risk of foreign currency indebtedness.

The country risk is regarded to be equivalent to the risk carried by the central government, including the government itself, the central (national) bank and the institutions that are backed by the government's joint and several suretyship. The rating is updated on a quarterly basis in order to moderate the distorting effects of the quickly changing environment. The risk model distinguishes two country types: industrial and developing (emerging) markets.

Rating of credit institutions and investment enterprises
To rate credit institutions and investment enterprises, Erste Holding uses its own, dedicatedly developed model. This rating system is an expert model based on the combination of quantitative, qualitative and country risk criteria, to the risk transfer be covered.

Rating of enterprises
When rating business companies, the Bank is required to examine capital endowment, capital structure, liquidity, profitability and debt service. In addition to the foregoing, the system for the analysis of the balance sheet calculates other indicators for assessment, as well. Beside historic figures, the Bank also considers future expectations in the course of rating. Subjective aspects reviewed on a mandatory basis: ownership structure, professional image of the management, market situation and its expected trends, composition of orders, sectoral information, evaluation of future outlooks, quality of planning.
The Bank uses a 13+R level borrower rating system for enterprises: 1 – Virtually risk-free; 2 – Minimum risk; 3 – Low risk; 4a, 4b, 4c – Risk under the average level; 5a,5b, 5c – Average risk level; 6a – 6b Risk over the average level; 7 – Exposure limit; 8 – Early warning; R1-5 – Default.

Rating of retail customers
To determine the rating of exposures within the Bank's retail portfolio, product-specific scorecards are used.
These product-specific scorecards, combined with the customer level scorecards, are integrated into a customer-level rating system.
The rating scale that is applied to private persons within the retail portfolio (and also presented in the capital calculation) has 8+R grades.
Micro-entrepreneurial customers are rated on a scale of 13+R grades, identically to corporate customers.

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Investments in subsidiaries and other participations
The Bank rates its investments in subsidiaries and other participations on a quarterly basis. The rating categories and provisioning rates belonging to participations are established with respect to their book values in the Bank's records and their fair (market) values. When rating a participation, it is to be considered what tendencies the business operations of the company show in comparison with the previous years, and what changes can be anticipated in the short and medium run.
The Bank is not involved in activities for the acquisition of participations for profit.

The process used to transfer the issuer and issue credit assessments onto items not included in the trading book
Issuers are rated the same way as other customers. External rating are applied on sovereign customers as an input (Moody's rating is applied) to the local model. Other clients are rated internally.
Other clients are rated internally.

Probability of default (PD)

PD estimates the probability of the customer falls in default.
For the quantitative validation of PD estimates, the Bank uses the standards determined for Erste Holding's subsidiaries.
The validation itself is executed annually by the Erste Holding Validation unit as an independent team of experts. Validation includes the backtesting of both the portfolio level PD as well as the long-term PD estimated for rating categories, and the comparison with empirical portfolio level default rates and the long term, rating-category based default rates. According to the methodology approved by the supervision authority, if the validation analysis detects an underestimation, a re-estimation is required.

Loss given default (LGD)

LGD is used to estimate the volume of a loss that is suffered by the Bank on average on a transaction having gone default, with respect to the costs associated with receivables collection and the time value of money. The absolute volume of the loss is projected to the total value of the receivables outstanding in relation to the given transaction (= exposure at default ~ EAD) at the time of the occurrence of the default event.
The Bank applies its own loss given default (LGD) estimates in the retail segment.

LGD is validated annually by the Erste Holding Validation Unit. It basically embraces the revision of pools, an overview of changes in the workout processes, the comparison of the newly available factual information with the earlier estimates and the review of the macro-correction of the estimates, and therefore it involves both quantitative and qualitative elements. If the validation back testing proves on the basis of the actual empirical data that the estimated LGD parameters are not conservative enough, a management intervention and a re-estimation is required. The bank uses recovery data on product level in on order to estimate the LGD and this process is based on the internal database.

Credit conversion factor (CCF)

CCF shows what ratio of the off-balance limit still unutilized at the reference time is expected to be drawn down by the customer until the date of default. In the capital calculation, this amount is still to be added to the part of the off-balance limit that has already been drawn to establish the estimated value of the exposure at default (EAD).
The Bank estimates the credit conversion factor (CCF) for the revolving type products (current account overdrafts and credit cards) of the retail segment.
CCF is validated annually by Erste Holding Validation unit. It basically embraces the review of pools, an overview of changes in the relevant banking processes (e.g. current account monitoring), the comparison of the newly available factual information with the earlier estimates and the review of the necessity of the macro-correction, and therefore it involves both quantitative and qualitative elements.

Control Mechanism for Rating System

Every new IRB model developed must be reviewed prior to use by the Independent Group Validation department. Compliance with development standards and the quality of the results are assessed based on documented validation standards.
The validation procedures and methods are further detailed in Erste Group's Disclosure Report:
https://www.erstegroup.com/en/investors/reports/regulatory-reports
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Quantitative disclosure on credit risk

As regards to exposures in the IRB Approach, a breakdown is given in the Annex of the exposure classes of central governments and central banks, institutions, corporates, retail and equity by PD classes, exposure, outstanding loans, undrawn commitments, EAD and EAD-weighted average RWs.
For the exposure class retail – which is the only exposure class for which LGD estimates are made – an additional presentation is given by EAD-weighted average LGD.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:
- cash and cash balances - demand deposits to central and credit institutions;
- debt instruments held for trading;
- non-trading debt instruments at fair value through profit or loss (FVPL);
- debt instruments at fair value through other comprehensive income (FVOCI);
- debt instruments at amortised cost (AC), other than trade and other receivables;
- finance lease receivables;
- trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
- positive fair value of derivatives;
- off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:
- account loan loss allowances;
- provisions for guarantees;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

Between 31 December 2018 and 31 December 2019, credit risk exposure increased from 2,837,894 million HUF to 3,074,304 million HUF. This is an increase of 8.3% or 236,410 million HUF.

Reconciliation between the gross carrying amount and the carrying amount of the credit risk exposure components

2019

in HUF million	Credit risk exposure	Credit loss allowances	Adjustments	Net carrying amount
Cash and cash balances - demand deposits to central banks and credit institutions	19,577	11	-	19,566
Derivatives and Debt instruments held for trading	50,989	-	-	50,989
Non-trading debt instruments at FVPL	114,131	-	-	114,131
Debt securities	1,821	-	-	1,821
Loans and advances to banks	-	-	-	-
Loans and advances to customers	112,310	-	-	112,310
Debt instruments at FVOCI	107,332	47	5,483	112,815
Debt securities	107,332	47	5,483	112,815
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	-	-
Debt instruments at AC	2,343,978	38,237	-	2,305,741
Debt securities	754,223	813	-	753,410
Loans and advances to banks	93,793	49	-	93,744
Loans and advances to customers	1,440,411	36,062	-	1,404,349
Trade and other receivables	10,726	56	-	10,670
Finance lease receivables	44,825	1,257	-	43,568
Debt instruments held for sale in disposal groups	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-
Off balance-sheet exposures	438,297	2,627	-	435,670
Total	**3,074,304**	**40,922**	**5,483**	**3,038,912**

2018

in HUF million	Credit risk exposure	Credit loss allowances	Adjustments	Net carrying amount
As of 31 December 2018				
Cash and cash balances - demand deposits to central banks and credit institutions	4,895	2		4,893
Derivatives and debt instruments held for trading	91,130	-		91,130
Non-trading debt instruments at FVPL	72,434	-		72,434
Debt securities	30,702	-		30,702
Loans and advances to customers	41,732	-		41,732
Debt instruments at FVOCI	134,035	26	1,560	135,569
Debt securities	134,035	26	1,560	135,569
Debt instruments at AC	2,007,144	40,690		1,966,454
Debt securities	658,717	736		657,981
Loans and advances to banks	95,692	62		95,630
Loans and advances to customers	1,252,734	39,891		1,212,843
Trade and other receivables	14,171	58		14,113
Finance lease receivables	38,149	547		37,602
Off balance-sheet exposures	475,937	3,169		472,768
Total	**2,837,894**	**44,491**	**1,560**	**2,794,963**

Credit risk provisions comprise impairments for financial assets measured at amortised cost (including finance lease and trade receivables) and at fair value through other comprehensive income (FVOCI), as well as credit loss allowances and provisions for off-balance sheet exposures. Adjustments refer to the fair value changes of the carrying amount for financial assets at FVOCI.

Breakdown of credit risk exposure

On the next pages the credit risk volume is categorised in the following way:

- Basel 3 exposure class and financial instrument;
- off-balance sheet exposure by product;
- industry and financial instrument;
- industry and IFRS 9 treatment;
- risk category;
- industry and risk category;
- region and IFRS 9 treatment;
- business segment and risk category;
- business segment and IFRS 9 treatment;
- non-performing credit risk exposure by business segment and credit loss allowances;
- composition of credit loss allowances;
- credit risk exposure, forbearance exposure, and credit loss allowances;
- types of forbearance exposure;
- credit quality of forbearance exposure;
- business segment and collateral;
- financial instrument and collateral;
- credit risk exposure neither past due nor credit impaired by financial instrument and risk category;
- credit risk exposure past due and not covered by credit loss allowances by financial instrument and collateralisation.

Credit risk exposure by Basel 3 exposure class and financial instrument

The assignment of obligors to Basel 3 exposure classes is based on legal requirements. For reasons of clarity, individual Basel 3 exposure classes are aggregated in the tables below. In addition to central governments, central banks, international organisations, and multinational development banks, the aggregated exposure class "sovereigns" contains regional and local governments as well as public sector entities. Institutions include banks and recognised investment firms.

					At amortised cost						
in HUF million	Cash and cash balances - demand deposits to central banks and credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Finance lease receivables	Off balance-sheet exposures	Total
As of 31 December 2019											
Sovereigns	-	10,017	-	95,526	605,149	38,290	-	301	-	-	749,283
Institutions	19,577	31,823	68	10,044	139,174	55,503	45,766	185	-	38,815	340,955
Corporates	-	9,149	2,082	1,762	9,900	-	656,637	10,220	41,712	265,457	996,919
Retail	-	-	111,981	-	-	-	738,008	20	3,113	134,025	987,147
Total	**19,577**	**50,989**	**114,131**	**107,332**	**754,223**	**93,793**	**1,440,411**	**10,726**	**44,825**	**438,297**	**3,074,304**

					At amortised cost						
in HUF million	Cash and cash balances - demand deposits to central banks and credit institutions	Derivatives and debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Finance lease receivables	Off balance-sheet exposures	Total
As of 31 December 2018											
Sovereigns	-	42,611	30,702	123,965	625,133	23,489	0.05	719	-	-	846,619
Institutions	4,895	42,202	78	10,070	17,463	57,389	35,460	2,105	0.22	61,190	230,854
Corporates	0.04	6,317	604	-	16,121	14,813	540,842	11,345	35,398	283,763	909,202
Retail	-	1	41,050	-	-	-	676,432	1	2,751	130,984	851,219
Total	**4,895**	**91,130**	**72,434**	**134,035**	**658,717**	**95,692**	**1,252,734**	**14,171**	**38,149**	**475,937**	**2,837,894**

Credit risk exposure by counterparty sector and financial instrument

					At amortised cost						
in HUF million	Cash and cash balances - demand deposits to central banks and credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Finance lease receivables	Off balance-sheet exposures	Total
As of 31 December 2019											
Central banks	-	6,201	-	-	-	38,289	-	-	-	-	44,490
General governments	-	4,328	68	95,526	605,149	-	57,538	301	-	2,088	764,998
Credit institutions	19,577	29,457	-	10,044	139,174	55,504	-	3	-	31,642	285,401
Other financial corporations	-	5,141	-	-	-	-	60,069	183	27	29,829	95,249
Non-financial corporations	-	5,862	2,118	1,762	9,900	-	596,326	10,239	41,127	248,073	915,407
Households	-	-	111,945	-	-	-	726,478	-	3,671	126,665	968,759
Total	**19,577**	**50,989**	**114,131**	**107,332**	**754,223**	**93,793**	**1,440,411**	**10,726**	**44,825**	**438,297**	**3,074,304**

in HUF million	Cash and cash balances - demand deposits to central banks and credit institutions	Derivatives and debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	At amortised cost Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Finance lease receivables	Off balance-sheet exposures	Total
As of 31 December 2018											
Central banks	-	6,404	-	-	-	23,489	-	-	-	-	29,893
General governments	-	36,207	30,780	123,965	625,133	-	14,597	719	-	37,992	869,392
Credit institutions	4,895	39,842	-	10,070	32,474	72,203	-	1	-	39,950	199,434
Other financial corporations	-	3,378	-	-	-	-	69,314	2,104	36	26,381	101,213
Non-financial corporations	-	5,300	668	-	1,110	-	499,468	11,343	34,284	245,731	797,904
Households	-	-	40,986	-	-	-	669,355	3	3,829	125,884	840,057
Total	**4,895**	**91,130**	**72,434**	**134,035**	**658,717**	**95,692**	**1,252,734**	**14,171**	**38,149**	**475,937**	**2,837,894**

Contingent liabilities / Off balance sheet exposures by product

in HUF million	As of 31 December 2018	As of 31 December 2019
Financial guarantees	308	1,483
Loan commitments	4029,334	387,795
Other commitments	46,295	49,019
Total	**475,937**	**438,297**

Credit risk exposure by industry and financial instrument

					At amortised cost								
in HUF million	Cash and cash balances - demand deposits to central banks and credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Finance lease receivables	Debt instruments held for sale in disposal groups	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
As of 31 December 2019													
Agriculture and forestry	-	5	16	-	2,173	-	43,157	263	7,013	-	-	13,738	66,365
Mining	-	-	-	-	-	-	248	-	75	-	-	1,062	1,385
Manufacturing	-	155	2	1,762	3,006	-	151,392	2,690	3,170	-	-	95,285	257,462
Energy and water supply	-	910	5	-	2,356	-	24,340	1	171	-	-	12,157	39,940
Construction	-	32	-	-	-	-	19,401	32	511	-	-	17,463	37,439
Development of building projects	-	32	-	-	-	-	9,754	-	-	-	-	308	10,094
Trade	-	67	36	-	2,364	-	60,247	6,746	4,207	-	-	28,099	101,766
Transport and communication	-	997	144	-	-	-	19,562	78	21,347	-	-	11,163	53,291
Hotels and restaurants	-	79	65	-	-	-	17,089	57	331	-	-	1,021	18,642
Financial and insurance services	19,577	40,761	1,821	10,044	149,007	93,793	104,208	188	60	-	-	85,661	505,120
Holding companies	-	79	-	-	-	-	50,118	2	26	-	-	36,934	87,159
Real estate and housing	-	3,633	-	-	-	-	202,380	-	372	-	-	34,569	240,954
Services	-	22	15	-	-	-	41,450	370	5,234	-	-	11,160	58,251
Public administration	-	4,328	68	95,526	595,317	-	39,370	301	-	-	-	2,088	736,998
Education, health and art	-	-	29	-	-	-	2,260	-	136	-	-	966	3,391
Households	-	-	111,930	-	-	-	715,282	-	2,198	-	-	123,864	953,274
Other	-	-	-	-	-	-	25	-	-	-	-	1	26
Total	**19,577**	**50,989**	**114,131**	**107,332**	**754,223**	**93,793**	**1,440,411**	**10,726**	**44,825**	**-**	**-**	**438,297**	**3,074,304**

				At amortised cost						
in HUF million	Cash and cash balances - demand deposits to central banks and credit institutions	Derivatives and debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Finance lease receivables	Off balance-sheet exposures	Total
As of 31 December 2018											
Agriculture and forestry	-	20	39	-	-	-	34,598	262	4,800	12,975	52,694
Mining	-	-	-	-	-	-	96	-	16	1,129	1,241
Manufacturing	-	301	101	-	-	-	115,703	2,218	2,118	89,380	209,822
Energy and water supply	-	747	20	-	1,083	-	13,164	1,909	288	18,333	35,544
Construction	-	-	-	-	-	-	19,733	56	534	16,970	37,293
Development of building projects	-	41	-	-	-	-	10,216	-	-	929	11,186
Trade	-	41	76	-	-	-	57,351	6,250	3,066	27,834	94,617
Transport and communication	-	157	222	-	-	-	18,206	46	19,960	10,687	49,278
Hotels and restaurants	-	1,250	166	-	-	-	8,969	13	325	2,169	12,892
Financial and insurance services	4,895	167	-	10,070	32,474	95,692	106,780	2,106	53	105,329	357,565
Holding companies	-	-	-	-	-	-	36,963	-	8	38,983	75,954
Real estate and housing	-	49,624	-	-	27	-	163,172	-	227	20,224	233,275
Services	-	1	27	-	13,127	-	38,102	588	3,622	8,762	64,229
Public administration	-	2,613	30,780	123,965	612,006	-	14,597	719	-	37,992	822,671
Education, health and art	-	2	38	-	-	-	1,943	-	501	865	3,349
Households	-	-	40,966	-	-	-	660,228	3	2,639	123,286	827,122
Other	-	36,207	-	-	-	-	93	-	-	2	36,302
Total	**4,895**	**91,130**	**72,434**	**134,035**	**658,717**	**95,692**	**1,252,734**	**14,171**	**38,149**	**475,937**	**2,837,893**

Credit risk exposure by industry and IFRS 9 treatment

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Subject to provision	Total
As of 31 December 2019							
Agriculture and forestry	60,645	4,468	738	7	65,858	507	66,365
Mining	703	-	-	-	703	682	1,385
Manufacturing	239,396	6,200	1,092	406	247,094	10,368	257,462
Energy and water supply	32,496	2,826	1,033	100	36,455	3,485	39,940
Construction	25,697	823	296	555	27,371	10,068	37,439
Development of building projects	9,699	10	9	270	9,988	105	10,093
Trade	91,967	4,925	1,010	238	98,140	3,626	101,766
Transport and communication	29,920	14,899	1,623	538	46,980	6,310	53,290
Hotels and restaurants	18,305	180	3	11	18,499	144	18,643
Financial and insurance services	452,581	50	391	5	453,027	52,093	505,120
Holding companies	79,310	20	80	-	79,410	7,749	87,159
Real estate and housing	220,870	3,469	399	8,094	232,832	8,121	240,953
Services	53,446	1,990	315	156	55,907	2,345	58,252
Public administration	732,591	-	-	11	732,602	4,396	736,998
Education, health and art	3,191	118	15	3	3,327	64	3,391
Households	751,870	47,141	21,260	21,073	841,344	111,930	953,274
Other	15	5	4	2	26	-	26
Total	**2,713,693**	**87,094**	**28,179**	**31,199**	**2,860,165**	**214,139**	**3,074,304**

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in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Subject to provision	Total
As of 31 December 2018							
Agriculture and forestry	50,726	1,507	36	9	52,635	417	52,694
Mining	346	1	-	-	1,241	894	1,241
Manufacturing	201,184	748	63	363	209,420	7,464	209,822
Energy and water supply	31,324	267	1,089	248	34,777	2,615	35,544
Construction	25,224	322	1,470	618	37,293	9,701	37,333
Development of building projects	10,689	30	5	332	11,145	130	11,186
Trade	85,100	1,680	1,423	198	94,500	6,332	94,733
Transport and communication	42,639	834	18	403	48,899	6,477	50,372
Hotels and restaurants	11,188	235	25	17	11,476	343	11,808
Financial and insurance services	345,430	934	1	11	340,340	60,646	407,022
Holding companies	66,552	554	-	-	75,954	8,849	75,955
Real estate and housing	166,540	2,992	974	10,549	183,651	5,209	186,263
Services	61,141	1,068	98	186	104,694	1,740	64,232
Public administration	789,279	-	-	-	789,279	66,987	856,265
Education, health and art	3,201	69	4	5	3,309	68	3,347
Households	705,525	30,395	24,058	26,177	786,156	40,966	827,122
Other	88	2	3	3	95	-	95
Total	**2,518,934**	**41,053**	**29,262**	**38,786**	**2,697,765**	**209,859**	**2,837,894**

Subject to provision: other commitments are still measured under IAS 37, however, impairment are calculated for them as well.

Credit risk exposure by risk category

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2019	**2 576 107**	**347 555**	**107 283**	**43 359**	**3 074 304**
Share of credit risk exposure	83.79%	11.31%	3.49%	1.41%	100.00%
As of 31 December 2018	**2 515 934**	**255 774**	**99 498**	**53 202**	**2 924 408**
Share of credit risk exposure	86.03%	8.75%	3.40%	1.82%	100.00%

* Non-performing exposures:
The EBA Guideline[1] for non-performing exposures comprises all defaulted exposures and all forborne exposures in monitoring/probation period which show an on-going deteriorating credit quality and is broader defined than the default stemming from CRR. The non-performing status must be assigned to forborne exposure which need again forbearance measures or exceed 30 DPD. The non-performing definition comprises following cases and have to marked accordingly:

1) all defaulted exposures:
   a) more than 90 days overdue above the materiality threshold; or
   b) which are unlikely to be repaid
2) and in addition the following cases:
   a) client with exposure in “performing forbearance” or in “under probation” defaults with any event other than E3; or
   b) performing forborne exposure “under probation” which becomes 30 days past due on the forborne account; or
   c) client with exposure in performing “under probation” who receives a “second restructuring” on any account; or
   d) for non-retail clients a final forbearance measures was not implemented within 18 months.

In Erste Bank (and throughout Erste Group) non-performing and default on client level are aligned. Therefore all clients with non-performing exposure under item 2) must default on client level.

Credit risk exposure by industry and risk category

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2019					
Agriculture and forestry	43,326	16,874	5,427	738	66,365
Mining	465	533	387	-	1,385
Manufacturing	235,509	13,460	7,197	1,296	257,462
Energy and water supply	30,134	5,639	3,034	1,133	39,940
Construction	28,916	5,336	1,989	1,197	37,438
Development of building projects	9,397	214	204	279	10,094
Trade	78,857	16,177	5,483	1,249	101,766
Transport and communication	32,906	6,055	12,547	1,783	53,291
Hotels and restaurants	17,222	938	469	14	18,643
Financial and insurance services	484,228	17,863	2,636	393	505,120
Holding companies	79,361	5,982	1,735	81	87,159
Real estate and housing	205,143	24,114	11,280	416	240,953
Services	45,530	9,051	3,216	455	58,252
Public administration	734,430	2,546	11	11	736,998
Education, health and art	1,528	880	967	16	3,391
Households	637,911	228,080	52,629	34,654	953,274
Other	2	9	11	4	26
Total	**2,576,107**	**347,555**	**107,283**	**43,359**	**3,074,304**

[1] Technical Standards reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013 according to the Regulation (EU) No 680/2014 incl. the amendments (see Annex 1, Ref. 5)

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2018					
Agriculture and forestry	45,218	5,425	2,009	42	52,694
Mining	165	1,073	4	-	1,241
Manufacturing	191,036	14,405	4,108	273	209,822
Energy and water supply	29,654	4,176	376	1,338	35,544
Construction	27,903	4,954	1,946	2,531	37,333
Development of building projects	10,568	63	218	337	11,186
Trade	75,964	13,969	3,128	1,672	94,733
Transport and communication	39,518	10,019	812	22	50,372
Hotels and restaurants	10,055	1,121	590	42	11,808
Financial and insurance services	399,971	3,443	3,236	372	407,022
Holding companies	73,771	1,116	1,067	-	75,955
Real estate and housing	161,762	9,305	14,216	980	186,263
Services	50,190	11,949	1,837	256	64,232
Public administration	856,265	-	-	-	856,265
Education, health and art	1,720	919	703	4	3,347
Households	559,575	169,914	52,717	44,916	827,122
Other	65	13	15	3	95
Total	**2,449,061**	**250,685**	**85,697**	**52,452**	**2,837,894**

Credit risk exposure by region and IFRS 9 treatment

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Subject to provision	Total
As of 31 December 2019							
Core markets	**2,712,847**	**87,094**	**28,179**	**31,199**	**2,859,319**	**211,213**	**3,070,532**
Austria	13,277	8	-	-	13,285	17,131	30,416
Croatia	-	-	-	-	-	-	-
Romania	238	-	-	-	238	15	253
Serbia	-	-	-	-	-	-	-
Slovakia	134	1	-	-	135	-	135
Czech Republic	2,523	-	-	-	2,523	546	3,069
Hungary	2,696,675	87,085	28,179	31,199	2,843,138	**193,521**	3,036,659
Other EU	**978**	**-**	**-**	**-**	**978**	**1,034**	**2,012**
Other industrialised countries	**1,618**	**-**	**-**	**-**	**1,618**	**71**	**1,689**
Emerging markets	**71**	**-**	**-**	**-**	**71**	**-**	**71**
Southeastern Europe/CIS	-	-	-	-	-	-	-
Asia	66	-	-	-	66	-	66
Latin America	5	-	-	-	5	-	5
Middle East/Africa	-	-	-	-	-	-	-
Total	**2,715,514**	**87,094**	**28,179**	**31,199**	**2,861,986**	**212,318**	**3,074,304**

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**Subject to provision: Other commitments are still measured under IAS 37, however, impairment are calculated for them as well.*

Stage 1 and Stage 2 comprise not impaired credit risks while Stage 3 includes impaired credit risks. POCI (purchased or originated credit impaired) consists of credit risks already impaired when purchased or originated.

The defaulted part of POCI amounted to 14,110 million HUF (was 20,400 in 2018), the non-defaulted part to 17,089 million HUF (was 18,386 in 2018).

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Subject to provision	Total
As of 31 December 2018							
Core markets	**2,512,325**	**40,889**	**29,158**	**38,626**	**2,620,997**	**207,933**	**2,828,930**
Austria	29,475	9	5	1	29,489	10,859	40,348
Croatia	28	-	1	9	39	-	39
Romania	891	21	10	53	975	41	1,016
Serbia	41	4	1	-	45	-	45
Slovakia	656	9	22	3	690	21	710
Czech Republic	15	2	-	-	17	1,742	1,760
Hungary	2,481,219	40,843	29,120	38,559	2,589,742	195,271	2,785,013
Other EU	**3,542**	**104**	**57**	**70**	**3,774**	**1,879**	**5,652**
Other industrialised countries	**2,625**	**27**	**3**	**-**	**2,655**	**-**	**2,655**
Emerging markets	**442**	**33**	**44**	**90**	**609**	**47**	**656**
South-eastern Europe/CIS	147	13	14	68	242	11	253
Asia	124	12	17	17	170	-	170
Latin America	56	1	-	-	57	3	60
Middle East/Africa	115	7	13	5	140	34	173
Total	**2,518,934**	**41,053**	**29,262**	**38,786**	**2,628,035**	**209,859**	**2,837,894**

Credit risk exposure by reporting segment and risk category

The segment reporting of EBH is based on the matrix organisation by business segment.

Credit risk exposure by business segment and risk category

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2019					
Retail	650,312	242,108	58,701	35,790	986,911
Corporates	875,859	93,827	47,860	7,569	1025,115
Group Markets	1048,115	11,620	722	-	1060,457
Asset/Liability Management and Local Corporate Center	1,821	-	-	-	1,821
Total	**2576,107**	**347,555**	**107,283**	**43,359**	**3074,304**

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in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2018					
Retail	567,430	183,336	56,447	45,610	852,823
Corporates	799,700	65,223	27,111	6,842	898,876
Group Markets	1,081,687	2,125	2,139	-	1,085,951
Asset/Liability Management and Local Corporate Centre	245	-	-	-	245
Total	**2,449,061**	**250,685**	**85,697**	**52,452**	**2,837,894**

Credit risk exposure by business segment and IFRS 9 treatment

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Subject to provision	Total
As of 31 December 2019							
Retail	780,429	50,612	22,057	21,516	874,614	112,297	986,911
Corporates	918,773	36,482	6,122	9,683	971,060	54,055	1,025,115
Group Markets	1,014,491	-	-	-	1,014,491	45,966	1,060,457
Asset/Liability Management and Local Corporate Center	-	-	-	-	-	1,821	1,821
Total	**2,713,693**	**87,094**	**28,179**	**31,199**	**2,860,165**	**214,139**	**3,074,304**

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Subject to provision	Total
As of 31 December 2018							
Retail	727,885	32,708	24,628	26,346	811,567	41,255	852,823
Corporates	823,271	8,345	4,634	12,439	848,690	50,186	898,876
Group Markets	967,534	-	-	-	967,534	118,417	1,085,951
Asset/Liability Management and Local Corporate Centre	245	-	-	-	245	-	245
Total	**2,518,934**	**41,053**	**29,262**	**38,786**	**2,628,035**	**209,859**	**2,837,894**

Credit loss allowances

Credit risk allowances include credit loss allowances for financial assets, credit loss allowances for loan commitments and financial guarantees (all allowances within the scope of IFRS 9) and provisions for other commitments.

Credit loss allowances (all stages combined) covered 92.70% (2018: 83.98%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2019. For the portion of the non-performing credit risk exposure that is not covered by allowances, Erste Bank assumes there are sufficient levels of collateral and expected other recoveries.

During 2019, the non-performing credit risk exposure decreased by 9,618 million HUF, or 18.2%. The substantial improvement of asset quality resulted on one side from a strong decline of new non-performing loans, and on the other side from high recoveries and write-offs, including sales of non-performing loans. The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees decreased by 3,569 million HUF, or 8%. The decrease of the non-performing exposure at a higher rate compared with the decrease of credit loss allowances resulted in a substantial increase of 9.7 percentage points in the coverage of the non-performing credit risk exposure by credit risk allowances.

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The following tables show the coverage of the non-performing credit risk exposure by credit loss allowances (without taking into consideration collateral) as of 31 December 2019 and 31 December 2018.

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk exposure while the NPE coverage ratio is computed as total credit loss allowances (all allowances within the scope of IFRS 9) divided by non-performing credit risk exposure. Collateral is not taken into account in the NPE coverage ratio.

Non-performing credit risk exposure by business segment and coverage by credit loss allowances

	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE		NPE ratio		NPE coverage (excl. collateral)		NPE collateralization ratio	
in HUF million	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI
As of 31 December 2019													
Retail	35,790	35,229	986,911	874,614	31,911	20,216	19,897	3.63%	4.03%	89.16%	90.58%	56.48%	56.48%
Corporates	7,569	7,219	1,025,115	971,060	7,975	5,686	5,684	0.74%	0.74%	105.38%	110.48%	75.13%	78.73%
Group Markets	-	-	1,060,457	1,014,491	309	-	-	0.00%	0.00%				
Asset/Liability Management and Local Corporate Center	-	-	1,821	-	-	-	-	0.00%					
Savings Banks	-	-	-	-	-	-	-						
Group Corporate Center	-	-	-	-	-	-	-						
Total	**43,359**	**42,448**	**3,074,304**	**2,860,165**	**40,195**	**25,902**	**25,581**	**1.41%**	**1.48%**	**92.70%**	**94.69%**	**59.74%**	**60.26%**

	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE		NPE ratio		NPE coverage (excl. collateral)		NPE collateralization ratio	
in HUF million	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI
As of 31 December 2018													
Retail	46,135	45,739	852,823	837,193	37,649	25,296	24,983	5.41%	5.46%	81.61%	82.31%	54.83%	54.62%
Corporates	6,842	6,837	898,876	892,605	6,556	2,770	2,765	0.76%	0.77%	95.83%	95.90%	40.49%	40.44%
Group Markets	-	-	1,085,951	969,155	286	-	-	0.00%	0.00%				
Asset/Liability Management and Local Corporate Centre	-	-	245	1,727	-	-	-	0.00%	0.00%				
Total	**52,977**	**52,576**	**2,837,894**	**2,700,681**	**44,491**	**28,066**	**27,748**	**1.87%**	**1.95%**	**83.98%**	**84.62%**	**52.98%**	**52.78%**

Expected credit loss measurement

The general principles and standards for credit loss allowances are governed by internal policies in Erste Bank. According to IFRS 9, credit loss allowances are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income (FVOCI). They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. Also, credit loss allowances are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

According to IFRS 9, there are three main stages outlined for expected credit loss (ECL) determination. Stage 1 includes financial instruments which are not credit-impaired at initial recognition and for which credit risk has not increased significantly since initial recognition. In Stage 1, credit loss allowances are calculated as twelve-month ECL.

If a significant increase in credit risk (SICR) since initial recognition is identified but the financial instrument is not yet deemed to be credit-impaired, it is moved to Stage 2. For financial instruments in Stage 2 the ECL is measured on a lifetime (LT) basis. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. For financial instruments in Stage 3 the ECL is measured on a LT basis.

Purchased or originated credit-impaired (POCI) financial instruments are those financial instruments that are credit-impaired on initial recognition. Their ECL is always measured on LT basis.

For more information about classification into stages refer to part 'Classification into stages and definition of credit-impaired financial instruments' below.

Key judgments, inputs and assumptions adopted by Erste Bank in addressing the IFRS 9 requirements of the standard are presented below.

Significant increase in credit risk determination

Assessment of significant increase in credit risk of financial instruments as at the reporting date since initial recognition is one of the key drivers affecting the amount of the ECL recognised based on IFRS 9 requirements. In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due (DPD).

Quantitative criteria

Quantitative SICR indicators include adverse changes in probability of default within one year from reporting date, annualised lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. The bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. In order for the SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached.

The relative measure is calculated as a ratio between current annualised PD and annualised PD value on initial recognition. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established on PD segment and client rating level, as necessary, and are subject to initial and on-going validation.

The absolute threshold refers to difference of annualised lifetime probability of default (LT PD) at initial recognition and current annualised LT PD. It is set to 60 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall PD is very low, therefore SICR is not positively concluded.

Sensitivity of ECL on relative threshold changes

The table below presents relative threshold intervals as applied at Erste Bank and a sensitivity analysis on how changes in the relative thresholds would affect ECL.

Relative thresholds for SICR assessment

in HUF million	Threshold interval (x times) Min	Max	Threshold change +/-0.5 ECL impact increase	ECL impact decrease	Threshold change +/-1 ECL impact increase	ECL impact decrease
2019	1	3	(908)	1,015	(1,024)	1,361
2018	1	4	(301)	321	(476)	1,045

Sensitivity is calculated by adding/subtracting the values indicated from the current threshold level. The ECL impact increase/decrease refers to increasing/lowering the threshold (i.e. if the current threshold is 2.37 and the sensitivity is 0.5, then the increase refers to a threshold of 2.87 and the decrease to a threshold of 1.87, so an increase leads to release of ECL and a decrease to additional allocation). Effects of the

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threshold changes by +/- 0.5 and +/- 1 are shown, however the threshold is floored to 1, since values of the ratio below 1 indicate credit-worthiness improvement (i.e. if the threshold is 1.13, values used for sensitivity analysis for +/- 0.5 would decrease the threshold to 1 and increase the threshold to 1.63).

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

Qualitative criteria

Qualitative SICR indicators include forbearance-type flags (identification of regulatory forbearance), work-out transfer flag (when account starts being monitored by work-out department), information from early-warning-system and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and timely. The related credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that borrower will enter bankruptcy and there is increased risk of default in the foreseeable future. Besides the qualitative indicators defined on financial assets level, the indicators needed for the assessment of significant increase in credit risk may available on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag or is observable exclusively on portfolio level.

For migration back to Stage 1 there are no additional cure periods established for qualitative criteria other than those already established in general credit risk practice for the above-mentioned flags (forbearance, watch lists).

Backstop

A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments by more than 1000 HUF overdue amount.

Low credit risk exemption

The “low credit risk exemption” allowed by IFRS 9 for “investment grade” assets or other assets deemed “low risk” (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has not been implemented in Erste Bank.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

Exposures are classified as individually significant if the total on- and off-balance exposure to the borrower exceeds a predefined materiality limit. Otherwise, the exposure to the customer is considered to be individually insignificant.

The individual calculation approach is applied in case of individually significant exposures to defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate).

In case of individually insignificant defaulted exposure a rule-based (collective) approach is used for the calculation of the related credit loss allowances as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or the stage of the workout process.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated irrespective of the significance of the exposure to the customer.

The calculation of credit loss allowances is done on a monthly basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss allowance, Erste Bank applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.

- EAD is based on the amounts Erste Bank expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Erste Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support and exposure at the time of default (EAD). LGD is expressed as a percentage of EAD.

Lifetime parameters

The LT PD is developed through observation of historical defaults from initial recognition through the life-time of the loans. It is assumed to be the same across all assets in the same portfolio and rating band with the same time to maturity.

The LT EAD is determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilises repayment schedule or repayment type (annuity, linear, bullet). In the case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

The LGD is estimated as a lifetime curve for any point in time till maturity, based on historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis, if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a "point-in-time" measure and with consideration of forward-looking information (FLI). This results in using a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Erste Bank's research department. Given multiple scenarios, the "neutral" PDs (and, with a few exceptions, also LGDs) are adjusted using macro models that link relevant macroeconomic variables with risk drivers. Forward-looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns back to through-the-cycle observations immediately in year four.

Thus, the unbiased probability-weighted ECL considering FLI is derived using the weights representing the probability of occurrence of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, the main indication of estimated economic development is the GDP development.

Baseline, upside and downside scenarios of GDP development:

GDP growth in %	Scenario	Probability weight	2019	2020	2021	2022
	Upside	7%	4.1	5	4.4	4.3
	Baseline	50%	4.1	3.2	2.6	2.5
2019	Downside	43%	4.1	0.6	0	-0.1
GDP growth in %	**Scenario**	**Probability weight**	**2018**	**2019**	**2020**	**2021**
	Upside	41%	4.7	4.6	3.8	3.8
	Baseline	50%	4.1	3.3	2.5	2.5
2018	Downside	9%	3	1.1	0.3	0.3

Classification into stages and definition of credit-impaired financial instruments

The three-stage approach applies to financial instruments within the scope of the impairment requirements of IFRS 9 and those that are not categorised as purchased or originated credit-impaired financial assets (POCI), which form a category of their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of the three stages.

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired financial instruments without a significant increase in credit risk since initial recognition, irrespective of their credit quality, or subject to the "low risk exemption" allowed by IFRS 9. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

Stage 2 includes not credit-impaired financial instruments with a significant increase in credit risk since initial recognition and not subject to the "low credit risk exemption" allowed by IFRS 9. In stage 2, the credit loss allowances are calculated as lifetime ECL. In the case of drawings by non-defaulted customers on previously committed credit lines, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2 depending on the development of credit risk between the commitment date and the drawing date.

Stage 3 includes financial instruments that are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in Erste Bank has been developed in accordance with EBA/GL/2016/07 "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013". The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. Erste Bank generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions ("pulling effect"). On the other hand, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, credit loss allowances are calculated as lifetime ECLs.

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis (cumulative changes in lifetime ECL since initial recognition), and are reflected in the gross carrying amount of the exposure. 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.

Composition of credit loss allowances

in HUF million	2018	2019
Credit loss allowances	42,101	38,295
Loss allowances for loan commitments and financial guarantees	2,470	1,901
Provisions for other commitments	659	727
Total	**45,230**	**40,923**

Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principal amount due or a combination thereof. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the bank's valuable, good clientele.

Forbearance

The definition of "forbearance" is included in Regulation (EU) 2015/227 and MNB regulation 39/2016.

A restructuring is considered "forbearance" if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments. A borrower is in financial difficulties if any of the following conditions are met:

- the customer was more than 30 days past due in the past 3 months;
- the customer would be 30 days past due or more without receiving forbearance;
- the customer is in default;
- the customer would default without receiving forbearance;
- the contract modification involves total or partial cancellation by write-off of the debt on any of the customer's credit obligations while at customer level open credit exposure still remains.

Additional criteria for non-retail segment:

- early warning signals for this customer identified;
- customer has deteriorated financial figures, which led to decline of the rating grade;
- customer has increased probability of default.

Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:

- modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- there is a difference in favour of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- the modified/refinanced contract includes more favourable terms than other customers with a similar risk profile would have obtained from the same institution.
- activation of embedded forbearance clause of the contract;
- any waiver of a material financial or non-financial covenant.

Forbearance can be initiated by the bank or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.

Forbearance measures are divided and reported as:

- performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance);
- non-performing forbearance (incl. defaulted forbearance; since 10/2019 the definition of non-performing status is aligned with default).

Forborne exposures are considered performing when:

- the exposure did not have non-performing status at the time the extension of or application for forbearance was approved;
- granting the forbearance has not led to classifying the exposure as non-performing/default.

Performing forborne exposures become non-performing when one of the following forbearance classifications is fulfilled during the monitoring period of a minimum two years:

- an additional forbearance measure is extended;
- the customer becomes more than 30 days past due on forborne exposure and in the past the customer was in the non-performing forbearance category;
- the customer meets any of the default event criteria defined in the default definition;
- for corporate customers, when a final restructuring agreement cannot be concluded within 18 months after the first forbearance measure.

The performing forbearance classification can be discontinued and the account can become a non-forborne account when all of the following conditions are met:

- a minimum of two years have passed from the date of classifying the exposure as performing forbearance (probation period);
- under the forborne payment plan, at least 50% of the original (pre-forbearance) instalment has been regularly repaid (significant repayment) at least during half of the probation period (in the case of retail customers);
- regular repayments in a significant amount during at least half of the probation period have been made (in the case of non-retail customers);
- significant repayment includes amount previously past-due (if any) or written-off (if no-past due amounts) for both segments retail and non-retail;
- none of the exposure of the customer is more than 30 days past due at the end of the probation period.

The non-performing forbearance classification can be discontinued and reclassified as performing under probation when all of the following conditions are met:

- one year has passed from the date of classifying the exposure as non-performing forbearance or from the latest of the following events:
  - the moment of extending the restructuring measure;
  - the end of the grace period included in the restructuring agreement;
  - the moment when the exposure has been classified as defaulted.
- the forbearance has not led the exposure to be classified as non-performing;
- the customer is not classified as defaulted according to the definition of default;
- retail customers: the customer has demonstrated the ability to comply with the post-forbearance conditions by either of the following:
  - the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount;
  - the customer has repaid the full past due amount or the written-off amount (if there was any).
- corporate customers: significant amount has been paid in regular repayments, analysis of financial development that leaves no concern about future compliance with post-forbearance terms and conditions. Furthermore, the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount.

In the corporate segment, recognition of forbearance measures typically leads to the involvement of the responsible local workout unit. The largest part of the forbearance measures are set and monitored within the responsibility of the local workout units according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as qualitative trigger events in the SICR concept.

Default definition

Since October 2019 Erste Group has implemented the new definition of default, to comply with the EBA Guidelines on the application of the definition of default under Art.178 of CRR and Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due.

The definitions of non-performing and default are aligned within Erste Bank (and throughout Erste Group).

The materiality of 90 days past due credit obligation is applied for on-balance exposure at client level and assessed daily against the group-wide defined materiality threshold (except the local regulator has defined different thresholds) for the:

- retail exposure: as an absolute limit on client level of 100 EUR and relative 1% on client level;
- non-retail exposure: as an absolute limit on client level of 500 EUR and relative 1% on client level.

Credit risk exposure, forbearance exposure and credit loss allowances

in HUF million	Loans and advances	Debt securities	Other balance-sheet positions	Loan commitments	Total
As of 31 December 2019					
Gross exposure	**1,702,065**	**863,376**	**121,068**	**387,795**	**3,074,304**
thereof gross forborne exposure	12,357	1,025	-	54	13,436
Performing exposure	1,661,644	862,351	120,721	386,229	3,030,945
thereof performing forborne exposure	5,364	-	-	50	5,414
Credit loss allowances for performing exposure	12,760	293	418	1,141	14,612
thereof credit loss allowances for performing forborne exposure	112	-	-	-	113
Non-performing exposure	40,421	1,025	347	1,566	43,359
thereof non-performing forborne exposure	6,993	1,025	-	4	8,022
Credit loss allowances for non-performing exposure	24,684	567	313	755	26,319
thereof credit loss allowances for non-performing forborne exposure	3,183	567	-	3	3,753

in HUF million	Loans and advances	Debt securities	Other balance-sheet positions	Loan commitments	Total
As of 31 December 2018					
Gross exposure	**1,442,478**	**823,454**	**142,628**	**429,334**	**2,837,894**
thereof gross forborne exposure	14,243	1,083	-	42	15,368
Performing exposure	1,394,531	822,371	142,157	426,384	2,785,442
thereof performing forborne exposure	5,808	-	-	42	5,850
Credit loss allowances for performing exposure	9,819	136	317	1,140	11,411
thereof credit loss allowances for performing forborne exposure	170	-	-	-	171
Non-performing exposure	47,947	1,083	471	2,951	52,452
thereof non-performing forborne exposure	8,435	1,083	-	-	9,518
Credit loss allowances for non-performing exposure	30,741	627	592	1,120	33,080
thereof credit loss allowances for non-performing forborne exposure	4,323	627	-	-	4,949

Types of forbearance exposure

in HUF million	Gross forborne exposure	Modification in terms and conditions	Refinancing
As of 31 December 2019			
Loans and advances	12 357	12 263	94
Debt securities	1 025	1 025	-
Loan commitments and financial guarantees	54	54	-
Total	**13 436**	**13 342**	**94**

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in HUF million	Gross forborne exposure	Modification in terms and conditions	Refinancing
As of 31 December 2018			
Loans and advances	14,248	14,005	243
Debt securities	1,083	1,083	-
Loan commitments and financial guarantees	42	42	-
Total	**15,373**	**15,130**	**243**

Loans and advances figures incudes lease, trade and other receivables.

Credit quality of forbearance exposure

in HUF million	Gross forborne exposure	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired	Collateral	Credit loss allowances
As of 31 December 2019	**13,436**	**4,827**	**760**	**7,809**	**8,243**	**3,865**

in HUF million	Gross forborne exposure	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired	Collateral	Credit loss allowances
As of 31 December 2018						
Central and Eastern Europe	**15,373**	**5,684**	**1,948**	**7,741**	**7,328**	**5,120**
Hungary	15,373	5,684	1,948	7,741	7,328	5,120
Total	**15,373**	**5,684**	**1,948**	**7,741**	**7,328**	**5,120**

Collaterals

Recognition of collateral

Collateral management has been set up within the business area Corporate Risk, Restructuring and Workout Management in the Bank. All collateral eligible within the Group is specified in an exhaustive list in the 'Group Collateral Catalogue'. Locally-permitted collateral is defined by Erste Bank (in the EBH Collateral Catalogue) in accordance with the applicable national legal provisions. The valuation and revaluation of the collateral is done in accordance with the principles defined in the Group catalogue and internal work instructions grouped by class and based on local supervisory requirements.

Main types of collateral

According to the relevant regulations on credit risk management and capital requirement for credit risk, collaterals can be regarded as items decreasing the capital requirement only if

- they are legally valid, and can be enforced on a reasonable time scale;
- their valuation is appropriate, the collateral values are well maintained;
- on the level of the transactions, the related record-keeping and associated processes ensure the provision of comprehensive and up-to-date information to capital calculation ("flagging");
- property collaterals are covered with valid property insurance.

In terms of the foregoing, the scope of recognized collaterals – that can be considered to act as capital-decreasing items – extend to

- financial securities (cash security deposits, deeds of deposit, governmental securities, certain other securities, etc.);
- properties (with the exception of social buildings of reduced marketability, special industrial properties and property projects);
- governmental, banking and certain other guarantee undertakings.

When the above conditions are met defined by internal regulations, and these specific types of collaterals are available, the Bank takes the accepted securities into account in the calculation of the capital requirements as means of mitigating credit risks.

Collateral valuation and management

The Bank aims at requesting liquid collaterals, i.e. those that can be exchanged for cash within the shortest possible time. The liquidity of the security is fundamentally influenced by its legal enforceability, as well as marketability, saleability.
To establish the value of collateral shall be determined in accordance with the principles and calculation methods set forth in the collateral management and valuation related policies.
Collateral Management establishes the applied valuation rates described in EBH Collateral Catalogue, which are based on historical recovery rates of collaterals (both in court as well as out of court realisation).

Collateral Management monitors the valuation rates at least annually and adapted to the actual collateral recovery rates calculated in line with requirements defined by Group Credit Risk Models. In doing so the results of the last years should be considered because extremely good results as well as extremely bad results of a single year have to be balanced (”through the cycle”).
The following tables compare the credit risk exposure broken down by business segment to the allocated collateral. The amount of allocated collateral corresponds to the accepted value after internal haircuts capped by the exposure amount.

Credit risk exposure by business segment and collateral

in HUF million	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Real estate	Other	Credit risk exposure net of collateral
As of 31 December 2019						
Retail	986,911	571,535	89,835	434,579	47,120	415,376
Corporates	1,025,115	314,618	60,511	127,392	126,715	710,497
Group Markets	1,060,457	182,934	182,634	-	300	877,523
Asset/Liability Management and Local Corporate Center	1,821	-	-	-	-	1,821
Total	**3,074,304**	**1,069,087**	**332,980**	**561,971**	**174,135**	**2,005,217**

in HUF million	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Real estate	Other	Credit risk exposure net of collateral
As of 31 December 2018						
Retail	852,823	425,453	15,627	388,724	21,101	427,370
Corporates	898,876	316,569	65,106	151,779	99,684	582,307
Group Markets	1,085,951	18,250	18,250	-	-	1,067,701
Asset/Liability Management and Local Corporate Centre	245	-	-	-	-	245
Total	**2,837,894**	**760,271**	**98,983**	**540,503**	**120,785**	**2,077,623**

Credit risk exposure by financial instrument and collateral

			Collateralised by				IFRS impairment relevant		
in HUF million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
As of 31 December 2019									
Cash and cash balances - demand deposits to central banks and credit institutions	19,577	-	-	-	-	19,577	19,577	-	-
Debt instruments held for trading	50,989	12,119	12,119	-	-	38,870	-	-	-
Non-trading debt instruments at FVPL	114,131	103,301	69,520	33,615	166	10,830	-	-	-
Debt instruments at FVOCI	107,332	10,044	10,044	-	-	97,287	107,332	-	-
Debt instruments at AC	2,343,978	897,868	227,927	519,061	150,880	1,446,111	2,267,778	35,476	40,723
Debt securities	754,223	130,322	129,298	28	996	623,902	753,198	-	1,025
Loans and advances to banks	93,793	30,000	30,000	-	-	63,793	93,792	1	-
Loans and advances to customers	1,440,411	705,534	68,629	516,633	120,272	734,877	1,368,337	32,734	39,339
Trade and other receivables	10,726	-	-	-	-	10,726	9,246	1,463	17
Finance lease receivables	44,825	32,012	-	2,400	29,612	12,813	43,205	1,278	342
Debt instruments held for sale in disposal groups	-	-	-	-	-	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-	-	-	-	-	-
Off balance-sheet exposures	438,297	45,755	13,370	9,296	23,089	392,542	386,519	1,193	1,566
out of which: other commitments	49,019	13,829	2,074	2,878	8,877	35,191	-	-	-
Total	**3,074,304**	**1,069,087**	**332,980**	**561,972**	**174,135**	**2,005,217**	**2,781,206**	**36,669**	**42,289**

in HUF million	Total credit risk exposure	Collateral total	Collateralised by			Credit risk exposure net of collateral	IFRS impairment relevant		
			Guarantees	Real estate	Other		Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
As of 31 December 2018									
Cash and cash balances - demand deposits to central banks and credit institutions	4,895	-	-	-	-	4,895	4,895	-	-
Derivatives and debt instruments held for trading	91,130	-	-	-	-	91,130	-	-	-
Non-trading debt instruments at FVPL	30,702	-	-	-	-	30,702	-	-	-
Debt instruments at FVOCI	134,035	-	-	-	-	134,035	134,035	-	-
Debt instruments at AC	658,717	45	-	45	-	658,672	657,634	-	1,083
Debt securities	914,584	45	-	45	-	914,539	791,669	-	1,083
Loans and advances to banks	95,692	-	-	-	-	95,692	95,685	7	-
Loans and advances to customers	1,294,466	637,150	41,452	521,679	74,018	657,316	1,148,181	59,397	45,156
Trade and other receivables	14,171	-	-	-	-	14,171	12,472	1,699	-
Finance lease receivables	38,149	28,138	-	2,682	25,455	10,012	36,450	1,225	474
Off balance-sheet exposures	475,937	94,938	57,530	16,097	21,312	380,999	412,465	14,228	2,949
out of which: other commitments	46,295	15,498	3,087	2,957	9,453	30,797	-	-	-
Total	**2,837,894**	**760,271**	**98,983**	**540,503**	**120,785**	**2,077,623**	**2,501,817**	**76,556**	**49,662**

Credit risk exposure neither past due nor credit impaired by financial instrument and risk category

The following tables contains total credit exposure not only IFRS impairment relevant exposures.

in HUF million	Low risk	Management at-tention	Substandard	Non-performing	Total
As of 31 December 2019					
Cash and cash balances - demand deposits to central banks and credit institutions	19,577	-	-	-	19,577
Debt instruments held for trading	47,241	3,570	178	-	50,989
Non-trading debt instruments at FVPL	74,560	34,751	3,085	120	112,516
Debt instruments at FVOCI	107,332	-	-	-	107,332
Debt instruments at AC	1,943,069	251,597	73,071	42	2,267,779
Debt securities	753,199	-	-	-	753,199
Loans and advances to banks	93,192	600	-	-	93,792
Loans and advances to customers	1,066,682	242,689	58,924	42	1,368,337
Trade and other receivables	6,842	1,958	446	-	9,246
Finance lease receivables	23,154	6,350	13,701	-	43,205
Debt instruments held for sale in disposal groups	-	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-	-
Off balance-sheet exposures	380,875	45,405	8,872	347	435,499
out of which: other commitments	39,665	6,701	2,267	347	48,980
Total	**2,572,654**	**335,323**	**85,206**	**509**	**2,993,692**

in HUF million	Low risk	Management at-tention	Substandard	Non-performing	Total
As of 31 December 2018					
Cash and cash balances - demand deposits to central banks and credit institutions	4,895	-	-	-	4,895
Derivatives and debt instruments held for trading	90,930	65	135	-	91,130
Non-trading debt instruments at FVPL	62,412	7,019	1,048	146	70,625
Debt instruments at FVOCI	134,035	-	-	-	134,035
Debt instruments at AC	1,669,180	183,025	48,373	923	1,901,501
Debt securities	657,634	-	-	-	657,634
Loans and advances to banks	95,685	-	-	-	95,685
Loans and advances to customers	915,861	183,025	48,373	923	1,148,181
Trade and other receivables	10,327	1,413	732	-	12,472
Finance lease receivables	30,449	4,916	1,085	-	36,450
Off balance-sheet exposures	407,906	43,392	6,990	473	458,760
out of which: other commitments	40,583	4,166	1,074	471	46,295
Total	**2,410,133**	**239,829**	**58,364**	**1,541**	**2,709,867**

Credit risk exposure past due and not covered by by financial instrument and collateralisation

in HUF million	Total credit risk exposure						Thereof collateralised					
	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
As of 31 December 2019												
Cash and cash balances - demand deposits to central banks and credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments held for trading	-	-	-	-	-	-	-	-	-	-	-	-
Non-trading debt instruments at FVPL	1,615	1,055	150	52	9	349	1,528	1,019	149	46	9	305
Debt instruments at FVOCI	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments at AC	34,298	28,816	3,716	1,137	495	134	21,827	18,577	2,342	605	303	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to banks	1	-	-	-	-	1	-	-	-	-	-	-
Loans and advances to customers	31,556	26,151	3,643	1,134	495	133	20,578	17,348	2,322	605	303	-
Trade and other receivables	1,463	1,407	53	3	-	-	-	-	-	-	-	-
Finance lease receivables	1,278	1,258	20	-	-	-	1,249	1,229	20	-	-	-
Debt instruments held for sale in disposal groups	-	-	-	-	-	-	-	-	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Off balance-sheet exposures	1,223	668	376	95	62	22	50	11	-	39	-	-
Total	**37,136**	**30,539**	**4,242**	**1,284**	**566**	**505**	**23,405**	**19,607**	**2,491**	**690**	**312**	**305**

in HUF million	Total credit risk exposure: Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Thereof collateralised: Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
As of 31 December 2018												
Debt instruments at AC	61,213	52,004	4,664	1,316	202	3,027	50,884	45,635	3,837	980	48	384
Loans and advances to banks	7	-	-	-	-	7	-	-	-	-	-	-
Loans and advances to customers	61,206	52,004	4,664	1,316	202	3,020	50,884	45,635	3,837	980	48	384
Trade and other receivables	1,699	1,633	66	-	-	-	-	-	-	-	-	-
Finance lease receivables	1,225	1,137	62	26	-	-	1,224	1,136	62	26	-	-
Off balance-sheet exposures	14,228	13,738	361	63	55	11	485	485	-	-	-	-
Total	**78,365**	**68,511**	**5,153**	**1,406**	**257**	**3,038**	**52,593**	**47,256**	**3,899**	**1,006**	**48**	**384**

Loans and advances to customers

The tables on the following pages present the structure of the customer loan book, excluding loans to central banks and credit institutions broken-down by different categories. Loans and advances to customers comprise

- loans to customers at FVPL;
- loans and advances to customers at AC;
- finance lease receivables;
- trade and other receivables.

On the next pages loans and advances to customers are presented by:

- business segment and risk category;
- business segment and IFRS 9 treatment;
- business segment and coverage of non-performing loans to customers by loan loss allowances;
- business segment and coverage by loan loss allowances and IFRS 9 treatment;
- coverage by loan loss allowances and IFRS 9 treatment;
- business segment and currency;

Loans and advances to customers by business segment and risk category

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2019					
Retail	537,686	225,446	55,244	34,597	852,973
Corporates	628,696	72,043	42,562	5,824	749,125
Group Markets	6,172	-	-	-	6,172
Total	**1,172,554**	**297,489**	**97,806**	**40,421**	**1,608,270**

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2018					
Retail	466,997	156,584	53,753	44,037	721,370
Corporates	523,880	50,042	24,633	3,910	602,465
Group Markets	22,705	-	-	-	22,705
Asset/Liability Management and Local Corporate Centre	245	-	-	-	245
Total	**1,013,826**	**206,626**	**78,386**	**47,947**	**1,346,785**

Loans and advances to customers by business segment and IFRS 9 treatment

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Gross customer loans (AC)	Subject to provision	Total
As of 31 December 2019							
Retail	650,395	48,298	21,022	21,278	740,993	111,980	852,973
Corporates	701,140	33,293	4,731	9,631	748,795	330	749,125
Group Markets	6,172	-	-	-	6,172	-	6,172
Total	**1,357,707**	**81,591**	**25,753**	**30,909**	**1,495,960**	**112,310**	**1,608,270**

Stage 1 and Stage 2 comprise not credit impaired loans and advances while Stage 3 includes credit impaired loans and advances. POCI (purchased or originated credit impaired) consists of loans already credit impaired when purchased or originated.

The defaulted part of POCI loans amounted to 13,945 million HUF (2018: 19,884 million), the non-defaulted part to 16,964 million HUF (2018: 18,293 million).

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Gross customer loans (AC)	Subject to provision	Total
As of 31 December 2018							
Retail	599,616	31,351	23,317	26,036	680,320	41,050	721,370
Corporates	579,944	7,269	2,429	12,141	601,784	681	602,465
Group Markets	22,705	-	-	-	22,705	-	22,705
Asset/Liability Management and Local Corporate Centre	245	-	-	-	245	-	245
Total	**1,202,510**	**38,620**	**25,746**	**38,177**	**1,305,053**	**41,732**	**1,346,785**

In the following tables, the non-performing loans and advances to customers divided by reporting segment are contrasted with allowances for customer loans and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio (excl. collateral), and the NPL collateralization ratio are also included.

Non-performing loans and advances to customers by business segment and coverage by loan loss allowances

in HUF million	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage (exc collateral)	NPL collateralisation ratio	
	Total	AC	Total	AC	AC	Total	AC	Total	AC	AC	Total	AC
As of 31 December 2019												
Retail	34,597	34,036	852,973	740,993	30,614	20,190	19,872	4.06%	4.59%	89.94%	58.36%	58.38%
Corporates	5,824	5,821	749,125	748,795	6,754	4,259	4,256	0.78%	0.78%	116.03%	73.13%	73.12%
Group Markets	-	-	6,172	6,172	7	-	-	0.00%	0.00%			
Total	**40,421**	**39,857**	**1,608,270**	**1,495,960**	**37,375**	**24,449**	**24,128**	**2.5%**	**2.7%**	**93.8%**	**60.5%**	**60.5%**

in HUF million	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage (exc. collateral)	NPL collateralisation ratio	
	Total	AC	Total	AC	AC	Total	AC	Total	AC	AC	Total	AC
As of 31 December 2018												
Retail	44,037	43,640	721,370	680,320	35,854	25,184	24,871	6.1%	6.4%	82.2%	57.2%	57.0%
Corporates	3,910	3,906	602,465	601,784	4,620	2,377	2,372	0.6%	0.6%	118.3%	60.8%	60.7%
Group Markets	-	-	22,705	22,705	22	-	-	0.0%	0.0%			
Asset/Liability Management and Local Corporate Centre	-	-	245	245	-	-	-	0.0%	0.0%			
Total	**47,947**	**47,546**	**1,346,785**	**1,305,053**	**40,496**	**27,561**	**27,243**	**3.6%**	**3.6%**	**85.2%**	**57.5%**	**57.3%**

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Total gross customer loans, total non-performing loans, and total collateral include both AC and FVPL portfolios.

Loans and advances to customers at AC and coverage by loan loss allowances by business segment and IFRS 9 treatment

in HUF million	Loans to customers				Loan loss allowances						
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
As of 31 December 2019											
Retail	650,396	48,298	21,022	21,278	2,533	6,574	15,077	6,429	13.61%	71.72%	30.22%
Corporates	701,139	33,293	4,731	9,631	1,746	1,764	2,636	608	5.30%	55.72%	6.32%
Group Markets	6,172	-	-	-	7	-	-	-	1.89%		
Total	**1,357,707**	**81,591**	**25,753**	**30,909**	**4,286**	**8,338**	**17,713**	**7,037**	**10.22%**	**68.78%**	**22.77%**

in HUF million	Loans to customers				Loan loss allowances						
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
As of 31 December 2018											
Retail	599 616	31 351	23 317	26 036	3 085	4 701	17 506	10 561	15.00%	75.08%	40.56%
Corporates	579 944	7 269	2 429	12 141	1 644	436	2 000	540	6.00%	82.35%	4.45%
Group Markets	22,705	-	-	-	22	-	-	-			
Asset/Liability Management and Local Corporate Centre	245	-	-	-	-	-	-	-			
Total	**1 202 510**	**38 620**	**25 746**	**38 177**	**4 751**	**5 137**	**19 507**	**11 101**	**13.30%**	**75.77%**	**29.08%**

The NPL ratio of loans and advances to customers is calculated by dividing the gross carrying amount of non-performing loans and advances to customers by the total gross carrying amount of loans and advances to customers. Consequently, it differs from the NPE ratio in section “Credit risk exposure”. Collaterals for non-performing loans mainly consist of real estates.

The NPL coverage ratio (excluding collateral) is calculated by dividing total loss allowances by the gross carrying amount of the non-performing loans and advances to customers. Collateral or other recoveries are not taken into account.

The above presented NPL exposures are exclusive of any write-offs recognized in accordance with IFRS 9. EBH distinguishes between contractual write-offs (debt forgiveness towards the defaulted client, either unconditional or subject to conditions) and technical write-offs (claim removal from the books due to no reasonable expectation of recovery, whereby the legal claim towards the customer still remains), however it didn't have any technical write-offs in 2019. Both types of write-offs have as pre-condition that all reasonable workout measures and late collections tools have been applied for optimal recovery. In case of collateralized loans, write-off prior to the realization of the collateral is not allowed unless specific circumstances apply. Additional technical write-off triggers include enforcement, worthlessness of claim/collateral, legally binding bankruptcy/liquidation or other economic loss of the rights to claim, sale.

Loans and advances to customers by business segment and currency

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in HUF million	EUR	CEE-local currencies	CHF	USD	Other	Total
As of 31 December 2019						
Retail	3,244	849,325	390	11	3	852,973
Corporates	423,673	315,554	9,794	103	-	749,124
Group Markets	1,157	5,016	-	-	-	6,173
Total	**428,074**	**1,169,895**	**10,184**	**114**	**3**	**1,608,270**

in HUF million	EUR	CEE-local currencies	CHF	USD	Other	Total
As of 31 December 2018						
Retail	2,909	718,051	377	26	7	721,370
Corporates	332,430	260,074	9,920	41	-	602,465
Group Markets	2,104	20,600	-	-	-	22,705
Asset/Liability Management and Local Corporate Centre	245	-	-	-	-	245
Total	**337,688**	**998,726**	**10,297**	**66**	**7**	**1,346,785**

Market risk

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived from them. These market value changes might appear in the profit and loss account, in the statement of comprehensive income or in hidden reserves. At Erste Bank, market risk is divided into interest rate risk; credit spread risk, currency risk, equity risk, commodity risk and volatility risk. This concerns both trading and banking book positions. Commodity risk had no effect on Erste Bank Hungary's financial position as it had no relevant positions.

Methods and instruments employed

At Erste Bank, potential losses that may arise from market movements are assessed using the value at risk (VaR). For the VaR calculations Erste Bank follows the group wide methodology of Erste Group. The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under historically observed market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VaR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years, and calculates the VaR for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: stressed VaR (SVaR) is derived from the normal VaR calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period that constitutes a relevant period of stress for the current portfolio mix. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables Erste Bank on the one hand to hold sufficient own funds available for the trading book even in periods of elevated market volatility, while on the other hand also enabling it to incorporate these resulting effects into the management of trading positions. The results of the VaR and SVaR calculations are used for the calculation of the Pilar 2 capital requirement for the Trading Book.

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Interest rate risk can also be measured by the extent of the sensitivity of portfolio value to changes in interest rate. This method is called "Present Value of a Basis Point" (PVBP for short) analysis.
Each interest rate relevant position is assigned to specified buckets depending on their remaining maturity till repricing. The buckets range between 1-month and 30-year time intervals. Then the repricing gap structure of the Bank is structured per currency. Some currencies of similar characteristics are then bundled together to form currency groups.

In each bucket PVBP is the sum of the basis point sensitivity of all positions within the bucket. PVBP exposure of a given currency is calculated in the following way:

Max[sum of positive sensitivities; abs(sum of negative sensitivities)].

This results in a very conservative approach, because in the case of a yield curve shock this method focuses only on the potential losses and does not calculate with the counterbalancing effect of those buckets that contain positions with the opposite direction of the shock.

A limit framework was introduced to control the exposure to interest rate risk for currency groups and also on a total level.

PVBP limits for each currency group were approved by both Market Risk Committee of Erste Group and by ALCO of the Bank. The limit monitoring is performed by the Liquidity and Market Risk Department on a daily basis.

Methods and instruments of risk mitigation

Based on the group wide methodology of Erste Group, market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of VaR for the trading book is allocated in the Risk Appetite Statement while taking into account the risk-bearing capacity and projected earnings.

All market risk activities of the trading book are assigned to risk limits that are statistically consistent in their entirety with the overall VaR limit and applied as a second limit layer to the VaR limits.

The VaR is calculated every day and made available to the trading unit as well as to the Management.

Banking book positions are subjected to a monthly analysis. In this manner, the total VaR is determined with exactly the same methodology as for the trading book. In 2019, the Group-wide methodology for this calculation was changed, allowing to calculate 250.000 historical scenarios. This methodology is used to calculate the capital requirements according to the ICAAP with a theoretical holding period of 1 year and a confidence level of 99.92%. In addition, the same methodology is used to calculate the banking book VaR, consistent to the trading book methodology, with a 1 day holding period and a 99% confidence level

Analysis of market risk

The following tables show the VaR amounts at the 99% confidence level using equally weighted market data and with a holding period of one day:

Value at Risk of the banking book and the trading book

in HUF million	Total	Interest	Credit spread	Currency	Shares
As of 31 December 2019					
Erste Bank Hungary	**708**	**702**	**(1)**	**15**	**-**
Banking book	**662**	**663**	**(1)**	**-**	**-**
Trading book	**46**	**40**	**-**	**15**	**-**
As of 31 December 2018					
Erste Bank Hungary	1,527	1,502	(7)	44	-
Banking book	1,485	1,492	(7)	-	-
Trading book	42	10	-	44	-

The table above is adjusted compared to the annual report 2018. This is because the calculation methodology for the 99% VaR for the banking book was modified in order to be harmonized with the new methodology to calculate the capital requirement according to the ICAAP. With this methodology it is now possible to show the total 99% VaR for the banking book as well as the 99% VaR for the interest rate risk and the 99% VaR for the credit spread risk. The figures for 2018 are re-stated reflecting the new methodology in order to be comparable.

The significant decrease of the VaR of the banking book was mainly caused by the remodeling of the expected behaviour of non-maturing deposits for the ICAAP model. The new model provides a more even maturity structure for these deposits that decreased the VaR as well.

Interest rate risk in the banking book

Interest rate risk is the risk of an adverse change in the fair value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised on the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment. Positions without a fixed maturity (e.g. demand deposits) are included on the basis of modelled deposit rates that are determined by means of statistical methods.

The low or even negative interest rate environment since 2015, poses a challenge for the interest rate risk measurement and management of banks. In recent years the group wide methodology was adjusted for measuring the interest rate risk. For internal risk calculations and for the regulatory interest rate risk measures, the maximum downward shock is floored according to the Annex III of the EBA guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02).

The following tables list the open interest rate positions held by Erste Bank in the four currencies that carry a significant interest rate risk: HUF, EUR, USD and CHF.

Only the open interest rate positions that are not allocated to the trading book are presented. Positive values indicate interest rate risks on the asset side, i.e. a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book

in HUF million	0-3 months	3-6 months	6-12 months	over 1 year
As of 31 December 2019				
Repricing gap in HUF positions	(809 521)	-13 678	-35 883	909 000
Repricing gap in EUR positions	(65 969)	49 841	12 735	71 873
Repricing gap in USD positions	(99 545)	-10 896	-44 778	4 079
Repricing gap in CHF positions	(3 904)	196	8 073	29

Open fixed-income positions not assigned to the trading book

in HUF million	0-3 months	3-6 months	6-12 months	over 1 year
As of 31 December 2018				
Repricing gap in HUF positions	-530 122	79 340	70 007	565 455
Repricing gap in EUR positions	-106 097	-28 263	17 517	11 846
Repricing gap in USD positions	-52 384	19 977	-1 930	3 312
Repricing gap in CHF positions	-2 456	194	7 483	-756

Credit spread risk

Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market. Erste Bank is exposed to credit spread risk with respect to its securities portfolio, both in the trading and in the banking book.

For the trading book, credit spread risk for government bonds is part of the general market risk covered by VaR and SVaR. Corporate bonds are allocated to benchmark spread curves depending on sector, rating, and currency as part of the general risk covered by VaR and SVaR.
The quantification of the credit spread risk of the securities in the banking book is based on a historical simulation. The maximum (hypothetical) drawdown that can be attributed to credit related risk factors over one-year horizon is calculated. It is based on credit spread sensitivities (CR01) and the risk factors used are asset swap spreads.

Exchange rate risk

The bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.

Risk from open foreign exchange positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Liquidity and Market Risk calculates the open FX position in the banking book every morning based on the previous day's general ledger, and closes the position with a technical transaction with the trading book daily. The target is to have a close to zero Fx position in the Banking Book. The trading book can have open foreign currency position but subject to internal limits. The internal limits are set by the Asset Liability Committee.

The following table shows the largest consolidated open foreign currency positions of Erste Bank Hungary as of 31 December 2019 and the corresponding open positions of these currencies as of 31 December 2018.

Open foreign currency positions

in million HUF	2018	2019
Swiss Franc (CHF)	60	**60**
Euro (EUR)	1 830	**(731)**
Japanese Yen (JPY)	(9)	**9**
US Dollar (USD)	559	**(546)**
other	67	**(112)**

Liquidity risk

The liquidity risk in Erste Bank is defined in line with the principles set out by the Basel Committee on Banking Supervision as well as the European and Hungarian regulations (Capital Regulations Requirement (CRR) - Regulation (EU) No 575/2013, Delegated Regulation (EU) 2015/61, Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Hpt.)) and MNB recommendations. Accordingly, a distinction is made between market liquidity risk, which is the risk that the bank entities cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks in the group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the institution's own refinancing cost or spread.

Liquidity strategy

In 2019, client deposits remained the primary source of funding for Erste Bank: the volume of client deposits increased to HUF 2 011 billion as of year-end 2019 (2018: HUF 1 650 billion), amounting to 70% (2018: 67%) of the balance sheet total. Due to the fact that client deposits inflows was approximately equal with the growth of loan production, the loan-to-deposit ratio has not changed significantly and remained around the level of 78% (2018: 79%).

Liquidity ratios

The LCR is calculated in Erste Bank according to the Delegated Regulation (EU) 2015/61. In 2019, the calculation of the NSFR was adjusted in order to be aligned with the requirements as defined in the proposal for amending the Directive 2013/36/EU (Draft CRR 2).
In addition to the European regulation there are local liquidity indicators that Erste Bank has to comply with: DMM- Foreign Funding Adequacy Ratio, DEM - Foreign Currency Equilibrium Ratio, JMM - Mortgage Funding Adequacy Ratio and Wholesale Funding Ratio.

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period (SPA). This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of customer, as well as the potential outflows from collateralised derivative transactions estimating the effect of collateral outflows in the case of adverse market movements. Starting with 2018, an updated version of the survival period analysis came into force. It contained, among other improvements, an extension of the stress horizon up to 12 months, dependent on the stress scenario.

Erste Bank calculates the Liquidity Coverage Ratio according to the delegated regulation (EU) 2015/61 and reports this ratio on a monthly basis to the authorities on a solo and group level. Additionally, Erste Bank implemented the Net Stable Funding Ratio (NSFR) according to the Draft CRR 2 requirements. Internally, these ratios are monitored. Since 2014 the LCR (from 2014 to 2016 LCR according to CRR, since 2017 LCR according to the delegated LCR DA) is part of the internal Risk Appetite Statement (RAS). LCR limits are defined in the RAS targeting to be well above the regulatory requirement of 100%. Erste Bank is reporting the NSFR according to the CRR quarterly.

Additionally, the structural liquidity gaps (depicting the going concern maturity mismatches) are reported and monitored regularly. Concentration risks in the "Counterbalancing Capacity" (CBS), in terms of funds and assets are regularly monitored and reported to the regulator. Erste Bank's funds transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by Erste Bank.

Short-term liquidity risk is managed by limits resulting from the survival period model, internal stress testing and by internal LCR targets. Liquidity indicators are reported to the Operative Liquidity Committee (OLC) and the Asset Liability Committee (ALCO). Another important instrument for managing the liquidity risk within Erste Bank is the FTP system.

The Comprehensive Contingency Plan of the Erste Group ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

In Erste Bank, the liquidity risk is analysed by the following methods.

Liquidity coverage ratio

Erste Bank uses the regulatory liquidity coverage ratio according the delegated regulation (EU) 2015/61 (LCR according LCR DA) for internal monitoring and steering of the liquidity position as well. In order to keep the LCR according LCR DA above both limits, the regulatory limit and the internal limit, Erste Bank closely monitors its short-term liquidity inflows and outflows as well as its available counterbalancing capacity.

The following table shows the LCR DA as of 31 December 2019:

Liquidity coverage ratio

in HUF million	2018	2019
Liquidity buffer	759,680	968,637
Net liquidity outflow	387,273	704,722
Liquidity coverage ratio	**196%**	137%

Liquidity gaps

The long-term liquidity position is managed through using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each material currency and based on the assumption of ordinary business activity. Fulfilment of the internal and regulatory liquidity risk requirements as well as the current and expected market environment is also taken into account.

Expected cash flows are broken down by contractual maturities in accordance with the amortisation schedule and arranged in maturity ranges. All cash-flows derived from products without contractual maturities (such as demand deposits and overdrafts) are classified based on internal behavioural models.

The following table shows the liquidity gaps as of 31 December 2018 and 31 December 2019:

Liquidity gap

in HUF million	2018 < 1 month	2018 1-12 months	2018 1-5 years	2018 > 5 years	2019 < 1 month	2019 1-12 months	2019 1-5 years	2019 > 5 years
On-Balance Sheet Liquidity GAP	(225,025)	(136,095)	569,487	(208,367)	(151,828)	(334,086)	710,851	(224,937)
Off-Balance Sheet Liquidity GAP	2,102	(1,031)	1,577	4,202	1,085	(798)	1,407	4,316

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The liquid security portfolio concentrated on the 1-5 years tenor is represented according to its original maturity profile and it can be mobilised at any time to cover the negative gaps on the short-term tenors.

Counterbalancing capacity

Erste Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserves at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including impacts from repos and reverse repos. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the counterbalancing capacity as of year-end 2019 and year-end 2018 are shown in the tables below:

Term structure of counterbalancing capacity

in HUF million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
2019					
Cash, excess reserve	116,454	-	-	-	-
Liquid assets	855,573	-	(33,233)	(49,850)	(10,672)
Counterbalancing capacity	972,027	-	(33,233)	(49,850)	(10,672)

in HUF million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
2018					
Cash, excess reserve	21,952	-	-	-	-
Liquid assets	803,947	(9,443)	(8,572)	(58,768)	(65,699)
Counterbalancing capacity	**825,899**	**(9,443)**	**(8,572)**	**(58,768)**	**(65,699)**

The figures above show the total amount of potential liquidity available for the group in a going concern situation, taking into account the applicable central bank haircuts. In a crisis situation, adverse market movements and legal transfer restrictions among group members can decrease this amount. Taking into account these effects, the initial counterbalancing capacity available at group level is reduced by additional haircuts and liquidity transfer constraints. Negative figures are maturing positions of the counterbalancing capacity. Positive figures after 1 week are positions not immediately available as counterbalancing capacity.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2019 and 31 December 2018 respectively, were as follows:

Financial liabilities

in HUF million	Carrying amount	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
As of 31 December 2019						
Non-derivative liabilities	**2,388,999**	**2,454,069**	**350,444**	**814,900**	**920,165**	**368,560**
Financial liabilities HfT	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities at FVPL	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities at AC	**2,388,999**	**2,454,069**	**350,444**	**814,900**	**920,165**	**368,560**
Deposits by banks	309,035	347,510	29,141	39,776	121,480	157,113
Customer deposits	2,011,033	2,011,749	318,982	765,709	773,745	153,312
Debt securities in issue	7,300	21,997	336	5,180	12,720	3,762
Other financial liabilities	4,162	4,156	1,985	1,591	484	96
Subordinated liabilities	57,468	68,658	-	2,644	11,736	54,278
Derivative liabilities	**30,241**	**30,241**	**3,511**	**17,403**	**3,519**	**5,807**
Finance lease liabilities	**21,204**	**21,204**	**213**	**2,672**	**10,284**	**8,035**
Total on balance sheet liabilities	**2,440,444**	**2,505,514**	**354,169**	**834,975**	**933,969**	**382,402**
Contingent liabilities	**264,764**	**264,764**	**264,764**	**-**	**-**	**-**
Financial guarantees	1,482	1,482	1,482	-	-	-
Irrevocable commitments	263,266	263,266	263,266	-	-	-
Total	**2,705,208**	**2,770,278**	**618,933**	**834,975**	**933,969**	**382,402**

in HUF million	Carrying amount	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
As of 31 December 2018						
Non-derivative liabilities	**2,052,164**	**2,090,276**	**37,587**	**554,719**	**567,664**	**592,024**
Financial liabilities HfT	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities at FVPL	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities at AC	**2,052,164**	**2,090,276**	**37,587**	**554,719**	**567,664**	**592,024**
Deposits by banks	339,127	364,496	133,666	27,815	9,077	112,244
Customer deposits	1,649,231	1,650,518	239,645	523,096	46,442	423,356
Other financial liabilities	4,164	445	-	104	2,995	415
Debt securities in issue	2,823	2,823	2,558	49	102	114
Subordinated liabilities	56,819	6,799	-	2,718	9,377	55,895
Derivative liabilities	**19,839**	**19,839**	**2,753**	**10,342**	**3,341**	**3,404**
Total on balance sheet liabilities	**2,072,003**	**2,110,116**	**378,622**	**56,506**	**571,005**	**595,428**
Contingent liabilities	**314,874**	**314,874**	**314,874**	**-**	**-**	**-**
Financial guarantees	308	308	308	-	-	-
Irrevocable commitments	314,566	314,566	314,566	-	-	-
Total	**2,072,318**	**2,110,431**	**378,937**	**56,506**	**571,005**	**595,428**

As of year-end 2019, the currency composition of the non-derivative liabilities consisted of approximately 75.25% HUF, 17.89% EUR, 6.17% USD, and 0.69% in other currencies (2018: 75.84% HUF, 19.84% EUR, 3.60% USD, and 0.72% in other currencies).

As of 31 December 2019, the volume of customer deposits due on demand amounted to HUF 1 675 billion (2018: HUF 1 368 billion). According to customer segments, the customer deposits are composed as follows: 46% private individuals, 22% large corporates, 30% small and medium-sized enterprises, 2% public sector, (2018: 57% private individuals, 13% large corporates, 27% small and medium-sized enterprises, 2% public sector).

Operational risk

In line with Article 4 Section 52 of regulation (EU) 575/2013 (CRR), Erste Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which are collected across Erste Group using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. Erste Group sources external data from a leading non-profit risk-loss data consortium (ORX) for this reason Erste Hungary uses HunOr, the Hungarian operational risk-loss data consortium.

The Bank's capital requirement based on Advanced Measurement Approach is calculated by Erste Holding, and allocated to Erste Hungary and other Erste Group subsidiaries with an allocation key. The loss events and the results of the Scenario analysis are provided by Subsidiaries of Erste Group. For determining loss key two factors are taken into consideration, the size indicators of the Bank and the proportion of loss data the given Subsidiary has. From 2011 the Bank uses Insurance factor for calculating the capital as a risk mitigation tool and for capital requirement reduction.
Capital requirement of the Bank calculated with AMA in Q4 2019 was 38 277 551 301 HUF.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk and control assessments through expert panels. Additional methods include setting of key risk indicators and risk assessments in connection with product approvals, outsourcing assessments and risk return decisions. The results of these assessments and processes are reported to line management along with mitigation measures and thus help to reduce operational risks. In order to ensure early detection of changes in the risk profile that may lead to losses, Erste Hungary monitors a number of key risk indicators such as system availability, staff turnover, and customer complaints.

Erste Hungary uses an insurance program that has reduced the cost of meeting Erste Hungary's traditional property insurance needs. Freed-up resources made it possible to buy additional insurance for previously uninsured bank-specific risks. This program uses a captive reinsurance entity as a vehicle to share losses within the group and access the external market.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above, form the operational risk framework of Erste Hungary. Information on operational risk is periodically communicated to the management board via various reports, including the quarterly top management reports, which describe the recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for Erste Group.

41) Fair value of financial instruments

Financial instruments carried at fair value

The measurement of fair value at Erste Bank is based primarily on external sources of data. Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Description of valuation models and parameters

Erste Bank uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

Loans. IFRS 9 regulation significantly changed accounting classification of loans. Not SPPI (solely payments of principal and interest) compliant loans are valued at fair value. The methodology to compute fair value of these loans corresponds to the basic present value technique where expected cash flows of assets are discounted by the full rate including risk premium required for non-market risk based part of the interest rate to be compliant with fair value definition. The credit risk is recognised by adjusting contractual cash flows to come to expected cash flows accounting for customer's probability of default and loss given default. These adjusted cash flows are then discounted by effective discount rate incorporating other risk/cost components.

Securities. For plain vanilla (fixed and floating rate) debt securities the fair value is calculated by discounting the future cash flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash flow models and more sophisticated modelling techniques including methods described for OTC-derivatives.

Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price. For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters.

Liabilities: The fair value of financial liabilities designated at fair value through profit or loss under the fair value option consist of mortgage bonds issued by Erste Mortgage Bank. The FV of these instruments are calculated on the basis of the quoted price of the government bond with the same maturity and the spread on mortgage bonds over the government bond yields.

OTC-derivative financial instruments. Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options) are valued by using standard valuation models. Models are calibrated on quoted market data (including implied volatilities). For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

Credit value adjustments (CVA) for counterparty risk and debit value adjustments (DVA) for own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and Erste Group's credit quality. Erste Group has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. For products where an option replication is not feasible the exposure is computed with Monte-Carlo simulation techniques. One of the two modelling approaches is considered for the most relevant portfolios and products. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default by counterparties that are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles present in the central European market. Market based valuation concepts are incorporated for this. Erste Group's probability of default has been derived from the buy-back levels of Erste Group's issuances. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with immaterial threshold amounts.

According to the described methodology the accumulated CVA-adjustments amounted to HUF 254 million (HUF 354 million in 2018) and the total DVA-adjustment amounted to HUF 67 million (HUF 55 million in 2018).

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent of the trading units.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorised under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

These include exchange traded derivatives (futures, options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

These include OTC derivatives, less liquid shares, bonds and funds.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases individual valuation parameters which are not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. These include trading securities, equity instruments, IFRS9 related FV loan portfolio and mortgage bonds.

Classification of financial instruments carried at fair value by levels of the fair value hierarchy

	2018				2019			
in HUF million	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Financial assets HfT	2,030	87,373	1,727	91,130	2,856	46,358	1,775	50,989
Derivatives	-	24,203	1,727	25,930	-	33,278	1,775	35,053
Other financial assets held for trading	2,030	63,171	-	65,201	2,856	13,080	-	15,936
Financial assets designated at FVPL	30,702	-	-	30,702	-	-	-	-
Non-trading financial assets at FVPL	-	-	42,870	42,870	-	-	115,360	115,360
Equity instruments	-	-	1,138	1,138	-	-	1,229	1,229
Debt securities	-	-	-	-	-	-	1,821	1,821
Loans and advances	-	-	41,732	41,732	-	-	112,310	112,310
Financial assets at FVOCI	102,687	32,881	1,483	137,052	100,900	11,288	627	112,815
Equity instruments	-	-	1,483	1,483	-	-	-	-
Debt securities	102,687	32,881	-	135,569	100,900	11,288	627	112,815
Total assets	**135,419**	**120,255**	**46,080**	**301,754**	**103,756**	**57,646**	**117,762**	**279,164**
Liabilities								
Financial liabilities HfT	9	18,950	881	19,839	5	30,236	-	30,241
Derivatives	9	18,950	881	19,839	5	30,236	-	30,241
Total liabilities	**9**	**18,950**	**881**	**19,839**	**5**	**30,236**	**-**	**30,241**

The allocation of the appropriate level of positions is determined at the end of the reporting period.

Valuation process for financial instruments categorised as Level 3

The valuation of financial instruments categorised as Level 3 involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking for similar transactions, among others. This involves estimation and expert judgment.

Development of fair value of financial instruments in Level 3

in HUF million		Gains/losses profit or loss	Gains/losses OCI	Purchases	Settlements	Transfer into Level 3	Transfer out of Level 3	Reclassifica-tion	Currency transla-tion	
	01.01.2019									31.12.2019
Assets										
Financial assets HfT	1,727	(51)	-	510	(411)	-	-	-	-	1,775
Derivatives	1,727	(51)	-	510	(411)	-	-	-	-	1,775
Non-trading financial assets at FVPL	42,870	15	-	78,271	(7,322)	-	-	1,526	-	115,360
Equity instruments	1,138	91	-	-	-	-	-	-	-	1,229
Debt securities	-	295	-	-	-	-	-	1,526	-	1,821
Loans and advances	41,732	(371)	-	78,271	(7,322)	-	-	-	-	112,310
Financial assets at FVOCI	1,483	(24)	54	631	-	-	-	(1,537)	19	626
Equity instruments	1,483	-	35	-	-	-	-	(1,537)	19	-
Debt securities	-	(24)	19	631	-	-	-	-	-	626
Total assets	**46,080**	**(60)**	**54**	**79,413**	**(7,734)**	**-**	**-**	**(11)**	**19**	**117,761**
Liabilities										
Financial liabilities HfT	881	(450)	-	-	(431)	-	-	-	-	-
Derivatives	881	(450)	-	-	(431)	-	-	-	-	-
Total liabilities	**881**	**(450)**	**-**	**-**	**(431)**	**-**	**-**	**-**	**-**	**-**

in HUF million		Gains/losses profit or loss	Gains/losses OCI	Purchases	Settlements	Transfer into Level 3	Transfer out of Level 3	Reclassifica-tion	Currency transla-tion	
	01.01.2018									31.12.2018
Assets										
Financial assets HfT	-	-	-	-	-	1,727	-	-	-	1,727
Derivatives	-	-	-	-	-	1,727	-	-	-	1,727
Non-trading financial assets at FVPL	49,644	2,519	-	556	(9,848)	-	-	-	-	42,870
Equity instruments	970	169	-	-	-	-	-	-	-	1,138
Loans and advances	48,674	2,350	-	556	(9,848)	-	-	-	-	41,732
Financial assets at FVOCI	12,873	-	263	-	-	-	(11,684)	-	31	1,483
Equity instruments	1,189	-	263	-	-	-	-	-	31	1,483
Debt securities	11,684	-	-	-	-	-	(11,684)	-	-	-
Total assets	**62,516**	**2,519**	**263**	**663**	**(9,848)**	**1,727**	**(11,684)**	**-**	**31**	**46,080**
Liabilities										
Financial liabilities HfT	-	-	-	-	-	881	-	-	-	881
Derivatives	-	-	-	-	-	881	-	-	-	881
Total liabilities	**-**	**-**	**-**	**-**	**-**	**19,527**	**-**	**-**	**-**	**19,527**

The volume of Level 3 financial assets can be allocated to the following categories:

_ Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).

_ Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.

_ Loans which do not comply with the contractual cash flow criteria.

Unobservable inputs and sensitivity analysis for Level 3 measurements

In case the fair value measurement of a financial asset is retrieved from input parameters which are not observable in the market, those parameters can be retrieved from a range of alternative parameters. For the preparation of the balance sheet the parameters where chosen to reflect the market situation at the reporting date.

Range of unobservable valuation parameters used in Level 3 measurements

Financial assets	Type of instrument	Fair value in HUF million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
Dec 19					
Positive fair value of derivatives	Swaps	1,775	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	0,66%-3,03%
				LGD	60%
Financial assets at FVPL	Fixed and variable coupon bonds	-	Discounted cash flow	Credit Spread	na
	Loans	112 310	Discounted cash flow	PD	0.26%-100% (1.98%)
				LGD	7.39%-100% (20.08%)

Financial assets	Type of instrument	Fair value in HUF million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
Dec 18					
Positive fair value of derivatives	Forwards, swaps, options	1,727	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	2,6%-3,8%
				LGD	60%
Financial assets at FVPL	Fixed and variable coupon bonds	-	Discounted cash flow	Credit Spread	na
	Loans	41,732	Discounted cash flow	PD	0.26%-100% (5.45%)
				LGD	7.39%-94% (11%)

Sensitivity analysis using reasonably possible alternatives per product type

	2018		2019	
	Fair value changes		Fair value changes	
in HUF million	Positive	Negative	Positive	Negative
Derivatives	42	-46	34	-77
Income statement	42	-46	34	-77
Debt securities	0	0	229	-245
Income statement	0	0	182	-182
Other comprehensive income	0	0	47	-63
Equity instruments	258	-258	123	-123
Income statement	114	-114	123	-123
Other comprehensive income	144	-144	0	0
Loans and advances	848	-6,176	2,046	-7,575
Income statement	848	-6,176	2,046	-7,575
Total	**1,148**	**-6,480**	**2,431**	**-8,020**
Income statement	**1,004**	**-6,336**	**2,384**	**-7,957**
Other comprehensive income	**144**	**-144**	**47**	**-63**

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In estimating these impacts, mainly changes in PDs, LGDs (for CVA of derivatives). An increase (decrease) of PDs and LGDs result in a decrease (increase) of the corresponding fair values. Positive correlation effects between PDs and LGDs were not taken into account in the sensitivity analysis. For non-trading equity instruments increases (decreases) in any of the inputs used for the cost of equity calculation in isolation would result in a lower (higher) fair value.

The following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:
_ for debt securities range of credit spreads between +100 basis points and -75 basis points
_ for equity related instruments the price range between -10% and +5%
_ **for unquoted equity instruments the price range between -10% and +10% (VISA instrument is included from Debt security category due to the similar contractual feature with equity instruments)**for
_ CVA on derivatives PDs rating upgrade/downgrade by one notch, as well as the change of LGD by -5% and +10%.
_ for loans, the PDs rating upgrade/downgrade by 1%, the change of LGD by -5% and +10% and a range of credit spreads between +100 basis points and -75 basis points

Financial instruments not carried at fair value with fair value disclosed in the notes

2019 in HUF million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS	**2,387,524**	**2,447,692**	**757,899**	**155,403**	**1,534,390**
Cash and balances with central bank	136,020	136,020	136,020	-	-
Debt securities - at amortised cost	753,411	781,401	621,879	155,403	4,119
Loans and advances	1,498,093	1,530,271	-	-	1,530,271
LIABILITIES	**2,384,837**	**2,400,760**	**-**	**9,050**	**2,391,710**
Deposits from banks (not subordinated)	309,032	324,127	-	-	324,127
Deposits from customers	2,011,033	2,010,466	-	-	2,010,466
Debt securities issued	10,789	11,314	-	9,050	2,264
Subordinated liabilities	53,983	54,853	-	-	54,853

2018 in HUF million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS	**1,993,299**	**1,997,535**	**615,821**	**75,880**	**1,305,833**
Cash and balances with central bank	26,845	26,845	26,845	-	-
Debt securities - at amortised cost	657,981	665,314	588,976	75,880	457
Loans and advances	1,308,473	1,305,376	-	-	1,305,376
LIABILITIES	**2,049,341**	**2,040,158**	**-**	**8,052**	**2,032,106**
Deposits from banks (not subordinated)	339,127	340,922	-	-	340,922
Deposits from customers	1,649,231	1,640,034	-	-	1,640,034
Debt securities issued	8,471	8,877	-	8,052	824
Subordinated liabilities	52,512	50,325	-		50,325

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of debt securities at amortised cost are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortised cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows. The spread adjustment for Erste Bank's own credit risk is derived from buy-back levels of own issuances.

Fair value of non-financial assets

2019	Note	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in HUF million						
Assets whose Fair Value is presented in the Statement of Financial Position		**13**	**13**	**-**	**0**	**13**
Repossessed assets (IAS 2)	28)	13	13	-	0	13
2018						
in HUF million	**Note**	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
Assets whose Fair Value is presented in the Statement of Financial Position		**63**	**63**	**-**	**-**	**63**
Assets held for sale (IFRS 5)	27)	30	30	-	-	30
Repossessed assets (IAS 2)	28)	63	63	-	-	63

42) Audit fees and consultancy fees

The following table contains audit and other fees charged by the auditors, PwC in the fiscal years 2018 and 2019:

in HUF million	2018	2019
	136	141

The total balance charged for 2018 consists of 126 million forint for audit fees and 10 million forint for other services (gross amounts, value-added tax included).

The total balance charged for 2019 consists of 124 million forint for audit fees and 17 million forint for other services (gross amounts, value-added tax included).

Other services consists of pre-takeover mortgage loan reviews and providing an application that supports the preparation of the financial statement. Legal act prescribes that mortgage loans to be taken over by a mortgage bank (in this case subsidiary) are subject to an audit review as a kind of a guarantee for the quality at takeover.

43) Contingent liabilities

To meet the financial needs of customers, Erste Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

in HUF million	2018	2019
Irrevocable contingent liabilities	**314,874**	**264,749**
Guarantees	308	1,482
Committed credit lines -irrevocable	268,271	214,247
Import accreditives	46,295	49,019
Revocable contingent liabilities	**134,476**	**173,548**
Committed credit lines - revocable	134,476	173,548
Other contingent liabilities	**3,688**	**5,586**
Legal cases	1,506	1,535
Other	2,182	4,051
Total	**453,038**	**443,883**

Related Provision see note 30), page 58.

Legal proceedings

Erste Bank is involved in legal disputes, most of which have arisen in the course of its ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of the Bank.

To a great extent these proceedings relate to disputes regarding the validity of clauses in contracts with consumers. Foreign currency loan related invalidity lawsuits by consumers against banks, including the Bank, were suspended by the regulations of the 2014 consumer loan laws until the completion of the settlement and refund process towards the customers concerned. While some plaintiffs did not pursue their claims further, the Bank remained a defendant in several of these litigation procedures. Regardless of the settlement, consumers continue to initiate further court cases, creating a level of uncertainty on assessing the potential financial impact in case of adverse adjudications.
The level of uncertainty related to the outcome of these litigations was somewhat increased by the Hungarian local courts initiating the preliminary ruling of European Court of Justice (“ECJ”) in several proceedings (4 cases against EBH). The questions referred to the ECJ mainly examine the compliance of FX loan agreements and the regulation of the 2014 consumer loan laws with the provisions of 93/13/EEC Council Directive on consumer protection. Rulings of the ECJ adopted so far are in favour of strengthening the legal position represented by EBH in these lawsuits, as all of the judgements adopted by the ECJ so far confirmed the validity of the Hungarian legislation and judicial practice from a consumer protection perspective. As a result of these pending procedures, numerous other pending lawsuits have been suspended, the majority of which are still yet to be continued despite the fact that the ECJ has already adopted numerous preliminary rulings.

44) Analysis of remaining maturities

The breakdown of remaining maturities of the Bank's financial assets and liabilities are modelled:

	2018		2019	
in HUF million	**< 1 year**	**> 1 year**	< 1 year	> 1 year
Assets				
Cash and cash balances	26,845	0	136,020	-
Financial assets held for trading	75,314	15,817	31,646	19,343
Derivatives	14,185	11,744	21,201	13,853
Other financial assets held for trading	61,128	4,073	10,445	5,490
Non-trading financial assets at fair value through profit or loss	4,401	69,171	16,758	98,602
Equity instruments	0	1,138	0	1,229
Debt securities	0	30,702	0	1,821
Loans and advances to customers	4,401	37,331	16,758	95,552
Financial assets at fair value through other comprehensive income	0	137,052	0	112,815
Equity instruments	0	1,483	0	0
Debt securities	0	135,569	0	112,815
Financial assets at amortised cost	444,765	1,521,689	488,638	1,762,866
Debt securities	84,279	573,702	61,128	692,283
Loans and advances to banks	93,569	2,060	57,419	36,325
Loans and advances to customers	266,916	945,927	370,091	1,034,258
Finance lease receivables	20,683	16,919	15,975	27,593
Property and equipment	0	8,321	0	29,663
Investment properties	0	0	0	214
Intangible assets	0	21,153	0	25,790
Investments in joint ventures and associates	0	54,567	0	56,412
Current tax assets	1,380	0	0	0
Deferred tax assets	0	3,321	0	4,503
Assets held for sale	30	0	0	0
Trade and other receivables	13,000	1,114	10,335	335
Other assets	23,159	63	24,616	13
Total assets	**609,576**	**1,849,187**	**723,988**	**2,138,149**

in HUF million				
Liabilities and equity				
Financial liabilities held for trading	13,094	6,745	20,914	9,326
Derivatives	13,094	6,745	20,914	9,326
Other financial liabilities held for trading	0	0	0	0
Financial liabilities at fair value through profit or loss	0	0	0	0
Deposits from customers	0	0	0	0
Debt securities issued	0	0	0	0
Other financial liabilities	0	0	0	0
Financial liabilities at amortised cost	924,662	1,127,502	1,156,890	1,232,109
Deposits from banks	158,424	233,215	64,994	298,021
Deposits from customers	762,192	887,039	1,084,310	926,723
Debt securities issued	1,439	7,032	4,008	6,781
Other financial liabilities	2,607	216	3,579	584
Finance lease liabilities	x	x	2,885	18,319
Provisions	1,744	5,526	1,772	4,993
Current tax liabilities	0	0	177	0
Deferred tax liabilities	0	0	0	0
Other liabilities	31,165	0	27,264	0
Total equity	0	348,324	0	387,487
Equity attributable to owners of the parent	0	357,864	0	387,487
Subscribed capital	0	146,000	0	146,000
Additional paid-in capital	0	117,492	0	117,492
Retained earnings and other reserves	0	84,832	0	123,995
Total liabilities and equity	**970,665**	**1,488,097**	**1,209,902**	**1,652,234**

45) Own funds and capital requirement according to Hungarian regulatory requirements

The primary objectives of the Erste Bank's capital management policy are to ensure that Erste Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

Erste Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, Erste Bank may adjust the amount of dividend payment to shareholders or return capital to shareholders. No changes have been made to the objectives, policies and processes from the previous years.
The calculation is made in accordance with Hungarian regulatory requirements, conform to EU regulation, and based on IFRS.

During 2019 and 2018 Erste Bank had complied in full with all its externally imposed capital requirements.

in HUF million	2018	2019
Tier 1 capital before deductions	348,324	387,849
Deductions from the Tier 1 capital (-)	49,518	43,915
Tier 1 capital after deductions	**298,806**	**343,935**
Tier 2 capital	54,362	55,468
Total qualifying own funds	**353,167**	**399,403**
Risk weighted assets (base for credit risk)	1,276,985	1,444,667
Capital requirement for credit risk	**102,159**	**115,573**
thereof IRB approach	92,305	104,133
thereof standardized approach	9,854	11,440
Capital requirement for market risk	**824**	**519**
thereof calculated with simple approach	824	519
thereof from debt instruments	824	519
Other capital requirements for credit valuation adjustment	**727**	**1,063**
Capital requirement for operational risk	**39,529**	**38,278**
Total base for capital requirement	**1,790,490**	**1,942,919**
Total capital requirement	**143,239**	**155,433**

46) Events after the balance sheet date

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and be-yond, causing disruptions to businesses and economic activity. Erste Bank considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on Erste Bank. The potential impact of this outbreak on the macroeconomic forecasts will be incorporated into Erste Bank's IFRS 9 estimates of expected credit loss provisions in 2020.

The Hungarian Government has announced the State of Emergency and ordered several health protective measures to slow down the spread of the virus and published 18 March 2020 its first economic package. The most important measures that affect the banking sector are as follows:
1. A repayment moratorium is introduced for all private borrower and businesses covering both principal and interest, in-scope are the loans contracted latest 18 March 2020. The moratorium expires 31 December 2020.
2. Interest condition of unsecured loans contracted from 19 March 2020 on is regulated, the interest is maximized in central bank rate plus 5%.

Due to the fact that interest cannot be charged on the unpaid interest, and the unpaid interest will be repaid later in time, according to the preliminary approximate estimates, the pre-tax one-off loss of the payment moratorium for 2020 can be in the range of HUF 5-9 billion – depending heavily on the actual participation rate of customers in the scheme which rate may change and fluctuate during the whole period of the moratorium as customers may decide anytime to opt-out or opt-in without limitation.

Based on observed opt-out behaviour of customers in March 2020 (which is an early observation so might not be fully representative for the whole year and might change later), our best estimation for the financial effect is HUF 6 billion.

The National Bank of Hungary instructed the banks not to pay dividend for the financial year of 2019 until 30 September 2020.

Erste Bank plans not to declare and pay dividend for the financial year of 2019.

47) Other information

Erste Bank's signing representatives for financial statements of business year 2019:

Name	Address
Radován Jelasity	1026 Budapest, Balogh Ádám utca 35
Ivan Vondra	1051 Budapest, Dorottya utca 6

Responsible for preparation of the financial statements:
János Rádi (mother's maiden name: Mária Kmetty)
Registration number: 168198, certificate number: 009310, registration expertise: IFRS, finance

48) Details of the companies wholly or partly-owned by Erste Bank at 31 December 2019 and 2018 respectively

Company name	Interest of Erste Bank in % - directly or indirectly at 31.12.2018	Interest of Erste Bank in % - directly or indirectly at 31.12.2019
Subsidiaries:		
Erste Befektetési Zrt.	100%	100%
Erste Lakáslízing Zrt.	100%	0%
Erste Ingatlan Kft.	100%	100%
Sió Ingatlan Invest Kft.	100%	100%
Erste Lakástakarék Zrt.	100%	100%
Collat-reál Kft.	100%	100%
Erste Jelzálogbank Zrt.	100%	100%
Other investments:		
Union Vienna Insurance Group Zrt.	1.36%	1.36%
Budapest Stock Exchange Ltd.	2.32%	2.32%
Garantiqa Hitelgarancia Zrt.	2.17%	2.17%
Kisvállalkozás-fejlesztési Pénzügyi Zrt.	1.13%	0.00%
VISA Incorporated	0.0005%	0.0005%

in HUF million	Subscribed capital 2018	Subscribed capital 2019
Subsidiaries:		
Erste Befektetési Zrt.	2,000	2,000
Erste Lakáslízing Zrt.	50	-
Erste Ingatlan Kft.	170	170
Sió Ingatlan Invest Kft.	12.9	12.9
Erste Lakástakarék Zrt.	2,025	2,025
Collat-reál Kft.	8	3
Erste Jelzálogbank Zrt.	3,010	3,010

The registered office of all of the subsidiaries is 24-26. Népfürdő utca, 1138 Budapest, Hungary.