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 2020

Financial Statements 2020 IFRS

I. Income Statement for the year ended 31 December 2020

in HUF million	Notes	2019	2020
Net interest income	2)	71,030	77,152
Interest income		73,527	79,776
Other similar income		10,704	13,362
Interest expenses		(8,259)	(12,545)
Other similar expenses		(4,942)	(3,441)
Net fee and commission income	3)	51,312	51,271
Fee and commission income		63,742	63,531
Fee and commission expenses		(12,430)	(12,260)
Dividend income	4)	1,037	2,900
Net trading result	5)	9,246	7,427
Foreign exchange transactions		1,766	(1,610)
Other		7,480	9,037
Gains/losses from financial instruments measured at fair value through profit or loss	6)	137	(1,608)
Rental income from investment properties & other operating leases	7)	33	41
Personnel expenses	-	(29,678)	(29,841)
Other administrative expenses	8)	(22,295)	(24,812)
Depreciation and amortisation	8)	(11,365)	(12,840)
Gains/losses from derecognition of financial assets measured at amortised cost	9)	9	162
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10)	2,088	248
Impairment result from financial instruments	11)	598	(31,412)
Other operating result	12)	(13,371)	(14,246)
Other operating income	12)	7,446	10,319
Other operating expense	12)	(20,817)	(24,565)
Pre-tax result from continuing operations		**58,781**	**24,442**
Taxes on income	13)	(3,244)	(5,536)
Net result for the period		**55,537**	**18,906**

II. Statement of Comprehensive Income for the year ended 31 December 2020

in HUF million	2019	2020
Net result for the period	**55,537**	**18,906**
Other comprehensive income		
Items that may not be reclassified to profit or loss		
Fair value reserve of equity instruments	18	-
Own credit risk reserve		
Income tax relating to items that may not be reclassified	(2)	-
Items that may be reclassified to profit or loss		
Fair value reserve of debt instruments	3,970	(1,367)
Gain/loss during the period	6,037	(1,147)
Reclassification adjustments	(2,088)	(248)
Credit loss allowances	21	28
Deferred taxes relating to items that may be reclassified	(360)	123
Gain/loss during the period	(548)	101
Reclassification adjustments	188	22
Total other comprehensive income	**3,626**	**(1,244)**
Total comprehensive income	**59,163**	**17,662**

Date: Budapest, 9 April 2021

Radován Jelasity
Chairman and CEO

Ivan Vondra
Chief Financial Officer

III. Statement of Financial Position at 31 December 2020

in HUF million	Notes	2019	2020
Assets			
Cash and cash balances	14)	136,020	197,421
Financial assets held for trading		50,989	157,230
Derivatives	19)	35,053	50,969
Other financial assets held for trading	20)	15,936	106,261
Non-trading financial assets at fair value through profit or loss	21)	115,360	212,283
Equity instruments	21)	1,229	2,739
Debt securities	21)	1,821	1,100
Loans and advances to customers	21)	112,310	208,444
Financial assets at fair value through other comprehensive income	23)	112,815	124,331
Debt securities	23)	112,815	124,331
Financial assets at amortised cost	15)	2,251,504	2,729,748
Pledged as collateral	28)	259,566	349,213
Debt securities	15)	753,411	934,799
Loans and advances to banks	15)	93,744	309,118
Loans and advances to customers	15)	1,404,349	1,485,831
Finance lease receivables	38)	43,568	38,940
Property and equipment	36)	29,663	28,697
Investment properties	36)	214	209
Intangible assets	36)	25,790	28,966
Investments in associates and joint ventures		56,412	54,351
Current tax assets	13)	-	1,033
Deferred tax assets	13)	4,503	2,927
Trade and other receivables	17)	10,670	12,218
Other assets	37)	24,629	32,526
Total assets		**2,862,137**	**3,620,880**

in HUF million	Notes	2019	2020
Liabilities and equity			
Financial liabilities held for trading		30,241	48,935
Derivatives	19)	30,241	48,935
Financial liabilities at amortised cost	18)	2,388,999	3,113,747
Deposits from banks	18)	363,015	565,499
Deposits from customers	18)	2,011,033	2,534,862
Debt securities issued	18)	10,789	6,746
Other financial liabilities	18)	4,162	6,640
Finance lease liabilities	38)	21,204	21,710
Provisions	40)	6,765	8,088
Current tax liabilities	13)	177	-
Other liabilities	39)	27,264	23,251
Total equity	42)	387,487	405,149
Equity attributable to owners of the parent		387,487	405,149
Subscribed capital		146,000	146,000
Additional paid-in capital		117,492	117,492
Retained earnings and other reserves		123,995	141,657
Total liabilities and equity		2,862,137	3,620,880

Date: Budapest, 9 April 2021

Radován Jelasity
Chairman and CEO

Ivan Vondra
Chief Financial Officer

IV. Statement of Changes in Equity

in HUF million	Notes	Subscribed capital[1]	Additional paid-in capital	Retained earnings	Fair value reserve[2]	Deferred tax	Attributable to owners of the parent	Total equity
Total equity at 01 January 2020	42)	**146,000**	**117,492**	**118,963**	**5,531**	**(499)**	**387,487**	**387,487**
Total comprehensive income		-	-	18,906	(1,367)	123	**17,662**	**17,662**
of which: Net profit / (loss) for the year		-	-	18,906	-	-	**18,906**	**18,906**
of which: Other comprehensive income		-	-	-	(1,367)	123	**(1,244)**	**(1,244)**
Total equity at 31 December 2020	42)	**146,000**	**117,492**	**137,869**	**4,164**	**(376)**	**405,149**	**405,149**

1) See details in Note 42) Total equity, section Subscribed capital and additional paid-in capital, page 151.

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

in HUF million	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Fair value reserve	Deferred tax	Attributable to owners of the parent	Total equity
Total equity at 01 January 2019	42)	**146,000**	**117,492**	**82,866**	**2,158**	**(192)**	**348,324**	**348,324**
Dividends				(20,000)			**(20,000)**	**(20,000)**
Transfer				560	(615)	55		**-**
Total comprehensive income		-	-	55,537	3,988	(362)	**59,163**	**59,163**
of which: Net profit / (loss) for the year		-	-	55,537	-	-	**55,537**	**55,537**
of which: Other comprehensive income		-	-	-	3,988	(362)	**3,626**	**3,626**
Total equity at 31 December 2019	42)	**146,000**	**117,492**	**118,963**	**5,531**	**(499)**	**387,487**	**387,487**

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V. Statement of Cash Flows

in HUF million	2019	2020
Net result for the period	**55,537**	**18,906**
Income tax adjustment	3,244	5,536
Income tax adjusted result for the period	**58,781**	**24,442**
Non-cash adjustments for items in net profit for the year		
Depreciation, amortisation and net impairment of non-financial assets	10,001	9,219
from which regarding right-of-use assets - Land and buildings Leasing	2,538	2,846
Net allocation of credit loss allowances and other provisions	(3,609)	14,373
Modification gain/loss on loans and advances	58	8,225
Gains/losses from measurement and derecognition of financial assets and financial liabilities	(2,642)	410
Revaluation of subordinated liabilities	1,471	5,653
Revaluation of derivatives	(285)	2,812
Other adjustments	1,325	1,804
from which regarding Finance lease liabilities under IFRS 16	1,358	1,837
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Financial assets - held for trading	49,983	(89,728)
Non-trading financial assets at fair value through profit or loss		
Equity instruments	(91)	(1,510)
Debt securities	30,364	721
Loans and advances to customers	(70,578)	(96,606)
Financial assets at fair value through other comprehensive income		
Equity instruments	18	-
Debt securities	6,328	(1,675)
Financial assets at amortised costs		
Debt securities	576	(701)
Loans and advances to banks	1,899	(215,442)
Loans and advances to customers	(187,712)	(101,877)
Finance lease receivables	(6,676)	4,989
Other assets from operating activities	2,552	(9,629)
Financial liabilities - held for trading	846	(631)
Financial liabilities measured at amortised cost		
Deposits from banks	(30,095)	196,831
Deposits from customers	361,802	523,829
Debt securities issued	2,792	(3,654)
Other financial liabilities	1,339	2,478
Other liabilities from operating activities	(3,902)	(4,013)
Finance lease liabilities	-	180
Payments for taxes on income	(3,228)	(5,013)
Cash flow from operating activities	**221,317**	**265,487**

in HUF million	2019	2020
Proceeds of disposal		
Financial assets at fair value through other comprehensive income - Debt instruments	51,431	-
Financial assets at amortised costs - Debt securities	95,802	67,891
Property and equipment, intangible assets and investment properties	441	183
Investments in subsidiaries	30	6,000
Acquisition of		
Financial assets at fair value through other comprehensive income - Debt instruments	(28,968)	(11,484)
Financial assets at amortised costs - Debt securities	(191,833)	(249,422)
Property and equipment, intangible assets and investment properties	(15,411)	(13,702)
Cash flow from investing activities	**(88,508)**	**(200,534)**
Dividends paid to equity holders of the parent	(20,000)	-
Subordinated loan repayment	(474)	(389)
Finance lease liabilities repayment	(3,160)	(3,163)
Cash flow from financing activities	**(23,634)**	**(3,552)**
Cash and cash equivalents at beginning of period	**26,845**	**136,020**
Cash flow from operating activities	221,317	265,487
Cash flow from investing activities	(88,508)	(200,534)
Cash flow from financing activities	(23,634)	(3,552)
Cash and cash equivalents at end of period	**136,020**	**197,421**
Cash flows related to interest and dividends (included in cash flow from operating activities)		
Interest received	96,732	92,079
Dividends received	1,037	2,900
Interest paid	(13,229)	(15,639)

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 2020, 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 2020, DIE Erste österreichische Spar-Casse Privatstiftung (ERSTE Foundation), a foundation, holds together with its partners to shareholder agreements approximately 31.17% (2019: 30.39%) share capital of the subscribed capital of Erste Group Bank AG and is with 16.50% (2019: 15.96%) principal shareholder. The ERSTE Foundation is holding 5.90% (2019: 6.37%) of the share capital directly, the indirect participation of the ERSTE Foundation amounts to 10.60% (2019: 9.59%) of the share capital held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated company of ERSTE Foundation. 1.67% (2019: 1.43%) of the share capital are directly held by saving banks foundations acting together with the ERSTE Foundation. 9.92% (2019: 9.92%) of the subscribed capital are held by the ERSTE Foundation on the basis of a shareholder agreement with CaixaBank S.A, 3.08% (2019: 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 2020 (it was the same in 2019):

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.

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

Erste Lakástakarék Zrt., the fully owned building society subsidiary of the Bank successfully closed the acquisition of the deposit portfolio of Aegon Lakástakarék Zrt.
Aegon Lakástakarék Zrt. was a major player of the building society business decided to cease its activity. A two-phase transition was scheduled in the contract, tailored to the specialities of the building society business. The first phase involving the majority of the deposit ended in October 2019 resulting in recognition of a 34.6 billion forint deposit portfolio, while the residual portfolio of below 0.5 billion forint was recognised in January 2020, within the second phase.

The Bank is actively planning to sell Sió Ingatlan Invest Kft., already in a matured negotiation status with the potential buyer, including official price offer. As all the conditions described by IFRS 5 were met, Sió Ingatlan Invest Kft. has been reclassified into 'Assets held for sale' as a disposal group of assets. As of 31 December 2020 it was presented in the consolidated financial statement in the line item 'Assets held for sale' with the value of 1,490 million forint, representing assets decreased by liabilities after intercompany elimination.

C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS

2020
i)
COVID-19 related government measures
The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and then rapidly all over the world, causing disruptions to businesses and economic activity.

The Hungarian Government first time announced the State of Emergency in March 2020, followed by re-announcements and extensions later during the year, and ordered several health protective measures to slow down the spread of the virus. Also published 18 March 2020 its first economic package, followed by additional measures later during the year, in response to the COVID-19 pandemic.
The most important measures that affect the banking sector was the repayment moratoria (I. and II) launched in March and December 2020, the postponement on dividend payment and an additional levy referred as 'pandemic banking tax' ('járványügyi különadó').

1. Loan repayment moratoria

The most important measures that affect the banking sector was the repayment moratoria for all private borrowers and businesses covering both principal and interest. In-scope were the loans contracted latest 18 March 2020. The first moratorium (Moratorium I.) expired 31 December 2020. The second moratorium (Moratorium II.) was published 22 December 2020, as a separate moratorium providing a repayment freeze for customers in the period of 1 January 2021 – 30 June 2021.
In Moratorium I. the participation was an opt-out type one, meaning eligible clients became automatically part of the moratorium scheme and needed to actively state if had no intention to stay in.
In Moratorium II. the scheme is mixed in terms that clients were part of Moratorium I. as of 31 December 2020 were automatically part of the scheme and needed to state if had opposite intention, while clients were not part of Moratorium I. as of 31 December 2020 could opt-in by actively stating their participation intention.
Additional characteristic is, that clients are entitled to opt in and out till the end of the moratoria periods.

Due to the fact that interest cannot be charged on the unpaid interest, and the unpaid interest will be repaid later in time, conforming to IFRS requirements Erste Hungary recognised a modification loss (effect of contractual modification in the meaning of IFRS9) for both

Moratorium I. and Moratorium II., in the amount of 8.3 billion forint, while interest continues to accrue on the outstanding balances. Moratorium I. modification loss was calculated applying a stable participation rate valid as of 31 December 2020.
For Moratorium II., the modification loss amount was defined based on expert estimations, supported by experiences gained during Moratorium I. The opt-out ratio was assumed as stable.
In case the relevant deals are classified in stage1, the modification loss (4.7 billion forint) is presented in the line item 'Net interest income', 'Interest income', while the non-stage1 classified deals related modification loss (3.6 billion forint) is presented in the line item 'Impairment result from financial instruments', conforming to the accounting policies detailed in Financial instruments – Significant accounting policies, Derecognition of financial instruments including treatment of contractual modifications, ii. Derecognition criteria with respect to contractual modifications of financial assets, page 34.

Details concerning modification loss are disclosed within Note 2) , Net interest income', page 21 and Note 11), Impairment result from financial instruments', page 27.

(Government decree: Moratorium I. – '47/2020. (III.18.) Korm. rendelet'; Moratorium II. – '637/2020. (XII. 22.) Korm. rendelet')

With respect to the assessment of significant increases in credit risk (SICR), Erste Hungary does not consider the moratoria participation in itself as automatic SICR triggers, but applies its specific assessment rules consisting of qualitative information and quantitative thresholds. Details on this assessment and other considerations on the expected credit loss estimation in the light of the COVID-19 outbreak are described in Note 32) page 99.

2. Postponement on dividend payment in banking sector

The National Bank of Hungary, as the supervisory authority of the Hungarian banking sector, instructed the financial institutions not to pay dividend or decide on dividend payment for the financial years of 2019 and 2020, or for the accumulated profit of earlier years. The limitation is valid until 30 September 2021, in order to protect the sector's capital stability and liquidity. Conforming to this statutory instruction, Erste Hungary did not pay dividend in 2020.

3. Pandemic banking tax

This surtax was levied on financial institutions in the year 2020. The base of the tax (alike banking tax) is the adjusted balance sheet total exceeding 50 billion forint of the second tax year preceding the given tax year, the measure is 0.19%. Legal act prescribed the payment in three instalment during 2020, and also provided a deduction right from the banking tax, in five equal instalment in the period of 2021-2025.
As in IFRS terms the deduction possibility is valued as virtually certain, Erste Hungary recognised a receivable of 4.2 billion forint as of 31 December 2020 (line item 'Other assets', see in Note 37)) against the payment, in the total amount of the levy, while in 2021-2025 the receivable is to be deducted against profit and loss.

(Government decree: '108/2020 (IV. 14.) Korm. rendelet')

4. Annual Percentage Rate ('THM') cap

Announced within the first package of the Government in March 2020, this measure is entitled to provide an ease for retail clients contracting for unsecured loans after 18 March 2020, by capping the 'THM' in National Bank of Hungary base-rate + 5%.
This measure was valid until 31 December 2020. From 1 January 2021 on conditions relevant to these contracts turned automatically into market based conditions.

ii)
Funding for Growth Schemes of National Bank of Hungary
Growth Loan Program – 'NHP Hajrá'

NBH launched the program at the beginning of 2019. SMEs are entitled for loans at maximum 2.5% interest rate, in a limited amount, for maximum 20 year tenor, while the NBH is refinancing the participating banks at 0% interest rate.

As an additional element, the NBH provides a preferential deposit possibility for the participating banks, applying an interest add-on. The ranges and the maximum of the underlying amount is defined by NBH in co-relation with the exposure under the scheme. Relevant exposure is presented in line item 'Loans and advances to banks', see in Note15) 'Central banks' sub-category. Income earned is presented in line item 'Net interest income', Note2) 'Financial assets at AC'.

(Legal source: https://www.mnb.hu/letoltes/nhp-hajra-termektajekoztato-4-mod-clean.pdf
Summary of preferential deposits:https://www.mnb.hu/monetaris-politika/a-monetaris-politikai-eszkoztar/preferencialis-betet)

2019

iii)

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 child-birth 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 chapter Financial instruments – Significant accounting policies; Business model assessment and SPPI test part.

(Government decree: '44/2019. (III. 12.) Korm. rendelet a babaváró támogatásról')

iv)

Funding for Growth Schemes of National Bank of Hungary

Growth Bond Program – 'NKP'

NBH announced 'NKP' 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 chapter Financial instruments – Significant accounting policies; Business model assessment and SPPI test part.

As an additional element, the NBH provides a preferential deposit possibility for the participating banks, applying an interest add-on. The ranges and the maximum of the underlying amount is defined by NBH in co-relation with the exposure under the scheme. Relevant exposure is presented in line item 'Loans and advances to banks', see in Note15) 'Central banks' sub-category. Income earned is presented in line item 'Net interest income', Note2) 'Financial assets at AC'.

(Legal source: https://www.mnb.hu/monetaris-politika/novekedesi-kotvenyprogram-nkp
Summary of preferential deposits: https://www.mnb.hu/monetaris-politika/a-monetaris-politikai-eszkoztar/preferencialis-betet)

v)

Funding for Growth Schemes of National Bank of Hungary

Growth Loan Program – 'NHP Fix'

NBH launched the program in January 2019, to support the SMEs by providing a fix interest rate loan product in the market, by refinancing the participating banks at 0% interest rate, for maximum 10 year tenor.

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As an additional element, the NBH provides a preferential deposit possibility for the participating banks, applying an interest add-on. The ranges and the maximum of the underlying amount is defined by NBH in co-relation with the exposure under the scheme. Relevant exposure is presented in line item 'Loans and advances to banks', see in Note15) 'Central banks' sub-category. Income earned is presented in line item 'Net interest income', Note2) 'Financial assets at AC'.

(Legal source: https://www.mnb.hu/monetaris-politika/novekedesi-hitelprogram-nhp/korabbi-termektajekoztatok/nhp-fix
Summary of preferential deposits: https://www.mnb.hu/monetaris-politika/a-monetaris-politikai-eszkoztar/preferencialis-betet)

D. ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements of Erste Bank for the financial year of 2020 and the comparable data for 2019 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 2019.

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 2020 were authorised for issue in accordance with a resolution of the directors on 9 April 2021.

b) 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 and balances in foreign currency

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 as of the balance sheet date. Valuation differences arising from cash flow hedges are recognized in equity and do not give rise to valuation differences. All resulting foreign exchange differences that arise are recognised in the statement of income under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions, i. e. they do not give rise to exchange differences. Non-monetary items that are measured at fair value (such as equity investments) in a foreign currency are translated using the exchange rates at the date when the fair value is measured, thus the exchange differences are part of the fair value gains or losses.

c) Significant accounting judgements, assumptions and estimates

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

_ Taxes on income and deferred tax assets (Note 13 Taxes on income)
_ SPPI assessment of financial instruments (Chapter Financial instruments – Significant accounting policies)
_ Business modell assessment of financial instruments (Chapter Financial instruments – Significant accounting policies)
_ Fair value of financial instruments (Note 24 Fair value of financial instruments)
_ Impairment of financial instruments (Chapter Financial instruments – Significant accounting policies, Note 32 Credit risk)
_ Provisions (Note 40 Provisions)

The COVID-19 pandemic increased the level of uncertainty. The consequences for the economy as well as the measures taken by governments and regulators are likely to affect Erste Bank's financial performance and position, including significant impacts for expected credit losses, as well as impacts on operating income and potential goodwill and other non-financial assets impairment assessments. All negative effects that could be reasonable estimated were recognised by 2020 end. Erste Bank will continue to follow the developments closely and will recognise any effects as the situation further unfolds.

d) 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 2020. 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 amendments of standards have become mandatory for the financial year 2020 and have been endorsed by the EU:

_ Amendments to IFRS 3: Definition of a Business.
_ Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
_ Amendment to IFRS 16: Leases Covid-19 Related Rent Concessions
_ Amendments to IAS 1 and IAS 8: Definition of Material

The amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform were applied early in 2019. Related disclosures are provided in Note 27 Hedge Accounting. Application of the above mentioned amendments in 2020 did not have a significant impact on Erste Bank's financial statements.

Standards and interpretations not yet effective

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

Following amendments to standards are already endorsed by the EU:

_ Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

Following standards and amendments and interpretations have not yet been endorsed by the EU until 19 February 2021:

_ IFRS 17: Insurance contracts
_ Annual Improvements to IFRSs 2018-2020 Cycle

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Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2. The amendments were issued in August 2020 and are effective for annual periods beginning on or after 1 January 2021. The amendments introduce a practical expedient that modifications of financial assets and financial liabilities required by the reform are accounted for by updating the effective interest rate. A similar practical expedient is provided for lessee accounting applying IFRS 16. Regarding hedge accounting the hedge designation and documentation is amended and the effects of the benchmark rate change are included in the measurement of the hedging instrument and the hedged item. IFRS 7 disclosures requirements have been extended in order to allow users to understand the nature, extent and management of risks arising from the IBOR reform as well as progress in transitioning to alternative benchmark rates.

Application of these amendments will simplify the treatment compared to previous IFRS requirements which would have led to a more complex modification gain/loss or derecognition accounting or hedge accounting discontinuations. The less complex treatment is not expected to have a significant impact on Erste Bank’s financial statements. However, the amendments will result in new disclosures.

Erste Bank has decided not to apply the amendments early since no replacement of the benchmark rates occurred in 2020. Centrally cleared derivatives were subject to switch in the discounting curve since the cash collateral remuneration changed for the new overnight benchmark rates. However, the valuation effect was compensated by one-off payments without affecting the value of hedging derivatives. Also, there was no change in the designated interest rate risk portion on the hedged items. As a result, the hedge designations and documentations were not considered to be affected by the reform during 2020.

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Erste Bank is in process of assessing whether some of its contracts fall in scope of IFRS 17. Erste Bank will estimate the effect on its financial statements when this has been clarified.

Annual Improvements to IFRSs 2018-2020 Cycle. In May 2020, the IASB issued a set of amendments to various standards. The amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. Application of these amendments is not expected to have a significant impact on Erste Bank’s financial statements.

PERFORMANCE / RETURN

1) 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 109 branches in 2020 (5 regions and 110 branches in 2019).

Corporates

The Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises, 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 1.0 million euro to 50 million euro

Large Corporates (LC) comprise former Local Large Corporates (LLC) and former Group Large Corporates (GLC) business lines. The consolidated annual turnover of Large Corporate clients is above 50 million euro.

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

Former 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 500 million euro. 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 2020

	Retail	Corporates	Group Markets	ALM & LCC	Total group
in HUF million	**2020**	**2020**	**2020**	**2020**	**2020**
Net interest income	56,812	22,092	3,986	(5,737)	77,153
Net fee and commission income	40,494	9,727	2,405	(1,356)	51,271
Dividend income	-	-	-	2,900	2,900
Net trading result	2,972	2,642	2,755	(943)	7,427
Gains/losses from financial instruments at FVPL	(2,192)	(3)	-	587	(1,608)
Rental income from investment properties & other operating leases	-	-	-	41	41
General administrative expenses	(55,556)	(9,121)	(2,257)	(559)	(67,493)
thereof depreciation and amortization	(10,867)	(1,383)	(521)	(69)	(12,840)
Gains/losses from derecognition of financial assets at AC	(2)	-	-	164	162
Other gains/losses from derecognition of financial instruments not at FVPL	-	248	-	-	248
Impairment result from financial instruments	(8,317)	(18,444)	(112)	(4,540)	(31,413)
Other operating result	(11,088)	(9,050)	(1,260)	7,152	(14,246)
Levies on banking activities	(12,304)	(6,577)	(921)	(24)	(19,827)
Pre-tax result from continuing operations	**23,122**	**(1,908)**	**5,517**	**(2,289)**	**24,442**
Taxes on income	(3,511)	(1,203)	(423)	(399)	(5,536)
Post-tax result from continuing operations	19,611	(3,110)	5,094	(2,688)	18,907
Net result for the period	**19,611**	**(3,110)**	**5,094**	**(2,688)**	**18,907**
Net result attributable to owners of the parent	**19,611**	**(3,110)**	**5,094**	**(2,688)**	**18,907**
Operating income	98,086	34,458	9,146	(4,507)	137,184
Operating expenses	(55,556)	(9,121)	(2,257)	(559)	(67,493)
Operating result	**42,530**	**25,338**	**6,889**	**(5,065)**	**69,691**
Cost/income ratio	56.64%	26.47%	24.68%	-12.40%	49.20%
Total assets (eop)	965,348	808,061	531,576	1,315,894	3,620,880
Total liabilities excluding equity (eop)	1,221,045	839,854	550,025	604,807	3,215,730
Impairment gain / (loss)	**(8,373)**	**(18,704)**	**(112)**	**(726)**	**(27,915)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(7,721)	(17,217)	(112)	(4,532)	(29,582)
Net impairment loss on commitments and guarantees given	(596)	(1,227)	-	(8)	(1,831)
Net impairment on other non-financial assets	(56)	(260)	-	(125)	(441)

Business Segments

	Retail	Corporates	Group Mar-kets	ALM & LCC	Total group
in HUF million	**2019**	**2019**	**2019**	**2019**	**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)

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).

2) 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 – Significant accounting policies’.

‘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 finance lease receivables and negative interest on financial liabilities.

‘Interest expenses’ relates to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter ‘Financial instruments’ Significant accounting policies’

‘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, on trade and other receivables and on finance lease receivables. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities and interest paid on lease liabilities. Net interest income also includes interest on derivative financial instruments.

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

in HUF million	2019	2020
Financial assets at AC	70,998	77,460
Financial assets at FVOCI	2,529	2,316
Interest income	73,527	79,776
Non-trading financial assets at FVPL	3,568	7,132
Financial assets HFT	5,100	4,337
of which: Derivatives	4,151	3,687
Negative interest from financial liabilities	925	1,076
Other assets - Finance lease receivables	1,111	817
Other similar income	10,704	13,362
Interest and other similar income	**84,231**	**93,138**
Financial liabilities at AC	(8,259)	(12,545)
Interest expenses	(8,259)	(12,545)
Financial liabilities HFT	(3,801)	(3,006)
of which: Derivatives	(3,801)	(3,006)
Other liabilities	(953)	(184)
Negative Interest from financial assets	(188)	(251)
Other similar expenses	(4,942)	(3,441)
Interest and other similar expenses	**(13,201)**	**(15,986)**
Net interest income	**71,030**	**77,152**

The interest income related to the non-performing portfolio was 1,123 million forint in 2020 and 2,085 million forint in 2019.

Modification losses of financial instruments allocated to Stage 1 in the amount of 4,193 million forint is reported in line item 'Financial assets at AC' in 2020, and 31 million forint in 2019. Background of COVID-19 payment moratoria related modification loss recognised in 2020 is described in C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

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.

3) 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. Erste Hungary has no insurance product in its own product portfolio, but offers it for client as an agent of insurance companies.

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.

in HUF million	2019		2020	
	Income	Expenses	Income	Expenses
Securities	14,930	(111)	16,565	(33)
Issues	-	(64)	-	(15)
Transfer orders	12,954	(47)	14,450	(18)
Other	1,976	-	2,115	-
Custody	-	(240)	-	(255)
Payment services	41,286	(9,715)	40,191	(9,747)
Card business	15,580	(6,822)	14,795	(6,377)
Other	25,706	(2,893)	25,396	(3,370)
Customer resources distributed but not managed	4,069	(4)	4,096	(28)
Insurance products	3,989	(4)	4,042	(28)
Building society brokerage	19	-	19	-
Other	61	-	35	-
Lending business	3,126	(2,357)	2,351	(2,193)
Guarantees given, guarantees received	380	(16)	421	(25)
Loan commitments given, loan commitments received	-	-	480	-
Other lending business	2,746	(2,341)	1,450	(2,168)
Other	331	(3)	328	(4)
Total fee and commission income and expenses	**63,742**	**(12,430)**	**63,531**	**(12,260)**
Net fee and commission income	**51,312**		**51,271**	

Asset management and custody transaction fees relate to income earned on activities in which Erste Bank holds or invests assets on behalf of its customers.

Net fee and commission income above include income of 40,190 million forint (2,261 million forint in 2019) 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.

4) 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.

in HUF million	2019	2020
Non-trading financial assets at FVPL	37	-
Financial assets at cost	1,000	2,900
Dividend income	**1,037**	**2,900**

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5) 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.

The accounting policy for recognition of foreign exchange gains and losses is described in the chapter Accounting policies, b) Accounting and measurement methods, Foreign currency translations.

in HUF million	2019	2020
Securities and derivatives trading	7,480	9,037
Foreign exchange transactions	1,766	(1,610)
Net trading result	**9,246**	**7,427**

The most underlying FX rate change could be observed in EUR in 2020 compared to the previous year: while the EUR/HUF rate was at a below-330 level in 2020 January, reached the level of 365 in one year, by the end of December 2020.

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

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

in HUF million	2019	2020
Result from measurement/sale of financial assets designated at FVPL	84	-
Result from financial assets and liabilities designated at FVPL	**84**	**-**
Result from measurement/sale of financial assets mandatorily at FVPL	53	(1,608)
Gains/losses from financial instruments measured at FVPL	**137**	**(1,608)**

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 12.

7) Rental income from investment properties & other operating leases

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

in HUF million	2019	2020
Investment properties	33	41
Rental income from investment properties & other operating leases	**33**	**41**

The relating depreciation was 5 million forint in 2020 (4 million in 2019).

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8) General administrative expenses

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.

Detailed information about remuneration of management including performance-linked remuneration can be found in Note **Hiba! A hivatkozási forrás nem található.** Related-party transactions and principal shareholders.

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.

Depreciation and amortisation

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

in HUF million	2019	2020
Personnel expenses	**(29,678)**	**(29,841)**
Wages and salaries	(23,158)	(23,748)
Compulsory social security	(5,176)	(4,687)
Long-term employee provisions	(82)	(69)
Other personnel expenses	(1,262)	(1,337)
Other administrative expenses	**(22,295)**	**(24,812)**
Deposit insurance contribution	(771)	(776)
IT expenses	(10,706)	(13,272)
Expenses for office space	(3,063)	(3,051)
Office operating expenses	(2,003)	(2,328)
Advertising/marketing	(2,073)	(1,671)
Legal and consulting costs	(1,074)	(945)
Sundry administrative expenses	(2,605)	(2,769)
Depreciation and amortisation	**(11,365)**	**(12,840)**
Software and other intangible assets	(5,146)	(6,428)
Owner occupied real estate	(882)	(834)
Right-of use assets	(2,538)	(2,846)
Investment properties	(4)	(5)
Customer relationships	(1,261)	(1,128)
Office furniture and equipment and sundry property and equipment	(1,534)	(1,599)
General administrative expenses	**(63,338)**	**(67,493)**

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

in Full Time Employee	2019 year end	2019 average	2020 year end	2020 average
Erste Bank Hungary	**2,957**	**2,917**	**2,995**	**2,991**

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9) 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’.

in HUF million	2019	2020
Gains from sale of financial assets at AC	11	164
Losses from sale of financial assets at AC	(2)	(2)
Gains/losses from derecognition of financial assets measured at amortised cost	**9**	**162**

The gross carrying amount of the financial assets (at AC) sold in 2020 was 11 billion forint (28 billion forint in 2019). 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.

10) 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’.

in HUF million	2019	2020
From sale of financial assets at FVOCI	2,088	248
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**2,088**	**248**

11) 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.

in HUF million	2019	2020
Financial assets at FVOCI	(21)	(28)
Financial assets at AC	753	(23,328)
Net allocation to credit loss allowances	888	(20,582)
Direct write-offs	(2,548)	(3,705)
Recoveries recorded directly to the income statement	2,440	4,519
Modification gains or losses	(27)	(3,560)
Finance lease	(762)	(6,225)
Net allocation of credit loss allowances for loan commitments and financial guarantees given	628	(1,831)
Impairment result from financial instruments	**598**	**(31,412)**

Direct write-offs come from non-performing loans which the workout units solved but Erste Hungary didn't realize a 100% recovery on them, so the non-recovered part was written of.

Modification losses recognised in 2020 is related to the payment moratoria (contractual modification in the meaning of IFRS9), described in C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS, on page 12. Additional information can be found in part 'Effect on Expected Credit Loss' of the Risk management section on page 100.

12) 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. Erste Bank recognises a liability or a provision for the levy when the activity that triggers payment, as identified by the relevant legislation, occurs. 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.

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in HUF million	2019	2020
Other operating expenses	**(20,817)**	**(24,565)**
Allocation/(release) to other provisions	(41)	-
Allocation/(release) to provisions for other commitments given[1)]	(68)	(1,675)
Levies on banking activities	(19,371)	(19,828)
Banking tax[2)]	(3,889)	(4,387)
Financial transaction tax	(15,482)	(15,441)
Other taxes	(41)	(44)
Recovery and resolution fund contributions[3)]	(847)	(1,192)
Impairment on properties/movables/other intangible assets other than goodwill	(449)	(441)
Result from other operating expenses	-	(1,385)
Other operating income	**7,446**	**10,319**
(Allocation)/release of other provisions[4)]	-	2,162
Government grant[5)]	366	-
Result from sales of properties/movables/other intangible assets other than goodwill	38	72
(Allocation)/release of impairment on investments in subsidaries[6)]	-	3,939
Result from sales of other assets[7)]	15	3
Income from upgrade on loans previously subject to FX settlement[8)]	5,402	4,143
Result from other operating income	1,625	-
Other operating result	**(13,371)**	**(14,246)**

1) Erste Bank created 1.7 billion forint on Other Commitments Given driven by the new Stage overlay rules which were introduced due to the moratoria. Erste Bank has addressed expected SICR by introducing Covid-19 portfolio overlays. Non-private individual customers were assessed by taking into account any Covid-19 related relieve measure granted as well as the internal industry heat-map and corresponding PD levels. Based on this assessment and individual reviews, customers were migrated to stage 2, i.e. life-time ECL measure. With this, some corporate clients with guarantees also migrated to Stage 2 which caused the creation on Other Commitments Given.

2) 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% for the amount exceeds 50 billion forint. From 1 January 2019 the tax rate changed to 0.2%.

As the banking tax is payable based on second preceding tax year to the actual tax 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.

A surtax was levied on financial institutions in the year 2020, referred as pandemic banking tax. The base of the tax (alike banking tax) is the adjusted balance sheet total exceeding 50 billion forint of the second tax year preceding the given tax year, the measure is 0.19%. Legal act prescribed the payment in three instalment during 2020, and also provided a deduction right from the banking tax, in five equal instalment in the period of 2021-2025.
As in IFRS terms the deduction possibility is valued as virtually certain, Erste Bank recognised a receivable of 4.2 billion forint as of 31 December 2020 (line item ‘Other assets’, see in Note 37)) against the payment, in the total amount of the levy. See also in part C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

3) In the line ‘Recovery and resolution fund contributions’ contributions to the national resolution funds in amount of 1,192 million (847 million forint in 2019) 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.

4) The most significant driver of the change in other provisions was that 1.78 billion forint warranty like provision related to 'Large debt sale' has been released in 2020, as the underlying right contractually expired.

5) Conforming to its accounting policies 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'.

In 2019 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 was presented as government grant related to IRS in 2019.
- 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 by recognising 250 million forint and it was presented as government grant related to it in 2019.

6) In 2019 the net impairment on investments in subsidiaries is presented in the line 'Result from other operating income'.

7) Result from sales of other assets relates to income earned on repossessed assets, especially repossessed property sales.

8) 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.

13) Taxes on income

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period. However, they are recognised in other comprehensive income or directly in equity if they arise from a transaction or event which itself is recognised in OCI or equity.

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.

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.

Significant accounting judgements, assumptions and estimates

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

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	2019	2020
Current tax expense / income		
Current period taxes	(4,804)	(3,820)
of which local business tax	(3,480)	(3,191)
of which local innovation tax	(524)	(479)
Prior period taxes	17	(17)
Deferred tax expense / income		
Current period deferred tax benefit / (expense)	1,543	(1,699)
Total	**(3,244)**	**(5,536)**

Deferred tax related to 'Fair Value reserve' has been recognised in other comprehensive income in the amount of 123 million forint in 2020 and (360) million forint in 2019.

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

in HUF million	2019	2020
Profit before tax	**58,781**	**24,442**
At statutory income tax rate	(5,290)	(2,200)
Income not subject to tax	1,503	1,998
Non tax deductible expenses	(1,161)	(1,308)
Local business and innovation tax	(4,004)	(3,670)
Tax loss carry forward usage	2,077	371
HAS to IFRS transition difference	768	768
Current period deferred tax benefit / (expense)	1,543	(1,699)
Other	1,320	204
Total tax expense	**(3,244)**	**(5,536)**

In the ‘Other’ category 226 million forint is related to deductible subsidy (1,278 million forint in 2019).

At 31 December 2020 the tax loss carried forward amounts to 55,982 million forint (2019: 104,161 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 (55,982 million forint);
- Tax loss carry forwards after 31 December 2014 is consumable for a limited period of 5 years, expired in 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.

Non tax deductible expenses are mainly arising from different accounting and tax depreciation schedule and provisioning. Income not subject to tax is also related to different accounting and tax depreciation schedule, provisioning (provision usage) and dividend received.

Tax assets and liabilities

Major components of deferred tax assets and deferred tax liabilities

	Tax assets		Tax liabilities		Net variance 2020			
in HUF million	2019	2020	2019	2020	Total	through profit or loss	through other comprehensive income	through other equity
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	36	-	-	(82)	-118	-	-	-118
Financial assets at fair value through other comprehensive income	-	-	(615)	(374)	241	-	123	118
Property and equipment (useful life in tax law different)	176	324	-	-	148	148	-	-
Other provisions (tax valuation different)	15	-	-	(185)	(200)	(200)	-	-
Tax loss carry-forward	4,074	3,218	-	-	(856)	(856)	-	-
HAS - IFRS transition	768	-	-	-	-768	-768	-	-
Other	49	26	-	-	-23	-23	-	-
Effect of netting gross deferred tax position	(615)	(641)	615	641	-	-	-	-
Deferred taxes	**4,503**	**2,927**	**-**	**-**	**-1,576**	**(1,699)**	**123**	**0**
Current taxes	**-**	**1,033**	**(177)**	**-**	**(3,837)**	**(3,837)**	**-**	**-**
Total taxes	**4,503**	**3,960**	**(177)**	**-**	**-5,413**	**(5,536)**	**123**	**0**

Erste Bank Hungary allocated 2.9 billion forint deferred tax asset at the nominal corporate income tax rate of 9% as of 31 December 2020, having the breakdown as follows:

- 3.2 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. Incorporating economic trends, changes in legal environment especially in relation of banking 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 20% reaching 60% 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.
- (0.3) billion forint as a net liability in relation to other temporary differences.

Financial instruments – Significant accounting policies

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 described in the respective note.

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income
- Financial assets at fair value through profit or loss

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.

Further details on financial liabilities at amortised cost and financial liabilities at FVPL are in the respective notes: Note 18 Financial liabilities at amortised costs and Note 22 Financial liabilities at fair value through profit or loss.

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 32. Risk management, part Credit risk.

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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'.

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.

Commercial renegotiations initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termina-tion option and a sufficiently competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepay-ment/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.

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).

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 modifica-tions 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.

Significant accounting judgements, assumptions and estimates
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 fair value through profit or loss (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.

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 Erste Bank 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.

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 chapter Risk management, Note 32) Credit risk. The development of loan loss provisions is described in Note 23) Financial assets at fair value through other comprehensive income, Note **Hiba! A hivatkozási forrás nem található.** Financial assets at amortised cost, and part Finance lease receivables of Note 0 Leases.

Financial instruments held 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'.

For description of financial liabilities at measured amortised cost refer to Note 18 Financial liabilities at amortised costs.

14) 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.

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 2020 and 31 December 2019 was 25.32 billion forint and 20.11 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.

in HUF million	2019	2020
Cash on hand	23,706	22,114
Cash balances at central banks	92,748	171,379
Other demand deposits at credit institutions	19,566	3,928
Cash and cash balances	**136,020**	**197,421**

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15) Financial assets at amortised cost

Debt securities

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

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
2020									
General governments	715,869	-	-	715,869	(411)	-	-	(411)	715,458
Credit institutions	199,284	-	-	199,284	(148)	-	-	(148)	199,136
Non-financial corporations	16,857	3,365	986	21,208	(257)	(214)	(532)	(1,003)	20,205
Total	**932,010**	**3,365**	**986**	**936,361**	**(816)**	**(214)**	**(532)**	**(1,562)**	**934,799**

	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)	-	(567)	(632)	9,269
Total	**753,198**	**-**	**1,026**	**754,224**	**(246)**	**-**	**(567)**	**(813)**	**753,411**

There were no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2020.

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Movement in credit loss allowances

in HUF million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	01 January 2020						31 December 2020
Stage 1	(246)	(316)	21	-	(275)	-	(816)
Stage 2	-	-	1	(185)	(29)	-	(213)
Stage 3	(567)	-	-	-	95	(61)	(533)
Total	**(813)**	**(316)**	**22**	**(185)**	**(209)**	**(61)**	**(1,562)**

in HUF million	As of	Additions	Derecognitions	Transfers between stages	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 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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 or vice-versa are reported. For more information about transfers of loans between stages please see Covid-19 chapter (Effect on expected credit loss). 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. Last year there were no transfer between stages under debt securities at amortised cost.

in HUF million	2019	2020
Transfers between Stage 1 and Stage 2	**-**	**1,338**
Transfers between Stage 1 and Stage 2	-	1,338

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2020 and are still in the balance sheet as of 31 December 2020 amounts to 249,262 million forint. The GCA of AC debt securities that were held at 1 January 2020 and derecognized (matured or sold compliant to sale from HTC business model) during the year 2020 amounts to 59,549 million forint.

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Loans and advances to banks

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
2020									
Central banks	209,078	-	-	209,078	(53)	-	-	(53)	209,025
Credit institutions	100,157	-	-	100,157	(64)	-	-	(64)	100,093
Total	**309,235**	**-**	**-**	**309,235**	**(117)**	**-**	**-**	**(117)**	**309,118**

	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

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2020.

Line item ‘Central banks’ includes the NBH preferential deposit possibility seen in Chapter C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS, on page 12 .

Movement in credit loss allowances

in HUF million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	01 January 2020						31 December 2020
Stage 1	(49)	(601)	542	-	(9)	-	(117)
Total	**(49)**	**(601)**	**542**	**-**	**(9)**	**-**	**(117)**

in HUF million	As of	Additions	Derecognitions	Transfers between stages	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 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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 2020 and not fully de-recognized by 31 December 2020 amounts to 241,725 million forint. The GCA of AC loans and advances to banks that were held as of 1 January 2020 and fully de-recognized during the year 2020 amounts to 55,668 million forint.

Loans and advances to customers

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
As of 31 December 2020											
General governments	9,421	13,781	-	11	23,213	(1)	(42)	-	(5)	(48)	23,165
Other financial corporations	52,984	97	-	1	53,082	(160)	(3)	-	-	(163)	52,919
Non-financial corporations	501,417	154,654	16,597	9,534	682,202	(2,259)	(4,515)	(8,766)	(302)	(15,842)	666,360
Households	632,228	113,809	15,543	18,015	779,595	(3,042)	(16,098)	(11,542)	(5,526)	(36,208)	743,387
Total	**1,196,050**	**282,341**	**32,140**	**27,561**	**1,538,092**	**(5,462)**	**(20,657)**	**(20,308)**	**(5,833)**	**(52,261)**	**1,485,831**

	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 2019											
General governments	57,527	-	-	11	57,538	(3)	-	-	-	(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**

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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 2020								31 December 2020
Stage 1	**(4,071)**	**(3,899)**	**787**	**10,990**	**(9,242)**	**49**	**4**	**(80)**	**(5,463)**
General governments	(3)	-	-	-	2	-	-	-	(1)
Other financial corporations	(104)	(19)	50	-	(76)	-	-	(11)	(160)
Non-financial corporations	(1,447)	(1,426)	532	1,446	(1,298)	3	-	(69)	(2,259)
Households	(2,517)	(2,454)	205	9,544	(7,870)	46	4	-	(3,043)
Stage 2	**(7,511)**	**(1,896)**	**1,505**	**(21,315)**	**7,945**	**450**	**251**	**(87)**	**(20,657)**
General governments	-	-	-	(41)	-	-	-	-	(41)
Other financial corporations	(1)	(1)	-	(2)	1	-	-	-	(3)
Non-financial corporations	(977)	(687)	705	(4,515)	996	41	5	(84)	(4,516)
Households	(6,533)	(1,207)	800	(16,757)	6,949	409	247	(5)	(16,097)
Stage 3	**(17,485)**	**(346)**	**2,802**	**(456)**	**(5,066)**	**126**	**353**	**(236)**	**(20,308)**
Non-financial corporations	(3,146)	(48)	1,156	(260)	(6,339)	2	101	(233)	(8,767)
Households	(14,339)	(298)	1,647	(196)	1,273	124	253	(5)	(11,541)
POCI	**(6,995)**	**-**	**998**	**-**	**101**	**38**	**44**	**(20)**	**(5,833)**
General governments	-	-	-	-	(5)	-	-	-	(5)
Non-financial corporations	(638)	-	217	-	134	2	2	(20)	(303)
Households	(6,357)	-	781	-	(27)	36	42	-	(5,525)
Total	**(36,061)**	**(6,141)**	**6,093**	**(10,782)**	**(6,261)**	**662**	**653**	**(424)**	**(52,261)**

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 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.

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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. CLAs recognized against drawings from non-revolving loan commitments are deemed as additions for the purpose of presenting current period's movement in CLA. Therefore, additions in Stages 2 and 3 reflect transfers from Stage 1 having occurred between commitments and drawing dates of related credit facilities. 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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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 108 million Forint in case of debt instruments at amortised cost.

This adverse effect amounted to 2,694 million forint cumulatively for the year 2020, 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 2020 27.3 billion forint risk cost was created, 8.4 billion forint in Retail and 19 billion forint in Corporate. The main risk cost driver was the pandemic of course, through several different channels. In line with the IFRS9 requirement new Stage 2 overlays were introduced both in the retail and corporate segments. For these, moratorium, PD and industry information were considered. Through the higher Stage 2 ratio, 4.7 billion forint risk cost was created. Due to the pandemic situation the FLI component of the parameters was also recalculated taking into consideration the changed macroeconomic environment and the specialty of the legal moratoria (i.e. DPD freeze) which caused 11.2 billion forint creation. The non-Stage 1 modification loss generated further 3.6 billion forint creation, while the unlikely to pay defaults in the Corporate portfolio an additional 8.7 billion.

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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if originated during the year) are summarised below:

2020	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 Defaulted
General governments	13,781	-	-	-	-	-	-	-
Other financial corporations	53	-	-	-	-	-	-	-
Non-financial corporations	92,961	1,829	966	14	7,306	-	49	7
Households	52,125	6,707	1,197	1,747	490	637	69	2,173
Total	**158,920**	**8,536**	**2,162**	**1,761**	**7,797**	**637**	**118**	**2,180**

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2019	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 corpo-rations	22	-	-	-	-	-	-	-
Non-financial corpora-tions	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**

Stage 2 ratio increased from 5.1% to 16.5% during the year – most of the migration happened in Q2 with the FLI shift in PD and the introduction of Stage overlays. Please see details in the Covid-19 part of Note 32) Credit Risk.

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2020 and not fully de-recognized by 31 December 2020 amounts to 291,949 million forint. The GCA of the AC loans and advances to customers that were held at 1 January 2020 and fully de-recognized during the year 2020 amounts to 180,786 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 2020 amounted to 330 million forint.

16) Debt instrument subject to contractual modifications

in HUF million	2019		2020	
	Amortised cost before the modification	Net modification gains/losses	Amortised cost before the modi-fication	Net modification gains/losses
Loans and advances	**1,387**	**27**	**247,055**	**3,560**
Other financial corporations	-	-	78	3
Non-financial corporations	821	1	129,152	824
Households	566	26	117,825	2,733
Total	**1,387**	**27**	**247,055**	**3,560**

As at 31 December 2020, 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 2020 amounted to 3 million forint (2019: 12 million forint).

Modification loss on non-Stage 1 loans caused 3.6 billion forint risk cost creation due to the payment moratoria. Please see details in the Covid-19 part of Note 32) Credit Risk.

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17) Trade and other receivables

Under this line item receivables from factoring transaction are presented.

Gross carrying amounts and credit loss allowances per impairment buckets

in HUF million	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Credit loss allowances Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2020											
General governments	493	-	-	-	493	-	-	-	-	-	493
Credit institutions	1	-	-	-	1	-	-	-	-	-	1
Other financial corporations	1,424	-	-	-	1,424	-	-	-	-	-	1,424
Non-financial corporations	9,314	1,147	-	-	10,461	(124)	(37)	-	-	(161)	10,300
Total	**11,232**	**1,147**	**-**	**-**	**12,379**	**(124)**	**(37)**	**-**	**-**	**(161)**	**12,218**

Gross carrying amounts and credit loss allowances per impairment buckets

in HUF million	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Credit loss allowances Stage 1	Stage 2	Stage 3	POCI	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
Total	**10,700**	**9**	**16**		**10,725**	**(43)**	**-**	**(12)**		**(55)**	**10,670**

There are no purchased or originated credit-impaired (POCI) Trade and other receivables as of 31 December 2020.

Movement in credit loss allowances

in HUF million	01 January 2020	Additions	Derecognitions	Other changes in credit risk (net)	Other	31 December 2020
Stage 1	(43)	(402)	345	(23)	(1)	(124)
Stage 2	-	-	236	(272)	(1)	(37)
Stage 3	(12)	-	4	8	-	-
Total	**(55)**	**(402)**	**585**	**(287)**	**(2)**	**(161)**

in HUF million	01 January 2019	Additions	Derecognitions	Other changes in credit risk (net)	Other	31 December 2019
Stage 1	(56)	(274)	3	284		(43)
Stage 2	(1)	-	1	-		-
Stage 3	-	-	-	(12)		(12)
Total	**(57)**	**(274)**	**4**	**272**		**(55)**

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18) Financial liabilities at amortised costs

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'.

Deposits from banks

in HUF million	2019	2020
Deposit from domestic banks	290,048	493,680
Deposit from foreign banks	72,967	71,819
of which by Austrian banks	70,523	71,234
of which subordinated liabilities	53,983	59,636
Total	**363,015**	**565,499**

Deposits from banks - subordinated liabilities

Maturity	Notional amount 2019		Notional amount 2020		Interest conditions
	in thousand EUR	in million HUF	in thousand EUR	in million HUF	
01 March 2026	100,000	33,052	100,000	36,513	3M EURIBOR+ 3,36%, quarterly*
01 March 2026	28,312	9,358	28,312	10,338	3M EURIBOR+ 3,36%, quarterly*
01 March 2026	35,000	11,568	35,000	12,780	3M EURIBOR+ 3,36%, quarterly*
Total subordinated loans	**163,312**	**53,978**	**163,312**	**59,630**	

1) 3M EURIBOR is floored at 0.00%.

2) The Bank has not paid back material amount of subordinated deposits during 2019 and 2020.

Deposits from customers

in HUF million	2019	2020
Saving deposits	2,343	2,338
Other deposits	2,008,690	2,532,524
Public sector	36,026	73,541
Commercial customers	603,382	776,589
Private customers	921,695	1,136,469
Other financial institutions	447,587	545,925
Total	**2,011,033**	**2,534,862**

Debt securities issued

in HUF million	2019	Notional amount 2019	2020	Notional amount 2020
Bonds	9,976	3,763	5,943	3,362
of which subordinated liabilities	3,488	3,741	3,488	3,352
Certificate of deposits	813	813	803	803
Total	**10,789**	**4,587**	**6,746**	**4,165**

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.

Debt securities issued non subordinated securities as at 31 December 2020	ISIN code	Date of issue	Date of maturity	Notional amount in HUF million	Interest conditions
Bonds					
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
Total				**10.27**	
certificate of deposit	AT2222222222	1990.01.01	43,064	803	
Total				**803**	

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Debt securities 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	1.3	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**	

Debt securities issued - subordinated liabilities

As of 31 December 2020

Issuer	Notional amount in HUF million	Date of issue	Maturity date	Interest conditions
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	**3,352**			

As of 31 December 2019

Issuer	Notional amount in HUF million	Date of issue	Maturity date	Interest conditions
Erste Bank Hungary Ltd.	389	01.dec.08	01.dec.20	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**			

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Financial instruments held at fair value

FINANCIAL INSTRUMENTS 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:

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.

Other source of FVPL measurement relates to 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 'Financial instruments – other disclosure matters' on page 36).

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 which are 'mandatorily 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 21).

From IFRS 9 perspective all derivatives are considered as held for trading. As a result, they are measured at FVPL. They are described more detail in the Note 19) Derivative financial instruments.

In the statement of income, the profit or loss effects of non-derivative 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.

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL. On the balance sheet, financial liabilities at FVPL are presented as 'Financial liabilities held for trading', sub-items 'Derivatives' and 'Other financial liabilities held for trading' and as 'Financial liabilities at fair value through profit or loss' which are 'Debt securities issued'. Accounting policy related to financial liabilities at FVPL can be found in Note 19) Derivative financial instrument, Note 22) Other financial liabilities held for trading and Note 23) Financial liabilities at fair value through profit or loss.

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19) 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.

Derivatives – held for trading

in HUF million	2019			2020		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book[1]	**10,302,798**	**29,579**	**27,005**	**7,489,279**	**46,442**	**46,526**
Interest rate	1,146,057	8,724	6,356	1,660,013	8,999	6,848
Foreign exchange	9,156,741	20,855	20,649	5,829,266	37,443	39,678
Derivatives held in the banking book[1]	**428,853**	**5,474**	**3,236**	**347,522**	**4,527**	**2,409**
Interest rate	343,781	5,474	2,890	337,094	4,527	2,409
Foreign exchange	85,072	-	346	10,428	-	-
Total gross amounts	**10,731,651**	**35,053**	**30,241**	**7,836,801**	**50,969**	**48,935**
Total	**10,731,651**	**35,053**	**30,241**	**7,836,801**	**50,969**	**48,935**

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

20) Other financial assets held for trading

in HUF million	2019	2020
Debt securities	15,936	106,261
General governments	3,817	40,686
Credit institutions	12,119	65,575
Other financial assets held for trading	**15,936**	**106,261**

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

	2019		2020	
in HUF million	**Designated**	**Mandatorily**	**Designated**	**Mandatorily**
Equity instruments	-	1,229	-	2,739
Debt securities	-	1,821	-	1,100
Other financial corporations	-	-	-	1,100
Non-financial corporations	-	1,821	-	-
Loans and advances to customers	-	112,310	-	208,444
General governments	-	68	-	63
Non-financial corporations	-	297	-	110
Households	-	111,945	-	208,271
Financial assets designated and mandatorily at FVPL	**-**	**115,360**	**-**	**212,283**
Non-trading financial assets at fair value through profit or loss	**-**	**115,360**	**-**	**212,283**

Under 'Loans and advances to customers' contain retail loans having non SPPI characteristics, also see in SPPI assessment chapter page 35. Debt securities contain shares in Visa Inc.

22) Financial liabilities at fair value through profit or loss

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.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

23) 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'.

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Debt instruments

Gross carrying amounts and credit loss allowances per impairment buckets

in HUF million	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	Credit loss allowances Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2020											
General governments	108,976	-	-	108,976	(62)	-	-	(62)	108,914	4,095	113,009
Credit institutions	10,037	-	-	10,037	(8)	-	-	(8)	10,029	71	10,100
Non-financial corporations	1,230	-	-	1,230	(4)	(1)	-	(5)	1,225	(3)	1,222
Total	**120,243**	**-**	**-**	**120,243**	**(74)**	**(1)**	**-**	**(75)**	**120,168**	**4,163**	**124,331**

in HUF million	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	Credit loss allowances 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**

As defined in IFRS 9, the gross carrying amount of debt instruments at FVOCI equals the amortised cost before deducting any credit loss allowances. The accumulated OCI changes combine the effects of credit loss allowances booked in other comprehensive income and fair value accounting through other comprehensive income, as required by IFRS9 in respect of debt instruments measured at FVOCI.
There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2020.

Movement in credit loss allowances

in HUF million	01 January 2020	Additions	Derecognitions	Other changes in credit risk (net)	31 December 2020
Stage 1	(47)	(9)	30	(48)	(74)
Stage 2	-	(1)	-	-	(1)
Total	**(47)**	**(10)**	**30**	**(48)**	**(75)**

in HUF million	01 January 2019	Additions	Derecognitions	Other changes in credit risk (net)	31 December 2019
Stage 1	(26)	(26)	-	4	(47)
Total	**(26)**	**(26)**	**-**	**4**	**(47)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2020 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)’.

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Financial instruments – other disclosure matters

24) Fair value of financial instruments and non-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 this Note in more details. Based on an analysis carried out by Erste Bank it was decided that for the valuation of OTC derivatives no Funding Value Adjustment (FVA) would be considered.

For all financial instruments the fair value is measured on recurring basis.

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 Bank'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 Bank's probability of default has been derived from the buy-back levels of Erste Bank'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 248 million forint (254 million forint in 2019) and the total DVA-adjustment amounted to 41 million forint (67 million forint in 2019).

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent of the trading units. In addition, Erste Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value measurement and validation. The aim of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

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 and IFRS9 related FV loan portfolio. A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level.

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

	31.12.2019				31.12.2020			
in HUF million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HfT	2,856	46,358	1,775	50,989	40,686	115,149	1,395	157,230
Derivatives	-	33,278	1,775	35,053	-	49,574	1,395	50,969
Other financial assets held for trading	2,856	13,080	-	15,936	40,686	65,575	-	106,261
Non-trading financial assets at FVPL	-	-	115,360	115,360	1,508	-	210,775	212,283
Equity instruments	-	-	1,229	1,229	1,508	-	1,231	2,739
Debt securities	-	-	1,821	1,821	-	-	1,100	1,100
Loans and advances	-	-	112,310	112,310	-	-	208,444	208,444
Financial assets at FVOCI	100,900	11,288	627	112,815	123,108	1,171	52	124,331
Debt securities	100,900	11,288	627	112,815	123,108	1,171	52	124,331
Total assets	**103,756**	**57,646**	**117,762**	**279,164**	**165,302**	**116,320**	**212,222**	**493,844**
Liabilities								
Financial liabilities HfT	5	30,236	-	30,241	-	48,935	-	48,935
Derivatives	5	30,236	-	30,241	-	48,935	-	48,935
Total liabilities	**5**	**30,236**	**-**	**30,241**	**-**	**48,935**	**-**	**48,935**

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. Further details regarding input parameters used and the results of the sensitivity analysis are disclosed in the sub-chapter Unobservable inputs and sensitivity analysis for Level 3 measurements below.

Development of fair value of financial instruments in Level 3

in HUF million		Gains/losses profit or loss	Gains/losses OCI	Pur-chases	Settle-ments	Transfer into Level 3	Transfer out of Level 3	Sales	Currency translation	Total
	01.01.2020									31.12.2020
Assets										
Financial assets HfT	1,775	(380)	-	-	-	-	-	-	-	1,395
Derivatives	1,775	(380)	-	-	-	-	-	-	-	1,395
Non-trading financial assets at FVPL	115,360	(2,098)	-	105,941	(8,428)	-	(0)	-	-	210,775
Equity instruments	1,229	2	-	0	-	-	(0)	-	-	1,231
Debt securities	1,821	94	-	(0)	(815)	-	-	-	-	1,100
Loans and advances	112,310	(2,195)	-	105,941	(7,613)	-	-	-	-	208,444
Financial assets at FVOCI	626	(1)	3	48	-	-	-	(625)	-	51
Equity instruments	-	-	-	-	-	-	-	-	-	-
Debt securities	626	(1)	3	48	-	-	-	(625)	-	51
Total assets	**117,761**	**(2,479)**	**3**	**105,989**	**(8,428)**	**-**	**(0)**	**(625)**	**-**	**212,221**
Liabilities										
Financial liabilities HfT	-	-	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

in HUF million		Gains/losses profit or loss	Gains/losses OCI	Pur-chases	Settle-ments	Transfer into Level 3	Transfer out of Level 3	Reclassifi-cation	Currency translation	Total
	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)**	**-**	**-**	**-**	**-**	**-**

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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)
As of 31 December 2020					
Positive fair value of derivatives	Swaps		Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	1.69%-1.7%
				LGD	60%
Financial assets at FVPL	Fixed and variable coupon bonds		Discounted cash flow	Credit Spread	na
	Loans		Discounted cash flow	PD	0.26%-100% (1.21%)
				LGD	8.47%-100% (24.93%)

Financial assets	Type of instrument	Fair value in HUF million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
As of 31 December 2019					
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%)

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Sensitivity analysis using reasonably possible alternatives per product type

	2019		2020	
	Fair value changes		Fair value changes	
in HUF million	Positive	Negative	Positive	Negative
Derivatives	34	(77)	3	(10)
Income statement	34	(77)	3	(10)
Debt securities	229	(245)	115	(116)
Income statement	182	(182)	111	(111)
Other comprehensive income	47	(63)	4	(5)
Equity instruments	123	(123)	123	(123)
Income statement	123	(123)	123	(123)
Loans and advances	2 046	(7 575)	6 066	(12 876)
Income statement	2 046	(7 575)	6 066	(12 876)
Total	**2 431**	**(8 020)**	**6 307**	**(13 126)**
Income statement	**2 384**	**(7 957)**	**6 303**	**(13 120)**
Other comprehensive income	**47**	**(63)**	**4**	**(5)**

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%
_ 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

2020 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	**2,927,186**	**2,966,777**	**919,094**	**222,507**	**1,825,176**
Cash and balances with central bank	197,421	197,421	197,421	-	-
Debt securities at amortised cost	934,799	955,806	721,673	222,507	11,626
Loans and advances	1,794,948	1,813,550	-	-	1,813,550
LIABILITIES	**3,109,939**	**3,112,833**	**-**	**6,367**	**3,106,466**
Deposits from banks (not subordinated)	505,864	510,362	-	-	510,362
Deposits from customers	2,534,862	2,534,663	-	-	2,534,663
Debt securities issued	6,746	7,209	-	6,367	842
Subordinated liabilities	62,467	60,599	-	-	60,599
Financial guarantees and commitments					
Financial guarantees	n/a	(65)	-	-	(65)
Irrevocable commitments	n/a	8,901	-	-	8,901

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
Financial guarantees and commitments					
Financial guarantees	n/a	(100)	-	-	(100)
Irrevocable commitments	n/a	(13,952)	-	-	(13,952)

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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.

25) Hedge accounting (on IAS 39 basis)

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

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.

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

2020:

Financial assets subject to offsetting and potential offsetting agreements in 2020

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	50,969	-	50,969	20,189	-	-	30,780
Total	**50,969**	**-**	**50,969**	**20,189**	**-**	**-**	**30,780**

Liabilities subject to offsetting and potential offsetting agreements 2020

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	48,935	-	48,935	20,189	-	-	28,747
Repurchase agreements	99	-	99	-	-	99	-
Total	**49,034**	**-**	**49,034**	**20,189**	**-**	**99**	**28,747**

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2019:

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**

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.

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

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 retransfer, 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 lent are presented separately under the original balance sheet items in the ‘thereof pledged as collateral’ lines. Fee income from securities lending transactions is presented in the statement of income in the line ‘Fee and commission income’ under ‘Net fee and commission income’.

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

Securities lending and repurchase transactions

in HUF million	2019		2020	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	**30**	**33**	**98**	**99**
Financial assets - at AC	30	33	98	99
Total	**30**	**33**	**98**	**99**

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	2019			2020		
	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	33	33	-	99	99	-
Total	**33**	**33**	**-**	**99**	**99**	**-**

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

28) Collateral

The following assets were pledged as security for liabilities:

in HUF million	2019	2020
Financial assets at amortised cost	259,566	349,213
Loans and advances to customers	209,689	215,916
Debt securities at AC	49,877	133,297
Total	**259,566**	**349,213**

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.
Loans and receivables to customers contain refinanced mortgage loans in the amount of 180,071 million forint in 2020 (164,041 million forint in 2019) as well as SME loans for a refinancing program with the National bank of Hungary, of 3,692 million forint in 2020 (4,478 million forint in 2019). Details of the program see in Note 12), Other operating result table, comment 3), page 27.
This category also contains encumbered deposits placed for derivative and card transactions.

29) Securities

	2019					2020				
			Financial assets					Financial assets		
in HUF million	At AC	Trading assets	Manda-torily at FVPL	Desig-nated at FVPL	At FVOCI	At AC	Trading assets	Manda-torily at FVPL	Desig-nated at FVPL	At FVOCI
Bonds and other interest-bearing securities	**753,411**	**15,936**	**1,821**	**-**	**112,815**	**934,799**	**106,261**	**1,100**	**-**	**124,331**
Listed	721,695	14,358	-	-	112,188	915,090	106,261	-	-	124,280
Unlisted	31,716	1,578	1,821	-	626	19,709	-	1,100	-	51
Equity-related securities	**x**	**-**	**1,229**	**x**	**-**	**x**	**-**	**2,739**	**x**	**-**
Unlisted	x	-	1,229	x	-	x	-	2,739	x	-
Total	**753,411**	**15,936**	**3,050**	**-**	**112,815**	**934,799**	**106,261**	**3,839**	**-**	**124,331**

Risk management

30) Risk and capital 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 2020, when the Covid-19 pandemic has been the central topic worldwide – and hence also in our core markets, management has continued to steer credit portfolio, including active management of non-performing exposures to further strengthen the risk profile. A forward-looking approach was implemented in Erste Bank and significant provisions were set aside to reflect the expected deterioration in asset quality as a result of worsening in the macroeconomic outlook due to Covid-19.

Erste Bank uses the Internet as the medium for publishing its disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR) and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013. Details are available on the website of Erste Bank at https://www.erstebank.hu/hu/ebh-nyito/bankunkrol/erste-bank-hungary-zrt/vallalatiranyitas/hivatalalos-kozzetetelek.

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:

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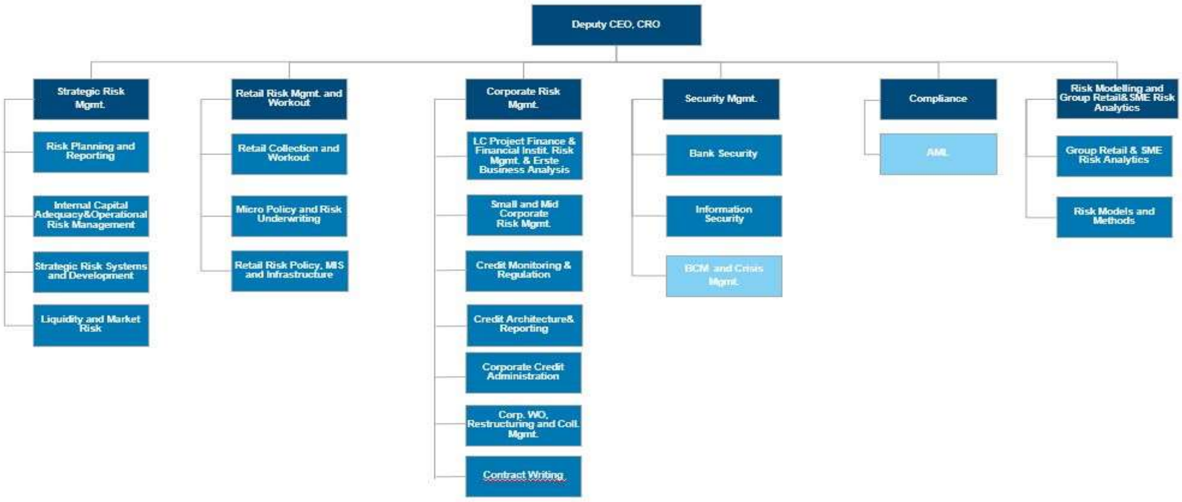

Risk management structure

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

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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.
EBH RAS for 2020 was approved by the Board of Directors and the Supervisory Board and acknowledged by the Managing Board in the first quarter of 2020. On the back of global developments related to Covid-19, as well as changed regulatory requirements/expectations towards credit institutions, in the first half of 2020, interim revisions of EBH RAS and Risk Strategy were conducted and approved by the designated governance.

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.

The Risk-bearing Capacity Calculation (RCC) describes the methodology of Pillar 2 capital adequacy calculation. In contrast to the regulatory view of Pillar 1, the RCC is based on an economic view of Pillar 1+ approach, assuming continuation of Erste Bank as expected by the MNB Guide to ICAAP, and determines whether Erste Bank has sufficient capital to cover all relevant risks it is exposed to. With this Pillar 1+ approach Erste Bank Hungary increases efficiency and ensures comparability with the Pillar 1 calculation. Based on the results of the RMA, economic capital is considered for relevant risk types as approved by the Board of Directors and the Supervisory Board. The economic capital requirement is then compared to internally available capital (coverage potential) to cover the Bank's risks in Pillar 2. Both economic capital and coverage potential are computed on the CRR scope of consolidation of Erste Bank Hungary as parent entity based on IFRS accounting standards.

Besides the Pillar 1 risk types (credit, market and operational risks), interest rate risk in the banking book, and additional credit risk types like concentration risk and NBH high-risk portfolios as well as business risk are explicitly considered within the economic capital calculated over a horizon of one year and at a confidence level of 99.92%. For the calculation of the economic capital, Erste Bank Hungary uses, where possible, more risk sensitive/advanced methodologies tailored to Erste Bank Hungary's individual risk profile and specificities of the Bank's individual risk exposures. Diversification effects between risks (inter-risk diversification) are not considered, reflecting the Bank's prudent approach to maintain sufficient internal capital in times when correlations between risks may change dramatically (like in times of stress). The largest portion of economic capital requirements is coming from credit risk, which accounts for 68.3% of total economic capital requirements at the end of 2020.

The calculation of internal capital or coverage potential required to cover Pillar 2 risks/unexpected losses is based on Pillar 1+ approach. Namely, CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) regulatory own funds are adjusted by internal capital components which reflect economic view (e.g. year-to-date profit (if not already considered in Pillar 1 capital), Pillar 2 IRB expected loss excess/shortfall add-on, etc.).

The coverage potential must be sufficient to absorb Pillar 2 risks/unexpected losses resulting from the Bank's operations at any point in time (normal and stressed), as reflected in the EBH's Risk Appetite through the limits set for EBH economic capital adequacy and stressed capital adequacy utilisation. At the end of 2020, the economic capital adequacy was at 55.8%.

The Managing Board, Risk Governance Committee, Board of Directors and Supervisory Board are briefed quarterly on the results of the ICAAP capital adequacy through the EBH ICAAP Report. The ICAAP Report includes risk profile developments, available capital (coverage potential), consideration of potential losses in stress situations, the degree of the risk limit utilisation and the overall status of capital adequacy and outlines risk profile development in relation to risk appetite.

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 Hungary Zrt. is required to draw up a recovery plan for potential crisis situations. In 2020 an updated Recovery Plan was submitted to the Regulator by the Bank.

The EBH Recovery Plan identifies options for restoring financial strength and viability in case Erste Bank Hungary 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 (in 2020 one COVID-19 scenario was requested by the regulator). The recovery governance described in the plan ensures timely identification and proper management of any recovery situation. Furthermore, the assessment of the EBH Recovery Plan and the recently addressed assessment of the overall recovery capacity are part of the Supervisory Review and Evaluation Process (SREP) assessment. It is relevant to demonstrate that, in a severe stress which is close to a failing or likely to fail situation, there is sufficient recovery capacity available.

Erste Bank Hungary collaborates with the resolution authorities in the drawing up of resolution plans based on local and EU Regulation. Based on a joint decision taken in the Resolution College, Erste Group in April 2020 received notification of the preferred Multiple Point of Entry (MPE) resolution strategy on cross-country level, but a Single Point of Entry (SPE) resolution strategy within a country. This results in being MPE in Hungary.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL), which is – in case of Erste due to the MPE resolution strategy – set on Resolution Group level. Based on the MREL joint decision, the requirement is binding as of the date of the notification in case of notified MREL surplus, however in case of an MREL shortfall the requirement becomes binding at the end of a transition period to be set between 2 and 4 years, at the latest by the end of 2023. MREL is expressed as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds (TLOF).

In June 2019 the new banking reform package was published, which includes the Bank Recovery and Resolution Directive (BRRD2). The transposition into national law was done in November 2020. Key changes include the MREL expression in terms of Risk Weighted Assets (RWA) and Leverage Ratio Exposure (LRE) instead of TLOF, adapted transition arrangements (binding intermediate MREL target as of 01.01.2022 and a common deadline of 01.01.2024 to meet the final MREL target) as well as tighter eligibility criteria. Hence, MREL target setting will be subject to further changes. Potential changes in the MREL requirement will be reflected in Erste Bank Hungary's funding plan as to ensure compliance with MREL and subordination targets.

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.

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

The primary objectives of the Erste Hungary's capital management policy are to ensure that Erste Hungary 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 Hungary 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 Hungary 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 consolidated IFRS.

During 2020 and 2019 the Bank and Erste Hungary had complied in full with all its externally imposed capital requirements.

in HUF million	2019	2020
Tier 1 capital before deductions	387,849	405,149
Deductions from the Tier 1 capital (-)	43,915	33,493
Tier 1 capital after deductions	**343,935**	**371,656**
Tier 2 capital	55,468	64,304
Total qualifying own funds	**399,403**	**435,960**
Risk weighted assets (base for credit risk)	1,444,667	1,480,042
Capital requirement for credit risk	115,573	118,403
thereof IRB approach	**104,133**	**106,692**
thereof standardized approach	11,440	11,711
Capital requirement for market risk	519	2,288
thereof calculated with simple approach	**519**	**2,288**
thereof from debt instruments	519	2,288
thereof from capital instruments	-	-
Other capital requirements for credit valuation adjustment	**1,063**	**543**
Capital requirement for operational risk	**38,278**	**41,598**
Total base for capital requirement	**1,942,919**	**2,035,404**
Total capital requirement	**155,433**	**162,832**

32) 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 Managing Board and the risk governance 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.
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

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:

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

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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 information is also used.
The product-specific information, 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.

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

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 classification

For the disclosure of asset quality Erste Hungary assigns each customer to one of the following four risk categories:

Low risk. Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention. Vulnerable non-retail clients, who may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard. The borrower is vulnerable to short-term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing. One or more of the default criteria under Article 178 of the CRR are met, which include full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. Erste Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. All non-performing exposures are also defaulted.

Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Credit risk review and monitoring

Risk Management areas conduct periodical reviews of the loan portfolio for Erste Hungary to ensure an adequate portfolio quality and to monitor the compliance with the principles and parameters as stipulated by Erste Hungary's credit risk policies.

All credit limits and the transactions booked within the limits are reviewed at least once a year. Counterparty credit risk limits are monitored daily in an internal limit management system with remedial actions taken in case limits are exceeded.

A group-wide standardised early warning monitoring process is implemented to proactively identify negative developments. The early warning monitoring process for corporate clients is managed by Corporate Risk Management. When early warning signals are identified and validated, the overall client exposure and creditworthiness is reviewed and adequate risk mitigating actions are taken if deemed necessary. Watch list review meetings are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures. For smaller enterprises (micro) and retail customers, the monitoring and credit review are based on an automated early warning system. In retail risk management, the early warning signals for adverse portfolio developments include, for instance, quality deterioration in new business or a decreasing collections effectiveness and require appropriate countermeasures. Additionally, the monitoring is performed for clients where early warning signals have been identified, even if they are still fulfilling their contractual repayment obligations.

Adverse portfolio developments regarding the non-performing and substandard loans portfolio of Erste Bank are monitored, discussed and reported. In case of further negative developments clients are handled in specialized workout units aiming to minimize potential losses.

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 2019 and 31 December 2020, credit risk exposure increased from 3,074,304 million forint to 3,803,557 million forint. This is an increase of 23.7% or 729,253 million forint.

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

2020

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	3,931	3	-	3,928
Derivatives and Debt instruments held for trading	157,230	-	-	157,230
Non-trading debt instruments at FVPL	209,544	-	-	209,544
Debt securities	1,100	-	-	1,100
Loans and advances to banks	-	-	-	-
Loans and advances to customers	208,444	-	-	208,444
Debt instruments at FVOCI	120,243	75	4,088	124,331
Debt securities	120,243	75	4,088	124,331
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	-	-
Debt instruments at AC	2,842,547	61,642	-	2,780,905
Debt securities	936,360	1,561	-	934,799
Loans and advances to banks	309,235	117	-	309,118
Loans and advances to customers	1,538,091	52,261	-	1,485,830
Trade and other receivables	12,378	160	-	12,218
Finance lease receivables	46,483	7,543	-	38,940
Off balance-sheet exposures	470,062	6,183	-	463,879
Total	**3,803,557**	**67,903**	**4,088**	**3,739,817**

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**

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 categorized in the following way:

- counterparty sector and financial instrument;
- off-balance sheet exposure by product;
- industry and IFRS 9 treatment;
- industry and risk category;
- region 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 counterparty sector and financial instrument

					At amortised cost						
in HUF million	Cash and cash balances - demand deposits to central banks and credit institutions	Debt in-stru-ments 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 2020											
Central banks	-	13,867	-	-	-	209,078	-	-	-	-	222,945
General governments	-	40,807	63	108,976	715,869	-	23,213	493	-	1,184	890,605
Credit institutions	3,931	83,169	-	10,037	199,284	100,157	-	1	-	7,461	404,040
Other financial corporations	-	11,722	1,100	-	-	-	53,081	1,424	20	70,385	137,732
Non-financial corporations	-	7,665	110	1,230	21,207	-	682,202	10,460	43,162	268,126	1,034,162
Households	-	-	208,271	-	-	-	779,595	-	3,301	122,906	1,114,073
Total	**3,931**	**157,230**	**209,544**	**120,243**	**936,360**	**309,235**	**1,538,091**	**12,378**	**46,483**	**470,062**	**3,803,557**

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	At amortised cost					Off balance-sheet exposures	Total
					Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Finance lease receivables		
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**

Contingent liabilities / Off balance sheet exposures by product

in HUF million	As of 31 December 2019	As of 31 December 2020
Financial guarantees	1,483	1,901
Loan commitments	387,795	414,288
Other commitments	49,019	53,873
Total	**438,297**	**470,062**

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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)	Not subject to IFRS 9 impairment	Total
As of 31 December 2020							
Agriculture and forestry	50,533	20,378	1,498	12	72,421	78	72,499
Mining	418	7,309	-	-	7,727	550	8,277
Manufacturing	234,124	36,848	5,987	336	277,295	12,421	289,716
Energy and water supply	48,040	2,984	987	3	52,014	3,170	55,184
Construction	19,342	6,113	87	6	25,548	12,045	37,593
Development of building projects	2,920	467	10	1	3,398	157	3,555
Trade	84,853	24,952	2027	284	112,117	4,343	116,459
Transport and communication	26,253	9,251	11,794	114	47,412	6,622	54,034
Hotels and restaurants	1	18,163	4,404	11	22,579	216	22,795
Financial and insurance services	724,781	1,193	640	27	726,641	118,772	845,413
Holding companies	84,282	926	321	26	85,555	7,459	93,014
Real estate and housing	206,443	40,792	2,720	8,687	258,642	10,417	269,059
Services	13,902	48,992	353	144	63,391	2,813	66,204
Public administration	826,958	223	-	11	827,191	40,870	868,062
Education, health and art	1,830	1,495	16	2	3,343	68	3,411
Households	736,679	115,426	16,243	18,225	886,573	208,262	1,094,835
Other	9	1	5	1	16	-	16
Total	**2,974,166**	**334,120**	**46,761**	**27,863**	**3,382,910**	**420,647**	**3,803,557**

** Not subject to IFRS9 impairment column contains derivatives, debt securities which held for trade or mandatorily at FVTPL, loans and advances which mandatorily at FVTPL and the other commitments.*

From industry and financial instrument point of view, the highest exposure is represented by households in total exposure to customers (exposure of 1,094,835 million forint, representing 28.8% from total) followed by Public administration in (exposure of 868,062 million forint, representing 22.8% from total) and financial and insurance services (exposure of 845,413 million forint, representing 22.2% from total).

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in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	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**

Credit risk exposure by industry and risk category

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2020					
Agriculture and forestry	38,731	14,134	18,130	1,504	72,499
Mining	7,770	85	422	-	8,277
Manufacturing	239,600	15,300	27,806	7,011	289,717
Energy and water supply	45,435	7,510	1,249	989	55,183
Construction	15,740	11,227	10,533	93	37,593
Development of building projects	2,939	96	509	11	3,555
Trade	65,742	24,704	23,561	2,452	116,459
Transport and communication	26,675	5,274	10,177	11,908	54,034
Hotels and restaurants	15,921	1,805	654	4,415	22,795
Financial and insurance services	831,406	7,977	5,363	667	845,413
Holding companies	86,048	2,128	4,492	346	93,014
Real estate and housing	240,625	11,447	14,226	2,761	269,059
Services	42,073	13,865	9,792	474	66,204
Public administration	868,036	15	-	11	868,062
Education, health and art	1,426	1,412	557	16	3,411
Households	753,906	251,164	64,531	25,234	1,094,835
Other	-	6	5	5	16
Total	**3,193,086**	**365,925**	**187,006**	**57,540**	**3,803,557**

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**

The low risk exposure has the highest proportion in total credit risk exposure, with 83.9%, while management attention represents 9.6%, The substandard exposure represents 4.9% and the non-performing 1.5%

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; 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 Hungary (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 region and risk category

The geographic analysis of credit risk exposure is based on the country of risk of borrowers and counterparties. It also includes obligors domiciled in other countries if the economic risk exists in the respective country of risk.

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2020					
Core markets	**3,188,478**	**365,832**	**186,617**	**57,540**	**3,798,467**
Austria	43,551	-	460	-	44,011
Czech Republic	884	-	25	-	909
Slovakia	53	-	1	-	54
Romania	230	-	26	-	256
Hungary	3,136,451	365,832	186,105	57,540	3,745,928
Croatia	7,309	-	-	-	7,309
Serbia	-	-	-	-	-
Other EU	**1,609**	**93**	**363**	**-**	**2,065**
Other industrialised countries	**2,877**	**-**	**-**	**-**	**2,877**
Emerging markets	**122**	**-**	**26**	**-**	**148**
Southeastern Europe/CIS	-	-	-	-	-
Asia	112	-	-	-	112
Latin America	6	-	16	-	22
Middle East/Africa	4	-	10	-	14
Total	**3,193,086**	**365,925**	**187,006**	**57,540**	**3,803,557**

[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 2019	**-**	**-**	**-**	**-**	**-**
Core markets	**2,570,959**	**347,234**	**107,159**	**43,359**	**3,068,711**
Austria	29,971	75	370	-	30,416
Czech Republic	3,046	23	-	-	3,069
Slovakia	124	10	1	-	135
Romania	198	44	11	-	253
Hungary	2,537,620	347,082	106,777	43,359	3,034,838
Croatia	-	-	-	-	-
Serbia	-	-	-	-	-
Other EU	**1,611**	**282**	**119**	**-**	**2012**
Other industrialised countries	**1,650**	**39**	**-**	**-**	**1,689**
Emerging markets	**66**	**-**	**5**	**-**	**71**
Southeastern Europe/CIS	-	-	-	-	-
Asia	66	-	-	-	66
Latin America	-	-	5	-	5
Middle East/Africa	-	-	-	-	-
Total	**2,574,286**	**347,555**	**107,283**	**43,359**	**3,072,483**

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)	Not subject to IFRS 9 impairment	Total
As of 31 December 2020							
Core markets	**2,971,732**	**333,733**	**46,761**	**27,863**	**3,380,089**	**418,378**	**3,798,467**
Austria	26,684	61	-	-	26,745	17,266	44,011
Czech Republic	-	25	-	-	25	884	909
Slovakia	25	1	-	-	26	28	54
Romania	233	8	-	-	241	15	256
Hungary	2,944,790	326,329	46,761	27,863	3,345,743	400,185	3,745,928
Croatia	-	7,309	-	-	7,309	-	7,309
Other EU	**539**	**357**	**-**	**-**	**896**	**1,169**	**2,065**
Other industrialised countries	**1,777**	**-**	**-**	**-**	**1,777**	**1,100**	**2,877**
Emerging markets	**118**	**30**	**-**	**-**	**148**	**-**	**148**
Asia	112	-	-	-	112	-	112
Latin America	7	15	-	-	22	-	22
Middle East/Africa	-	14	-	-	14	-	14
Total	**2,974,166**	**334,120**	**46,761**	**27,863**	**3,382,910**	**420,647**	**3,803,557**

**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.

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in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	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**	**2012**
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**

The defaulted part of POCI amounted to 9,411 million forint (was 14,110 in 2019), the non-defaulted part to 18,452 million forint (was 17,089 in 2019).

The credit risk exposure increased by 709,269 million forint, or 23.4% in Hungary and 13,595 million forint, or 44.7% in Austria, while the other CEE core markets increased by 5,071 million forint, or 146.7%. In the other EU member states (EU 28 excluding core markets), the credit risk exposure increased by 53 million forint, or 2.6%. Growth was recorded as well in other industrialised countries (1,188 million forint) and in emerging markets (77 million forint). In total, Erste Bank Hungary's core markets and the EU accounted for 99,9% (2019 also was 99.9%) of credit risk exposure as of 31 December 2020.

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 2020					
Retail	768,576	267,519	73,167	26,077	1,135,339
Corporates	862,132	92,769	113,132	31,463	1,099,496
Group Markets	1,561,278	5,637	707	0	1,567,622
Asset/Liability Management and Local Corporate Center	1,100	0	0	0	1,100
Total	**3,193,086**	**365,925**	**187,006**	**57,540**	**3,803,557**

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	1,025,115
Group Markets	1,048,115	11,620	722	-	1,060,457
Asset/Liability Management and Local Corporate Center	1,821	-	-	-	1,821
Total	**2,576,107**	**347,555**	**107,283**	**43,359**	**3,074,304**

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)	Not subject to IFRS 9 impairment	Total
As of 31 December 2020							
Retail	760,257	131,145	16,762	18,665	926,829	208,509	1,135,338
Corporates	797,013	202,870	29,999	9,198	1,039,080	60,417	1,099,497
Group Markets	1,416,896	105	-	-	1,417,001	150,621	1,567,622
Asset/Liability Management and Local Corporate Center	-	-	-	-	-	1,100	1,100
Total	**2,974,166**	**334,120**	**46,761**	**27,863**	**3,382,910**	**420,647**	**3,803,557**

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in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impair-ment	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**

Non-performing credit risk exposure and 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 113.79% (2019: 92.70%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2020. 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 2020, the non-performing credit risk exposure increased by 14,181 million forint, or 32.7%.On the one hand, Retail non-performing exposure decreased due to the lack of new defaults caused by the moratoria, while workout remained strong. On the other hand, Corporate NPL increased significantly due to unlikely to pay defaults, bringing total NPL for 2020 YE above the 2019 YE levels. The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by 25,278 million forint, or 62.9%.

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 2020 and 31 December 2019.

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 and collateral

	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 2020													
Retail	26,077	25,734	1,135,339	926,830	38,735	15,102	14,826	2.30%	2.78%	148.54%	150.52%	57.91%	57.61%
Corporates	31,463	30,438	1,099,497	1,039,080	25,952	18,868	18,867	2.86%	2.93%	82.48%	85.26%	59.97%	61.98%
Group Markets	-	-	1,567,621	1,417,000	786	-	-	0.00%	0.00%				
Asset/Liability Management and Local Corporate Center	-	-	1,100	-	-	-	-	0.00%					
Total	**57,540**	**56,172**	**3,803,557**	**3,382,910**	**65,473**	**33,970**	**33,693**	**1.51%**	**1.66%**	**113.79%**	**116.56%**	**59.04%**	**59.98%**

	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%					
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%**

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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.

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.

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 is not expected to be significant because of applied covid-19 stage overlays.

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. We have introduced additional portfolio level SICR assessment criteria due to COVID-19 pandemic and related economic impacts. Please see Covid-19 disclosures in the next chapter.

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 forint 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.

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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. We are disclosing sensitivity of the staging and ECL on macro scenarios in the Covid-19 section below.

Baseline, upside and downside scenarios of GDP development:

GDP growth in %	Scenario	Probability weight	2020	2021	2022	2023
2020	Upside	6%	-6.4	5.1	6.6	5.2
	Baseline	40%	-6.4	3.9	5.4	4.0
	Downside	54%	-6.4	-1.3	1.6	2.0
	Scenario	Probability weight	2019	2020	2021	2022
2019	Upside	7%	4.1	5	4.4	4.3
	Baseline	50%	4.1	3.2	2.6	2.5
	Downside	43%	4.1	0.6	-	-0.1

As of December 2019, the growth rates for the year 2020 correspond to estimated values. As of December 2020, they represent real observed values.

Covid-19

The Covid-19 pandemic has been causing high uncertainty in the economy. Social distancing rules and lockdown restrictions imposed by the government led to economic slow-down and a significant drop of revenues across industries. State aid packages and moratoria programs were introduced to support citizens and companies. While such measures mitigate the negative economic effects, they complicate a timely reflection of a potential deterioration of the loan portfolios.

Effect on customers

Immediately upon the crisis showing severe economic impacts in Hungary, initiatives were started aiming to, on the one hand support the Bank's clients to the utmost extent, and on the other hand, manage the respective risks and bearing the responsibility of the Bank towards all stakeholders in mind.

In addition to programs with standard parameters that were defined at a very early stage of the crisis and should support an efficient processing, also individual solutions were agreed with clients that did not meet all predefined requirements.

Credit risk exposure of non-financial corporations by industry – measures applied in response to the COVID-19 crisis

in HUF million	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to Covid-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis	Public guarantees received in the context of the Covid-19 crisis
As of 31 December 2020				
Agriculture and forestry	13,618	-	970	773
Mining	74	-	-	-
Manufacturing	35,769	-	5,891	3,897
Energy and water supply	1,759	-	-	-
Construction	5,211	-	858	768
Trade	14,762	-	3,300	2,882
Transport and communication	6,396	-	659	595
Hotels and restaurants	16,867	-	337	301
Financial and insurance services	6,263	-	-	-
Real estate and housing	53,853	-	1,089	886
Services	4,116	-	798	679
Public administration	4	-	-	-
Education, health and art	1,188	-	114	102
Total	**159,880**	**-**	**14,016**	**10,883**

Loans and advances of non-financial corporations to which the measures applied in the response to Covid-19 were granted and are currently valid (have not been expired), amounted to HUF 173,896 million as of 31 December 2020 . Measures mostly refer to EBA-compliant moratoria based on the 2020/15 EBA guideline which introduced a new deadline for the application of moratoria of 31 March 2021, replacing the previous date of 30 September 2020, but at the same time added the 9 months constrain. The highest amount of granted moratoria measures in non-financial corporations refers to real estate and housing and manufactur-ing, followed by hotels and restaurants and trade.

Loans and advances of households to which the measures applied in the response to Covid-19 (i.e the loan repayment moratoria; the general description see in Chapter C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS, page 12) were granted and are currently valid (have not been expired), amounted to HUF 389,176 as of 31 December 2020

Effect on business

In March 2020, risk management and business divisions started a joint initiative aiming to quickly provide a harmonised guidance for a focused industry approach within Erste Group, reflecting the changed economic environment. Industries and sub-industries were categorised into high, medium and low expected impacts due to Covid-19 based on a combination of research material, feedback collected from client meetings and single name analyses, both centrally as well as in the entities.

Main driver for assigning an industry classification (at the beginning three, later-on four: green, yellow, amber and red) was the assessment of impacts of the crisis on the specific (sub)industry. E.g. a complete lock-down of businesses like hotels depending on international customers or passenger air transport resulted in a "red" classification, whereas less affected industries like food retailers or construction were assessed as "green". The classifications are regularly reviewed on a 12-month rolling forecast basis to take current developments into account. A respective business and risk strategy for the (sub)industries was formulated based on the assessment. The assessed risk for the specific (sub)industry can lead to strategic recommendations (e.g. to temporarily limit financing for specific categories to existing clients only) and/or the revision of underwriting standards. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies of Erste Group.

Exposures in particular industries that belong to red sub-industries are referred to as "high risk" in the following tables.

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Credit risk exposure and credit loss allowances by industry and IFRS9 treatment – industry heatmap

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
As of 31 December 2020								
Agriculture and forestry	50,533	20,378	1,498	12	72,421	78	72,499	2,191
Mining	418	7,309	0	0	7,727	550	8,277	49
of which high risk	399	7,309	0	0	7,708	0	7,708	0
Manufacturing	234,124	36,847	5,988	337	277,296	12,421	289,717	7,272
of which high risk	78,196	28,076	2,992	94	109,358	959	110,317	98
Energy and water supply	48,040	2,984	986	4	52,014	3,170	55,184	1,163
Construction	19,342	6,113	87	6	25,548	12,045	37,593	977
Trade	84,853	24,953	2,027	283	112,116	4,342	116,458	2,680
of which high risk	18,923	17,091	1,067	7	37,087	1,243	38,330	1,043
Transport and communication	26,253	9,251	11,794	114	47,412	6,622	54,034	7,392
of which high risk	803	131	1	82	1,017	0	1,017	76
Hotels and restaurants	1	18,163	4,404	11	22,579	216	22,795	1,997
of which high risk	0	5,033	2	11	5,046	216	5,262	1,997
Financial and insurance services	724,781	1,193	640	27	726,641	118,772	845,413	1,092
Real estate and housing	206,443	40,792	2,720	8,687	258,642	10,417	269,059	3,383
Services	13,902	48,992	353	144	63,391	2,813	66,204	1,467
of which high risk	5,452	47,769	250	28	53,500	1,457	54,957	1,024
Public administration	826,958	223	0	10	827,191	40,871	868,062	478
Education, health and art	1,830	1,495	16	2	3,343	68	3,411	53
of which high risk	9	1,120	1	0	1,130	29	1,159	23
Private households	736,679	115,426	16,243	18,225	886,573	208,262	1,094,835	37,705
Other	9	1	5	1	16	0	16	4
Total	**2,974,166**	**334,120**	**46,761**	**27,863**	**3,382,910**	**420,647**	**3,803,557**	**67,903**

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
As of 31 December 2019								
Agriculture and forestry	60,645	4,468	738	7	65,858	507	66,365	1,270
Mining	703	0	0	0	703	682	1,385	11
Manufacturing	239,396	6,200	1,092	406	247,094	10,368	257,462	1,219
Energy and water supply	32,496	2,826	1,033	100	36,455	3,485	39,940	951
Construction	25,697	823	296	555	27,371	10,068	37,439	1,416
Trade	91,967	4,925	1,010	238	98,140	3,626	101,766	1,242
Transport and communication	29,920	14,899	1,623	538	46,980	6,310	53,290	1,583
Hotels and restaurants	18,305	180	3	11	18,499	144	18,643	65
Financial and insurance services	452,582	50	391	5	453,028	50,272	503,300	413
Real estate and housing	220,870	3,469	399	8,094	232,832	8,121	240,953	1,183
Services	53,446	1,990	315	156	55,907	2,345	58,252	498
Public administration	732,591	0	0	11	732,602	4,396	736,998	105
Education, health and art	3,191	118	15	3	3,327	64	3,391	31
Private households	751,869	47,141	21,260	21,073	841,343	111,930	953,273	30,931
Other	15	5	4	2	26	0	26	4
Total	**2,713,693**	**87,094**	**28,179**	**31,199**	**2,860,165**	**212,318**	**3,072,483**	**40,922**

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Effect on Expected Credit Loss

As described above, an increase of the ECL might result from a re-assessment of the credit risk parameters and a migration to worse stages either via significant increase in credit risk (SICR) or a default.

The moratorium introduced in Hungary fulfil the conditions as defined in the EBA guidelines published on 25 March and 2 April 2020. Relief offered to credit owners thus did not result in an automatic transfer from Stage 1 to Stage 2. However, EBH continues to perform individual assessments whether there are other circumstances that would lead to forbearance or default classification.

We have re-assessed credit risk parameters based on the new macro-scenarios FLI overlay. We will continue monitoring of the macro and macro-prediction development in order to reflect up-to-date information in our credit risk parameters. GDP scenarios and weights are shown in the table on page 96. While macroeconomic FLI shift measures the change of the macro development it can not include the impact of missing default for 2020 (due to the moratoria). In order to create the necessary impairment level on the performing portfolio for the default in 2021, an expert shift was applied to elevate 1Y PD to cover 2 years of default. The effect of the FLI in the ECL calculation as of 31 December 2020 amounted to 14,535 million forint recorded in the income statement at the 'Impairment result from financial instruments' line.

EBH has addressed expected SICR by introducing Covid-19 portfolio overlays. We divided the portfolio in private individuals (PIs) and non-private individuals (non-PIs) and assessed the customers by taking into account any Covid-19 related relieve measure granted as well as the internal industry heat-map and corresponding PD levels. Based on this assessment and individual reviews, customers were migrated to stage 2, i.e. life-time ECL measure. The industry heat map and the portfolio overlays are subject to regular reviews. The effect of Covid-19 portfolio overlays in the ECL calculation as of 31 December 2020 amounted to 4,598 million forint recorded in the income statement at the 'Impairment result from financial instruments' line.

EBH will assess releases of Covid-19 portfolio overlays for PI portfolios once the moratoria are lifted. When moratoria do no longer distort DPD information, behavioural scoring will allow proper SICR assessment. In case of non-PI portfolios, release of the overlays will be assessed after a consistent improvement of the macro indicators is observed.

EBH expects an increase in defaults especially after state aid measures, in particular moratoria, are lifted.

The sensitivity analyses tables below present staging splits of the current performing exposure and ECL. Movements of exposures between performing stages and resulting changes in ECL triggered by effect of Covid-19 SICR overlays and FLI macro overlays is shown.

Effects on industry segments, high risk industry subsegments and geographical segment are disclosed.

For the ECL change a positive sign (+) equals a release while a negative sign (-) equals an allocation. Values presented as sensitivities are results of internal simulations.

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Sensitivity analyses – Forward looking information (FLI) and stage overlays due to the Covid-19 pandemic
Impact on credit risk exposure by industry

	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
in HUF million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
As of 31 December 2020						
Agriculture and forestry	50,533	20,378	5,079	(5,079)	4,889	(4,889)
Mining	418	7,309	285	(285)	-	-
of which high risk	399	7,309	285	(285)	-	-
Manufacturing	234,124	36,847	23,412	(23,412)	7,479	(7,479)
of which high risk	78,196	28,076	21,653	(21,653)	1,185	(1,185)
Energy and water supply	48,040	2,984	-	-	2,850	(2,850)
Construction	19,342	6,113	524	(524)	3,823	(3,823)
of which high risk	-	-	-	-	-	-
Trade	84,853	24,953	13,486	(13,486)	4,234	(4,234)
of which high risk	18,923	17,091	13,172	(13,172)	829	(829)
Transport and communication	26,253	9,251	685	(685)	5,948	(5,948)
of which high risk	803	131	122	(122)	-	-
Hotels and restaurants	1	18,163	17,742	(17,742)	-	-
of which high risk	-	5,033	4,611	(4,611)	-	-
Financial and insurance services	724,781	1,193	-	-	18	(18)
Real estate and housing	206,443	40,792	34,317	(34,317)	3,024	(3,024)
of which high risk	-	-	-	-	-	-
Services	13,902	48,992	41,519	(41,519)	4,459	(4,459)
of which high risk	5,452	47,769	41,149	(41,149)	3,528	(3,528)
Public administration	826,958	223	-	-	-	-
Education, health and art	1,830	1,495	1,057	(1,057)	1	(1)
of which high risk	9	1,120	824	(824)	-	-
Households	736,679	115,426	32,183	(32,183)	22,305	(22,305)
Other	9	1	-	-	0	(0)
Total	**2,974,166**	**334,120**	**170,291**	**(170,291)**	**59,029**	**(59,029)**

.

in HUF million	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
As of 31 December 2019						
Agriculture and forestry	60,645	4,468			952	(952)
Mining	703	-			-	-
Manufacturing	239,396	6,200			453	(453)
Energy and water supply	32,496	2,826			12	(12)
Construction	25,697	823			100	(100)
Trade	91,967	4,925			1,504	(1,504)
Transport and communication	29,920	14,899			368	(368)
Hotels and restaurants	18,305	180			-	-
Financial and insurance services	452,582	50			19	(19)
Real estate and housing	220,870	3,469			693	(693)
Services	53,446	1,990			212	(212)
Public administration	732,591	-			-	-
Education, health and art	3,191	118			-	-
Households	751,869	47,141			14,989	(14,989)
Other	15	5			-	-
Total	**2,713,693**	**87,094**			**19,302**	**(19,302)**

Sensitivity analyses – Forward looking information (FLI) and stage overlays due to the Covid-19 pandemic
Impact on credit loss allowances by industry

	Curnt status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
in HUF million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
As of 31 December 2020						
Agriculture and forestry	(320)	(1,175)	(118)	205	143	467
Mining	(2)	(30)	(5)	15	4	21
of which high risk	(1)	(30)	(5)	15	3	21
Manufacturing	(1,072)	(1,169)	(331)	915	723	748
of which high risk	(259)	(1,169)	(282)	849	302	235
Energy and water supply	(226)	(286)	-	-	90	291
Construction	(106)	(171)	(9)	52	173	139
Trade	(551)	(569)	(131)	473	379	175
of which high risk	(55)	(569)	(126)	467	84	60
Transport and communication	(168)	(514)	(10)	11	79	456
of which high risk	(2)	(2)	(1)	1	2	-
Hotels and restaurants	-	(412)	(81)	393	44	5
of which high risk	-	(120)	(30)	103	11	5
Financial and insurance services	(729)	(34)	-	-	180	1
Real estate and housing	(998)	(1,152)	(243)	878	54	126
of which high risk	-	-	-	-	-	-
Services	(80)	(897)	(210)	597	128	203
of which high risk	(30)	(897)	(205)	585	107	123
Public administration	(469)	(3)	-	-	-	-
Education, health and art	(8)	(32)	(16)	23	4	-
of which high risk	(0)	(22)	(10)	17	2	-
Households	(3,408)	(16,767)	(1,211)	3,401	3,208	6,696
Other	-	-	-	-	2	-
Total	**(8,137)**	**(23,211)**	**(2,366)**	**6,964**	**5,209**	**9,326**

	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
in HUF million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
As of 31 December 2019						
Agriculture and forestry	(291)	(341)			51	23
Mining	(3)	-			2	1
Manufacturing	(491)	(221)			136	44
Energy and water supply	(95)	(275)			11	1
Construction	(94)	(27)			18	8
Trade	(323)	(164)			72	31
Transport and communication	(112)	(696)			28	163
Hotels and restaurants	(48)	(7)			7	-
Financial and insurance services	(391)	(2)			6	-
Real estate and housing	(581)	(264)			9	18
Services	(118)	(101)			25	9
Public administration	(105)	-			-	-
Education, health and art	(22)	(3)			2	-
Private households	(2,670)	(6,671)			1,286	2,266
Other	(1)	(1)			-	-
Total	**(5,345)**	**(8,773)**			**1,651**	**2,565**

The following tables present sensitivity analyses taking into consideration only changes due to the different values of PDs according to the baseline, upside and downside FLI scenarios. Covid-19 SICR overlays are ignored. Sensitivities of these particular scenarios are calculated in comparison to current production - weighted scenarios FLI shifted - PDs (weights and scenarios are disclosed in the "Incorporation of forward-looking information" section above). The staging and ECL results if each baseline, upside or downside scenario were of 100% weight are shown in industry and geographical segmentation. The values under the different scenarios should be added to the Point in Time (before FLI shift) figures and the sum will show the difference compared to the given scenario. For example the baseline scenario would have resulted in 62.4 bn lower (-59.0 - 3.4) Stg2 volume than the current production. The point in time PD effect as of 31 December 2019 is displayed as comparative information only.

The analyses confirm that the FLI macro shift due to the Covid-19 induced macro situation is significantly higher in both exposure and ECL as of 31 December 2020 in comparison to 31 December 2019. Credit risk exposure in an amount of 59 billion forint is in stage 2 due to FLI shift as of 31 December 2020 compared to 19.3 billion as of 31 December 2019. This increase of stage 2 credit risk exposure led to an ECL increase of 10.3 billion forint (difference between 14.5 billion as of 31 December 2020 and 4.2 billion as of 31 December 2019). Our conservative probability weighted scenario results in higher Stage 2 migrations than pure baseline scenario. That would lead to release of 3.4 billion forint from Stage 2 resulting in decrease of ECL by 0.3 billion forint (0.4 billion release from stage 2 and 0.1 billion allocation in Stage 1). Fully employed downside scenario would lead to additional 2.9 billion of exposure migration to Stage 2, resulting in ECL increase of 0.3 billion forint. Differences between scenarios are rather mild. Biggest effect is caused by incorporation of 2020 macro variables to the scenarios as these represent Covid-19 induced crisis. These variables are however included in each scenario with the same value. Differences among scenarios are therefore caused by differences in the recovery estimation of years 2021-2023.

Sensitivity analyses – Different probabilities of default (PD)
Impact of different scenarios on credit risk exposure by industry

	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in HUF million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
As of 31 December 2020								
Agriculture and forestry	4,889	(4,889)	725	(725)	195	(195)	20	(20)
of which high risk	-	-	-	-	-	-	-	-
Mining	-	-	-	-	-	-	-	-
of which high risk	-	-	-	-	-	-	-	-
Manufacturing	7,479	(7,479)	955	(955)	45	(45)	(23)	23
of which high risk	1,185	(1,185)	6	(6)	-	-	(38)	38
Energy and water supply	2,850	(2,850)	16	(16)	-	-	-	-
of which high risk	-	-	-	-	-	-	-	-
Construction	3,823	(3,823)	275	(275)	251	(251)	(1,403)	1,403
of which high risk	-	-	-	-	-	-	-	-
Trade	4,234	(4,234)	181	(181)	23	(23)	(334)	334
of which high risk	829	(829)	7	(7)	7	(7)	(123)	123
Transport and communication	5,948	(5,948)	2,086	(2,086)	2,016	(2,016)	(167)	167
of which high risk	-	-	-	-	-	-	-	-
Hotels and restaurants	-	-	-	-	-	-	(9)	9
of which high risk	-	-	-	-	-	-	(9)	9
Financial and insurance services	18	(18)	-	-	-	-	-	-
Real estate and housing	3,024	(3,024)	1,007	(1,007)	163	(163)	(5)	5
of which high risk	-	-	-	-	-	-	-	-
Services	4,459	(4,459)	432	(432)	58	(58)	(82)	82
of which high risk	3,528	(3,528)	389	(389)	27	(27)	(47)	47
Public administration	-	-	-	-	-	-	-	-
Education, health and art	1	(1)	-	-	-	-	-	-
of which high risk	-	-	-	-	-	-	-	-
Households	22,305	(22,305)	1,803	(1,803)	614	(614)	(914)	914
Other	0	(0)	-	-	-	-	-	-
Total	**59,029**	**(59,029)**	**7,481**	**(7,481)**	**3,365**	**(3,365)**	**(2,916)**	**2,916**

.

in HUF million	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
As of 31 December 2019								
Agriculture and forestry	952	(952)	n/a	n/a	n/a	n/a	n/a	n/a
Mining	-	-	n/a	n/a	n/a	n/a	n/a	n/a
Manufacturing	453	(453)	n/a	n/a	n/a	n/a	n/a	n/a
Energy and water supply	12	(12)	n/a	n/a	n/a	n/a	n/a	n/a
Construction	100	(100)	n/a	n/a	n/a	n/a	n/a	n/a
Trade	1,504	(1,504)	n/a	n/a	n/a	n/a	n/a	n/a
Transport and communication	368	(368)	n/a	n/a	n/a	n/a	n/a	n/a
Hotels and restaurants	-	-	n/a	n/a	n/a	n/a	n/a	n/a
Financial and insurance services	19	(19)	n/a	n/a	n/a	n/a	n/a	n/a
Real estate and housing	693	(693)	n/a	n/a	n/a	n/a	n/a	n/a
Services	212	(212)	n/a	n/a	n/a	n/a	n/a	n/a
Public administration	-	-	n/a	n/a	n/a	n/a	n/a	n/a
Education, health and art	-	-	n/a	n/a	n/a	n/a	n/a	n/a
Households	14,989	(14,989)	n/a	n/a	n/a	n/a	n/a	n/a
Other	-	-	n/a	n/a	n/a	n/a	n/a	n/a
Total	**19,302**	**(19,302)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

Sensitivity analyses – Different probabilities of default (PD)
Impact of different scenarios on credit loss allowances by industry

	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
in HUF million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
As of 31 December 2020								
Agriculture and forestry	143	467	(8)	91	(5)	44	1	(39)
of which high risk	-	-	-	-	-	-	-	-
Mining	4	21	-	-	-	-	-	-
of which high risk	3	21	-	-	-	-	-	-
Manufacturing	723	748	(8)	88	(4)	35	4	(34)
of which high risk	302	235	(1)	35	(1)	18	3	(18)
Energy and water supply	90	291	(1)	34	-	18	-	(17)
of which high risk	-	-	-	-	-	-	-	-
Construction	173	139	(19)	29	(19)	23	17	(23)
of which high risk	-	-	-	-	-	-	-	-
Trade	379	175	(3)	25	(2)	12	3	(16)
of which high risk	84	60	-	8	-	4	1	(6)
Transport and communication	79	456	(38)	163	(38)	145	2	(32)
of which high risk	2	-	-	-	-	-	-	-
Hotels and restaurants	44	5	-	1	-	-	-	(1)
of which high risk	11	5	-	1	-	-	-	(1)
Financial and insurance services	180	1	(1)	-	(1)	-	1	-
Real estate and housing	54	126	(12)	42	(2)	13	-	(8)
of which high risk	-	-	-	-	-	-	-	-
Services	128	203	(3)	30	(1)	14	2	(15)
of which high risk	107	123	(3)	21	(1)	9	1	(10)
Public administration	-	-	-	-	-	-	-	-
Education, health and art	4	-	-	-	-	-	-	-
of which high risk	2	-	-	-	-	-	-	-
Households	3,208	6,696	(36)	336	(14)	124	24	(152)
Other	2	-	-	-	-	-	-	-
Total	**5,209**	**9,326**	**(129)**	**839**	**(86)**	**427**	**55**	**(336)**

.

in HUF million	Point in time (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
As of 31 December 2019								
Agriculture and forestry	51	23	n/a	n/a	n/a	n/a	n/a	n/a
Mining	2	1	n/a	n/a	n/a	n/a	n/a	n/a
Manufacturing	136	44	n/a	n/a	n/a	n/a	n/a	n/a
Energy and water supply	11	1	n/a	n/a	n/a	n/a	n/a	n/a
Construction	18	8	n/a	n/a	n/a	n/a	n/a	n/a
Trade	72	31	n/a	n/a	n/a	n/a	n/a	n/a
Transport and communication	28	163	n/a	n/a	n/a	n/a	n/a	n/a
Hotels and restaurants	7	-	n/a	n/a	n/a	n/a	n/a	n/a
Financial and insurance services	6	-	n/a	n/a	n/a	n/a	n/a	n/a
Real estate and housing	9	18	n/a	n/a	n/a	n/a	n/a	n/a
Services	25	9	n/a	n/a	n/a	n/a	n/a	n/a
Public administration	-	-	n/a	n/a	n/a	n/a	n/a	n/a
Education, health and art	2	-	n/a	n/a	n/a	n/a	n/a	n/a
Households	1,286	2,266	n/a	n/a	n/a	n/a	n/a	n/a
Other	-	-	n/a	n/a	n/a	n/a	n/a	n/a
Total	**1,651**	**2,565**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

Composition of credit loss allowances

in HUF million	2019	2020
Credit loss allowances	38,295	61,720
Loss allowances for loan commitments and financial guarantees	1,901	3,753
Provisions for other commitments	727	2,430
Total	**40,923**	**67,903**

Credit loss allowances are computed based on IFRS 9 requirements, while provisions for other commitments are subject to IAS 37.

Risk Cost

Risk costs relate to the IFRS income statement position "net impairment result from financial instruments" and include all types of financial instruments which are subject to impairment and contain all FINREP counterparty sectors. Risk costs consist of the following components:

- net allocation to allowances for credit risks, incl. provisions for commitments and financial guarantees (allocations to allowances/provisions minus releases of allowances/provisions);
- direct write-offs;
- recoveries recorded directly to the income statement;
- modification gains or losses.

Year to date 27.3 billion forint risk cost was created, 8.3 billion in Retail, 19 billion in Corporate. The main risk cost driver was the pandemic of course, through several different channels. In line with the IFRS9 requirement new Stage 2 overlays were introduced both in the retail and corporate segments. For these, moratorium, PD and industry information were considered. Through the higher Stage 2 ratio, 4.7 billion forint risk cost was created. Due to the pandemic situation the FLI component of the parameters was also recalculated taking into consideration the changed macroeconomic environment and the specialty of the legal moratoria (i.e. DPD freeze) which caused 11.2 billion forint creation. The non-Stage 1 modification loss generated further 3.6 billion forint creation, while the unlikely to pay defaults in the Corporate portfolio an additional 8.7 billion.

in HUF million	Allocations to allowances	Releases of allowances	Recoveries of writen-off amounts	Direct charge-offs	Modification gains	Modification losses	Total Risk costs
As of 31 December 2020							
Agriculture and forestry	3,451	(2,584)	(6)	5	-	32	**898**
Mining	73	(45)	-	-	-	-	**28**
Manufacturing	9,068	(4,277)	(100)	166	-	108	**4,965**
Energy and water supply	1,022	(800)	(74)	101	-	-	**249**
Construction	1,083	(1,063)	(2)	16	-	16	**50**
Trade	4,599	(2,872)	(264)	165	-	136	**1,764**
Transport and communication	7,436	(1,330)	(40)	22	(1)	17	**6,104**
Hotels and restaurants	2,932	(151)	-	4	-	183	**2,968**
Financial and insurance services	1,411	(1,011)	(2)	76	-	9	**483**
Real estate and housing	2,387	(1,637)	(1,022)	761	-	244	**733**
Services	1,323	(995)	(26)	36	-	43	**381**
Public administration	388	(15)	-	-	-	-	**373**
Education, health and art	139	(95)	(1)	3	-	49	**95**
Private households	48,992	(38,792)	(7,133)	2,387	-	2,724	**8,178**
Other	-	-	-	-	-	-	**-**
Total	**84,304**	**(55,667)**	**(8,670)**	**3,742**	**(1)**	**3,561**	**27,269**

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 or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements.

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Business restructuring

Business restructuring 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.

Forborne exposures 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. In Erste Bank the impact of implementing the new default definition was immaterial.

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 2020					
Gross exposure	**2,114,631**	**1,163,964**	**110,674**	**414,288**	**3,803,557**
thereof gross forborne exposure	8,469	985	-	54	9,508
Performing exposure	2,060,449	1,162,980	109,650	412,938	3,746,017
thereof performing forborne exposure	4,610	-	-	49	4,659
Credit loss allowances for performing exposure	27,219	1,104	2,464	3,127	33,914
thereof credit loss allowances for performing forborne exposure	122	-	-	1	123
Non-performing exposure	54,183	984	1,024	1,349	57,540
thereof non-performing forborne exposure	3,860	985	-	4	4,849
Credit loss allowances for non-performing exposure	32,862	532	2	593	33,989
thereof credit loss allowances for non-performing forborne exposure	2011	532	-	3	2,546

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

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Types of forbearance exposure

in HUF million	Gross forborne exposure	Modification in terms and conditions	Refinancing
As of 31 December 2020			
Loans and advances excl. HfT and HfS	8,501	8,440	61
Debt Instruments excl. HfT and HfS	985	985	-
Loan commitments	53	53	-
Total	**9,539**	**9,478**	**61**

in HUF million	Gross forborne expo-sure	Modification in terms and conditions	Refinancing
As of 31 December 2019			
Loans and advances excl. HfT and HfS	12 357	12 263	94
Debt Instruments excl. HfT and HfS	1 025	1 025	-
Loan commitments	54	54	-
Total	**13 436**	**13 342**	**94**

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 allow-ances
As of 31 December 2020						
Central and Eastern Europe	**9,508**	**4,055**	**604**	**4,849**	**8,475**	**2,669**
Hungary	9,508	4,055	604	4,849	8,475	2,669
Total	**9,508**	**4,055**	**604**	**4,849**	**8,475**	**2,669**

in HUF million	Gross forborne exposure	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired	Collateral	Credit loss allow-ances
As of 31 December 2019						
Central and Eastern Europe	**13,436**	**4,827**	**760**	**7,809**	**8,243**	**3,865**
Hungary	**13,436**	**4,827**	**760**	**7,809**	**8,243**	**3,865**
Total	**13,436**	**4,827**	**760**	**7,809**	**8,243**	**3,865**

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.

Group Collateral Management establishes the group-relevant rules for collateral management policies and makes annual review of the Policy and implementation of modifications if necessary. They controls the rollout of local collateral management policies in the subsidiaries according to the Policy Framework. They are responsible for the definition of consistent collateral types and methods, standardisation of the collateral evaluation, and definition of maximal valuation rates (Group Collateral Catalogue).

Collateral Management establishes the locally 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").

<u>A collateral value in the credit process is only admissible:</u>

– If the evaluation regulations have been met (especially the appraisal of the market value and the consideration of encumbrances).

– If all legal conditions that are necessary for the complete establishment of the collateral have been fulfilled.

– If no further activities of the borrower are necessary for the bank to assure full control of the collateral.

– If all credit and collateral agreements concluded with the borrower or with the collateral provider are legally effective and enforceable under the relevant legal regulations at the moment of the signing of the contracts.

– If the collateral is also legally effective and enforceable under the relevant legal regulations in case of an insolvency of the borrower or the collateral owner.

In case a new loan is granted these requirements have to be fulfilled before disbursement of the loan; in exceptional cases registrations of mortgages in the land register or pledges have to take place within reasonable period of time after disbursement - Collateral Management has to define the exceptional cases that are accepted locally as well as the maximum time periods. If an additional evaluation of the collateral is performed after disbursement the correct input of data into the IT system has to be ensured.

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			Credit risk exposure net of collateral
			Guarantees	Real estate	Other	
As of 31 December 2020						
Retail	1,135,339	730,274	180,083	492,110	58,081	405,065
Corporates	1,099,496	435,644	44,613	262,074	128,957	663,852
Group Markets	1,567,622	332,453	332,453	-	-	1,235,169
Asset/Liability Management and Local Corporate Center	1,100	-	-	-	-	1,100
Total	**3,803,557**	**1,498,371**	**557,149**	**754,184**	**187,038**	**2,305,186**

in HUF million	Total credit risk exposure	Collateral total	Collateralised by			Credit risk exposure net of collateral
			Guarantees	Real estate	Other	
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**

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Credit risk exposure by financial instrument and collateral

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 2020									
Cash and cash balances - demand deposits to central banks and credit institutions	3,931	-	-	-	-	3,931	3,931	-	-
Debt instruments held for trading	157,230	65,575	65,575	-	-	91,655	-	-	-
Non-trading debt instruments at FVPL	209,544	200,594	157,150	43,434	10	8,950	-	-	-
Debt instruments at FVOCI	120,243	10,037	10,037	-	-	110,206	120,243	-	-
Debt instruments at AC	2,842,547	1,158,902	304,576	691,152	163,174	1,683,645	2,720,822	66,902	54,823
Debt securities	936,360	193,189	192,205	50	934	743,171	935,375	-	985
Loans and advances to banks	309,235	62,777	62,777	-	-	246,458	309,233	2	-
Loans and advances to customers	1,538,091	871,869	49,594	688,834	133,441	666,222	1,431,573	65,092	41,427
Trade and other receivables	12,378	-	-	-	-	12,378	11,540	838	-
Finance lease receivables	46,483	31,067	-	2,268	28,799	15,416	33,101	970	12,411
Off balance-sheet exposures	470,062	63,263	19,810	19,599	23,854	406,799	411,281	3,558	1,349
out of which: other commitments	53,873	20,952	3,438	8,341	9,173	32,921	-	-	-
Total	**3,803,557**	**1,498,371**	**557,148**	**754,185**	**187,038**	**2,305,186**	**3,256,277**	**70,460**	**56,172**

in HUF million	Total credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	IFRS impairment relevant: Neither past due nor credit impaired	IFRS impairment relevant: Past due but not credit impaired	IFRS impairment relevant: 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**

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 2020					
Cash and cash balances - demand deposits to cen-tral banks and credit institutions	3,931	-	-	-	3,931
Debt instruments held for trading	154,101	2,714	382	33	157,230
Non-trading debt instruments at FVPL	145,787	55,376	6,274	169	207,606
Debt instruments at FVOCI	120,198	45	-	-	120,243
Debt instruments at AC	2,368,305	236,245	116,273	-	2,720,823
Debt securities	933,560	1,816	-	-	935,376
Loans and advances to banks	309,233	-	-	-	309,233
Loans and advances to customers	1,104,129	224,869	102,575	-	1,431,573
Trade and other receivables	4,885	785	5,870	-	11,540
Finance lease receivables	16,498	8,775	7,828	-	33,101
Debt instruments held for sale in disposal groups	-	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-	-
Off balance-sheet exposures	381,113	51,349	31,597	990	465,049
out of which: other commitments	30,180	12,584	10,014	990	53,768
Total	**3,173,435**	**345,729**	**154,526**	**1,192**	**3,674,882**

in HUF million	Low risk	Management attention	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**

Credit risk exposure past due and not covered 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 2020												
Non-trading debt instruments at FVPL	1,938	1,664	70	62	26	116	1,899	1,635	70	62	27	105
Debt instruments at FVOCI	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments at AC	66,901	40,777	8,317	1,234	2,240	14,333	29,434	26,908	313	593	1,321	299
Loans and advances to customers	65,092	39,322	8,203	1,195	2,181	14,191	28,491	26,262	239	561	1,272	157
Trade and other receivables	838	782	39	7	10	-	-	-	-	-	-	-
Finance lease receivables	971	673	75	32	49	142	944	646	75	32	49	142
Off balance-sheet exposures	3,664	1,753	471	432	525	483	537	281	106	150	-	-
Total	**72,503**	**44,194**	**8,858**	**1,728**	**2,791**	**14,932**	**31,870**	**28,824**	**489**	**805**	**1,348**	**404**

	Total credit risk exposure						Thereof collateralised					
in HUF million	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												
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	-
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	-	-	-
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**

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;

The presentation is by gross carrying amount excluding loan loss allowances and collateral.

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 2020					
Retail	661,549	248,162	68,426	25,433	1,003,570
Corporates	627,201	61,025	84,845	28,750	801,821
Group Markets	1	2	1	-	4
Total	**1,288,751**	**309,189**	**153,272**	**54,183**	**1,805,395**

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**

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)	Not subject to IFRS 9 impairment	Total
As of 31 December 2020							
Retail	636,979	123,609	16,215	18,466	795,268	208,302	1,003,570
Corporates	589,818	174,389	28,309	9,162	801,679	142	801,821
Group Markets	-	4	-	-	4	-	4
Total	**1,226,797**	**298,002**	**44,524**	**27,628**	**1,596,951**	**208,444**	**1,805,395**

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 9,314 million forint (2019: 13,945 million), the non-defaulted part to 18,314 million forint (2019: 16,964 million).

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Gross customer loans (AC)	Not subject to IFRS 9 impairment	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**

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 and collateral

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 2020												
Retail	25,433	25,090	1,003,570	795,268	36,840	15,102	14,826	2.53%	3.15%	146.83%	59.38%	59.09%
Corporates	28,750	28,748	801,821	801,679	23,124	17,629	17,628	3.59%	3.59%	80.44%	61.32%	61.32%
Group Markets	-	-	4	4	-	-	-	0.00%	0.00%			
Total	**54,183**	**53,838**	**1,805,395**	**1,596,951**	**59,964**	**32,731**	**32,454**	**3.00%**	**3.37%**	**111.38%**	**60.41%**	**60.28%**

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**	**2.50%**	**2.70%**	**93.80%**	**60.50%**	**60.50%**

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

Loans and advances to customers 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 2020											
Retail	636,979	123,609	16,215	18,466	2,974	16,139	12,051	5,676	13.06%	74.32%	30.74%
Corporates	589,818	174,389	28,309	9,162	2,749	5,129	15,075	171	2.94%	53.25%	1.87%
Group Markets	-	4	-	-	-	-	-	-	0.37%		
Total	**1,226,797**	**298,002**	**44,524**	**27,628**	**5,723**	**21,268**	**27,126**	**5,847**	**7.14%**	**60.92%**	**21.16%**

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%**

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 2020. 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

in HUF million	EUR	CEE-local currencies	CHF	USD	Other	Total
As of 31 December 2020						
Retail	5,447	997,734	377	10	2	1,003,570
Corporates	462,514	322,372	9,232	7,702	1	801,821
Group Markets	1	-	-	-	3	4
Total	**467,962**	**1,320,106**	**9,609**	**7,712**	**6**	**1,805,395**

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**

Securitisations

No securitisation used in Erste Bank.

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33) 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.

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 measured with a long horizon risk measure, covering interest rate risk and credit spread risk of the banking book. Based on the current methodology, the capital requirements are calculated 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:

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Value at Risk of the banking book and the trading book

in HUF million	Total	Interest	Credit spread	Currency	Shares
As of 31 December 2020					
Erste Bank Hungary consolidated	578	561	19	7	-
Banking book	444	425	19	-	-
Trading book	134	135	-	7	-
As of 31 December 2019					
Erste Hungary consolidated	708	702	(1)	15	-
Banking book	662	663	(1)	-	-
Trading book	46	40	-	15	-

The calculation methodology for the 99% VaR for the banking book was adjusted in 2019 in order to be harmonized with the new methodology to calculate the capital requirement according to the ICAAP. With this methodology it is 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.

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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.

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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 2020				
Repricing gap in HUF positions	(1,325,447)	5,743	124,166	1,052,496
Repricing gap in EUR positions	(253,012)	72,722	19,680	93,813
Repricing gap in USD positions	(114,824)	(1,036)	(3,544)	7,630
Repricing gap in CHF positions	(5,904)	231	8,417	158

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

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 2020 and the corresponding open positions of these currencies as of 31 December 2019.

Open foreign currency positions

in HUF million	2019	2020
Swiss Franc (CHF)	60	(4)
Euro (EUR)	(731)	666
Japanese Yen (JPY)	9	8
US Dollar (USD)	(546)	(80)
Other	(112)	44

Hedging
Banking book market risk management consists of optimising Erste Bank's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on balance sheet development, economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. The steering body responsible for interest rate risk management is ALCO. ALM submits proposals for actions to steer the interest rate risk to ALCO and implements ALCO's decisions.

In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging refers to an economic activity that mitigates risk but does not necessarily qualify for hedge accounting under IFRS rules. IFRS hedge accounting is not applied in Erste Bank Hungary. Most of the hedging within hedging of foreign exchange rate risk.

34) 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 2020, customer deposits remained the primary source of funding for Erste Hungary. The growth in loan volume was lower than inflows of customer deposits, the excess liquidity was mainly placed into government bonds by the ALM or placed to the central banks by Treasury

Liquidity ratios
The LCR is calculated in Erste Bank according to the Delegated Regulation (EU) 2015/61. In 2020, the calculation of the NSFR was adjusted in order to be aligned with the requirements as defined in 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 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, but the bank defines the NSFR RAS limit considering the described methodology in the CRR2 and monitors it on monthly basis.

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 2020:

Liquidity coverage ratio

in HUF million	2019	2020
Liquidity buffer	968,637	1,134,848
Net liquidity outflow	704,722	741,705
Liquidity coverage ratio	137%	153%

Structural Liquidity gaps

The long-term liquidity position is managed using structural liquidity gaps on the basis of contractual and partially behavioural cash flows of all liquidity relevant components of the balance sheet (on-balance and off-balance). This liquidity position is calculated for each material currency.

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 2020 and 31 December 2019:

Structural liquidity gap

	2019				2020			
in HUF million	< 1 month	1-12 months	1-5 years	> 5 years	< 1 month	1-12 months	1-5 years	> 5 years
On-Balance Sheet Liquidity GAP	(151,828)	(334,086)	710,851	(224,937)	(92,027)	(255,865)	460,183	(112,291)
Off-Balance Sheet Liquidity GAP	1,085	(798)	1,407	4,316	(4,290)	1,872	1,281	3,171

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

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 2020 and year-end 2019 are shown in the tables below:

Term structure of counterbalancing capacity

As of 31 December 2020	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	193,493	-	-	-	-
Liquid assets	1,113,993	95	(4,857)	(67,809)	(152,459)
Counterbalancing capacity	**1,307,486**	**95**	**(4,857)**	**(67,809)**	**(152,459)**
As of 31 December 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)**

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 2020 and 31 December 2019 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 2020						
Non-derivative liabilities	**3,113,748**	**3,175,379**	**658,052**	**839,503**	**1,321,557**	**356,267**
Financial liabilities HfT	-	-	-	-	-	-
Financial liabilities at FVPL	-	-	-	-	-	-
Financial liabilities at AC	**3,113,748**	**3,175,379**	**658,052**	**839,503**	**1,321,557**	**356,267**
Deposits by banks	505,864	555,898	23,088	76,074	293,091	163,644
Customer deposits	2,534,862	2,536,148	629,966	757,246	956,446	192,490
Debt securities in issue	3,915	4,015	762	2,561	692	-
Other financial liabilities	6,640	6,639	4,236	1,599	671	133
Subordinated liabilities	62,467	72,678	-	2,022	70,656	-
Derivative liabilities	**48,935**	**48,935**	**11,938**	**27,785**	**2,642**	**6,570**
Finance lease liabilities	**21,710**	**21,710**	**338**	**2,832**	**10,988**	**7,552**
Total on balance sheet liabilities	**3,184,393**	**3,246,024**	**670,328**	**870,119**	**1,335,187**	**370,390**
Contingent liabilities	**228,666**	**228,666**	**228,666**	-	-	-
Financial guarantees	1,901	1,901	1,901	-	-	-
Irrevocable commitments	226,765	226,765	226,765	-	-	-
Total	**3,413,059**	**3,474,690**	**898,994**	**870,119**	**1,335,187**	**370,390**
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
Other financial liabilities	7,300	21,997	336	5,180	12,720	3,762
Debt securities in issue	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	263,282	263,282	263,282	-	-	-
Total	**2 705 208**	**2 770 278**	**618 933**	**834 975**	**933 969**	**382 402**

As of year-end 2020, the currency composition of the liabilities consisted of approximately 76.95% HUF, 17.90% EUR, 4.42% USD, and 0.73% in other currencies (2019: 76.02% HUF, 17.02% EUR, 6.27% USD, and 0.69% in other currencies).

As of 31 December 2020, the volume of customer deposits due on demand amounted to 2 187 billion forint (2019: 1 675 billion forint).
According to customer segments, the customer deposits are composed as follows: 53% private individuals, 15% large corporates, 30% small and medium-sized enterprises, 2% public sector, (2019: 54% private individuals, 28% large corporates, 16% small and medium-sized enterprises, 2% public sector,).

35) 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 2020 was 41,598,122,703 forint.

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.

Non-current assets and other investments

36) Non-current assets

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'.

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

Intangible assets

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'.

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.

Impairment

Erste Bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. This is typical in case of investment properties. If any indication of impairment exists or when annual impairment testing for an asset is required, Erste Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date, an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Impairment and their reversals are recognised in the statement of income under the line item 'Other operating result'.

Acquisition and production costs

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
Value 01.01.2020	**56,520**	**9,147**	**9,630**	**5,364**	**11,535**	**23,000**	**115,196**	**290**
Additions	10,825	-	1,040	500	1,337	1,682	15,384	-
Disposals	(909)	-	(456)	(506)	(617)	(298)	(2,786)	-
Reclassification	34	-	-	1	(36)	-	(1)	-
Value 31.12.2020	**66,470**	**9,147**	**10,214**	**5,359**	**12,219**	**24,384**	**127,793**	**290**

Additons include both capitalisations during the year, and the increase of in-progress, unfinished items.

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[1)]	Subtotal	Investment properties[2)]
Value 01.01.2020	**35,349**	**4,528**	**4,666**	**4,125**	**8,542**	**2,533**	**59,743**	**76**
Additions	6,425	1,130	834	410	1,190	2,846	12,835	5
Disposals	(886)	(21)	(351)	(431)	(616)	(298)	(2,603)	-
Reclassification	-	-	-	-	-	-	-	-
Impairment	104	22	-	-	-	29	155	-
Value 31.12.2020	**40,992**	**5,659**	**5,149**	**4,104**	**9,116**	**5,110**	**70,130**	**81**

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[1)]	Subtotal	Investment properties
Value 01.01.2020	**21,171**	**4,619**	**4,964**	**1,239**	**2,993**	**20,467**	**55,453**	**214**
Value 31.12.2020	**25,478**	**3,488**	**5,065**	**1,255**	**3,103**	**19,274**	**57,663**	**209**

1) The useful life is 20 years, linear method is applied.
2) The depreciation relates to buildings within ‚Own land and buildings‘.
3) In the course of 2019 Right-of-use assets useful life was adjusted together with the discount factor in use.

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
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[1]	Subtotal	Investment properties[2]
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[1]	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) The depreciation relates to buildings within ‚Own land and buildings‘.

Net carrying amount

in HUF million	2019	2020
Intangible assets	**25,790**	**28,966**
Software acquired	21,171	25,478
Other intangible assets (licenses, patents, customer lists etc.)	4,619	3,488
Property and equipment	**29,663**	**28,697**
Own land and buildings	4,964	5,065
Office and plant equipment/other fixed assets	1,239	1,255
IT-assets (hardware)	2,993	3,103
Right-of-use land and buildings	20,467	19,274
Total intangible and tangible assets	**55,453**	**57,663**
Investment properties	**214**	**209**

Fully amortised intangible assets which were still in use amounted to 7,745 million forint as at 31 December 2020 (5,010 million forint as at 31 December 2019). Fully depreciated tangible assets which were still in use amounted to 8,312 million forint as at 31 December 2020 (10,756 million forint as at 31 December 2019).

The 'investment properties' category covers properties subject to operating lease. Impairment testing in 2020 did not indicate the need of additional impairment allocation.

37) Other assets

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.

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.

in HUF million	2019	2020
Clearing accounts with tax authorities	816	681
Banking tax[1)]	-	4,177
Other clearing accounts	11,155	9,550
Other financial assets[2)]	2,974	9,465
Other accrued income	4,015	4,714
Inventories	196	230
Repossessed assets[3)]	13	21
Prepaid expenses	2,317	2,440
Other	3,143	1,248
Total	**24,629**	**32,526**

1) As in IFRS terms the deduction possibility is valued as virtually certain, Erste Bank recognised a receivable of 4,177 million forint as of 31 December 2020 against the payment of pandemic banking tax. Please see details in section C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

2) Other financial assets balance contains customer receivables.

3) Repossessed assets primarily consist of properties, and are shown at the lower of cost or net realisable value.

Fair values and fair value hierarchy of repossessed assets

2020 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		**21**	**21**	**-**	**-**	**21**
Repossessed assets (IAS 2)	28	21	21	-	-	21

2019 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		**13**	**13**	**-**	**-**	**13**
Repossessed assets (IAS 2)	28	13	13	-	-	13

Leases

38) Leases

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.

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.

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.

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	2019	2020
Outstanding minimum lease payments	37,669	39,204
Non-guaranteed residual values	9,839	9,963
Gross investment	**47,508**	**49,168**
Unrealised financial income	2,682	2,685
Net investment	**44,826**	**46,483**
Present value of non-guaranteed residual values	9,284	9,416
Present value of minimum lease payments	**35,542**	**37,067**
Risk provision related to outstanding minimum lease payments	**(1,258)**	**(7,543)**

Maturity analysis of leases by residual maturities

	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
in HUF million	**2019**	**2019**	**2020**	**2020**
< 1 year	13,094	10,400	13,750	11,503
1-2 years	11,232	9,182	12,117	9,719
2-3 years	9,855	7,178	10,828	7,689
3-4 years	7,351	4,801	6,515	4,323
4-5 years	2,978	1,982	3,196	2,100
> 5 years	2,998	1,999	2,762	1,733
Total	**47,508**	**35,542**	**49,168**	**37,067**

Finance lease receivables

Gains/losses from derecognition of finance lease receivables are recognized in line item 'Gains/losses from derecognition of financial assets measured 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**	**Total**	**Carrying amount**
2020											
Other financial corporations	19	-	-	-	19	-	-	-	-	-	**19**
Non-financial corporations	17,020	13,939	12,179	24	43,162	(111)	(510)	(6,661)	(6)	(7,288)	**35,874**
Households	2,478	575	205	44	3,302	(27)	(65)	(157)	(7)	(256)	**3,046**
Total	**19,517**	**14,514**	**12,384**	**68**	**46,483**	**(138)**	**(574)**	**(6,818)**	**(13)**	**(7,543)**	**38,940**

	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**	(135)	(706)	(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**	**(172)**	**(827)**	**(216)**	**(42)**	**(1,257)**	**43,568**

Movement in credit loss allowances

in HUF million	As of	Addi-tions	Charge-offs	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	01 January 2020							31 December 2020
Stage 1	(171)	(89)	37	302	(213)	-	(3)	(137)
Stage 2	(827)	-	107	(728)	1,015	-	(141)	(574)
Stage 3	(217)	-	91	(7)	(6,497)	4	(192)	(6,818)
POCI	(42)	-	12	-	16	-	-	(14)
Total	**(1,257)**	**(89)**	**247**	**(433)**	**(5,679)**	**4**	**(336)**	**(7,543)**

in HUF million	As of	Addi-tions	Charge-offs	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	01 January 2019							31 December 2019
Stage 1	(130)	(47)	-	126	(118)	-	(2)	(171)
Stage 2	(56)	-	-	(482)	(285)	-	(4)	(827)
Stage 3	(314)	-	-	(24)	72	27	22	(217)
POCI	(47)	-	-	-	3	-	2	(42)
Total	**(547)**	**(47)**	**-**	**(380)**	**(328)**	**27**	**18**	**(1,257)**

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 2020 (or initial recognition date, if later) to Stages 2 or 3 as of 31 December 2020 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 2020 to a different stage compared to 1 January 2020 (or to the initial recognition date, if originated during the year) are summarised below:

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in HUF million	2019	2020
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	11,505	7,525
To Stage 1 from Stage 2	543	725
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	8	11,533
To Stage 2 from Stage 3	1	43
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	42	360
To Stage 1 from Stage 3	20	-
POCI transfer		
To Defaulted from Non-Defaulted	-	11
To Non-Defaulted from Defaulted	-	11

The year-end total GCA of financial leases that were initially recognized during the year 2020 and not fully de-recognized by 31 December 2020 amounts to 10,496 million forint. The GCA of the financial leases that were held at 1 January 2020 and fully de-recognized during the year 2020 amounts to 6,532 million.

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

in HUF million	2019	2020
< 1 year	44	44
1-2 years	44	44
2-3 years	44	44
3-4 years	44	44
4-5 years	44	44
> 5 years	188	144
Total	**408**	**364**

During 2020, Erste Bank recognised income relating to variable lease payments in the amount of 41 million forint. For information about rental income please refer to Note 7) Rental income from investment properties and other operating leases.

Erste Bank as a lessee

As of 1 January 2019, Erste Bank has adopted IFRS 16 'Leases' as issued by IASB in January 2016. 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. Extension and termination options are included in a number of real estate leases. The use of extension and termination options gives Erste Bank added flexibility in case more suitable premises in terms of costs and/or location are identified or in case it is considered favourable to remain in a location beyond the original lease term.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The 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.

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 income' and the depreciation related the right-of-use assets in the line item 'Depreciation and amortisation'.

Only land and buildings are subject to lease at Erste Bank, which are contracts for office space and branches. For details about right-of-use assets capitalized in balance sheet arising from leases where Erste Bank is lessee, please see Note **Hiba! A hivatkozási forrás nem található.** Property, equipment and investment properties.

Maturity analysis of lease liabilities

in HUF million	2019	2020
< 1 year	2,885	3,170
1-5 years	10,285	10,988
> 5 years	8,034	7,552
Total	**21,204**	**21,710**

During 2020, interest expenses on lease liabilities were recognised in the amount of 180 million forint (939 million forint in 2019).

Total cash outflow for leases recognised as right-of-use assets and lease liabilities in 2020 was 3,163 million forint (3,160 million forint in 2019).

Accruals, provisions, contingent liabilities and legal proceedings

39) Other liabilities

in HUF million	2019	2020
Deferred income	204	703
Clearing accounts	11,167	7,484
Tax liabilities	-	-
Other financial liabilities [1)]	1,858	97
Received payments on advance	5	5
Accruals of other expenses	10,473	11,066
Other liabilities	3,557	3,896
Total	**27,264**	**23,251**

1) Other financial liabilities balance contains supplier liabilities.

40) Provisions

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'.

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).

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'. The premium received is recognised in the statement of income under the line item 'Fee and commission income' under 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

If no premium is received at contract inception (i.e. the initial transaction price is zero), this is the price that would be paid to transfer the liability in an orderly transaction between market participants. As a result, the fair value of such a financial guarantee and thus the initial measurement is nil.

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

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

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

Significant accounting judgements, assumptions and estimates

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. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 41) Contingent liabilities.

in HUF million	2019	2020
Pending legal issues and tax litigation	1,535	1,185
Loan commitments and financial guarantees given	1,901	3,753
CLA for loan commitments and financial guarantees in Stage 1	707	1,427
CLA for loan commitments and financial guarantees in Stage 2	435	1,729
CLA for loan commitments and financial guarantees - Defaulted	759	597
Other provisions	3,329	3,150
Other	3,329	3,150
Provisions	**6,765**	**8,088**

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.

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. In the new procedure, the Metropolitan Court adopted its judgment on 1 July 2020, and rejected the claims of the banks. EBH (as well as all the other five banks affected) initiated a review procedure in Supreme Court against this judgment on 18 September 2020. 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 will be reviewed, the residual provision (826 million forint) was decided to keep in the books as of 31 December 2020.

Other provisions

Significant amount of the balance of 2019 consisted of 1.78 billion forint warranty like provision related to 'Large debt sale' (allocated in 2016). In 2020 it was released, as the underlying right was contractually expired.
551 million forint of other provision is relating to a stamp duty obligation (allocated in 2015) and 160 million forint concerns the residual items out of the legally obliged forced conversion (factored deals).

Other provisions also include provision of 2,430 million forint for other commitments in scope of IAS37. The net allocation was 1,703 million forint in 2020.

Provision movement tables

Credit loss allowances for loan commitments and financial guarantees 2020

in HUF million	As of 01 January 2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of 31 December 2020
Stage 1	706	1,376	(824)	(1,747)	1,898	17	1,426
Stage 2	435	-	(742)	2,581	(550)	5	1,729
Defaulted	759	115	(497)	227	(9)	2	597
Total	**1,900**	**1,491**	**(2,063)**	**1,061**	**1,339**	**24**	**3,752**

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 provision 2020

in HUF million	As of 01 January 2020	Allocations	Use	Releases	Exchange rate and other changes (+/-)	As of 31 December 2020
Pending legal issues and tax litigation	1,535	104	-	(454)	-	1,185
Commitments and guarantees given out of scope of IFRS9	727	3,304	-	(1,629)	28	2,430
Other provisions	2,603	-	(71)	(1,811)	-	721
Other	2,603	-	(71)	(1,811)	-	721
Provisions	4,865	**3,408**	**(71)**	**(3,894)**	**28**	**4,336**

Sundry provision 2019

in HUF million	As of 01 January 2019	Allocations	Use	Releases	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**

Transfers between impairment stages (gross basis presentation) of loan commitments and financial guarantees

	2019	2020
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	3,623	25,813
To Stage 1 from Stage 2	1,619	2,287
Transfers between Stage 2 and Defaulted		
To Defaulted from Stage 2	87	42
To Stage 2 from Defaulted	49	84
Transfers between Stage 1 and Defaulted		
To Defaulted from Stage 1	566	1,463
To Stage 1 from Defaulted	105	102
Off-balance commitments and financial guarantees that were initially recognized and not fully de-recognized during the year	136,577	120,418
Off-balance commitments or financial guarantees that were held at 1 January and fully de-recognized during the year	146,483	51,383

41) 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	2019	2020
Irrevocable contingent liabilities	**264,764**	**228,666**
Guarantees	1,482	1,901
Committed credit lines -irrevocable	214,262	172,892
Import accreditives	49,019	53,873
Revocable contingent liabilities	**173,548**	**241,396**
Committed credit lines - revocable	173,548	241,396
Other contingent liabilities	**5,586**	**5,468**
Legal cases	1,535	1,185
Other	4,051	4,283
Total	**443,883**	**475,530**

Related Provision see note 40), page 136.

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 and 9 cases against other Hungarian Banks). 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.

Capital instruments, equity and reserves

42) Total equity

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.

in HUF million	2019	2020
Subscribed capital	146,000	146,000
Additional paid-in capital	117,492	117,492
Retained earnings and other reserves	123,995	141,657
Total	**387,487**	**405,149**
Attributable to owners of the parent	387,487	405,149

Subscribed capital and Additional paid-in capital

As 31 December 2020 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 2020, 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 2019		31 December 2020	
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 (Act C of 2000, 114 / B. §) to ensure the comparability between components of equity in the IFRS and HAS financial statements.

in HUF million	2019	2020
IFRS financial statements		
Subscribed capital	146,000	146,000
Additional paid-in capital	117,492	117,492
General reserve	17,374	22,927
Fair value reserve	5,032	3,787
Retained earnings	101,589	114,942
Total equity	**387,487**	**405,148**
Based on Act C of 2000 on Accounting (114 / B. §)		
Subscribed capital	146,000	146,000
Capital reserve	117,492	117,492
Tied-up reserve	17,374	22,927
Revaluation reserve	5,032	3,787
Retained earnings	46,052	96,035
Net result for the year	55,536	18,907
Total equity	**387,487**	**405,148**
of which		
Capital subscribed by the Court of Registry	146,000	146,000
Reserve available for dividend payment	101,589	114,942

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 24,818 million forint at the end of 2020 (in 2019: 22,927 million forint). 'Retained earnings and other reserves' also includes 'Retained earnings' of 113,051 million forint and 'Fair value reserve' of 4,164 million forint with related deferred tax of (376) million forint in 2020. In 2019 the 'Retained earnings' was 95,476 million forint and the 'Fair value reserve' was 6,146 million forint with related deferred tax of (554) million forint.

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 shareholders.

Other disclosure matters

43) 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 49) 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	2019	2020
Other demand deposits	**8,699**	**2,864**
Parent	8,699	2,862
Other related parties (Erste Group)	-	2
Loans and advances to credit institutions [1)]	**18,806**	**37,131**
Parent	4,112	23,377
Subsidiaries	12,195	13,754
Other related parties (Erste Group)	2,499	-
Loans and advances to customers	**18,363**	**12,592**
Subsidiaries	6,166	-
Other related parties (Erste Group)	12,197	12,592
Derivative financial instruments - asset	**18,779**	**18,164**
Parent	17,105	17,203
Subsidiaries	746	34
Other related parties (Erste Group)	927	927
Other assets	**5,495**	**5,176**
Parent	2,273	2,394
Subsidiaries	1,884	1,768
Other related parties (Erste Group)	1,338	1,013
Deposits by banks	**228,995**	**265,958**
Parent	16,457	10,563
Subsidiaries	210,549	254,031
Other related parties (Erste Group)	1,989	1,363
Customer deposits	**113,599**	**155,036**
Subsidiaries	109,950	151,425
Other related parties (Erste Group)	3,648	3,611
Derivative financial instruments - liabilities	**18,871**	**37,781**
Parent	17,426	36,926
Subsidiaries	1,445	855
Other liabilities	**2,515**	**2,366**
Parent	272	236
Subsidiaries	174	105
Other related parties (Erste Group)	2,069	2026
Subordinated liabilities	**53,983**	**59,636**
Parent	53,983	59,636
Other commitments	**870**	**1,150**
Parent	15	32
Other related parties (Erste Group)	855	1,118

1) Average contractual interest rate:
2020: 0.23%
2019: 0.27%

Income and expenses to related parties		
in HUF million	**2019**	**2020**
Interest Income	**3,463**	**2,496**
Parent	2,637	1,702
Subsidiaries	474	394
Other related parties (Erste Group)	353	399
Interest Expense	**(7,985)**	**(10,536)**
Parent	(3,710)	(5,085)
Subsidiaries	(4,275)	(5,450)
Other related parties (Erste Group)	(1)	(1)
Fee and commission income	**9,880**	**11,746**
Parent	44	134
Subsidiaries	9,818	11,596
Other related parties (Erste Group)	18	16
Fee and commission expense	**(286)**	**(297)**
Parent	(33)	(59)
Subsidiaries	(248)	(232)
Other related parties (Erste Group)	(5)	(6)
Dividend income	**1,000**	**2,900**
Subsidiaries	1,000	2,900
Other Income/(Expense)	**3,237**	**4,589**
Parent	212	150
Fellow subsidiaries	2,692	4,536

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

in HUF million	2019	2020 plan
Fixed salary	403	435
Performance related compensation	403	435
Other compensation	32	29
Total	**838**	**900**

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.

In accordance with Erste Bank's Remuneration Policy – which is based on CRD V by EU (Capital Requirements Directive V) 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 4 years in equal instalments. Deferred amounts are subjects to re-evaluation and might be decreased based on its result.
- Minimum 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.

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 2020, performance-linked remuneration and share-equivalents are planned to be paid out, in line with MNB and ECB guidelines, as per below:

Performance related compensation

in HUF million	2019	2020 plan
Cash payment for performance period	81	0
Deferred Bonus in cash for next performance periods	121	0
Deferred Bonus in share equivalent for next performance periods	202	435
Total	**403**	**435**

Breakdown of Supervisory Board and Board of Directors compensation:

in HUF million	2019	2020 plan
Supervisory Board compensation	41	47
Board of Directors compensation	838	900
Total	**880**	**947**

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 2020 the external members of the Supervisory Board received a compensation of 47 million forint per year for the membership (in 2015 7.7; in 2016 23; in 2017 37, in 2018 39, in 2019 41 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 28.6 million forint per year for 2020 (in 2015 7.1, in 2016 12; in 2017 24, in 2018 26, in 2019 25,5 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 Committee
(vi) the Nomination Committee ;
(vii) the Risk Governance Committee and
(viii) 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 2019 and 2020). The members of the Board of Directors shall be elected by the General Meeting for a maximum of 5 (five) years. 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 (9 members both in 2019 and 2020) 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 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 Nomination Committee

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

44) Audit fees and consultancy fees

The following table contains audit and other fees charged by the auditors, PwC in the fiscal years 2019 and 2020:

in HUF million	2019	2020
Audit fees	124	137
Other services	17	18
Total	**141**	**155**

Other services consists of pre-takeover mortgage loan reviews, consulting related to human resources and accounting courses. 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.

45) Assets and liabilities denominated in foreign currencies

Assets and liabilities not denominated in forint were as follows:

			of which outside Hungary	
in HUF million	2019	2020	2019	2020
Assets	**503,555**	**579,847**	**18,499**	**38,984**
EUR	472,737	542,494	13,763	32,682
CHF	11,399	10,682	15	19
USD	16,722	23,705	2,341	3,628
JPY	10	28	-	21
Other	2,687	2,938	2,380	2,634
Liabilities	**612,229**	**741,204**	**77,247**	**88,972**
EUR	439,994	575,765	67,628	77,678
CHF	6,936	7,936	1,187	1,192
USD	154,542	142,066	6,565	9,347
JPY	805	554	165	2
Other	9,952	14,883	1,702	753

Further details of the exchange rate open positions in Note 33) ‘Market Risk’.

46) Analysis of remaining maturities

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

in HUF million	2019 < 1 year	2019 > 1 year	2020 < 1 year	2020 > 1 year
Assets				
Cash and cash balances	136,020	-	197,421	-
Financial assets held for trading	31,646	19,343	143,357	13,873
Derivatives	21,201	13,853	37,304	13,665
Other financial assets held for trading	10,445	5,490	106,053	208
Non-trading financial assets at fair value through profit or loss	16,758	98,602	29,606	182,677
Equity instruments	0	1,229	-	2,739
Debt securities	0	1,821	-	1,100
Loans and advances to customers	16,758	95,552	29,606	178,838
Financial assets at fair value through other comprehensive income	0	112,815	10,698	113,633
Equity instruments	0	0	-	-
Debt securities	0	112,815	10,698	113,633
Financial assets at amortised cost	488,638	1,762,866	771,454	1,958,293
Debt securities	61,128	692,283	141,698	793,101
Loans and advances to banks	57,419	36,325	259,268	49,850
Loans and advances to customers	370,091	1,034,258	370,488	1,115,342
Finance lease receivables	15,975	27,593	11,732	27,208
Property and equipment	0	29,663	-	28,697
Investment properties	0	214	-	209
Intangible assets	0	25,790	-	28,966
Investments in joint ventures and associates	0	56,412	-	54,351
Current tax assets	0	0	1,033	-
Deferred tax assets	0	4,503	-	2,927
Trade and other receivables	10,335	335	12,080	138
Other assets	24,616	13	32,507	21
Total assets	**723,988**	**2,138,149**	**1,209,888**	**2,410,992**
Liabilities and equity				
Financial liabilities held for trading	20,914	9,326	39,723	9,213
Derivatives	20,914	9,326	39,723	9,213
Other financial liabilities held for trading	0	0	-	-
Financial liabilities at fair value through profit or loss	0	0	-	-
Deposits from customers	0	0	-	-
Debt securities issued	0	0	-	-
Other financial liabilities	0	0	-	-
Financial liabilities at amortised cost	1,156,890	1,232,109	1,489,750	1,623,997
Deposits from banks	64,994	298,021	93,976	471,524
Deposits from customers	1,084,310	926,723	1,386,693	1,148,169
Debt securities issued	4,008	6,781	3,246	3,500
Other financial liabilities	3,579	584	5,835	805
Finance lease liabilities	2,885	18,319	3,170	18,540
Provisions	1,772	4,993	1,888	6,200
Current tax liabilities	177	0	-	-
Deferred tax liabilities	0	0	-	-
Other liabilities	27,264	0	23,249	-
Total equity	**0**	**387,487**	**-**	**405,149**
Equity attributable to owners of the parent	0	387,487	-	405,149
Subscribed capital	0	146,000	-	146,000
Additional paid-in capital	0	117,492	-	117,492
Retained earnings and other reserves	0	123,995	-	141,657
Total liabilities and equity	**1,209,902**	**1,652,234**	**1,557,780**	**2,063,099**

47) Events after the balance sheet date

There is no event to disclose.

48) Other information

Erste Bank's signing representatives for financial statements of business year 2020:

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

49) Details of the companies wholly or partly-owned by Erste Bank at 31 December 2019 and 2020 respectively

Company name	Interest of Erste Bank in % - directly or indirectly at 31.12.2019	Interest of Erste Bank in % - directly or indirectly at 31.12.2020
Subsidiaries:		
Erste Befektetési Zrt.	100%	100%
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%
VISA Incorporated	0.0005%	0.0005%

in HUF million	Subscribed capital 2019	Subscribed capital 2020
Subsidiaries:		
Erste Befektetési Zrt.	2,000	2,000
Erste Ingatlan Kft.	170	141
Sió Ingatlan Invest Kft.	12.9	12.9
Erste Lakástakarék Zrt.	2,025	2,025
Collat-reál Kft.	3	3
Erste Jelzálogbank Zrt.	3,010	3,010

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