Erste Bank Hungary Zrt.

SEPARATE FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY THE EUROPEAN UNION
FOR THE YEAR ENDED
31 DECEMBER 2021

Separate Financial Statements 2021 IFRS

I. Separate Income Statement for the year ended 31 December 2021

in HUF million	Notes	2020	2021
Net interest income	2)	77,152	92,201
Interest income		79,776	106,738
Other similar income		13,362	17,491
Interest expenses		(12,545)	(28,150)
Other similar expenses		(3,441)	(3,878)
Net fee and commission income	3)	51,271	59,671
Fee and commission income		63,531	73,668
Fee and commission expenses		(12,260)	(13,997)
Dividend income	4)	2,900	11,504
Net trading result	5)	7,427	12,271
Foreign exchange transactions		(1,610)	(13,448)
Other		9,037	25,719
Gains/losses from financial instruments measured at fair value through profit or loss	6)	(1,608)	(10,321)
Rental income from investment properties & other operating leases	7)	41	41
Personnel expenses	-	(29,841)	(33,856)
Other administrative expenses	8)	(24,812)	(26,126)
Depreciation and amortisation	8)	(12,840)	(14,821)
Gains/losses from derecognition of financial assets measured at amortised cost	9)	162	868
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10)	248	428
Impairment result from financial instruments	11)	(31,412)	(8,969)
Other operating result	12)	(14,246)	(20,383)
Other operating income	12)	10,319	4,672
Other operating expense	12)	(24,565)	(25,055)
Pre-tax result from continuing operations		**24,442**	**62,508**
Taxes on income	13)	(5,536)	(6,665)
Net result for the period		**18,906**	**55,843**

II. Separate Statement of Comprehensive Income for the year ended 31 December 2021

in HUF million	2020	2021
Net result for the period	**18,906**	**55,843**
Other comprehensive income		
Items that will be reclassified to profit or loss		
Fair value reserve of debt instruments	(1,367)	(8,182)
Gain/loss during the period	(1,147)	(7,737)
Reclassification adjustments	(248)	(428)
Credit loss allowances	28	(17)
Deferred taxes relating to items that may be reclassified	123	376
Gain/loss during the period	101	337
Reclassification adjustments	22	39
Total other comprehensive income	**(1,244)**	**(7,806)**
Total comprehensive income	**17,662**	**48,037**

Date: Budapest, 1 April 2022

Jelasity Radován
Digitálisan aláírta: Jelasity Radován
Dátum: 2022.04.01 13:24:21 +02'00'
Radován Jelasity
Chairman and CEO

Mag. Manfred Schmid
Digitálisan aláírta: Mag. Manfred Schmid
Dátum: 2022.04.01 15:05:04 +02'00'
Manfred Schmid
Chief Financial Officer

III. Separate Statement of Financial Position at 31 December 2021

in HUF million	Notes	2020	2021
Assets			
Cash and cash balances	14)	197,421	131,256
Financial assets held for trading		157,230	70,406
Derivatives	19)	50,969	55,134
Other financial assets held for trading	20)	106,261	15,272
Non-trading financial assets at fair value through profit or loss	21)	212,283	273,713
Equity instruments	21)	2,739	1,611
Debt securities	21)	1,100	1,206
Loans and advances to customers	21)	208,444	270,896
Financial assets at fair value through other comprehensive income	23)	124,331	118,748
Debt securities	23)	124,331	118,748
Financial assets at amortised cost	15)	2,729,748	3,388,937
Pledged as collateral	28)	349,213	417,181
Debt securities	15)	934,799	1,161,993
Loans and advances to banks	15)	309,118	702,575
Loans and advances to customers	15)	1,485,831	1,524,369
Finance lease receivables	38)	38,940	35,103
Property and equipment	36)	28,697	28,667
Investment properties	36)	209	203
Intangible assets	36)	28,966	28,860
Investments in subsidiaries	49)	54,351	55,431
Current tax assets	13)	1,033	-
Deferred tax assets	13)	2,927	2,246
Trade and other receivables	17)	12,218	16,453
Other assets	37)	32,526	28,177
Total assets		**3,620,880**	**4,178,200**

in HUF million	Notes	2020	2021
Liabilities and equity			
Financial liabilities held for trading		48,935	40,158
Derivatives	19)	48,935	40,158
Financial liabilities at amortised cost	18)	3,113,747	3,643,884
Deposits from banks	18)	565,499	600,118
Deposits from customers	18)	2,534,862	3,034,900
Debt securities issued	18)	6,746	4,270
Other financial liabilities	18)	6,640	4,596
Lease liabilities	38)	21,710	20,860
Provisions	40)	8,088	8,328
Current tax liabilities	13)	-	2,047
Other liabilities	39)	23,251	29,737
Total equity	42)	**405,149**	**433,186**
Equity attributable to owners of the parent		405,149	433,186
Subscribed capital		146,000	146,000
Additional paid-in capital		117,492	117,492
Retained earnings and other reserves		141,657	169,694
Total liabilities and equity		**3,620,880**	**4,178,200**

Date: Budapest, 1 April 2022

Jelasity Radován
Digitálisan aláírta: Jelasity Radován
Dátum: 2022.04.01 13:26:24 +02'00'

Radován Jelasity
Chairman and CEO

Mag. Manfred Schmid
Digitálisan aláírta: Mag. Manfred Schmid
Dátum: 2022.04.01 15:05:33 +02'00'

Manfred Schmid
Chief Financial Officer

IV. Separate Statement of Changes in Equity

in HUF million	Notes	Sub-scribed capital[1]	Additional paid-in capital	Retained earnings	Fair value re-serve[2]	Deferred tax	Attributable to owners of the parent	Total eq-uity
Total equity at 01 January 2021	42)	**146,000**	**117,492**	**137,869**	**4,164**	**(376)**	**405,149**	**405,149**
Dividends[3]		-	-	(20,000)	-	-	**(20,000)**	**(20,000)**
Total comprehensive income		-	-	55,843	(8,182)	376	**48,037**	**48,037**
of which: Net profit / (loss) for the year		-	-	55,843	-	-	**55,843**	**55,843**
of which: Other comprehensive income		-	-	-	(8,182)	376	**(7,806)**	**(7,806)**
Total equity at 31 December 2021	42)	**146,000**	**117,492**	**173,712**	**(4,018)**	**-**	**433,186**	**433,186**

1) See details in Note 42) Total equity, section Subscribed capital and additional paid-in capital, page 155.

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

3) Erste Hungary paid a dividend that amounted to 20,000 million forint to its owners.

in HUF million	Notes	Subscribed capital[1]	Additional paid-in capital	Retained earnings	Fair value re-serve[2]	Deferred tax	Attributable to owners of the parent	Total equity
Total equity at 01 January 2020	42)	**146,000**	**117,492**	**137,869**	**4,164**	**(376)**	**405,149**	**405,149**
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**	**156,775**	**2,797**	**(253)**	**422,811**	**422,811**

V. Separate Statement of Cash Flows

in HUF million	2020	2021
Net result for the period	**18,906**	**55,843**
Income tax adjustment	5,536	6,665
Income tax adjusted result for the period	**24,442**	**62,508**
Non-cash adjustments for items in net profit for the year		
Depreciation, amortisation and net impairment of non-financial assets	9,219	14,233
from which regarding right-of-use assets - Land and buildings Leasing	2,846	2,741
Net allocation of credit loss allowances and other provisions	23,053	2,614
Modification gain/loss on loans and advances	8,225	4,360
Gains/losses from measurement and derecognition of financial assets and financial liabilities	410	1,296
Revaluation of subordinated liabilities	5,653	723
Revaluation of derivatives	2,812	(12,899)
Other adjustments	1,804	894
from which regarding Lease liabilities under IFRS 16	1,837	126
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Financial assets - held for trading	(89,728)	92,238
Non-trading financial assets at fair value through profit or loss		
Equity instruments	(1,510)	1,128
Debt securities	721	(106)
Loans and advances to customers	(96,606)	(62,474)
Financial assets at fair value through other comprehensive income		
Equity instruments	-	-
Debt securities	(1,675)	(8,677)
Financial assets at amortised costs		
Debt securities	(701)	(3,402)
Loans and advances to banks	(215,374)	(393,457)
Loans and advances to customers	(104,038)	(48,660)
Finance lease receivables	(1,597)	6,498
Other assets from operating activities	(9,630)	(60)
Financial liabilities - held for trading	(631)	(1,292)
Financial liabilities measured at amortised cost		
Deposits from banks	196,831	33,110
Deposits from customers	523,829	500,038
Debt securities issued	(3,654)	(2,476)
Other financial liabilities	2,478	(2,044)
Other liabilities from operating activities	(4,013)	6,486
Lease liabilities	180	176
Payments for taxes on income	(5,013)	(3,296)
Cash flow from operating activities	**265,487**	**187,459**

in HUF million	2020	2021
Proceeds of disposal		
Financial assets at fair value through other comprehensive income - Debt instruments	-	32,740
Financial assets at amortised costs - Debt securities	67,891	172,355
Property and equipment, intangible assets and investment properties	183	329
Investments in subsidiaries	6,000	-
Acquisition of		
Financial assets at fair value through other comprehensive income - Debt instruments	(11,484)	(27,072)
Financial assets at amortised costs - Debt securities	(249,422)	(396,283)
Property and equipment, intangible assets and investment properties	(13,702)	(13,213)
Cash flow from investing activities	**(200,534)**	**(231,144)**
Dividends paid to equity holders of the parent	-	(20,000)
Subordinated loan repayment	(389)	(59,630)
Suboridanted loan received	-	60,416
Lease liabilities repayment	(3,163)	(3,266)
Cash flow from financing activities	**(3,552)**	**(22,480)**
Cash and cash equivalents at beginning of period	**136,020**	**197,421**
Cash flow from operating activities	265,487	187,459
Cash flow from investing activities	(200,534)	(231,144)
Cash flow from financing activities	(3,552)	(22,480)
Cash and cash equivalents at end of period	**197,421**	**131,256**
Cash flows related to interest and dividends (included in cash flow from operating activities)		
Interest received	92,079	140,906
Dividends received	2,900	11,504
Interest paid	(15,639)	(32,260)

The figures of 2020 are corrected by reclassification in between lines *'Net allocation of credit loss allowance and other provisions', 'Financial assets at amortised costs - Debt securities', 'Financial assets at amortised costs - Loans and advances to banks', 'Financial assets at amortised costs - Loans and advances to customers',* and *'Finance lease receivables'.*

Notes to the Separate 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 2021, 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 2021, together with its syndicate partners (Sparkassen, Anteilsveraltungssparkasen und Sparkassenstiftungen), DIE ERSTE oesterreichische Spar-Casse Privatstiftung ("ERSTEStiftung"), a foundation, controls. 22.25% (prior year: 31.17%) of the shares in Erste Group Bank AG and with 16.50% (prior year: 16.50%) is the main shareholder. The ERSTE Stiftung holds 5.90% (prior year: 5.90%) of the shares directly; the indirect participation of the ERSTE Stiftung amounts to around 10.60% (prior year: 10.60%) of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the ERSTE Stiftung. 1.67% (prior year: 1.67%) are held directly by savings bank foundations (Sparkassenstiftungen, Sparkassen and Erste Mitarbeiterbeteiligungsstiftung) respectively saving banks foundations acting together with the ERSTE Stiftung and affiliated with Erste Group Bank AG through the joint liability scheme/IPS fund. 4.08% (prior year: 3.08%) are held by other syndicate partners. At the beginning of November 2021, the 9.92% share of CaixaBank S.A. was sold and resulting the exit from the syndicate followed.

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 2021 (it was the same in 2020):

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

On 17 December the Bank has signed a sale and purchase agreement with Commerzbank AG to acquire 100% of the shares in its Hungarian subsidiary Commerzbank Zrt.
Commerzbank Zrt. is a fully licensed corporate bank active in the market in both lending and transaction banking services. Based on loan volumes it was the 8th largest player in the Hungarian corporate banking market. The transaction is awaiting approvals of the relevant regulatory bodies and is expected to materialise in the second half of 2022 so the acquisition has not yet fulfilled.

Sió Ingatlan Invest Kft. has been reclassified into 'Assets held for sale' as a disposal group of assets in 2020, as the bank has already been in a matured negotiation with the potential buyer, including official price offer. After closing all the contractual administration processes, the sale has been finalised in November 2021 leading to the derecognition of the investment. The derecognition effect of 9 million forint is presented in Note 'Consolidated Statement of Changes in Equity', line item 'Changes in scope of consolidation and ownership interest'.

Erste Befektetési Zrt. has acquired 100% of the shares in Random Capital Zrt. (Random), a pioneer venture in online brokerage market that achieved a leading position throughout the years in the individual 'household' client segment, which is its operational focus.
An independently owned company provided the IT infrastructure for Random was also fully acquired (RND Solution Kft.).
Both companies are operated as subsidiaries, directly owned by Erste Brokerage Zrt.

As of the acquisition date of 31 December 2021, the following financial instruments were recognized, without any fair value adjustment, in billion forint:

Equity instruments:	0.07
Loans:	16.6
Deposits:	15.6

The major part of the purchase price was paid in cash, however the parties concluded to define a contingent consideration of the deal (, presented under sub-item 'Other financial liabilities'), that will be paid at the end of a longer estimated operational administration procedure. Erste Hungary recognized a goodwill for these acquisitions presented in line item 'Intangible assets' amounted to 2.1 billion forint.

C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS

2021
i)
COVID-19 related government measures
The State of Emergency first announced by the Hungarian Government in March 2020 was extended several times during both 2020 and 2021, still valid as of 1 April 2022.
Despite several legal act targeted to provide a financial ease to Hungarian citizens, the main measures affected the financial sector were the moratoria measures like the extension of Moratorium II (first till 30 September 2021 then till 31 October 2021) and the

.

Moratorium III, as a continuation of installment repayment freeze schedules launched in 2020 in the form of Moratorium I and II (Moratoria I – II are detailed in his section, under paragraph '2020');
the so called 'interest refund' caping retroactively certain revolving products' interest rate and requiring to refund the difference to customers and finally the so called 'interest stop' which is an interest rate freeze on certain floating rate / repricing loan products.

1. Loan repayment moratoria

A legal act launched 15 September 2021 included measures on both extension of Moratorium II and launching Moratorium III. As Moratorium III participation's main criteria is being under moratorium as of 30 September 2021 (Moratorium II), the accounting treatment of Moratorium III is the extension of Moratorium II.

(Government decree: '536/2021. (IX. 15.) Korm.rendelet')

a. Moratorium II extension

The moratorium originally launched as valid until 30 June 2021 was extended till 31 October, with unchanged conditions.

b. Moratorium III

Clients being under moratorium scheme as of 30 September 2021 were entitled to participate in the scheme, if fulfilled some additional criteria. This scheme, unlike the previous ones, was an opt-in type, meaning eligible clients were asked to make their statement on participation intention. After the statement deadline was over, clients had no more possibility to join the scheme (possible to leave, but not even to re-join, unlike in previous schemes).
Additional criteria were related the probable financial vulnerability of client, like unemployment, retirement, material, and long-term decrease in income; and the fact whether there is a child in household.

Following the instruction of National Bank of Hungary (NBH) the Bank applied not better than Stage 2 classification to the clients in scope of Moratorium III.

Like in 2020, Erste Hungary, as effect of contractual modification in the meaning of IFRS9, continued to account its losses as 'Modification loss', for all moratoria related financial effect.
In case the relevant deals are classified in stage1, the modification loss is presented in the line item 'Net interest income', 'Interest income', while the non-stage1 classified deals related modification loss 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 36.
The total modification loss in 2021 amounted to 2.5 billion forint, based partially on expert estimations (presented in 'Impairment result from financial instruments'.

2. Interest refund

The Government launched a legal act in September presenting a retroactively applicable interest cap on revolving products such as individuals' credit cards and overdrafts. Eligible client were the ones in moratoria. The measre was officially argumented saying that clients in moratoria id not use the revolving feature of those products, so this should has been considered in pricing, during the moratoria. So difference between contractual pricing involving the revolving feature and non-revolving pricing (cap, or reference price) should be refund to clients.
The reference price defined by legal act was the February 2020 statistical average price (last pre-covid month) published by NBH for the forint based unsecured household loans.
The period in-scope is the period of the moratoria, 18 March 2021 – 30 June 2022.
The calculation logic is the following:

- (former) clients having no valid contract for products in scope at the time of the measures were refunded 'immediately', by the terms of the legal act;
- clients having valid contract for the products in scope at the time of the measures are divided into two groups by the legal act:
  1. had the possibility to make a statement that the unpaid amount accumulated during the moratoria is voluntarily paid lump sum upon the end of the moratorium;
  2. in lack of the above intention the Bank prescribes a repayment schedule of 12 installments starting from the expiry of the moratorium, in the following ways

a. clients left the moratorium before 16 September 2021: unpaid capital accumulated during the moratoria went back to revolving pool, the unpaid accumulated interest is to be repaid in 12 months, in interest free equal installments;
b. clients staid in moratorium or left after 16 September 2021: both accumulated unpaid capital and interest is to be repaid in 12 months; interest repayment is interest free; capital repayment is charged with 11.99% simple interest.

As of October 2021 Erste Hungary calculated 3.5 billion forint loss, presented in line item 'Net interest income' under 'Interest income'. Due to the significantly declining trend of moratoria participation, the expert estimation based calculation for the period of 1 November 2021 – 30 June 2022 is amounted to 140 million forint additional loss recognized in income statement as of 31 December 2021 (pooled with modification loss result).

(Government decree: '537/2021. (IX. 15.) Korm. rendelet')

3. Interest stop

The Hungarian Government launched 24 December 2021 the most recent legal act effecting materially the financial sector, referred as 'Interest stop'.
It is an interest rate freeze for retail repricing/floating rate mortgage loans, at the interest rate level contractually valid 27 October (fix rate). The period in scope is 1 January 2021 – 30 June 2022, the expert estimation based loss was recognized as of 31 December 2021, following the below logic:

- repricing date falls 2021 (27 October - 31 December):
  the fix rate is to apply from 1 January 2022
- repricing date falls 2022 (1 January - 30 June):
  the fix rate it to apply from the repricing date.

Erste Hungary, as effect of contractual modification in the meaning of IFRS9, accounted its losses as 'Modification loss'.
In case the relevant deals are classified in stage1, the modification loss is presented in the line item 'Net interest income', 'Interest income', while the non-stage1 classified deals related modification loss 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 36.
The total modification loss in 2021 amounted to 1.7 billion forint, based on expert estimations (of which 1.1 billion forint is related to Stage 1 deals).

(Government decree: '782/2021. (XII.24.) Korm. rendelet')

ii)
Changes in monetary policy – continuous increase of base rate

In relation to the increasing inflation, NBH started a base rate increase cycle, summer 2021, and parallelly started to gradually decrease its long-term instruments to react more flexibly to global COVID-19 crisis. In November 2021 the one-week deposit facility was re-activated, and it became the driving monetary instrument. By the end of February 2022, the base rate reached the 3.4% level (starting from 0.9% in June 2021, reaching 2.4% in December 2021), while the one-week deposit rate reached 5.35% as of 3 March 2022.
Based on the recent communication of NBH by summer 2022 the two rates can come to the same level and the base rate increase cycles will be continued until the stabilization of inflation. NBH communicated that sees the possibility to reconsider its current monetary policy after the stabilization goal is reached.
Geopolitical crisis of February 2022 involving Ukraine and Russia brings an additional uncertainty and may affect in continuing the base rate increase cycles if inflation goes beyond the pre-crisis expectations.

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').

4. Loan repayment moratoria - Moratorium I and II

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 was 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 was, that clients were 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 36.

Details concerning modification loss are disclosed within Note 2) , Net interest income', page 22 and Note 11), Impairment result from financial instruments', page 28.

(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 did not consider the moratoria participation in itself as automatic SICR triggers, but applied 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 pandemic are described in Note 33) page 102.

5. 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 was announced as 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.

6. 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 38)) 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')

7. Annual Percentage Rate ('THM') cap

Announced within the first package of the Government in March 2020, this measure was entitled to provide an ease for retail clients contracting for unsecured loans after 18 March 2020, by caping 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 years 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)

D. ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements of Erste Bank for the financial year of 2021 and the comparable data for 2020 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 2020.

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 2021 were authorised for issue in accordance with a resolution of the directors on 1 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 2021 year-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 2021. 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 2021 and have been endorsed by the EU:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2**
- **Amendments to IFRS 16 Leases: Covid-19- Related Rent Concessions beyond 30 June 2021**

Application of the above mentioned amendments in 2021 did not have a significant impact on Erste Bank's financial statements. EURIBOR and BUBOR are not affected, while other reference rates in use and affected were mitigated (i.e. EONIA to ESTR).

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:

- **Annual Improvements to IFRSs 2018-2020 Cycle**

Following standards and amendments and interpretations have not yet been endorsed by the EU until 18 February 2022:

- **IFRS 17: Insurance contracts**
- **Amendments to IAS 1: Disclosure of Accounting Policies**
- **Amendments to IAS 8: Definition of Accounting Estimates**
- **Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

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.

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.

Amendments to IAS 1: Disclosure of Accounting policies. The amendments to IAS 1 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that an entity is required to disclose its material accounting policy information. A guidance was added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. Application of these amendments is not expected to have a significant impact on Erste Bank's financial statements. However, revisions in the disclosures of the accounting policies may be required.

There is another amendment to IAS 1 which was also not endorsed by the EU. The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year.

Amendments to IAS 8: Definition of Accounting Estimates. The amendments to IAS 8 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. Application of these amendments is not expected to have a significant impact on Erste Bank's financial statements.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments to IAS 12 were issued In March 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that the initial recognition exemption stipulated in IAS 12.15(b) and IAS12.24 does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. Application of these amendments is not expected to have a significant impact on Erste Banks financial statement

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 105 branches in 2021 (5 regions and 109 branches in 2020).

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. Structured finance portfolio part of the LC after 1st January 2021, previously it was part of the Commercial Real Estate.

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 2021

	Retail	Corporates	Group Markets	ALM & LCC	Total group
in HUF million	**2021**	**2021**	**2021**	**2021**	**2021**
Net interest income	65,786	26,136	8,303	(8,024)	92,201
Net fee and commission income	47,018	11,424	2,861	(1,632)	59,671
Dividend income		-	-	11,504	11,504
Net trading result	4,104	3,325	(1,474)	6,316	12,271
Gains/losses from financial instruments at FVPL	(10,816)	(42)	-	537	(10,321)
Rental income from investment properties & other operating leases	-	-	-	41	41
General administrative expenses	(61,402)	(10,307)	(2,370)	(724)	(74,803)
thereof depreciation and amortization	(12,593)	(1,465)	(694)	(67)	(14,821)
Gains/losses from derecognition of financial assets at AC	-	85	-	783	868
Other gains/losses from derecognition of financial instruments not at FVPL	-	210	-	218	428
Impairment result from financial instruments	(6,428)	931	(245)	(3,227)	(8,969)
Other operating result	(14,236)	(7,946)	(2,279)	4,077,	(20,383)
Levies on banking activities	(13,836)	(7,455)	(1,686)	694,	(22,283)
Pre-tax result from continuing operations	**24,028**	**23,815**	**4,796**	**9,869**	**62,508**
Taxes on income	(4,028)	(2,085)	(475)	(77)	(6,665)
Net result for the period	**20,000**	**21,730**	**4,321**	**9,792**	**55,843**
Net result attributable to owners of the parent	**20,000**	**21,730**	**4,321**	**9,792**	**55,843**
Operating income	106,094	40,842	9,690	8,741	165,367
Operating expenses	(61,402)	(10,307)	(2,370)	(724)	(74,803)
Operating result	**44,692**	**30,535**	**7,320**	**8,017**	**90,564**
Risk-weighted assets (credit risk, eop)	892,991	1,024,574	147,642	627,791	2,692,998
Average allocated capital	157,238	125,029	22,911	113,100	418,277
Cost/income ratio	57,9%	25,2%	24,5%	8,3%	45,2%
Return on allocated capital	12,7%	17,4%	18,9%	8,7%	13,4%
Total assets (eop)	1,079,464	829,554	901,991	1,367,191	4,178,200
Total liabilities (eop)	1,471,345	1,133,903	492,214	647,552	3,745,014
Impairments	**(6,591)**	**1,043**	**(245)**	**(2,291)**	**(8,084)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(6,898)	1,267	(220)	(3,243)	(9,095)
Net impairment loss on commitments and guarantees given	470	(336)	(25)	15	125
Net impairment on investments in subsidiaries, joint ventures and associates	-	-	-	1,080	1,080
Net impairment on other non-financial assets	(163)	112	-	(143)	(194)

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)
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**
Risk-weighted assets (credit risk, eop)	794,235	974,015	87,007	484,505	2,339,762
Average allocated capital	130,088	121,704	13,246	63,751	328,789
Cost/income ratio	56,6%	26,5%	24,7%	-12,4%	49,2%
Return on allocated capital	15,1%	-2,6%	38,5%	-4,2%	5,8%
Total assets (eop)	965,348	808,061	531,576	1,315,894	3,620,880
Total liabilities (eop)	1,221,045	839,854	550,025	604,807	3,215,730
Impairments	**(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)	(0)	(8)	(1,831)
Net impairment on investments in subsidiaries, joint ventures and associates	-	-	-	3,939	3,939
Net impairment on other non-financial assets	(56)	(260)	-	(125)	(441)

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, lease liabilities, 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	2020	2021
Financial assets at AC	77,460	104,351
Financial assets at FVOCI	2,316	2,387
Interest income	79,776	106,738
Non-trading financial assets at FVPL	7,132	10,644
Financial assets HFT	4,337	4,581
of which: Derivatives	3,687	4,075
Negative interest from financial liabilities	1,076	891
Other assets - Finance lease receivables	817	1,375
Other similar income	13,362	17,491
Interest and other similar income	**93,138**	**124,229**
Financial liabilities at AC	(12,545)	(28,150)
Interest expenses	(12,545)	(28,150)
Financial liabilities HFT	(3,006)	(3,570)
of which: Derivatives	(3,006)	(3,570)
Other liabilities	(184)	(181)
Negative Interest from financial assets	(251)	(127)
Other similar expenses	(3,441)	(3,878)
Interest and other similar expenses	**(15,986)**	**(32,028)**
Net interest income	**77,152**	**92,201**

The interest income related to the non-performing portfolio was 1,075 million forint in 2021 and 1,123 million forint in 2020.

Modification losses of financial instruments allocated to Stage 1 in the amount of 1 062 million forint is reported in line item 'Financial assets at AC' in 2021, and 4,193 million forint in 2020. 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	2020		2021	
	Income	Expenses	Income	Expenses
Securities	16,565	(33)	20,244	(58)
Issues	-	(15)	-	(45)
Transfer orders	14,450	(18)	17,846	(13)
Other	2,115	-	2,398	-
Asset management	-	(255)	-	(348)
Custody	40,191	(9,747)	45,350	(10,877)
Payment services	14,795	(6,377)	17,086	(7,416)
Card business	25,396	(3,370)	28,264	(3,461)
Other	4,096	(28)	5,014	(27)
Customer resources distributed but not managed	4,042	(28)	4,966	(27)
Insurance products	19	-	1	-
Other	35	-	47	-
Lending business	2,351	(2,193)	2,444	(2,682)
Guarantees given, guarantees received	421	(25)	503	(33)
Loan commitments given, loan commitments received	480	-	663	-
Other lending business	1,450	(2,168)	1,278	(2,649)
Other	328	(4)	616	(5)
Total fee and commission income and expenses	**63,531**	**(12,260)**	**73,668**	**(13,997)**
Net fee and commission income	**51,271**		**59,671**	

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 45.350 million forint (40,190 million forint in 2020) 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	2020	2021
Non-trading financial assets at FVPL	-	25
Financial assets at cost	2,900	11,479
Dividend income	**2,900**	**11,504**

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	2020	2021
Securities and derivatives trading	9,037	25,719
Foreign exchange transactions	(1,610)	(13,448)
Net trading result	**7,427**	**12,271**

The change in the net trading result in 2021 were triggered by the income from the banking book interest rate swaps and the positve CVA result.

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	2020	2021
Result from measurement/sale of financial assets mandatorily at FVPL	(1,608)	(10,321)
Gains/losses from financial instruments measured at FVPL	**(1,608)**	**(10,321)**

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 part ‘Significant accounting judgements, assumptions and estimates - SPPI assessment’.

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	2020	2021
Investment properties	41	41
Rental income from investment properties & other operating leases	**41**	**41**

The relating depreciation was 6 million forint in 2021 (5 million in 2020).

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 43 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 the line item 'Depreciation and amortisation', also the depreciation of right-of-use assets according to IFRS 16 is disclosed.

.

in HUF million	2020	2021
Personnel expenses	**(29,841)**	**(33,856)**
Wages and salaries	(23,748)	(26,937)
Compulsory social security [2)]	(4,687)	(4,761)
Long-term employee provisions	(69)	(75)
Other personnel expenses	(1,337)	(2,083)
Other administrative expenses	**(24,812)**	**(26,126)**
Deposit insurance contribution	(776)	(1,248)
IT expenses	(13,272)	(13,956)
Expenses for office space [1)]	(3,051)	(3,065)
Office operating expenses	(2,328)	(2,044)
Advertising/marketing	(1,671)	(1,856)
Legal and consulting costs	(945)	(1,086)
Sundry administrative expenses	(2,769)	(2,871)
Depreciation and amortisation	**(12,840)**	**(14,821)**
Software and other intangible assets	(6,428)	(8,391)
Owner occupied real estate	(834)	(892)
Right-of use assets	(2,846)	(2,741)
Investment properties	(5)	(5)
Customer relationships	(1,128)	(1,128)
Office furniture and equipment and sundry property and equipment	(1,599)	(1,664)
General administrative expenses	**(67,493)**	**(74,803)**

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

in Full Time Employee	2020 year end	2020 average	2021 year end	2021 average
Erste Bank Hungary	**2,995**	**2,991**	**2,993**	**2,984**

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	2020	2021
Gains from sale of financial assets at AC	164	2,752
Losses from sale of financial assets at AC	(2)	(1,884)
Gains/losses from derecognition of financial assets measured at amortised cost	**162**	**868**

The gross carrying amount of the financial assets (at AC) sold in 2021 was 137 billion forint (11 billion forint in 2020). 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’.

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	2020	2021
From sale of financial assets at FVOCI	248	428
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**248**	**428**

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	2020	2021
Financial assets at FVOCI	(28)	**17**
Financial assets at AC	(19,185)	**(11,772)**
Net allocation to credit loss allowances	(20,582)	**(8,361)**
Direct write-offs	(3,705)	**-**
Recoveries recorded directly to the income statement	8,662	**-**
Modification gains or losses	(3,560)	**(3,411)**
Finance lease	(6,225)	**2,661**
Net release/(allocation) of credit loss allowances for loan commitments and financial guarantees given	(1,831)	**125**
Impairment result from financial instruments	**(27,269)**	**(8,969)**

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.

Reconciliation of the annual movement in credit loss allowances against the impairment result from financial instruments for the year

in HUF million	CLA changes through P&L-NIR	CLA changes through P&L-Outside NIR	CLA changes outside P&L	CLA changes Total
Opening balance of credit loss allowances (total)				**(65,521)**
Net impairment loss for the period	(6,299)	-	-	(6,299)
(Increase) due to passage of time (UWC)	-	(209)	-	(209)
CLA decreases due to sales	-	-	1,336	1,336
CLA decreases due to write-offs	-	-	714	714
Other CLA changes	-	(183)	-	(183)
Closing balance of credit loss allowances (total)				**(70,161)**
Impairment gain/(loss) from POCI without CLA	3,921			
MGLs attributable to financial assets in Stages 2, 3, POCI	(3,411)			
Income from upgrade on loans previously subject to FX settlement reclassified to Other operating result	(3,181)			
Impairment result from financial instruments	**(8,969)**			

(where NIR is for Net impairment result and MGL is for modification gain/loss)

12) Other operating result

Other operating result reflects all other income and expenses not directly attributable to Erste Bank's core banking 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.

.

in HUF million	2020	2021
Other operating expenses	**(24,565)**	**(25,055)**
Allocation/(release) to other provisions1)	-	(568)
Allocation/(release) to provisions for other commitments given2)	(1,675)	-
Levies on banking activities	(19,828)	(22,283)
Banking tax3)	(4,387)	(5,095)
Financial transaction tax	(15,441)	(17,188)
Other taxes	(44)	(39)
Recovery and resolution fund contributions4)	(1,192)	(1,971)
Impairment on properties/movables/other intangible assets other than goodwill	(441)	(194)
Result from other operating expenses	(1,385)	-
Other operating income	**10,319**	**4,672**
(Allocation)/release of other provisions5)	2,162	-
(Allocation)/release to provisions for commitments and guarantees given	-	220
Result from sales of properties/movables/other intangible assets other than goodwill	72	59
Result from sales of other assets6)	3	13
(Allocation)/release of impairment on investments in subsidaries	3,939	1,080
Income from upgrade on loans previously subject to FX settlement7)	4,143	3,181
Result from other operating income	-	119
Other operating result	**(14,246)**	**(20,383)**

1) 698 million forint allocation is related to pending legal issues and litigations. Please see the details in 40) Provisions.

2) In 2020 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.

3) 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 Hungary recognised a receivable of 3.3 billion forint as of 31 December 2021 (4.2 billion forint in 2020) against the payment, in the total amount of the levy. Please see line item 'Other assets', in Note 37). See also in part C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

4) In the line 'Recovery and resolution fund contributions' contributions to the national resolution funds in amount of 1,971 million (1,192 million forint in 2020) 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.

5) 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.

6) Result from sales of other assets relates to income earned on repossessed assets, especially repossessed property sales. Erste Hungary realised 17 million forint gain and 4 million forint loss respectively in 2021 (87 million forint gain and 84 million forint loss in 2020).

7) 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 recog-nised 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	2020	2021
Current tax expense / income		
Current period taxes	(3,820)	(5,850)
of which local business tax	(3,191)	(3,357)
of which local innovation tax	(479)	(548)
Prior period taxes	(17)	241
Deferred tax expense / income		
Current period deferred tax benefit / (expense)	(1,699)	(1,056)
Total	**(5,536)**	**(6,665)**

Deferred tax related to 'Fair Value reserve' has been recognised in other comprehensive income in the amount of 376 million forint in 2021 and 123 million forint in 2020.

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

in HUF million	2020	2021
Profit before tax	**24,442**	**62,508**
At statutory income tax rate (9%)	(2,200)	(5,626)
Income not subject to tax	1,998	2,946
Non tax deductible expenses	(1,308)	(1,533)
Local business and innovation tax	(3,670)	(3,905)
Tax loss carry forward usage	371	2,106
HAS to IFRS transition difference	768	-
Current period deferred tax benefit / (expense)	(1,699)	(1,056)
Other	204	403
Total tax expense	**(5,536)**	**(6,665)**

In the ‘Other’ category 408 million forint is related to deductible subsidy (226 million forint in 2020).

At 31 December 2021 the tax loss carried forward amounts to 32,578 million forint (2020: 55,982 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 (32,578 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 2021			
in HUF million	2020	2021	2020	2021	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	-	-	(82)	(82)	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	(374)	-	374	(1)	376	(1)
Property and equipment (useful life in tax law different)	324	338	-	-	14	14	-	-
Other provisions (tax valuation different)	-	-	(185)	(122)	63	63	-	-
Tax loss carry-forward	3,218	2,096	-	-	(1,122)	(1,122)	-	-
Other	26	16	-	-	(10)	(10)	-	-
Effect of netting gross deferred tax position	(641)	(204)	641	204	-	-	-	-
Deferred taxes	**2,927**	**2,246**	**-**	**-**	**(681)**	**(1,056)**	**376**	**(1)**
Current taxes	**1,033**	**-**	**-**	**(2,047)**	**(5,609)**	**(5,609)**	**-**	**-**
Total taxes	**3,960**	**2,246**	**-**	**(2,047)**	**(6,290)**	**(6,665)**	**376**	**(1)**

Erste Bank Hungary allocated 2.2 billion forint deferred tax asset at the nominal corporate income tax rate of 9% as of 31 December 2021, having the breakdown as follows:

- 2.1 billion forint is allocated in accordance with IAS12 saying a deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. 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 30% reaching 70% 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.
- 0.1 billion forint as a net asset 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.

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'.

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 termination option and a sufficiently competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepayment/early termination would have to be assessed as sufficiently low for not deterring it. This derecognition trigger rarely applies to loan assets in Stage 2 and never in Stage 3.

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 modifications are:

- a new agreement with materially different terms signed up as part of distressed restructuring following a standstill agreement suspending the rights of the original assets;
- consolidation of multiple original loans into one with substantially different terms; or
- transformation of a revolving loan into non-revolving.

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

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

.

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

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

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

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 subsidy 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 subsidy 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 1,550 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 business model by the following

- 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 15) Financial assets at amortised cost, and part Finance lease receivables of Note 38) 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'.

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.

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 2021 and 31 December 2020 was 41.00 billion forint and 25.32 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	2020	2021
Cash on hand	22,114	22,892
Cash balances at central banks	171,379	92,567
Other demand deposits at credit institutions	3,928	15,797
Cash and cash balances	**197,421**	**131,256**

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
2021									
General governments	767,837	-	-	767,837	(199)	-	-	(199)	767,638
Credit institutions	333,805	-	-	333,805	(448)	-	-	(448)	333,357
Non-financial corporations	59,138	2035	-	61,173	(151)	(24)	-	(175)	60,998
Total	**1,160,780**	**2035**	**-**	**1,162,815**	**(798)**	**(24)**	**-**	**(822)**	**1,161,993**

	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**

There were no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2021.

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 2021						31 December 2021
Stage 1	(815)	(627)	127	263	254	(1)	(799)
Stage 2	(214)	-	1	(111)	300	-	(24)
Stage 3	(532)	-	510	-	14	9	1
Total	**(1,561)**	**(627)**	**638**	**152**	**568**	**8**	**(822)**

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 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 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 relates to derecognition of Stage 3 securities.

in HUF million	2020	2021
Transfers between Stage 1 and Stage 2	**1,338**	**1,345**
Transfers between Stage 1 and Stage 2	1,338	**1,345**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2021 and not sold by 31 December 2021 amounts to 401,798 million forint. The GCA of AC debt securities that were held at 1 January 2021 and de-recognized (matured or sold compliant to sale from HTC business model) during the year 2021 amounts to 167,035 million forint.

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**
2021									
Central banks	512,807	-	-	512,807	(72)	-	-	(72)	512,735
Credit institutions	189,983	-	-	189,983	(142)	-	-	(142)	189,841
Total	**702,790**	**-**	**-**	**702,790**	**(214)**	**-**	**-**	**(214)**	**702,576**

	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

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2021.
Line item 'Central banks' includes the NBH preferential deposit.
NBH launched a 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 years tenor.
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 expo-sure is presented in line item 'Loans and advances to banks'. Income earned is presented in line item 'Net interest income'.

Movement in credit loss allowances

in HUF million	As of 01 January 2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of 31 December 2021
Stage 1	(117)	(3,520)	3,430	-	(7)	-	(214)
Total	**(117)**	**(3,520)**	**3,430**	**-**	**(7)**	**-**	**(214)**

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	(49)	(601)	542	-	(9)	-	(117)
Total	**(49)**	**(601)**	**542**	**-**	**(9)**	**-**	**(117)**

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 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 2021 and not fully de-recognized by 31 December 2021 amounts to 566,591 million forint. The GCA of AC loans and advances to banks that were held as of 1 January 2021 and fully de-recognized during the year 2021 amounts to 253,656 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 2021											
General governments	5,521	11,290	-	8	16,819	-	(18)	-	(3)	(21)	16,798
Other financial corporations	77,710	74	19	-	77,803	(323)	(4)	(15)	-	(342)	77,461
Non-financial corporations	495,285	131,198	18,909	9,333	654,725	(2,161)	(5,154)	(9,432)	(1,689)	(18,436)	636,289
Households	631,488	159,163	29,729	14,777	835,157	(2,896)	(16,759)	(17,111)	(4,570)	(41,336)	793,821
Total	**1,210,004**	**301,725**	**48,657**	**24,118**	**1,584,504**	**(5,380)**	**(21,935)**	**(26,558)**	**(6,262)**	**(60,135)**	**1,524,369**

	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**

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 2021								31 December 2021
Stage 1	**(5,463)**	**(5,154)**	**919**	**10,173**	**(5,847)**	**-**	**4**	**(12)**	**(5,380)**
General governments	(1)	-	-	-	-	-	-	-	(1)
Other financial corporations	(160)	(287)	2	-	129	-	-	(6)	(322)
Non-financial corporations	(2,259)	(1,565)	552	1,272	(155)	-	-	(6)	(2,161)
Households	(3,043)	(3,302)	365	8,901	(5,821)	-	4	-	(2,896)
Stage 2	**(20,658)**	**(2,242)**	**3,020**	**(14,472)**	**12,181**	**73**	**277**	**(114)**	**(21,935)**
General governments	(42)	(131)	35	(6)	131	-	-	(5)	(18)
Other financial corporations	(3)	-	-	-	(1)	1	-	-	(3)
Non-financial corporations	(4,515)	(976)	1,402	(2,034)	1,058	12	6	(107)	(5,154)
Households	(16,098)	(1,135)	1,583	(12,432)	10,993	60	271	(2)	(16,760)
Stage 3	**(20,308)**	**(440)**	**6,868**	**(1,714)**	**(11,563)**	**317**	**370**	**(88)**	**(26,558)**
Other financial corporations	-	-	-	-	(14)	-	-	-	(14)
Non-financial corporations	(8,766)	(366)	4,325	(98)	(4,825)	137	247	(87)	(9,433)
Households	(11,542)	(74)	2,543	(1,616)	(6,724)	180	123	(1)	(17,111)
POCI	**(5,833)**	**-**	**1,221**	**-**	**(1,773)**	**40**	**59**	**24**	**(6,262)**
General governments	(5)	-	-	-	-	-	-	-	(5)
Non-financial corporations	(302)	-	303	-	(1,771)	21	37	24	(1,688)
Households	(5,526)	-	918	-	(2)	19	22	-	(4,569)
Total	**(52,262)**	**(7,836)**	**12,028**	**(6,013)**	**(7,002)**	**430**	**710**	**(190)**	**(60,135)**

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

In the column 'Additions' increases of CLA due to the initial recognition of loans and advances to customers at AC during the current reporting period are disclosed. 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 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 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 ('un-winding 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 142 million Forint (in 2020: 108 million Forint) in case of debt instruments at amortised cost.

This adverse effect of unwinding correction amounted to 3,625 million forint cumulatively for the year 2021, 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 col-umns 'Write-offs'.

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 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarised below:

2021	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	398	-	-	-	-	-	-	-
Other financial corporations	5	-	19	-	-	-	-	-
Non-financial corporations	34,858	21,206	3,575	-	547	4	2,203	1
Households	73,108	20,287	8,595	1,303	9,633	93	675	945
Total	**108,369**	**41,493**	**12,189**	**1,304**	**10,180**	**97**	**2,878**	**945**

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**

In 2020 significant portfolio was shifted to stage 2 (from stage1) due to Covid related internal overlay introduced by Erste Hungary. In 2021 the Hungarian National Bank also introduced Covid related overlays that was applied parallel to the internal ones.
This resulted further stage 2 classifications in both segment. In 2021 some of the loans also were reclassified into stage1 in case the industry heat-map classification improved or the client left the moratoria. Please see details in the Covid-19 part of Note 33) Credit Risk.

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to 321,055 million forint. The GCA of the AC loans and advances to customers that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to 203,880 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 2021 amounted to 4,871 million forint.

16) Debt instrument subject to contractual modifications

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

in HUF million	2020		2021	
	Amortised cost before the modification	Net modification gains/losses	Amortised cost before the modification	Net modification gains/losses
Loans and advances	**247,055**	**3,560**	**299,134**	**3,410**
Other financial corporations	**78**	**3**	**80**	**1**
Non-financial corporations	129,152	824	111,642	477
Households	117,825	2,733	187,412	2,932
Total	**247,055**	**3,560**	**299,134**	**3,410**

.

Modification loss on non-Stage 1 loans caused risk cost creation due to the payment moratoria. Please see details in the Covid-19 part of Note 33) Credit Risk.

As at 31 December 2021, 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 2021 amounted to 0 million forint (2020: 3 million forint).

17) Trade and other receivables

This line item includes receivables from factoring transactions.

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount					Credit loss allowances					
in HUF million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carry-ing amount
2021											
General governments	722	-	-	-	722	-	-	-	-	-	722
Other financial corporations	2,223	-	-	-	2,223	-	-	-	-	-	2,223
Non-financial corporations	13,480	361	-	-	13,841	(310)	(23)	-	-	(333)	13,508
Total	**16,425**	**361**	**-**	**-**	**16,786**	**(310)**	**(23)**	**-**	**-**	**(333)**	**16,453**

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount					Credit loss allowances					
in HUF million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carry-ing 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**

There are no purchased or originated credit-impaired (POCI) Trade and other receivables as of 31 December 2021.

Movement in credit loss allowances

in HUF million	01 January 2021	Addi-tions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	31 December 2021
Stage 1	(124)	(836)	654	-	(3)	(1)	(310)
Stage 2	(37)	-	183	(16)	(153)	-	(23)
Stage 3	-	-	1	-	(1)	-	-
Total	**(161)**	**(836)**	**838**	**(16)**	**(157)**	**(1)**	**(333)**

in HUF million	01 January 2020	Addi-tions	Derecogni-tions	Transfers between stages	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)**

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	2020	2021
Deposit from domestic banks	493,680	524,090
Deposit from foreign banks	71,819	76,028
of which by Austrian banks	71,234	75,496
of which subordinated liabilities	59,636	62,762
Total	**565,499**	**600,118**

Deposits from banks - subordinated liabilities

Maturity	Notional amount 2020		Notional amount 2021		Interest conditions
	in thousand EUR	in million HUF	in thousand EUR	in million HUF	
01 March 2026	100,000	33,052	-	-	3M EURIBOR+ 3,36%, quarterly*
01 March 2026	28,312	9,358	-	-	3M EURIBOR+ 3,36%, quarterly*
01 March 2026	35,000	11,568	-	-	3M EURIBOR+ 3,36%, quarterly*
22 June 2030	-	-	170,000	62,730	3M EURIBOR+ 1,85%, quarterly*
Total subordinated loans	**163,312**	**53,978**	**170,000**	**62,730**	

1) 3M EURIBOR is floored at 0.00%.
2) The Bank has paid back subordinated deposits during 2021 in notional amount of TEUR 163,312 (million HUF and obtained new subordinated deposits in notional amount of TEUR 170,000 (million HUF 62,730).

Deposits from customers

in HUF million	2020	2021
Saving deposits	2,338	2,334
Other deposits	2,532,524	3,032,566
Public sector	73,541	92,822
Commercial customers	776,589	1,068,347
Private customers	1,136,469	1,346,841
Other financial institutions	545,925	524,556
Total	**2,534,862**	**3,034,900**

Debt securities issued

in HUF million	2020	Notional amount 2020	2021	Notional amount 2021
Bonds	5,943	3,362	3,470	3,353
of which subordinated liabilities	3,488	3,352	2,999	3,352
Certificate of deposits	803	803	799	799
Total	**6,746**	**4,587**	**4,270**	**4,153**

Debt securities issued - non-subordinated liabilities

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

issued non subordinated securities as at 31 December 2021	ISIN code	Date of issue	Date of maturity	Notional amount in HUF million	Interest conditions
Bonds					
ERSTE USD KÖTVÉNY 2.4 2019-2022	HU0000358601	2019.01.03	2022.01.02	1.30	fixed 2,40% interest payments: yearly
Total				**1.30**	
certificate of deposit	AT2222222222	1990.01.01	2017.11.25	799	
Total				**799**	

.

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	2017.11.25	803	
Total				**803**	

Debt securities issued - subordinated liabilities

As of 31 December 2021

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 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**			

.

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'.

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.

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 to 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	2020 Notional value	2020 Positive fair value	2020 Negative fair value	2021 Notional value	2021 Positive fair value	2021 Negative fair value
Derivatives held in the trading book[1]	**7,489,279**	**46,442**	**46,526**	**7,178,248**	**40,746**	**34,865**
Interest rate	1,660,013	8,999	6,848	1,692,566	11,020	9,432
Foreign exchange	5,829,266	37,443	39,678	5,485,682	29,726	25,433
Derivatives held in the banking book[1]	**347,522**	**4,527**	**2,409**	**365,033**	**14,388**	**5,293**
Interest rate	337,094	4,527	2,409	320,274	11,650	5,293
Foreign exchange	10,428	-	-	44,759	2,738	-
Total gross amounts	**7,836,801**	**50,969**	**48,935**	**7,543,281**	**55,134**	**40,158**
Total	**7,836,801**	**50,969**	**48,935**	**7,543,281**	**55,134**	**40,158**

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

20) Other financial assets held for trading

in HUF million	2020	2021
Debt securities	106,261	15,272
General governments	40,686	4,244
Credit institutions	65,575	11,029
Other financial assets held for trading	**106,261**	**15,272**

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

	2020		2021	
in HUF million	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	-	2,739	-	1,611
Debt securities	-	1,100	-	1,206
Other financial corporations	-	1,100	-	1,206
Loans and advances to customers	-	208,444	-	270,896
General governments	-	63	-	54
Non-financial corporations	-	110	-	33
Households	-	208,271	-	270,809
Financial assets designated and mandatorily at FVPL	**-**	**212,283**	**-**	**273,713**
Non-trading financial assets at fair value through profit or loss	**-**	**212,283**	**-**	**273,713**

Under ‘Loans and advances to customers’ contain retail loans having non SPPI characteristics, also see in SPPI assessment chapter.

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'.

Debt instruments

Gross carrying amounts and credit loss allowances per impairment buckets

in HUF million	Gross carrying amount				Credit loss allowances				Amortised cost	Accumulated OCI changes	Fair value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
2021											
General governments	113,720	-	-	113,720	(29)	-	-	(29)	113,691	(3,509)	110,182
Credit institutions	4,921	-	-	4,921	(7)	-	-	(7)	4,914	10	4,924
Non-financial corporations	4,135	48	-	4,183	(21)	(1)	-	(22)	4,161	(519)	3,642
Total	**122,776**	**48**	**-**	**122,824**	**(57)**	**(1)**	**-**	**(58)**	**122,766**	**(4,018)**	**118,748**

Gross carrying amounts and credit loss allowances per impairment buckets

in HUF million	Gross carrying amount				Credit loss allowances				Amortised cost	Accumulated OCI changes	Fair value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
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	(5)	-	-	(5)	1,225	(3)	1,222
Total	**120,243**	**-**	**-**	**120,243**	**(75)**	**-**	**-**	**(75)**	**120,168**	**4,163**	**124,331**

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 2021.

Movement in credit loss allowances

in HUF million	01 January 2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	31 December 2021
Stage 1	(74)	(32)	17	-	32	-	(57)
Stage 2	(1)	-	-	(78)	78	-	(1)
Total	**(75)**	**(32)**	**17**	**(78)**	**110**	**-**	**(58)**

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

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)’.

Financial instruments – other disclosure matters

24) Fair value of financial instruments and non-financial instruments

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.

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, judgement 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

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. 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 judgement. 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 transacted 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 113 million forint (248 million forint in 2020) and the total DVA-adjustment amounted to 47 million forint (41 million forint in 2020).

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.

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

	31.12.2020				31.12.2021			
in HUF million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HfT	40,686	115,149	1,395	157,230	3,876	66,530	-	70,406
Derivatives	-	49,574	1,395	50,969	-	55,133	-	55,133
Other financial assets held for trading	40,686	65,575	-	106,261	3,876	11,397	-	15,273
Non-trading financial assets at FVPL	1,508	-	210,775	212,283	-	-	273,712	273,712
Equity instruments	1,508	-	1,231	2,739	-	-	1,611	1,611
Debt securities	-	-	1,100	1,100	-	-	1,207	1,207
Loans and advances	-	-	208,444	208,444	-	-	270,896	270,896
Financial assets at FVOCI	123,108	1,171	52	124,331	79,648	38,085	1,016	118,749
Debt securities	123,108	1,171	52	124,331	79,648	38,085	1,016	118,749
Total assets	**165,302**	**116,320**	**212,222**	**493,844**	**83,524**	**104,615**	**274,728**	**462,867**
Liabilities								
Financial liabilities HfT	-	48,935	-	48,935	-	40,158	-	40,158
Derivatives	-	48,935	-	48,935	-	40,158	-	40,158
Total liabilities	**-**	**48,935**	**-**	**48,935**	**-**	**40,158**	**-**	**40,158**

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 judgement. 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.

in HUF million	01.01.2021	Gains/losses profit or loss	Gains/losses OCI	Pur-chases	Sales	Settle-ments	Transfer out of Level 3	Currency translation	31.12.2021
Assets									
Financial assets HfT	1,395	-	-	-	-	-	(1,395)	-	-
Derivatives	1,395	-	-	-	-	-	(1,395)	-	(1)
Other financial assets held for trading	-	-	-	-	-	-	-	-	(1)
Non-trading financial as-sets at FVPL	210,775	(10,574)	-	85,715	-	(12,405)	-	201	273,712
Equity instruments	1,231	380	-	-	-	-	-	-	1,611
Debt securities	1,100	(96)	-	-	-	-	-	201	1,205
Loans and advances	208,444	(10,858)	-	85,715	-	(12,405)	-	-	270,896
Financial assets at FVOCI	51	(207)	(1)	2,099	(903)	-	-	(23)	1,016
Equity instruments	-	-	-	-	-	-	-	-	-
Debt securities	51	(207)	(1)	2,099	(903)	-	-	(23)	1,016
Total assets	**212,221**	**(10,781)**	**(1)**	**87,814**	**(903)**	**(12,405)**	**(1,395)**	**178**	**274,728**
Liabilities									
Financial liabilities HfT	-	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

in HUF million	01.01.2020	Gains/losses profit or loss	Gains/losses OCI	Pur-chases		Settle-ments	31.12.2021
Assets							
Financial assets HfT	1,775	(380)	-	-	-	-	1,395
Derivatives	1,775	(380)	-	-	-	-	1,395
Non-trading financial as-sets at FVPL	115,360	(2,098)	-	105,941	-	(8,428)	210,775
Equity instruments	1,229	2	-	-	-	-	1,231
Debt securities	1,821	94	-	-	-	(815)	1,100
Loans and advances	112,310	(2,195)	-	105,941	-	(7,613)	208,444
Financial assets at FVOCI	626	(1)	55	48	(625)	-	51
Equity instruments	-	-	35	-	-	-	-
Debt securities	626	(1)	19	48	(625)	-	51
Total assets	**117,761**	**(2,479)**	**55**	**105,989**	**(625)**	**(8,428)**	**212,221**
Liabilities							
Financial liabilities HfT	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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)
2021					
Positive fair value of derivatives	Swaps		Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	-
				LGD	-
Financial assets at FVPL	Fixed and variable coupon bonds		Discounted cash flow	Credit Spread	na
					-
	Loans		Discounted cash flow	PD	0.10%-100% (2.22%)
				LGD	0.02%-98,88% (23.58%)

Financial assets	Type of instrument	Fair value in HUF million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
2020					
Positive fair value of derivatives	Swaps		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		Discounted cash flow	PD	0.26%-100% (1.98%)
				LGD	7.39%-100% (20.08%)

Sensitivity analysis using reasonably possible alternatives per product type

	2020		2021	
	Fair value changes		Fair value changes	
in HUF million	Positive	Negative	Posi-tive	Negative
Derivatives	3	(10)	-	-
Income statement	3	(10)	-	-
Debt securities	59	(116)	153	-243
Income statement	56	(111)	60	-120
Other comprehensive income	4	(5)	93	-123
Equity instruments	123	(123)	161	(161)
Income statement	123	(123)	161	(161)
Other comprehensive income	-	-	-	-
Loans and advances	6,066	(12,876)	6,309	-16,186
Income statement	6,066	(12,876)	6,309	-16,186
Total	**6,252**	**(13,126)**	**6,623**	**-16,591**
Income statement	**6,248**	**(13,120)**	**6,530**	**-16,468**
Other comprehensive income	**4**	**(5)**	**92**	**-123**

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

2021 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	**3,520,194**	**3,398,228**	**717,804**	**454,858**	**2,225,566**
Cash and cash equivalents - Cash on hand	22,892	22,892	22,892	-	-
Cash and cash equivalents - Cash equivalent[1]	108,364	108,364	-	108,364	-
Debt securities at amortised cost	1,161,993	1,067,324	694,912	346,494	25,918
Loans and advances	2,226,945	2,199,648	-	-	2,199,648
LIABILITIES	**- 3,643,884**	**- 3,691,869**	**-**	**3,585**	**- 3,688,285**
Deposits from banks (not subordinated)	- 600,118	- 599,488	-	-	- 599,488
Deposits from customers	- 3,034,900	- 3,083,361	-	-	- 3,083,361
Debt securities issued	- 4,269	- 4,423	-	3,585	- 839
Subordinated liabilities	- 4,596	- 4,596	-	-	- 4,596

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	**2,536,970**	**2,966,777**	**743,787**	**397,814**	**1,825,176**
Cash and cash equivalents - Cash on hand	22,114	22,114	22,114	-	-
Cash and cash equivalents - Cash equivalent[1]	175,307	175,307	-	175,307	-
Debt securities at amortised cost	834,445	955,806	721,673	222,507	11,626
Loans and advances	1,505,104	1,813,550	-	-	1,813,550
LIABILITIES	**2,437,080**	**3,112,833**	**-**	**6,367**	**3,106,466**
Deposits from banks (not subordinated)	104,213	510,362	-	-	510,362
Deposits from customers	2,149,172	2,534,663	-	-	2,534,663
Debt securities issued	129,712	7,209	-	6,367	842
Subordinated liabilities	53,983	60,599	-	-	60,599

1) Line ‘Cash and cash equivalent - Cash equivalents’ includes on demand interbank deposits.

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.

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.

2021:

Financial assets subject to offsetting and potential offsetting agreements in 2021

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	55,134	-	55,134	23,277	-	-	31,857
Total	**55,134**	**-**	**55,134**	**23,277**	**-**	**-**	**31,857**

Liabilities subject to offsetting and potential offsetting agreements 2021

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	40,158	-	40,158	23,277	-	-	16,881
Repurchase agreements	7,186	-	7,186	-	-	7,186	-
Total	**47,344**	**-**	**47,344**	**23,277**	**-**	**7,186**	**16,881**

.

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**

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

	2020		2021	
in HUF million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	**98**	**99**	**8,118**	**7,186**
Financial assets - at AC	98	99	8,118	7,186
Total	**98**	**99**	**8,118**	**7,186**

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.

	2020			2021		
in HUF million	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	99	99	-	7,199	7,186	(13)
Total	**99**	**99**	**-**	**7,199**	**7,186**	**(13)**

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

There is information regarding the gains and losses from derecgognition of financial assets at AC in Note 9 ‘Gains/losses from derecogni-tion of financial assets measured at amortised cost’.

.

28) Collateral

The following assets were pledged as security for liabilities:

in HUF million	2020	2021
Financial assets at amortised cost	349,213	417,181
Loans and advances to customers	215,916	214,921
Debt securities at AC	133,297	202,260
Total	**349,213**	**417,181**

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 188,867 million forint in 2021 (180,071 million forint in 2020) as well as SME loans for a refinancing program with the National bank of Hungary, of 3,191 million forint in 2021 (3,692 million forint in 2020). Details of the program see in Note 12) Other operating result table, comment 3).
This category also contains encumbered deposits placed for derivative and card transactions.

29) Securities

	2020					2021				
			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	**934,799**	**106,261**	**1,100**	**-**	**124,331**	**1,161,993**	**15,272**	**1,206**	**-**	**118,748**
Listed	915,090	106,261	-	-	124,280	1,148,162	11,434	-	-	118,748
Unlisted	19,709	-	1,100	-	51	13,832	3,839	1,206	-	-
Equity-related securities	**x**	**-**	**2,739**	**x**	**-**	**x**	**-**	**1,611**	**x**	**-**
Unlisted	x	-	2,739	x	-	x	-	1,611	x	-
Total	**934,799**	**106,261**	**3,839**	**-**	**124,331**	**1,161,993**	**15,272**	**2,816**	**-**	**118,748**

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 frame-work 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 Assess-ment. 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.

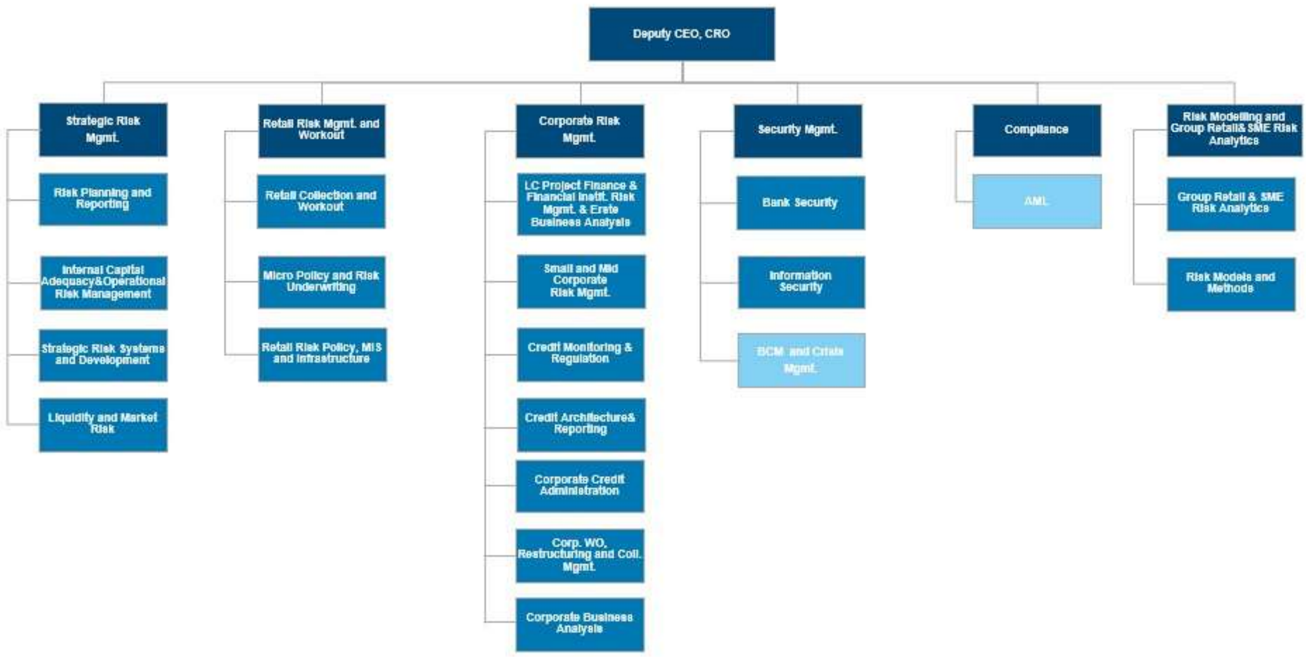
Erste Bank uses the Internet as the medium for publishing its disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR) and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 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:

.



Risk management structure

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

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

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

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

A fundamental objective of the Bank is to implement its strategic objectives by driving prudent and risk-conscious operations. The Bank lays down its risk management principles in its Risk Strategy. Erste Bank uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear Risk Appetite Statement (RAS) that is consistent with the Bank's business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Bank's risk management and control system has been developed to fulfil external and, in particular, regulatory requirements. The Bank defines its Risk Strategy and Risk Appetite through the annual planning process to ensure proper alignment of risk, limit system, capital, liquidity and performance targets.

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

Risk Appetite Statement (RAS)

The Bank's Risk Appetite Statement (RAS hereinafter) expresses the maximum level of risk that the Bank is willing to accept in order to deliver its business objectives by serving as a starting point for the implementation of the risk limit framework. The risk appetite thus provides a meaningful guidance for the planning process, the tolerances for the core risk metrics and key risk principles to manage

risks. It sets the boundary for limits & target setting, and forms a key input into the annual strategic planning process, creating a holistic perspective on capital, liquidity and risk-return trade-offs.
EBH RAS for 2021 was approved by the Board of Directors and the Supervisory Board and acknowledged by the Managing Board in the first quarter of 2020. In the second half of 2021, 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 *66,3%* of total economic capital requirements at the end of 2021.

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 2021, the economic capital adequacy was at *54,9%.*

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 2021 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. 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 2021 and 2020 the Bank and Erste Hungary had complied in full with all its externally imposed capital requirements.

in HUF million	2020	2021
Tier 1 capital before deductions	405,149	433,186
Deductions from the Tier 1 capital (-)	33,493	18,773
Tier 1 capital after deductions	**371,656**	**414,413**
Tier 2 capital	64,304	70,590
Total qualifying own funds	**435,960**	**485,003**
Risk weighted assets (base for credit risk)	1,480,042	1,595,951
Capital requirement for credit risk	**118,403**	**127,676**
thereof IRB approach	106,692	116,854
thereof standardized approach	11,711	10,822
Capital requirement for market risk	**2,288**	**392**
thereof calculated with simple approach	2,288	392
thereof from debt instruments	2,288	392
Other capital requirements for credit valuation adjustment	**543**	**881**
Capital requirement for operational risk	**41,598**	**42,792**
Total base for capital requirement	**2,035,404**	**2,146,760**
Total capital requirement	**162,832**	**171,741**

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 collaterals 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

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 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 cli ents; 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 2020 and 31 December 2021, credit risk exposure increased from 3,803,557 million forint to 4,560,242 million forint. This 756,685 million forints increase represents a 19.9% growth in the portfolio.

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

2021

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	15,812	14	-	15,798
Derivatives and Debt instruments held for trading	70,406	-	-	70,406
Non-trading debt instruments at FVPL	272,102	-	-	272,102
Debt securities	1,206	-	-	1,206
Loans and advances to customers	270,896	-	-	270,896
Debt instruments at FVOCI	122,824	58	(4,076)	118,690
Debt securities	122,824	58	(4,076)	118,690
Debt instruments at AC	3,506,927	66,433	-	3,440,494
Debt securities	1,162,815	822	-	1,161,993
Loans and advances to banks	702,790	215	-	702,575
Loans and advances to customers	1,584,503	60,134	-	1,524,369
Trade and other receivables	16,787	333	-	16,454
Finance lease receivables	40,032	4,929	-	35,103
Off balance-sheet exposures	572,171	5,856	-	566,315
Total	**4,560,242**	**72,361**	**(4,076)**	**4,483,805**

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**

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

in HUF million	Cash and cash balances - demand deposits to central banks and credit institutions	Debt instruments held for trading	Non-trading debt instru-ments 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 2021											
Central banks	-	14,263	-	-	-	512,807	-	-	-	-	527,070
General governments	-	4,300	54	113,720	767,837	-	16,819	722	-	2,520	905,972
Credit institutions	15,811	38,420	-	4,921	333,805	189,983	-	-	-	40,908	623,848
Other financial corporations	-	9,186	1,206	-	-	-	77,803	2,223	18	96,110	186,546
Non-financial corporations	-	4,237	33	4,183	61,174	-	654,725	13,842	37,256	311,559	1,087,009
Households	-	-	270,809	-	-	-	835,157	-	2,757	121,074	1,229,797
Total	**15,811**	**70,406**	**272,102**	**122,824**	**1,162,816**	**702,790**	**1,584,504**	**16,787**	**40,031**	**572,171**	**4,560,242**

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 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**

Contingent liabilities / Off balance sheet exposures by product

in HUF million	As of 31 December 2020	As of 31 December 2021
Financial guarantees	1,901	1,868
Loan commitments	414,288	506,354
Other commitments	53,873	63,949
Total	**470,062**	**572,171**

.

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 2021							
Agriculture and forestry	72,122	9,777	743	5	82,647	377	83,024
Mining	370	300	-	-	670	662	1,332
Manufacturing	249,464	29,664	6,221	2,107	287,456	13,142	300,598
Energy and water supply	31,010	1,390	25	78	32,503	4,794	37,297
Construction	21,753	6,511	394	36	28,694	13,671	42,365
Development of building projects	2,893	346	38	-	3,277	280	3,557
Trade	120,785	15,645	1,998	366	138,794	4,489	143,283
Transport and communication	34,405	5,374	7,530	1,853	49,162	780	49,942
Hotels and restaurants	950	17,128	4,692	12	22,782	110	22,892
Financial and insurance services	1,331,171	558	665	-	1,332,394	81,219	1,413,613
Holding companies	115,656	75	330	-	116,061	3,891	119,952
Real estate and housing	228,616	42,523	3,248	4,835	279,222	7,848	287,070
Services	23,357	48,263	1,840	86	73,546	3,983	77,529
Public administration	880,929	1,706	-	9	882,644	4,354	886,998
Education health and art	2,404	1,267	152	33	3,856	225	4,081
Households	732,068	161,983	30,413	14,939	939,403	270,802	1,210,205
Other	3	2	7	-	12	1	13
Total	**3,729,407**	**342,091**	**57,928**	**24,359**	**4,153,785**	**406,457**	**4,560,242**

** 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 financial and insurance services (exposure of 1,413,613 million forint, representing 31.0% from total) followed by households in total exposure to customers (exposure of 1,210,205 million forint, representing 26.5% from total) and Public administration (exposure of 886,998 million forint, representing 19.5% from total) .

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	2,027	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**

Credit risk exposure by industry and risk category

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2021					
Agriculture and forestry	50,983	24,217	7,080	744	83,024
Mining	52	741	539	-	1,332
Manufacturing	239,500	42,002	10,545	8,551	300,598
Energy and water supply	34,202	2,472	446	177	37,297
Construction	18,568	20,934	2,433	430	42,365
Development of building projects	2,896	378	246	38	3,558
Trade	80,052	55,804	4,955	2,472	143,283
Transport and communication	16,576	22,704	1,279	9,383	49,942
Hotels and restaurants	2,725	14,929	534	4,704	22,892
Financial and insurance services	1,399,202	7,827	5,918	666	1,413,613
Holding companies	111,541	2,568	5,513	330	119,952
Real estate and housing	248,230	30,537	4,032	4,271	287,070
Services	43,567	25,297	6,386	2,280	77,530
Public administration	885,269	1,507	213	8	886,997
Education health and art	1,342	1,577	978	184	4,081
Households	857,105	169,880	144,072	39,148	1,210,205
Other	1	3	2	7	13
Total	**3,877,374**	**420,431**	**189,412**	**73,025**	**4,560,242**

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**

.

The low risk exposure has the highest proportion in total credit risk exposure, with 85.0%, while management attention represents 9.2%, The substandard exposure represents 4.2% and the non-performing 1.6%

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
2021					
Core markets	**3,789,258**	**419,808**	**189,290**	**73,025**	**4,471,381**
Austria	79,072	378	80	-	79,530
Czech Republic	860	390	-	-	1,250
Slovakia	63	-	1	-	64
Romania	165	103	-	-	268
Hungary	3,709,098	418,937	189,209	73,025	4,390,269
Other EU	**85,486**	**553**	**110**	**-**	**86,149**
Other industrialised countries	**2,607**	**-**	**-**	**-**	**2,607**
Emerging markets	**23**	**70**	**12**	**-**	**105**
Latin America	-	15	-	-	15
Middle East/Africa	23	55	12	-	90
Total	**3,877,374**	**420,431**	**189,412**	**73,025**	**4,560,242**

[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 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
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**

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 2021							
Core markets	**3,642,722**	**341,932**	**57,928**	**24,359**	**4,066,941**	**404,440**	**4,471,381**
Austria	58,064	7	-	-	58,071	21,459	79,530
Czech Republic	30	-	-	-	30	1,220	1,250
Slovakia	48	1	-	-	49	15	64
Romania	195	58	-	-	253	15	268
Hungary	3,584,385	341,866	57,928	24,359	4,008,538	381,731	4,390,269
Other EU	**85,264**	**129**	**-**	**-**	**85,393**	**756**	**86,149**
Other industrialised countries	**1,401**	**-**	**-**	**-**	**1,401**	**1,206**	**2,607**
Emerging markets	**20**	**30**	**-**	**-**	**50**	**55**	**105**
Latin America	-	15	-	-	15	-	15
Middle East/Africa	20	15	-	-	35	55	90
Total	**3,729,407**	**342,091**	**57,928**	**24,359**	**4,153,785**	**406,457**	**4,560,242**

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

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

.

The defaulted part of POCI amounted to 11,971 million forint (was 9,411 in 2020), the non-defaulted part to 12,388 million forint (was 18,452 in 2020).

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**

The credit risk exposure increased by 644,341 million forint, or 17.2% in Hungary and 35,519 million forint, or 80.7% in Austria, while the other CEE core markets decreased by 6,946 million forint, or 81.4%. In the other EU member states (EU 28 excluding core markets), the credit risk exposure increased by 84,084 million forint from 2,065 million to 86,149 million. Decrease was recorded in other industrialised countries (270 million forint) and in emerging markets (43 million forint). In total, Erste Bank Hungary's core markets and the EU accounted for 99,9% (2020 also 99.9%) of credit risk exposure as of 31 December.

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 2021					
Retail	871,619	188,847	153,831	41,199	1,255,496
Corporates	877,605	226,568	35,132	31,826	1,171,131
Group Markets	2,126,944	5,016	449	-	2,132,409
Asset/Liability Management and Local Corporate Center	1,206	-	-	-	1,206
Total	**3,877,374**	**420,431**	**189,412**	**73,025**	**4,560,242**

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	-	1,567,622
Asset/Liability Management and Local Corporate Center	1,100	-	-	-	1,100
Total	**3,193,086**	**365,925**	**187,006**	**57,540**	**3,803,557**

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 2021							
Retail	760,743	176,255	31,972	15,525	984,495	271,001	1,255,496
Corporates	916,577	165,511	25,956	8,834	1,116,878	54,253	1,171,131
Group Markets	2,052,087	325	-	-	2,052,412	79,997	2,132,409
Asset/Liability Management and Local Corporate Center	-	-	-	-	-	1,206	1,206
Total	**3,729,407**	**342,091**	**57,928**	**24,359**	**4,153,785**	**406,457**	**4,560,242**

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**

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 96.06% (2020: 113.79%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2021. 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 2021, the non-performing credit risk exposure increased by 15,485 million forint, or 26.9%. On the one hand, Retail non-performing exposure increased significantly due to prudent classification of those staying in moratorium and indicated financial difficulties. On the other hand, Corporate NPL remained nearly unchanged as those customers, that were unlikely to pay were already defaulted in 2020.. The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by 4,676 million forint, or 7.1%.

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 2021 and 31 December 2020.

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 2021													
Retail	41,199	38,986	1,255,496	984,495	44,091	21,024	18,925	3.28%	3.96%	107.02%	113.09%	51.03%	48.54%
Corporates	31,826	30,913	1,171,131	1,116,877	25,066	19,443	19,428	2.72%	2.77%	78.76%	81.09%	61.09%	62.85%
Group Markets	-	-	2,132,409	2,052,413	992	-	-	0.00%	0.00%				
Asset/Liability Management and Local Corporate Center	-	-	1,206	-	-	-	-	0.00%					
Total	**73,025**	**69,899**	**4,560,242**	**4,153,785**	**70,149**	**40,467**	**38,353**	**1.60%**	**1.68%**	**96.06%**	**100.36%**	**55.42%**	**54.87%**

	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%**

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 judgements, 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. Erste Bank has 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.

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.

The specific situation of the Covid-19 pandemic and extensive supporting measures, mainly the moratoria, including the still prevailing level of uncertainty of the development of the Covid-19 situation in 2021 (especially the occurrence and developments triggered by new variants, the pace of vaccination and potential new government measures), lead to the lagging of the macroeconomic reflection in credit risk parameters. Therefore, macroeconomic variables of 2020 were included as additional predictors for future values of credit risk parameters. Variables in 2020 have same the values across all three scenarios.

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.

Following factors, materializing at the end of 2021 led us to assign 40% probability of occurrence to baseline forecast that could not fully reflect them:

_ new variant (omicron),
_ increasing inflation through-the region with potential effect on the increasing interest rates and
_ unstable development of the geo-political situation – conflict Ukraine/Russia – that can as well effect energy prices.

The specific situation of the Covid-19 pandemic and extensive supporting measures led to delayed observation of the defaults. Erste Group addressed it with the lagging of the macroeconomic variables in credit risk parameters. Therefore, variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters.

Below we are publishing scenarios used for CLA calculation and as well latest available GDP forecasts.

Baseline, upside and downside scenarios of GDP development:

GDP growth in %	Scenario	Probability weight	2020	2021	2022	2023
2021	Baseline	40%	(5)	6.7	4.7	4.5
	Downside	54%	(5)	0.1	1.3	2.3
	Upside	6%	(5)	7.8	5.8	5.6
	Scenario	Probability weight	2020	2021	2022	2023
2020	Baseline	40%	(6.4)	3.9	5.4	4
	Downside	54%	(6.4)	(1.3)	1.6	2
	Upside	6%	(6.4)	5.1	6.6	5.2

.

Variables of crisis year 2020 have the same values across all three scenarios. Values of 2021 will be updated during next year in line with statistical office publication, similarly as 2020 values got updated during 2021.

In order to reflect on the higher volatility of macro-economic variables estimates and significantly higher downward risk of macro-economic recovery due to current developments of the Covid-19 pandemics and other risk factors the probability of occurrence of a conservative downside scenario was given a relatively high weight.

As of December 2020, the growth rates for the year 2021 correspond to estimated values. As of December 2021, they represent real observed values.

Covid-19

The Covid-19 pandemic has been causing high uncertainty in the global economy and on the global markets. Social distancing rules and lockdown restrictions imposed by governments led to economic slow-down and a significant drop of revenues across industries. Unprecedented state aid packages (e.g. state guarantees, bridge financing, the state temporarily paying workers' salaries to avoid redundancies, hardship funds for one-person and micro businesses) and moratoria programs were introduced to support citizens and companies. Especially in light of the vaccination progress, restricting measures were step by step reduced and economic development gained again momentum. The medium and long-term effect on the asset quality of the banking sector has still to be seen.

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.

Overall valid state-moratoria was introduced in 2020 that was first extended till October 2021 with the same condition and was further prolonged with a narrower scope till June 2022. This latest moratoria was available only to costumers that were the most exposed to the crisis including ones with financial difficulties. In addition to government programmes 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 2021				
Agriculture and forestry		100	2,954	2,535
Mining		-	230	205
Manufacturing		1,120	10,040	7,115
Energy and water supply		0	592	541
Construction		331	5,033	4,318
Trade		327	15,464	12,789
Transport and communication		120	2,413	2,117
Hotels and restaurants		4,677	576	515
Financial and insurance services		-	-	-
Real estate and housing		2,891	1,220	982
Services		160	2,813	2,447
Public administration		-	6	5
Education health and art		221	653	584
Total		**9,947**	**41,994**	**34,153**

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**

.

The new state-moratoria is not considered as EBA.compliant. The deals that remained under state moratoria are however, considered forborne due to Covid from the aspect of EBA, amounted 9,947 million Ft.
The government supported the restart of the economy, therefore guarantee programs have been introduced. Loans and advances of non-financial corporations to which the measures applied in the response to Covid-19 were granted, amounted to HUF 41,994 million as of 31 December 2021. Wholesale and retail trade followed by manufacturing and construction accounted for the highest volumes.

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 54,464 million as of 31 December 2021.

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 was the assessment of impacts of the crisis on the specific (sub)industry. The classifications are regularly reviewed on a 12-month rolling forecast basis to take current developments into account. In 2021, the economic development and the ability of many industries to adapt to new conditions resulted in some upgrades into lower risk categories. However, Erste Group keeps cautious view on the several, mostly affected industries (mainly hotels and leisure, air transportation). In light of this, the respective business and risk strategies for the (sub)industries were also adapted accordingly. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies of Erste Group.

In the course of the year 2021, challenges on top of Covid-19-impacts had to be addressed by corporate clients: a rally in energy prices on the one hand and disruptions in supply chains on the other hand. The first ones had implications on various industries, mainly those with energy intensive production processes, but also impacting segments with high fuel cost shares. Issues with supply chains are managed by affected clients with diverse measures aiming to safeguard the business activity and liquidity (amongst others: active working capital management, targeted stocking-up, output adaptation, renegotiations with off takers etc.), in some cases also by ensuring backup/liquidity financing. Developments as mentioned above are reflected in the regular updates of the industry heatmap and the industry strategies.

Exposures in particular industries that belong to critical or high-risk sub-industries are referred to as significant risk in the following tables.

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 2021								
Agriculture and forestry	72,122	9,777	743	5	82,647	377	83,024	(1,380)
Mining	370	300	-	-	670	662	1,332	(67)
of which high risk	292	300	-	-	592		592	(62)
Manufacturing	249,464	29,664	6,221	2,107	287,456	13,142	300,598	(6,847)
of which high risk	66,513	17,021	3,105	1,224	87,863		87,863	(3,608)
Energy and water supply	31,010	1,390	25	78	32,503	4,794	37,297	(398)
Construction	21,753	6,511	394	36	28,694	13,671	42,365	(1,064)
Trade	120,785	15,645	1,998	366	138,794	4,489	143,283	(2,713)
of which high risk	39,362	5,190	1,051	25	45,629		45,629	(869)
Transport and communication	34,405	5,374	7,530	1,853	49,162	780	49,942	(5,643)
of which high risk	753	166	2	89	1,010		1,010	(78)
Hotels and restaurants	950	17,128	4,692	12	22,782	110	22,892	(3,137)
of which high risk	605	4,855	135	12	5,606		5,606	(151)
Financial and insurance services	1,331,171	558	665	-	1,332,394	81,219	1,413,613	(1,433)
Real estate and housing	228,616	42,523	3,248	4,835	279,222	7,848	287,070	(3,794)
Services	23,357	48,263	1,840	86	73,546	3,983	77,529	(3,020)
of which high risk	11,241	47,275	1,696	34	60,246		60,246	(2,430)
Public administration	880,929	1,706	-	9	882,644	4,354	886,998	(267)
Education health and art	2,404	1,267	152	33	3,856	225	4,081	(142)
of which high risk	205	858	147	32	1,243		1,243	(81)
Private households	732,068	161,983	30,413	14,939	939,403	270,802	1,210,205	(42,450)
Other	3	2	7	-	12	1	13	(6)
Total	**3,729,407**	**342,091**	**57,928**	**24,359**	**4,153,785**	**406,457**	**4,560,242**	**(72,361)**

.

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	-	-	7,727	550	8,277	49
of which high risk	399	7,309	-	-	7,708	-	7,708	-
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	-	1,017	76
Hotels and restaurants	1	18,163	4,404	11	22,579	216	22,795	1,997
of which high risk	-	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	-	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	-	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	-	16	4
Total	**2,974,166**	**334,120**	**46,761**	**27,863**	**3,382,910**	**420,647**	**3,803,557**	**67,903**

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 Bank has reassessed credit risk parameters based on the latest macro-scenarios within FLI in December 2021. Specifics of the COVID pandemics (support measures) led us to lag the macroeconomic variables, due to delayed increase in default rates. Late materialization of the baseline forecast risks in the end of 2021 led us to keep probability of occurrence of baseline scenario on 40%. GDP scenarios and weights are shown in the table displayed within Incorporation of forward-looking information section above.
While macroeconomic FLI shift measures the change of the macro development it can not include the impact of missing default (due to the moratoria). In order to create the necessary impairment level on the performing portfolio 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 2021 amounted to HUF 16,694 million (HUF 14,535 million in 2020).

Erste Hungary has additionally addressed expected SICR by introducing Covid-19 portfolio overlays. The portfolio was divided in private individuals (PIs) and non-private individuals (non-PIs) and assessed the customers by considering any Covid-19 related relief measure granted (even if expired) as well as the internal industry heat-map and corresponding customer-specific one-year IFRS PD levels. Erste Hungary also introduced overlays for loans classified as restructured based on MNB regulation issued in accordance with state moratoria.
Based on this assessment and individual reviews, customers were migrated to stage 2, i.e. lifetime 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 2021 amounted to HUF 90,627 million (2020: HUF 170,281 million). The effected portfolio decreased as client left the moratoria earlier of the year, while clients participating in the 3rd moratoria were classified as forborne. Decrease of the overlay can be additionally attributed to the moderate upgrades of the heatmap.

Ertse Hungary will assess releases of Covid-19 portfolio overlays for PI portfolios once the moratoria are lifted, after a six month cure period (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.

Erste Hungary expects a moderate increase in defaults and portfolio deterioration in 2022, especially after state support measures are lifted.
The analysis tables below present effects of the portfolio overlays and FLI macro overlays both on exposure migration to stage 2 and resulting increase of ECL. Additional sensitivities to the baseline, upside and downside scenarios are simulated. Effects on industry segments, high risk industry sub-segments and geographical segments are disclosed.

Scenario simulation presents sensitivity analyses taking into consideration only changes due to the different values of PDs, if baseline, upside or downside FLI scenarios had 100% weight. 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). Both staging and resulting ECL were simulated with the scenario PDs.

FLI shift resulting from the Covid-19 induced situation increased in both exposure and ECL as of 31 December 2021 (HUF 80,086 million exposure, HUF 16,694 million ECL) and 31 December 2020 (HUF 59,029 million exposure and HUF 14,535 million ECL). Incorporation of 100% baseline scenario instead of probability weighted, would lead to a decrease of Stage 2 exposure by HUF 54,635 million (2020: HUF 3,365 million), resulting in an ECL drop by HUF 6,212 million (2020: HUF 341 million). The downside scenario would lead to additional HUF 61,855 million of exposure migration to Stage 2 (2020: HUF 2,916 million), resulting in ECL increase of HUF 6,423 million (2020: HUF 281 million). Erste Hungary kept three scenario approach for 2021 variables. Erste Hungary also introduced a new macro model, that resulted the higher impact.

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.

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
2021.12.31						
Agriculture and forestry	72,122	9,777	587	(587)	3,650	(3,650)
Mining	370	300	214	(214)	162	(162)
of which high risk	292	300	214	(214)	62	(62)
Manufacturing	249,464	29,664	11,038	(11,038)	11,320	(11,320)
of which high risk	66,513	17,021	10,802	(10,802)	895	(895)
Energy and water supply	31,010	1,390	-	-	-	-
Construction	21,753	6,511	118	(118)	6,485	(6,485)
of which high risk	-	-	-	-	-	-
Trade	120,785	15,645	2,272	(2,272)	8,637	(8,637)
of which high risk	39,362	5,190	1,964	(1,964)	1,086	(1,086)
Transport and communication	34,405	5,374	327	(327)	1,826	(1,826)
of which high risk	753	166	145	(145)	-	-
Hotels and restaurants	950	17,128	4,131	(4,131)	-	-
of which high risk	605	4,855	4,099	(4,099)	-	-
Financial and insurance services	1,331,171	558	3	(3)	9	(9)
Real estate and housing	228,616	42,523	20,483	(20,483)	18,403	(18,403)
of which high risk	-	-	-	-	-	-
Services	23,357	48,263	43,923	(43,923)	1,082	(1,082)
of which high risk	11,241	47,275	43,765	(43,765)	173	(173)
Public administration	880,929	1,706	-	-	-	-
Education health and art	2,404	1,267	510	(510)	385	(385)
of which high risk	205	858	434	(434)	-	-
Households	732,068	161,983	7,019	(7,019)	28,127	(28,127)
Other	3	2	-	-	-	-
Total	**3,729,407**	**342,091**	**90,625**	**(90,625)**	**80,086**	**(80,086)**

.

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
2020.12.31						
Agriculture and forestry	50,533	20,378	5,079	(5,079)	4,889	(4,889)
of which high risk	-	-	-	-	-	-
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)
of which high risk	-	-	-	-	-	-
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)**

.

Sensitivity analyses – Forward looking information (FLI) and stage overlays due to the Covid-19 pandemic
Impact on credit loss allowances 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
2021.12.31						
Agriculture and forestry	(630)	(647)	(23)	64	323	311
Mining	(3)	(4)	(4)	6	12	9
of which high risk	(3)	(4)	(4)	6	12	8
Manufacturing	(853)	(1,401)	(210)	675	689	946
of which high risk	(368)	(1,088)	(199)	661	383	276
Energy and water supply	(148)	(41)	-	-	93	0
Construction	(140)	(190)	(3)	6	(64)	348
Trade	(920)	(444)	(53)	108	581	281
of which high risk	(176)	(366)	(49)	102	125	81
Transport and communication	(399)	(137)	(5)	5	288	78
of which high risk	(2)	(3)	(2)	2	2	0
Hotels and restaurants	(5)	(1,209)	(36)	73	20	513
of which high risk	(3)	(99)	(36)	72	19	9
Financial and insurance services	(1,148)	(14)	(0)	0	164	1
Real estate and housing	(1,021)	(1,312)	(131)	763	6	493
Services	(116)	(1,075)	(341)	929	291	144
of which high risk	(57)	(1,075)	(340)	928	239	73
Public administration	(228)	(36)	-	-	1	-
Education health and art	(22)	(28)	(7)	8	8	29
of which high risk	(1)	(21)	(5)	5	1	0
Households	(3,078)	(17,311)	(103)	371	1,824	9,306
Total	**(8,711)**	**(23,849)**	**(916)**	**3,008**	**4,236**	**12,459**

.

	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
2020.12.31						
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
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	-	(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**

Sensitivity analyses – Forward looking information (FLI) and stage overlays due to the Covid-19 pandemic
Simulated effect of standalone FLI shift scenarios on credit risk exposure

CRE	Current status – parameters (FLI shifted)					Simulations - change of FLI shifts effect		
	Stage 1	Stage 2	Total	Stage 2 affected by				
				Stage over-lays due to Covid-19	FLI shifts	Upside scenario	Baseline scenario	Downside scenario
in million HUF								
2021.12.31								
Agriculture and forestry	72,122	9,777	81,899	587	3,650	(3,650)	(2,511)	6,946
Mining	370	300	670	214	162	(162)	(100)	530
of which high risk	292	300	592	214	62	(62)	-	400
Manufacturing	249,464	29,664	279,128	11,038	11,320	(11,320)	(10,825)	7,757
of which high risk	66,513	17,021	83,534	10,802	895	(895)	(718)	4,835
Energy and water supply	31,010	1,390	32,400	-	-	-	-	171
Construction	21,753	6,511	28,264	118	6,485	(6,485)	(5,789)	1,054
Trade	120,785	15,645	136,430	2,272	8,637	(8,704)	(8,229)	13,969
of which high risk	39,362	5,190	44,552	1,964	1,086	(1,103)	(988)	2,507
Transport and communi-cation	34,405	5,374	39,779	327	1,826	(1,831)	(1,350)	10,756
of which high risk	753	166	919	145	-	-	-	-
Hotels and restaurants	950	17,128	18,078	4,131	-	-	-	3
of which high risk	605	4,855	5,459	4,099	-	-	-	3
Financial and insurance services	1,331,171	558	1,331,729	3	9	(9)	-	127
Real estate and housing	228,616	42,523	271,139	20,483	18,403	(18,403)	(18,403)	486
Services	23,357	48,263	71,620	43,923	1,082	(1,086)	(1,024)	12,949
of which high risk	11,241	47,275	58,515	43,765	173	(177)	(140)	12,633
Public administration	880,929	1,706	882,635	-	-	-	-	27
Education, health and art	2,404	1,267	3,671	510	385	(385)	(330)	98
of which high risk	205	858	1,064	434	-	-	-	42
Households	732,068	161,983	894,051	7,019	28,127	(11,145)	(6,075)	6,977
Other	3	2	5	-	-	-	-	6
Total	**3,729,407**	**342,091**	**4,071,498**	**90,627**	**80,086**	**(63,180)**	**(54,635)**	**61,855**

.

CRE	Current status – parameters (FLI shifted)					Simulations - change of FLI shifts effect		
	Stage 1	Stage 2	Total	Stage 2 affected by				
				Stage over-lays due to Covid-19	FLI shifts	Upside scenario	Baseline scenario	Downside scenario
in million HUF								
2020.12.31								
Agriculture and forestry	50,533	20,378	70,911	5,079	4,889	- 725	- 195	- 20
of which high risk	-	-	-	-	-	-	-	-
Mining	418	7,309	7,727	285	-	-	-	-
of which high risk	399	7,309	7,708	285	-	-	-	-
Manufacturing	234,124	36,847	270,971	23,412	7,479	- 955	- 45	23
of which high risk	78,196	28,076	106,272	21,653	1,185	- 6	-	38
Energy and water supply	48,040	2,984	51,024	-	2,850	- 16	-	-
of which high risk	-	-	-	-	-	-	-	-
Construction	19,342	6,113	25,455	524	3,823	- 275	- 251	1,403
Trade	84,853	24,953	109,806	13,486	4,234	- 181	- 23	334
of which high risk	18,923	17,091	36,013	13,172	829	- 7	- 7	123
Transport and communi-cation	26,253	9,251	35,504	685	5,948	- 2,086	- 2,016	167
of which high risk	803	131	934	122	-	-	-	-
Hotels and restaurants	1	18,163	18,164	17,742	-	-	-	9
of which high risk	-	5,033	5,033	4,611	-	-	-	9
Financial and insurance services	724,781	1,193	725,974	-	18	-	-	-
Real estate and housing	206,443	40,792	247,235	34,317	3,024	- 1,007	- 163	5
Services	13,902	48,992	62,894	41,519	4,459	- 432	- 58	82
of which high risk	5,452	47,769	53,222	41,149	3,528	- 389	- 27	47
Public administration	826,958	223	827,181	-	-	-	-	-
Education, health and art	1,830	1,495	3,325	1,057	1	-	-	-
of which high risk	9	1,120	1,130	824	-	-	-	-
Households	736,679	115,426	852,105	32,183	22,305	- 1,803	- 614	914
Other	9	1	10	-	-	-	-	-
Total	**2,974,166**	**334,120**	**3,308,286**	**170,291**	**59,029**	**- 7,481**	**- 3,365**	**2,916**

Sensitivity analyses – Forward looking information (FLI) and stage overlays due to the Covid-19 pandemic
Simulated effect of standalone FLI shift scenarios on credit loss allowances

CLA	Current status – parameters (FLI shifted)					Simulations - change of FLI shifts effect		
	Stage 1	Stage 2	Total	out of which:				
				Effect of stage over-lays due to Covid-19	Effect of FLI shifts	Upside scenario	Baseline scenario	Downside scenario
in mil. HUF								
2021.12.31								
Agriculture and forestry	(630)	(647)	(1,277)	41	634	(640)	(495)	524
Mining	(3)	(4)	(7)	2	20	(21)	(15)	23
of which high risk	(3)	(4)	(7)	2	20	(20)	(14)	23
Manufacturing	(853)	(1,401)	(2,254)	465	1,635	(1,651)	(1,282)	1,075
of which high risk	(368)	(1,088)	(1,456)	462	659	(666)	(507)	447
Energy and water supply	(148)	(41)	(189)	-	93	(94)	(72)	66
Construction	(140)	(190)	(330)	3	284	(286)	(227)	186
Trade	(920)	(444)	(1,364)	55	862	(870)	(670)	737
of which high risk	(176)	(366)	(542)	53	206	(208)	(159)	149
Transport and communi-cation	(399)	(137)	(536)	-	367	(370)	(281)	666
of which high risk	(2)	(3)	(5)	-	2	(2)	(1)	1
Hotels and restaurants	(5)	(1,209)	(1,214)	37	533	(540)	(411)	345
of which high risk	(3)	(99)	(102)	37	29	(29)	(22)	19
Financial and insurance services	(1,148)	(14)	(1,162)	-	164	(166)	(127)	112
Real estate and housing	(1,021)	(1,312)	(2,333)	632	499	(502)	(443)	288
Services	(116)	(1,075)	(1,191)	588	435	(439)	(347)	666
of which high risk	(57)	(1,075)	(1,132)	588	312	(315)	(241)	614
Public administration	(228)	(36)	(264)	-	1	(1)	(1)	1
Education, health and art	(22)	(28)	(50)	1	37	(37)	(32)	18
of which high risk	(1)	(21)	(22)	1	1	(1)	(1)	1
Households	(3,078)	(17,311)	(20,389)	268	11,130	(3,416)	(1,810)	1,716
Total	**(8,711)**	**(23,849)**	**(32,560)**	**2,092**	**16,694**	**(9,032)**	**(6,212)**	**6,423**

.

CLA	Current status – parameters (FLI shifted)					Simulations - change of FLI shifts effect		
	Stage 1	Stage 2	Total	out of which:				
				Effect of stage over-lays due to Covid-19	Effect of FLI shifts	Upside scenario	Baseline scenario	Downside scenario
in milion HUF								
2020.12.31								
Agriculture and forestry	(320)	(1,175)	(1,495)	87	609	(83)	(39)	38
Mining	(2)	(30)	(32)	9	25	-	-	(0)
of which high risk	(1)	(30)	(31)	9	24	-	-	(0)
Manufacturing	(1,072)	(1,169)	(2,241)	584	1,471	(80)	(31)	30
of which high risk	(259)	(1,169)	(1,428)	567	537	(34)	(17)	16
Energy and water supply	(226)	(286)	(512)	-	381	(33)	(17)	16
Construction	(106)	(171)	(277)	43	312	(10)	(5)	6
Trade	(551)	(569)	(1,120)	342	553	(22)	(10)	13
of which high risk	(55)	(569)	(624)	342	144	(7)	(4)	5
Transport and commu-nication	(168)	(514)	(682)	1	535	(124)	(107)	30
of which high risk	(2)	(2)	(4)	-	2	-	-	-
Hotels and restaurants			-	312	49	(1)	-	-
of which high risk			-	73	16	(1)	-	1
Financial and insurance services	(729)	(34)	(763)	-	180	1	1	(1)
Real estate and housing	(998)	(1,152)	(2,150)	635	180	(29)	(11)	8
Services	(80)	(897)	(977)	387	330	(27)	(12)	13
of which high risk	(30)	(897)	(927)	380	231	(19)	(8)	8
Public administration	(469)	(3)	(472)	-	-	-	-	-
Education, health and art	(8)	(32)	(40)	7	4	-	-	-
of which high risk	-	(22)	(22)	7	2	-	-	-
Households	(3,408)	(16,767)	(20,175)	2,190	9,904	(300)	(110)	128
Other			-	-	2	-	-	-
Total	**(8,137)**	**(22,799)**	**(30,936)**	**4,597**	**14,535**	**(709)**	**(341)**	**281**

Composition of credit loss allowances

in HUF million	2020	2021
Credit loss allowances	61,720	66,505
Loss allowances for loan commitments and financial guarantees	3,753	3,645
Provisions for other commitments	2,430	2,211
Total	**67,903**	**72,361**

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 5.8 billion forint risk cost was created, 5.5 billion in Retail, 0.3 billion in Corporate. The main risk cost driver was still connected to the pandemic situation and the government initiated moratoria. In Q1 the Hungarian National Bank introduced a new overlay for clients whom income decreased more than 15% compared to pre-pandemic period. This overlay was applied beside the internal ones. The extended 2 moratorum and the new 3rd moratoria alongside with the interest stop also generated modification loss (3.4 billion forint) in the Risk Cost for the non-stage1 portfolio. Also, private clients indicated financial difficulties in the 3rd moratoria were classified as default with a creation of 5 billion forint. No further creation was necessary in connection of parameter update including forward looking component. The overall creation was slightly offset with the releases on the non-performing portfolio, where higher than estimated recovery was achieved.

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 2021							
Agriculture and forestry	2,184	(2,617)	-	-	(1)	60	**(374)**
Mining	90	(54)	-	-	-	1	**37**
Manufacturing	6,561	(6,540)	-	-	(11)	170	**180**
Energy and water supply	840	(1,777)	-	-	-	3	**(934)**
Construction	1,484	(1,422)	-	-	-	21	**83**
Trade	4,722	(4,914)	-	-	-	67	**(125)**
Transport and communication	4,208	(5,473)	-	-	-	3	**(1,262)**
Hotels and restaurants	1,739	(788)	-	-	-	120	**1,071**
Financial and insurance services	5,538	(4,947)	-	-	-	6	**597**
Real estate and housing	3,270	(3,650)	-	-	-	92	**(288)**
Services	2,838	(1,307)	-	-	-	11	**1,542**
Public administration	181	(391)	-	-	-	-	**(210)**
Education, health and art	217	(209)	-	-	-	4	**12**
Private households	53,414	(50,820)	-	-	-	2,865	**5,459**
Total	**87,286**	**(84,909)**	**-**	**-**	**(12)**	**3,423**	**5,788**

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**
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.

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 order to mitigate the risk an assessment program started both in Retail and Corporate segments to measure the portfolio financial situation and if it is necessary put them to stage 2 (if not already there due to overlays) via forbearance, or default (as unlikely to pay). In result, forbearance exposure increased by 87 billion forints.

in HUF million	Loans and advances	Debt securities	Other balance-sheet positions	Loan commitments	Total
As of 31 December 2021					
Gross exposure	**2,615,007**	**1,286,845**	**152,035**	**506,355**	**4,560,242**
thereof gross forborne exposure	95,499	-	-	601	96,100
Performing exposure	2,544,126	1,286,845	151,137	505,109	4,487,217
thereof performing forborne exposure	47,639	-	-	421	48,060
Credit loss allowances for performing exposure	(28,500)	(880)	(1,988)	(3,161)	(34,529)
thereof credit loss allowances for performing forborne exposure	(2,762)	-	-	(14)	(2,776)
Non-performing exposure	70,881	-	898	1,246	73,025
thereof non-performing forborne exposure	47,860	-	-	181	48,041
Credit loss allowances for non-performing exposure	(37,111)	-	(294)	(426)	(37,831)
thereof credit loss allowances for non-performing forborne exposure	(21,747)	-	-	(52)	(21,799)

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

.

Types of forbearance exposure

in HUF million	Gross forborne exposure	Modification in terms and conditions	Refinancing
As of 31 December 2021			
Loans and advances excl. HfT and HfS	95,499	87,662	7,837
Loan commitments	602	602	-
Total	**96,101**	**88,264**	**7,837**

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**

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

Credit quality of forbearance exposure

in HUF million	Gross forborne exposure	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired	Collateral	Credit loss allowances
As of 31 December 2021						
Central and Eastern Europe	**96,100**	**43,002**	**6,570**	**46,528**	**49,769**	**(24,351)**
Hungary	96,100	43,002	6,570	46,528	49,769	(24,351)
Total	**96,100**	**43,002**	**6,570**	**46,528**	**49,769**	**(24,351)**

in HUF million	Gross forborne exposure	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired	Collateral	Credit loss allowances
As of 31 December 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**

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 2021						
Retail	1,255,496	832,719	231,204	523,566	77,949	422,777
Corporates	1,171,131	528,266	49,187	318,256	160,823	642,865
Group Markets	2,132,409	462,591	411,058	-	51,533	1,669,818
Asset/Liability Management and Local Corporate Center	1,206	-	-	-	-	1,206
Total	**4,560,242**	**1,823,576**	**691,449**	**841,822**	**290,305**	**2,736,666**

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**

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 2021									
Cash and cash balances - demand deposits to central banks and credit institutions	15,811	-	-	-	-	15,811	15,811	-	-
Debt instruments held for trading	70,406	11,029	11,029	-	-	59,377	-	-	-
Non-trading debt instruments at FVPL	272,102	265,797	209,912	55,879	6	6,305	-	-	-
Debt instruments at FVOCI	122,824	4,911	4,911	-	-	117,913	122,824	-	-
Debt instruments at AC	3,506,928	1,456,994	465,588	762,205	229,201	2,049,934	3,386,517	51,757	68,654
Debt securities	1,162,816	340,119	340,119	-	-	822,697	1,162,816	-	-
Loans and advances to banks	702,790	104,375	55,000	-	49,375	598,415	702,790	-	-
Loans and advances to customers	1,584,504	980,317	70,469	760,179	149,669	604,187	1,475,664	48,325	60,515
Trade and other receivables	16,787	-	-	-	-	16,787	14,897	1,890	-
Finance lease receivables	40,031	32,183	-	2026	30,157	7,848	30,350	1,542	8,139
Off balance-sheet exposures	572,171	84,845	9	23,738	61,098	487,326	504,229	2,747	1,245
out of which: other commitments	63,950	26,452	-	9,621	16,831	37,498	-	-	-
Total	**4,560,242**	**1,823,576**	**691,449**	**841,822**	**290,305**	**2,736,666**	**4,029,381**	**54,504**	**69,899**

.

in HUF million	Total credit risk exposure	Collateral total	Collateralised by: Guaran-tees	Collateralised by: Real es-tate	Collateralised by: Other	Credit risk expo-sure net of collat-eral	IFRS impairment relevant: Neither past due nor credit impaired	IFRS impairment relevant: Past due but not credit im-paired	IFRS impairment relevant: 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**

.

Credit risk exposure 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 attention	Substandard	Non-performing	Total
As of 31 December 2021					
Cash and cash balances - demand deposits to central banks and credit institutions	15,811	-	-	-	15,811
Debt instruments held for trading	68,154	2034	209	9	70,406
Non-trading debt instruments at FVPL	192,678	40,494	36,703	2,227	272,102
Debt instruments at FVOCI	121,912	912	-	-	122,824
Debt instruments at AC	3,000,839	299,564	137,871	68,655	3,506,929
Debt securities	1,160,969	1,847	-	-	1,162,816
Loans and advances to banks	702,745	45	-	-	702,790
Loans and advances to customers	1,112,276	279,205	132,507	60,516	1,584,504
Trade and other receivables	4,977	9,065	2,745	-	16,787
Finance lease receivables	19,872	9,402	2,619	8,139	40,032
Off balance-sheet exposures	477,979	77,428	14,629	2,134	572,170
out of which: other commitments	40,342	20,469	2,249	889	63,949
Total	**3,877,373**	**420,432**	**189,412**	**73,025**	**4,560,242**

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2020					
Cash and cash balances - demand deposits to central 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**

.

Credit risk exposure past due and not covered by credit loss allowances 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 2021												
Non-trading debt instruments at FVPL	2,419	2036	303	34	34	12	2,396	2023	303	34	24	12
Debt instruments at FVOCI	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments at AC	51,757	40,109	6,350	2,065	1,170	2,063	27,459	23,487	2,613	818	423	118
Loans and advances to customers	48,325	36,985	6,098	2009	1,170	2,063	25,938	22,246	2,389	762	423	118
Trade and other receivables	1,890	1,862	28	-	-	-	-	-	-	-	-	-
Finance lease receivables	1,542	1,262	224	56	-	-	1,521	1,241	224	56	-	-
Off balance-sheet exposures	3,387	2,530	227	76	140	414	837	835	-	-	2	-
Total	**57,563**	**44,675**	**6,880**	**2,175**	**1,344**	**2,489**	**30,692**	**26,345**	**2,916**	**852**	**449**	**130**

.

in HUF million	Total credit risk exposure: Total	Total credit risk exposure: Thereof 1-30 days past due	Total credit risk exposure: Thereof 31-60 days past due	Total credit risk exposure: Thereof 61-90 days past due	Total credit risk exposure: Thereof 91-180 days past due	Total credit risk exposure: Thereof more than 180 days past due	Thereof collateralised: Total	Thereof collateralised: Thereof 1-30 days past due	Thereof collateralised: Thereof 31-60 days past due	Thereof collateralised: Thereof 61-90 days past due	Thereof collateralised: Thereof 91-180 days past due	Thereof collateralised: 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**

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 2021					
Retail	762,988	172,377	146,346	40,563	1,122,274
Corporates	559,135	165,789	28,009	30,318	783,251
Group Markets	6,474	-	219	-	6,693
Total	**1,328,597**	**338,166**	**174,574**	**70,881**	**1,912,218**

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**

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 2021							
Retail	636,510	168,190	31,395	15,358	851,453	270,822	1,122,274
Corporates	606,059	142,938	25,347	8,833	783,177	74	783,251
Group Markets	6,692	-	-	-	6,692	-	6,693
Total	**1,249,261**	**311,128**	**56,742**	**24,191**	**1,641,322**	**270,896**	**1,912,218**

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 11,912 million forints (2020: 9,314 million), the non-defaulted part to 12,279 million forints (2020: 18,314 million).

in HUF million	Stage 1	Stage 2	Stage 3	POCI	Gross customer loans (AC)	Subject to provision	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**

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 2021												
Retail	40,563	38,351	1,122,274	851,452	(42,663)	21,020	18,920	3.61%	4.50%	111.24%	51.82%	49.34%
Corporates	30,318	30,303	783,251	783,177	(22,725)	18,532	18,518	3.87%	3.87%	74.99%	61.13%	61.11%
Group Markets	-	-	6,693	6,693	(9)	-	-	0.00%	0.00%			
Total	**70,881**	**68,654**	**1,912,218**	**1,641,322**	**(65,397)**	**39,552**	**37,438**	**3.71%**	**4.18%**	**95.26%**	**55.80%**	**54.53%**

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%**

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 2021											
Retail	636,510	168,190	31,395	15,358	270,822	(2,810)	(16,935)	(18,202)	10.07%	57.98%	30.71%
Corporates	606,059	142,938	25,347	8,833	74	(3,052)	(5,433)	(12,687)	3.80%	50.05%	17.57%
Group Markets	6,692	-	-	-	-	(9)	-	-	0.22%		
Total	**1,249,261**	**311,128**	**56,742**	**24,191**	**270,896**	**(5,871)**	**(22,368)**	**(30,889)**	**7.19%**	**54.44%**	**25.91%**

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%**

Stage 3 loans to customer increased in 2021 in the retail portfolio due to reclassification of private client with financial difficulties remaining in the moratoria. Despite the increased stage3 loan loss allowance the coverage decreased as lower impairment was created for the newly defaulted loans as ones that were already there.

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.

In 2020 substantial impairment was created on stage 2 via overlays for the most covid impacted clients. Part of this portfolio were moved to stage3. This movement resulted the coverage decrease in both segment as the worst part of the stage 2 were shifted to stage 3, where the new impairment was still lower than the existing coverage for the older NPL portfolio.

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 2021. 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	HUF	CHF	USD	Other	Total
As of 31 December 2021						
Retail	6,095	1,115,882	285	11	1	1,122,274
Corporates	455,332	319,217	8,674	27	1	783,251
Group Markets	-	6,474	-	219	-	6,693
Total	**461,427**	**1,441,573**	**8,959**	**257**	**2**	**1,912,218**

in HUF million	EUR	HUF	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**

Securitisations

No securitisation used in Erste Bank.

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:

Value at Risk of the banking book and the trading book

in HUF million	Total	Interest	Credit spread	Currency	Shares
As of 31 December 2021					
Erste Bank Hungary consolidated	1,472	1,456	16	33	-
Banking book	1,409	1,393	16	-	-
Trading book	63	63	-	33	-
As of 31 December 2020					
Erste Hungary consolidated	578	561	19	7	-
Banking book	444	425	19	-	-
Trading book	134	135	-	7	-

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.

Both in banking and trading book Erste Bank recognises derivatives, dominantly IRS, and government bonds within securities. The different type of risks managed through banking book and trading book financial instruments find in the below sections.

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 during 2014-2020, 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).

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 2021 and the corresponding open positions of these currencies as of 31 December 2020.

Open foreign currency positions

in HUF million	2020	2021
Swiss Franc (CHF)	(4)	155
Euro (EUR)	666	360
Japanese Yen (JPY)	8	- 1
US Dollar (USD)	(80)	193
Other	44	- 7

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.

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 2021, the calculation of the NSFR was defined in the Directive 2013/36/EU (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. The SAP is covering a 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. 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 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 2021:

Liquidity coverage ratio

in HUF million	2020	2021
Liquidity buffer	1,134,848	1,062,522
Net liquidity outflow	741,705	550,006
Liquidity coverage ratio	153%	193%

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 2021 and 31 December 2020:

Structural liquidity gap

Liquidity gap

in HUF million	2020 < 1 month	2020 1-12 months	2020 1-5 years	2020 > 5 years	2021 < 1 month	2021 1-12 months	2021 1-5 years	2021 > 5 years
On-Balance Sheet Liquidity GAP	(88,068)	(256,898)	457,257	(112,291)	(131,490)	(347,123)	694,254	(215,641)
Off-Balance Sheet Liquidity GAP	(4,290)	1,872	1,281	3,171	4,639	(788)	3,363	7,761

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 2021 and year-end 2020 are shown in the tables below:

Term structure of counterbalancing capacity

As of 31 December 2021	< 1 week	1 week-1 month		1-3 months		3-6 months		6-12 months
Cash, excess reserve	102,670	-		-		-		-
Liquid assets	871,345	1,646	-	8,003	-	102,562	-	78,086
Counterbalancing capacity	**974,015**	**1,646**	**-**	**8,003**	**-**	**102,562**	**-**	**78,086**
As of 31 December 2020								
Cash, excess reserve	193,493	-		-		-		-
Liquid assets	1,113,993	94.8325		(4,857)		(67,809)		(152,459)
Counterbalancing capacity	**1,307,486**	**94.8325**		**(4,857)**		**(67,809)**		**(152,459)**

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 2021 and 31 December 2020 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 2021						
Non-derivative liabilities	**3,643,885**	**3,663,070**	**974,434**	**939,124**	**846,257**	**903,254**
Financial liabilities HfT	-	-	-	-	-	-
Financial liabilities at FVPL	-	-	-	-	-	-
Financial liabilities at AC	**3,643,885**	**3,663,070**	**974,434**	**939,124**	**846,257**	**903,254**
Deposits by banks	537,356	540,861	26,109	69,329	287,989	157,434
Customer deposits	3,034,900	3,039,285	944,364	867,454	549,695	677,772
Debt securities in issue	1,271	931	931	-	-	-
Other financial liabilities	4,596	4,585	3,031	1,150	181	223
Subordinated liabilities	65,761	77,407	-	1,191	8,392	67,825
Derivative liabilities	**40,158**	**40,158**	**7,824**	**15,628**	**6,101**	**10,605**
Lease liabilities	**20,860**	**21,564**	**339**	**3,026**	**12,029**	**6,170**
Total on balance sheet liabilities	**3,704,902**	**3,724,088**	**982,581**	**957,612**	**863,953**	**919,942**
Contingent liabilities	-	**335,388**	**335,388**	-	-	-
Financial guarantees	-	1,868	1,868	-	-	-
Irrevocable commitments	-	333,520	333,520	-	-	-
Total	**3,704,902**	**4,059,476**	**1,317,968**	**957,612**	**863,953**	**919,942**
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	506,072	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
Other financial liabilities	3,915	4,015	762	2,561	692	-
Debt securities in issue	6,640	6,639	4,236	1,599	671	133
Subordinated liabilities	62,259	72,678	-	2022	70,656	-
Derivative liabilities	**48,935**	**48,935**	**11,938**	**27,785**	**2,642**	**6,570**
Lease liabilities	**21,710**	**22,460**	**353**	**2,991**	**11,433**	**7,683**
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**	-	-	-
Financial guarantees	-	1,901	1,901	-	-	-
Irrevocable commitments	-	226,765	226,765	-	-	-
Total	**3,184,393**	**3,474,690**	**898,994**	**870,119**	**1,335,187**	**370,390**

As of year-end 2021, the currency composition of the liabilities consisted of approximately 80% HUF, 16% EUR, 3% USD, and 1% in other currencies (2020: 77% HUF, 18% EUR, 4% USD, and 1% in other currencies).

As of 31 December 2021, the volume of customer deposits due on demand amounted to 2 694 billion forint (2020: 2 187 billion forint). According to customer segments, the customer deposits are composed as follows: 45% private individuals, 17% large corporates, 35% small and medium-sized enterprises, 3% public sector, (2020: 53% private individuals, 15% large corporates, 30% 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 Scenari o 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.

The Operational Risk Committee of which aim is to reduce the level of operational risk exposure meets on a quarterly basis. The purpose of the committee is to discuss all topics related to operational risk management. Members of the committee are key decision-makers of the Bank.

.

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 01.01.2021	**66,470**	**9,147**	**10,214**	**5,359**	**12,219**	**24,384**	**127,793**	**290**
Additions	9,671	2	1,352	325	1,865	2,112	15,327	-
Disposals	(1,629)	-	(592)	(739)	(388)	(239)	(3,587)	-
Reclassification	58	-	50	(51)	(59)	-	(2)	-
Value 31.12.2021	**74,570**	**9,149**	**11,024**	**4,894**	**13,637**	**26,257**	**139,531**	**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 01.01.2021	**40,992**	**5,659**	**5,149**	**4,104**	**9,116**	**5,110**	**70,130**	**81**
Additions	8,392	1,128	891	342	1,321	2,741	14,815	6
Disposals	(1,604)	(26)	(321)	(682)	(386)	(219)	(3,238)	-
Reclassification	-	-	35	(36)	-	-	(1)	-
Impairment	293	25	-	1	-	(22)	297	-
Value 31.12.2021	**48,073**	**6,786**	**5,754**	**3,729**	**10,051**	**7,610**	**82,003**	**87**

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 01.01.2021	**25,478**	**3,488**	**5,065**	**1,255**	**3,103**	**19,274**	**57,663**	**209**
Value 31.12.2021	**26,497**	**2,363**	**5,270**	**1,165**	**3,586**	**18,647**	**57,528**	**203**

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 2021 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 01.01.2020	**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**

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 depreciation relates to buildings within ‚Own land and buildings‘.

.

Net carrying amount

in HUF million	2020	2021
Intangible assets	**28,966**	**28,860**
Software acquired	25,478	26,497
Other intangible assets (licenses, patents, customer lists etc.)	3,488	2,363
Property and equipment	**28,697**	**28,668**
Own land and buildings	5,065	5,270
Office and plant equipment/other fixed assets	1,255	1,165
IT-assets (hardware)	3,103	3,586
Right-of-use land and buildings	19,274	18,647
Total intangible and tangible assets	**57,663**	**57,528**
Investment properties	**209**	**203**

Fully amortised intangible assets which were still in use amounted to 11,581 million forint as at 31 December 2021 (7,745 million forint as at 31 December 2020). Fully depreciated tangible assets which were still in use amounted to 8,514 million forint as at 31 December 2021 (8,312 million forint as at 31 December 2020).

The 'investment properties' category covers properties subject to operating lease. Impairment testing in 2021 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	2020	2021
Clearing accounts with tax authorities	681	331
Banking tax[1)]	4,177	3,342
Other clearing accounts	9,550	10,600
Other financial assets[2)]	9,465	4,250
Other accrued income	4,714	4,607
Inventories	230	192
Repossessed assets[3)]	21	21
Prepaid expenses	2,440	2,692
Other	1,248	2,142
Total	**32,526**	**28,177**

1) As in IFRS terms the deduction possibility is valued as virtually certain, Erste Bank recognised a receivable of 3,342 million forint as of 31 December 2021 (4,177 million forint in 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

2021 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

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

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	2020	2021
Outstanding minimum lease payments	39,204	33,692
Non-guaranteed residual values	9,963	9,277
Gross investment	**49,168**	**42,969**
Unrealised financial income	2,685	2,937
Net investment	**46,483**	**40,032**
Present value of non-guaranteed residual values	9,416	8,643
Present value of minimum lease payments	**37,067**	**31,389**
Risk provision related to outstanding minimum lease payments	**(7,543)**	**(4,929)**

.

Maturity analysis of leases by residual maturities

in HUF million	Gross investment 2020	Present value of minimum lease payments 2020	Gross investment 2021	Present value of minimum lease payments 2021
< 1 year	13,750	11,503	14,614	10,904
1-2 years	12,117	9,719	11,903	8,563
2-3 years	10,828	7,689	7,460	5,507
3-4 years	6,515	4,323	4,664	3,634
4-5 years	3,196	2,100	2,062	1,448
> 5 years	2,762	1,733	2,266	1,333
Total	**49,168**	**37,067**	**42,969**	**31,389**

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
2021											
Other financial corporations	2	16	-	-	18	-	(4)	-	-	**(4)**	**14**
Non-financial corporations	21,290	8,083	7,843	39	37,255	(157)	(299)	(4,150)	-	**(4,605)**	**32,648**
Households	1,540	943	242	34	2,758	(24)	(108)	(180)	(7)	**(320)**	**2,439**
Total	**22,832**	**9,042**	**8,085**	**73**	**40,031**	**(181)**	**(411)**	**(4,330)**	**(7)**	**(4,929)**	**35,103**

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**

Movement in credit loss allowances

in HUF million	As of	Additions	Charge-offs	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	01 January 2021								31 December 2021
Stage 1	(138)	(24)	14	232	(265)	-	-	-	(181)
Stage 2	(574)	-	36	(220)	349	-	-	(2)	(411)
Stage 3	(6,818)	-	511	(18)	1,981	(1)	-	15	(4,330)
POCI	(13)	-	3	-	-	-	4	-	(6)
Total	**(7,543)**	**(24)**	**564**	**(6)**	**2,065**	**(1)**	**4**	**13**	**(4,928)**

in HUF million	As of	Additions	Charge-offs	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	01 January 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)**	**564**	**(433)**	**(5,679)**	**-**	**4**	**(336)**	**(7,543)**

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 2021 (or initial recognition date, if later) to Stages 2 or 3 as of 31 December 2021 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 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarised below:

in HUF million	2020	2021
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	7,525	1,399
To Stage 1 from Stage 2	725	5,494
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	11,533	59
To Stage 2 from Stage 3	43	22
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	360	101
POCI transfer		
To Defaulted from Non-Defaulted	11	39
To Non-Defaulted from Defaulted	11	-

The year-end total GCA of financial leases that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to 6,082 million forint. The GCA of the financial leases that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to 3,320 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	2020	2021
< 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	144	99
Total	**364**	**319**

During 2021, 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 36) Property, equipment and investment properties.

Maturity analysis of lease liabilities

in HUF million	2020	2021
< 1 year	3,170	3,182
1-5 years	10,988	11,595
> 5 years	7,552	6,083
Total	**21,710**	**20,860**

During 2021, interest expenses on lease liabilities were recognised in the amount of 176 million forint (180 million forint in 2020).

Total cash outflow for leases recognised as lease liabilities in 2021 was 3,284 million (3,163 million in 2020). Cash outflow related to lease contracts of low-value assets was 98 million forint in 2021 (88 million forint in 2020). Erste Bank had no lease contracts in 2020 and 2021 where the short-term exemption of IFRS 16 was applied.

Accruals, provisions, contingent liabilities and legal proceedings

39) Other liabilities

in HUF million	2020	2021
Deferred income [1)]	703	593
Clearing accounts	7,484	10,486
Other financial liabilities [2)]	97	76
Received payments on advance	5	-
Accruals of other expenses	11,066	14,355
Other liabilities	3,896	4,227
Total	**23,251**	**29,737**

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 5 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 5 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 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	2020	2021
Pending legal issues and tax litigation	1,185	1,883
Loan commitments and financial guarantees given	3,753	3,644
CLA for loan commitments and financial guarantees in Stage 1	1,427	1,758
CLA for loan commitments and financial guarantees in Stage 2	1,729	1,456
CLA for loan commitments and financial guarantees - Defaulted	597	430
Other provisions	3,150	2,801
Other	3,150	2,801
Provisions	**8,088**	**8,328**

.

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 judgement 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 judgement 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 2021.

Other provisions

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 2,212 million forint for other commitments in scope of IAS37.

Provision movement tables

Credit loss allowances for loan commitments and financial guarantees 2021

in HUF million	As of 01 January 2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of 31 December 2021
Stage 1	1,426	2,833	(1,548)	(2,293)	1,324	15	1,757
Stage 2	1,729	-	(1,039)	2,419	(1,654)	3	1,458
Defaulted	597	-	(296)	262	(128)	(6)	429
Total	**3,752**	**2,833**	**(2,883)**	**388**	**(458)**	**12**	**3,644**

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**

.

Sundry provision 2021

in HUF million	As of 01 January 2021	Allocations	Use	Releases	Exchange rate and other changes (+/-)	As of 31 December 2021
Pending legal issues and tax litigation	1,185	928	-	(230)	-	1,883
Commitments and guarantees given out of scope of IFRS9	2,430	2,788	-	(3,007)	1	2,212
Other provisions	720	4,171	(1)	(4,301)	-	589
Other	720	4,171	(1)	(4,301)	-	589
Provisions	4,335	**7,887**	**(1)**	**(7,538)**	**1**	**4,684**

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**

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

	2020	2021
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	25,813	12,643
To Stage 1 from Stage 2	2,287	13,037
Transfers between Stage 2 and Defaulted		
To Defaulted from Stage 2	42	1,043
To Stage 2 from Defaulted	84	10
Transfers between Stage 1 and Defaulted		
To Defaulted from Stage 1	1,463	150
To Stage 1 from Defaulted	102	20
Off-balance commitments and financial guarantees that were initially recognized and not fully de-recognized during the year	120,418	158,435
Off-balance commitments or financial guarantees that were held at 1 January and fully de-recognized during the year	51,383	65,805

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	2020	2021
Irrevocable contingent liabilities	**228,666**	**347,488**
Guarantees	1,901	1,868
Committed credit lines -irrevocable	172,892	281,670
Import accreditives	53,873	63,950
Revocable contingent liabilities	**241,396**	**224,684**
Committed credit lines - revocable	241,396	224,684
Other contingent liabilities	**5,468**	**3,455**
Legal cases	1,185	1,883
Other	4,283	1,572
Total	**475,530**	**575,627**

Related Provision see note 40).

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 10 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	2020	2021
Subscribed capital	146,000	146,000
Additional paid-in capital	117,492	117,492
Retained earnings and other reserves	141,657	169,694
Total	**405,149**	**433,186**
Attributable to owners of the parent	405,149	433,186

Subscribed capital and Additional paid-in capital

As 31 December 2021 subscribed capital amounted to 146,000,000,000 forints (in words: one hundred and fortysix billion). The subscribed capital consisted of 146,000,000,000 (in words: one hundred and fortysix billion) pieces of dematerialised ordinary shares of 1 forint nominal value each.

Owners of the Bank

As of 31 December 20210, 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 2020		31 December 2021	
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	2020	2021
IFRS financial statements		
Subscribed capital	146,000	146,000
Additional paid-in capital	117,492	117,492
General reserve	17,374	24,818
Fair value reserve	5,032	-4,019
Retained earnings	101,589	148,894
Total equity	**387,487**	**433,185**
Based on Hungarian accounting law (Law of 2000: C., 114 / B. §)		
Subscribed capital	146,000	146,000
Capital reserve	117,492	117,492
Tied-up reserve	17,374	24,818
Revaluation reserve	5,032	-4,019
Retained earnings	46,052	93,051
Net result for the year	55,536	55,843
Total equity	**387,487**	**433,185**
of which		
Capital subscribed by the Court of Registry	146,000	146,000
Reserve available for dividend payment	101,589	148,894

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 30,402 million forint at the end of 2021 (in 2020: 24,818 million forint). 'Retained earnings and other reserves' also includes 'Retained earnings' of 143,310 million forint and 'Fair value reserve' of (4,018) million forint with no related deferred tax in 2021. In 2020 the 'Retained earnings' was 113,051 million forint and the 'Fair value reserve' was 4,164 million forint with related deferred tax of (376) 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

in HUF million	2020	2021
Other demand deposits	**2,864**	**392**
Parent	2,862	353
Other related parties (Erste Group)	2	39
Loans and advances to credit institutions [1]	**37,131**	**93,882**
Parent	23,377	57,232
Subsidiaries	13,754	36,650
Loans and advances to customers	**12,592**	**11,459**
Other related parties (Erste Group)	12,592	11,459
Derivative financial instruments - asset	**18,164**	**24,722**
Parent	17,203	21,324
Subsidiaries	34	3,085
Other related parties (Erste Group)	927	313
Other assets	**5,176**	**5,532**
Parent	2,394	2,720
Subsidiaries	1,768	1,843
Other related parties (Erste Group)	1,013	969
Deposits by banks	**265,958**	**269,918**
Parent	10,563	12,678
Subsidiaries	254,031	256,992
Other related parties (Erste Group)	1,363	248
Customer deposits	**155,036**	**222,305**
Subsidiaries	151,425	190,732
Other related parties (Erste Group)	3,611	31,573
Derivative financial instruments - liabilities	**37,781**	**30,367**
Parent	36,926	29,122
Subsidiaries	855	1,233
Other related parties (Erste Group)	-	12
Other liabilities	**2,366**	**3,257**
Parent	236	1,071
Subsidiaries	105	91
Other related parties (Erste Group)	2,026	2,095
Subordinated liabilities	**59,636**	**62,762**
Parent	59,636	62,762
Other commitments	**1,150**	**13,444**
Parent	32	124
Subsidiaries	-	12,100
Other related parties (Erste Group)	1,118	1,220
Loan commitments	**10,897**	**44,617**
Subsidiaries	10,897	44,617

1) Average contractual interest rate:
2021: 2.57%
2020: 0.23%

The amount of the loans provided to the members of the Board of Directors was 6,7 million forint and the amount of its interest was 0.05 million forint in 2021.

Income and expenses to related parties		
in HUF million	2020	2021
Interest Income	**2,496**	**3,124**
Parent	1,702	1,916
Subsidiaries	394	835
Other related parties (Erste Group)	399	373
Interest Expense	**(10,536)**	**(25,019)**
Parent	(5,085)	(18,482)
Subsidiaries	(5,450)	(6,534)
Other related parties (Erste Group)	(1)	(3)
Fee and commission income	**11,746**	**14,856**
Parent	134	170
Subsidiaries	11,596	14,671
Other related parties (Erste Group)	16	15
Fee and commission expense	**(297)**	**(513)**
Parent	(59)	(177)
Subsidiaries	(232)	(282)
Other related parties (Erste Group)	(6)	(54)
Dividend income	**2,900**	**11,479**
Subsidiaries	2,900	11,479
Other Income/(Expense)	**4,589**	**1,062**
Parent	150	132
Fellow subsidiaries	4,536	1,025
Other related parties (Erste Group)	(97)	(95)

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

in HUF million	2020	2021 plan
Fixed salary	435	475
Performance related compensation	435	475
Other compensation	29	31
Total	**900**	**981**

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 2021, 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	2020	2021 plan
Cash payment for performance period 2018	-	95
Deferred Bonus in cash for next performance periods	-	143
Deferred Bonus in share equivalent for next performance periods	435	238
Total	**435**	**475**

Breakdown of Supervisory Board and Board of Directors compensation:

in HUF million	2020	2021 plan
Supervisory Board compensation	47	48
Board of Directors compensation	900	1,010
Total	**947**	**1,058**

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 2021 the external members of the Supervisory Board received a compensation of 4,71 million forint per year for the membership (in 2015 7.7; in 2016 23; in 2017 37, in 2018 39, in 2019 41; in 2020 47 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 27.9 million forint per year for 2021 (in 2015 7.1, in 2016 12; in 2017 24, in 2018 26, in 2019 25,5; 20220 28,6 million forint).

Employee share program

Employees, who had an active employment relationship with Erste Group for at least 6 months on the balance sheet date, will receive free shares of Erste Group Bank AG in an amount equivalent to EUR 350 net, provided that the Annual General Meeting of 2022 decides to distribute dividends. The expected number of free shares, which are granted under this program for the period, is 30,044 (during the calculation we used the share price available on 31.12.2021). Based on the number of entitled employees, personnel expenses in the amount of 366.78 million forint were recorded exclusive taxes and a corresponding reserve in retained earnings was created.
When Erste Bank grants an award of equity in its parent to its employees and settles the award itself, it accounts for the award as cash-settled, since it is settled not in its own equity, but in the equity of its parent. From the perspective of Erste Bank's financial statements,

the equity of the parent is a financial asset [IFRS 2.B55]. For the purposes of Erste Bank's financial statements, IFRS 2 requires the award to be accounted for as cash-settled, with the fair value recalculated at each reporting period.

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 2020 and 2021). 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 2020 and 2021) 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 2020 and 2021:

in HUF million	2020	2021
Audit fees	137	154
Other assurance services	0	9
Other services	18	10
Total	**155**	**173**

Other services consist 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	2020	2021	2020	2021
Assets	**579,847**	**522,772**	**38,984**	**20,679**
EUR	542,494	492,856	32,682	11,900
CHF	10,682	9,133	19	11
USD	23,705	19,507	3,628	7,925
JPY	28	7	21	3
Other	2,938	1,269	2,634	840
Liabilities	**741,204**	**835,904**	**88,972**	**87,895**
EUR	575,765	684,309	77,678	78,465
CHF	7,936	25,550	1,192	569
USD	142,066	108,460	9,347	6,168
JPY	554	778	2	5
Other	14,883	16,807	753	2,688

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:

	2020		2021	
in HUF million	< 1 year	> 1 year	< 1 year	> 1 year
Assets				
Cash and cash balances	197,421	-	131,256	-
Financial assets held for trading	143,357	13,873	42,575	27,831
Derivatives	37,304	13,665	27,303	27,831
Other financial assets held for trading	106,053	208	15,272	-
Non-trading financial assets at fair value through profit or loss	29,606	182,677	34,759	238,953
Equity instruments	-	2,739	-	1,611
Debt securities	-	1,100	-	1,206
Loans and advances to customers	29,606	178,838	34,759	236,137
Financial assets at fair value through other comprehensive income	10,698	113,633	5,932	112,816
Debt securities	10,698	113,633	5,932	112,816
Financial assets at amortised cost	771,454	1,958,293	1,226,648	2,162,290
Debt securities	141,698	793,101	175,053	986,941
Loans and advances to banks	259,268	49,850	608,736	93,839
Loans and advances to customers	370,488	1,115,342	442,859	1,081,510
Finance lease receivables	11,732	27,208	6,634	28,468
Property and equipment	-	28,697	-	28,667
Investment properties	-	209	-	203.30859
Intangible assets	-	28,966	-	28,860
Current tax assets	1,033	-	-	55,431
Deferred tax assets	2,927	-	-	-
Assets held for sale	-	-	-	2,246
Trade and other receivables	12,080	138	16,377	77
Other assets	32,507	21	28,153	22
Total assets	**1,212,815**	**2,408,065**	**1,492,336**	**2,685,864**

.

in HUF million	2020 < 1 year	2020 > 1 year	2021 < 1 year	2021 > 1 year
Liabilities and equity				
Financial liabilities held for trading	20,914	9,326	23,452	16,706
Derivatives	20,914	9,326	23,452	16,706
Other financial liabilities held for trading	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	-
Deposits from customers	-	-	-	-
Debt securities issued	-	-	-	-
Other financial liabilities	-	-	-	-
Financial liabilities at amortised cost	1,156,890	1,232,109	1,910,080	1,733,805
Deposits from banks	64,994	298,021	94,509	505,609
Deposits from customers	1,084,310	926,723	1,810,248	1,224,652
Debt securities issued	4,008	6,781	1,141	3,129
Other financial liabilities	3,579	584	4,182	415
Lease liabilities	2,885	18,319	3,182	17,678
Provisions	1,772	4,993	2,452	5,876
Current tax liabilities	177	-	2,047	-
Deferred tax liabilities	-	-	-	-
Other liabilities	27,264	-	29,736	-
Total equity	**-**	**387,487**	**-**	**433,186**
Equity attributable to owners of the parent	-	387,487	-	433,186
Subscribed capital	-	146,000	-	146,000
Additional paid-in capital	-	117,492	-	117,492
Retained earnings and other reserves	-	123,995	-	169,694
Total liabilities and equity	**1,209,902**	**1,652,234**	**1,970,949**	**2,207,251**

47) Events after the balance sheet date

Bond issuance conform to MREL requirements
Erste Bank Zrt. issued MREL-eligible senior preferred euro-denominated bonds of 350 million euro, in February 2022. The issuance contributed to meet MREL regulatory requirements. The bond is listed in Vienna Stock Exchange and Budapest Stock Exchange.

Geopolitical crisis
The evolving Russia-Ukraine situation does not impact Erste Hungary directly and overall, as exposures to both countries are negligible and no additional risk provisioning is currently required in this context. Indirect effects, such as financial market volatility or sanctions-related knock-on effects on some of our customers cannot be ruled out, though.
Further geopolitical developments might lead to economic difficulties, but any resulting financial effects cannot be assessed at the current point in time.
As a pre-caution activity Erste Hungary has already taken some measures, precisely two announcement were published on its website in relation to prescribe higher collateral behind the Lombard and derivative deals.

Dividend
The proposed dividend to be presented at the Annual general meeting is amounting to 50 billion forint.

48) Other information

Erste Bank's signing representatives for financial statements of business year 2021:

Name	Address
Radován Jelasity	1026 Budapest, Balogh Ádám utca 35
Manfred Schmid	1051 Budapest, Dorottya utca 6. 5.e. 528.a

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 2020 and 2021 respectively

Company name	Interest of Erste Bank in % - directly or indirectly at 31.12.2020	Interest of Erste Bank in % - directly or indirectly at 31.12.2021
Subsidiaries:		
Erste Befektetési Zrt.	100%	100%
Random Capital Bróker Zrt.	0%	100%
RND Solutions Informatikai Fejlesztő és Szolgáltató Zrt.	0%	100%
Erste Ingatlan Kft.	100%	100%
Sió Ingatlan Invest Kft.	100%	0%
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%

in HUF million	Subscribed capital 2020	Subscribed capital 2021
Subsidiaries:		
Erste Befektetési Zrt.	2,000	2,000
Random Capital Bróker Zrt.	-	285.5
RND Solutions Informatikai Fejlesztő és Szolgáltató Zrt.	-	160
Erste Ingatlan Kft.	141	141
Sió Ingatlan Invest Kft.	12.9	-
Erste Lakástakarék Zrt.	2,025	2,025
Collat-reál Kft.	3	3
Erste Jelzálogbank Zrt.	3,010	3,010

The Bank opted to measure investments in its subsidiaries at cost in accordance with IAS27.

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

.