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 2022

Separate Financial Statements 2022 IFRS

I. Separate Income Statement for the year ended 31 December 2022

in HUF million	Notes	2021	2022
Net interest income	2)	92,201	143,895
Interest income		106,738	290,300
Other similar income		17,491	29,580
Interest expenses		(28,150)	(166,435)
Other similar expenses		(3,878)	(9,550)
Net fee and commission income	3)	59,671	70,685
Fee and commission income		73,668	85,879
Fee and commission expenses		(13,997)	(15,194)
Dividend income	4)	11,504	14,769
Net trading result	5)	12,271	(12,954)
Foreign exchange transactions		(13,448)	(53,553)
Other		25,719	40,599
Gains/losses from financial instruments measured at fair value through profit or loss	6)	(10,321)	(21,155)
Rental income from investment properties & other operating leases	7)	41	53
Personnel expenses	8)	(33,856)	(37,499)
Other administrative expenses	8)	(26,126)	(34,867)
Depreciation and amortisation	8)	(14,821)	(14,854)
Gains/losses from derecognition of financial assets measured at amortised cost	9)	868	(156)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10)	428	426
Impairment result from financial instruments	11)	(8,969)	(9,296)
Other operating result	12)	(20,383)	(54,118)
Other operating income	12)	4,672	4,279
Other operating expense	12)	(25,055)	(58,397)
Pre-tax result from continuing operations		**62,508**	**44,929**
Taxes on income	13)	(6,665)	(7,393)
Net result for the period		**55,843**	**37,536**

II. Separate Statement of Comprehensive Income for the year ended 31 December 2022

in HUF million	2021	2022
Net result for the period	**55,843**	**37,536**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Fair value reserve of debt instruments	(8,182)	(8,077)
Gain/loss during the period	(7,737)	(7,975)
Reclassification adjustments	(428)	(426)
Credit loss allowances	(17)	324
Deferred taxes relating to items that may be reclassified	376	1,089
Gain/loss during the period	337	1,089
Reclassification adjustments	39	-
Total other comprehensive income	**(7,806)**	**(6,988)**
Total comprehensive income	**48,037**	**30,548**

Date: Budapest, 31 March 2023

Radován Jelasity
Chairman and CEO

Manfred Schmid
Chief Financial Officer

III. Separate Statement of Financial Position at 31 December 2022

in HUF million	Notes	2021	2022
Assets			
Cash and cash balances	14)	131,256	603,301
Financial assets held for trading		70,406	205,066
Derivatives	20)	55,134	135,622
Other financial assets held for trading	21)	15,272	69,444
Non-trading financial assets at fair value through profit or loss	22)	273,713	314,829
Equity instruments	22)	1,611	2,809
Debt securities	22)	1,206	699
Loans and advances to customers	22)	270,896	311,321
Financial assets at fair value through other comprehensive income	18)	118,748	184,079
Debt securities	18)	118,748	184,079
Financial assets at amortised cost	15)	3,388,937	3,535,689
Pledged as collateral	29)	417,181	449,014
Debt securities	15)	1,161,993	1,241,166
Loans and advances to banks	15)	702,575	401,191
Loans and advances to customers	15)	1,524,369	1,893,332
Finance lease receivables	40)	35,103	38,259
Property and equipment	38)	28,667	27,924
Investment properties	38)	203	199
Intangible assets	38)	28,860	26,303
Investments in associates and joint ventures		55,431	84,487
Deferred tax assets	13)	2,246	2,348
Trade and other receivables	16)	16,453	29,879
Other assets	39)	28,177	41,750
Total assets		**4,178,200**	**5,094,113**

in HUF million	Notes	2021	2022
Liabilities and equity			
Financial liabilities held for trading		40,158	121,017
Derivatives	20)	40,158	121,017
Financial liabilities at amortised cost	17)	3,643,884	4,486,642
Deposits from banks	17)	600,118	922,902
Deposits from customers	17)	3,034,900	3,413,261
Debt securities issued	17)	4,270	148,741
Other financial liabilities	17)	4,596	1,738
Finance lease liabilities	40)	20,860	20,881
Provisions	42)	8,328	8,966
Current tax liabilities	13)	2,047	1,449
Other liabilities	41)	29,737	41,424
Total equity	44)	**433,186**	**413,734**
Equity attributable to owners of the parent		433,186	413,734
Subscribed capital		146,000	146,000
Additional paid-in capital		117,492	117,492
Retained earnings and other reserves		169,694	150,242
Total liabilities and equity		**4,178,200**	**5,094,113**

Date: Budapest, 31 March 2023

Radován Jelasity
Chairman and CEO

Manfred Schmid
Chief Financial Officer

IV. Separate Statement of Changes in Equity

in HUF million	Notes	Subscribed capital[1)]	Additional paid-in capital	Retained earnings	Fair value reserve[2)]	Deferred tax	Attributable to owners of the parent	Total equity
Total equity at 01 January 2022	44)	**146,000**	**117,492**	**173,712**	**(4,018)**	**-**	**433,186**	**433,186**
Dividends[3)]		-	-	(50,000)	-	-	**(50,000)**	**(50,000)**
Total comprehensive income		-	-	37,536	(8,077)	1,089	**30,548**	**30,548**
of which: Net profit / (loss) for the year		-	-	37,536	-	-	**37,536**	**37,536**
of which: Other comprehensive income		-	-	-	(8,077)	1,089	**(6,988)**	**(6,988)**
Total equity at 31 December 2022	44)	**146,000**	**117,492**	**161,248**	**(12,095)**	**1,089**	**413,734**	**413,734**

1) See details in Note 44) Total equity, section Subscribed capital and additional paid-in capital.

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

3) Erste Bank paid a dividend that amounted to 50,000 million forint to its owners.

in HUF million	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Fair value reserve	Deferred tax	Attributable to owners of the parent	Total equity
Total equity at 01 January 2021		**146,000**	**117,492**	**137,869**	**4,164**	**(376)**	**405,149**	**405,149**
Dividends		-	-	(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	44)	**146,000**	**117,492**	**173,712**	**(4,018)**	**-**	**433,186**	**433,186**

.

V. Separate Statement of Cash Flows

in HUF million	2021	2022
Net result for the period	**55,843**	**37,536**
Income tax adjustment	6,665	7,393
Income tax adjusted result for the period	**62,508**	**44,929**
Non-cash adjustments for items in net profit for the year		
Depreciation, amortisation and net impairment of non-financial assets	14,233	22,824
from which regarding right-of-use assets - Land and buildings Leasing	2,741	2,842
Net allocation of credit loss allowances and other provisions	2,614	1,644
Modification gain/loss on loans and advances	4,360	15,745
Gains/losses from measurement and derecognition of financial assets and financial liabilities	1,296	270
Revaluation of subordinated liabilities	723	4,388
Revaluation of derivatives	(12,899)	363
Other adjustments	894	548
from which regarding Finance lease liabilities under IFRS 16	126	1,632
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Financial assets - held for trading	92,238	(53,308)
Non-trading financial assets at fair value through profit or loss		
Equity instruments	1,128	(1,198)
Debt securities	(106)	507
Loans and advances to customers	(62,474)	(40,455)
Financial assets at fair value through other comprehensive income		
Equity instruments	-	-
Debt securities	(8,677)	(11,057)
Financial assets at amortised costs		
Debt securities	(3,402)	(5,073)
Loans and advances to banks	(393,457)	301,384
Loans and advances to customers	(48,660)	(388,061)
Finance lease receivables	6,498	855
Other assets from operating activities	(60)	(26,897)
Financial liabilities - held for trading	(1,292)	(856)
Financial liabilities measured at amortised cost		
Deposits from banks	33,110	391,751
Deposits from customers	500,038	378,361
Debt securities issued	(2,476)	4,847
Other financial liabilities	(2,044)	(2,858)
Other liabilities from operating activities	6,486	11,687
Finance lease liabilities	176	205
Payments for taxes on income	(3,296)	(5,921)
Cash flow from operating activities	**187,459**	**644,624**

in HUF million	2021	2022
Proceeds of disposal		
Financial assets at fair value through other comprehensive income - Debt instruments	32,740	20,870
Financial assets at amortised costs - Debt securities	172,355	174,333
Property and equipment, intangible assets and investment properties	329	76
Investments in subsidiaries	-	-
Acquisition of		
Financial assets at fair value through other comprehensive income - Debt instruments	(27,072)	(83,970)
Financial assets at amortised costs - Debt securities	(396,283)	(249,689)
Property and equipment, intangible assets and investment properties	(13,213)	(9,945)
Investments in subsidiaries	-	(36,916)
Cash flow from investing activities	**(231,144)**	**(185,241)**
Dividends paid to equity holders of the parent	(20,000)	(50,000)
Subordinated loan repayment	(59,630)	-
Subordinated loan received	60,416	(73,355)
Income from Debt securities issued	-	139,624
Finance lease liabilities repayment	(3,266)	(3,607)
Cash flow from financing activities	**(22,480)**	**12,662**
Cash and cash equivalents at beginning of period	**197,421**	**131,256**
Cash flow from operating activities	187,459	644,624
Cash flow from investing activities	(231,144)	(185,241)
Cash flow from financing activities	(22,480)	12,662
Cash and cash equivalents at end of period	**131,256**	**603,301**
Cash flows related to interest and dividends (included in cash flow from operating activities)		
Interest received	140,906	308,523
Dividends received	11,504	14,769
Interest paid	(32,260)	(165,612)

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 Bank. 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 2022, 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.

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 2022 (it was the same in 2021):

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.

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 2021, Erste Bank signed a sale and purchase agreement with Commerzbank AG to acquire 100% of the share capital (306.016 shares) in its Hungarian subsidiary Commerzbank Zrt. ('Commerzbank'), its Hungarian subsidiary providing full banking service and active in the corporate market. The parties received the necessary regulatory approvals for the acquisition in September 2022. Following the regulatory approvals and the completion of the contractual administrative procedures, the acquisition process was closed on 30 November 2022, under which Erste Bank became the sole shareholder of Commerzbank Zrt. as of 1 December 2022. This acquisition enables Erste Bank to significantly strengthen its existing market position in Hungary. With the integration of the customer portfolio, the Bank has further expanded its corporate business, with the closing of the transaction Erste's corporate loan portfolio exceeding 1,200 billion forint, making it the fifth largest corporate lender in Hungary with a market share of more than 10%.

At year-end 2022, the measurement process has not yet been finalised. Due to the complexity of the deal and the focus on the rapid implementation to maintain the daily operations, the purchase price allocation was carried out on a preliminary basis. As a consequence, amounts recognised as of reporting date are considered as provisional and will be adjusted when updated information is available.

The net assets as of the acquisition date amounted to 24.8 billion forint. Assets and liabilities recognised as of acquisition date are as follows:

in HUF billion	Carrying amount
Cash and cash balances	72.3
Financial assets at fair value through profit or loss	19.6
Financial assets at fair value through other comprehensive income	47.4
Financial assets at amortised cost	158.6
of which other financial corporations	12.6
of which non-financial corpoartions	146
Property and equipment	1.8
Tax assets	0.5
Other assets	0.2
Total Assets	**300.4**
Financial liabilities at fair value through profit or loss	14.9
Financial liabilities at amortised cost	259
Provisions	0.6
Tax liabilities	0.05
Other liabilities	1
Total Liabilities	**275.6**

The fair value of the acquired loans at the acquisition date amounted to 158.6 billion forint. The best estimate at the acquisition date of the contractual cash flows from acquired loans not expected to be collected amounts to 1.95 billion forint.

In course of its analysis Erste Bank identified items subject to fair value adjustment, mainly related to a building which served as headquarter of Commerzbank (+2.7 billion HUF adjustment). As of acquisition, Erste Bank reclassified the securities from 'fair value through other comprehensive income' valuation model into 'amortised cost' valuation model and derecognised 0.4 billion forint deferred tax asset accordingly.

After the acquisition, in order to maintain the daily operations as the former IT support was terminated, the financial instruments and belonging cash were transferred from Commerzbank Zrt. to the Bank. Also, in course of December, Commerzbank Zrt. gave back its banking license and ceased its activity as financial institution. As a consequence, conform to the relevant regulation, the National Bank of Hungary started the winding up procedure as of 23 December 2022.

The adjusted net equity including the above items equals to 27.1 billion forint. The preliminary purchase price allocation results in a goodwill of 4.8 billion forint. This amount is calculated as the difference of adjusted net equity and preliminary purchase price and is not deductible for tax purposes. The cash consideration transferred currently amounts to 31.9 billion forint, but this amount might be subject to change.

C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS

2022

The Hungarian government continued its fiscal policy started in 2020, in terms of launching and extending supportive measures for individuals, SMEs and agricultural sector holding certain types of loan contract, while also decided to impose new levies and taxes on certain sectors, as a reaction to expanding economic crisis, beside some other measures like interest payment cap on certain deposits. As it was communicated by the Government, the 2022 measures were the closing act of the moratoria regulations, this vehicle is no longer applied.

i)

Extension of measures launched in 2021

1. (Retail) Interest stop extension

The Hungarian Government launched 24 December 2021 a legal act effecting materially the financial sector, referred as ‘Interest stop’.

It was an interest rate freeze for retail repricing/floating rate mortgage loans, at the interest rate level contractually valid 27 October (fix rate). Originally the period in scope was 1 January 2021 – 30 June 2022, that was extended to 31 December 2022, valid from 18 June 2022, announced the day before that date.

The cap-system logic is as follows:

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

Erste Bank, 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.

The total modification loss in 2022 amounted to 13,8 billion forint, based on expert estimations (of which 9,4 billion forint is related to Stage 1 deals).

(Government decree: ‘215/2022. (VI. 17.) Korm.rendelet’)

2. Moratorium III extension

The moratorium was extended from 30 June 2022 to 31 July 2022 opening the same time the possibility to participate in a further extension from 1 August 2022 to 31 December 2022, with the same conditions as originally:

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.

Erste Bank, 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.
The total modification loss in 2022 amounted to 172,9 million forint presented in 'Impairment result from financial instruments'.

(Government decree: '216/2022. (VI. 17.) Korm.rendelet')

ii)
New supportive measures effecting banking products' profitability

1. SME interest stop

Like the retail customer relevant 'Interest stop' mentioned in point *i),* this measure also provides an interest rate freeze period, for SME clients' loan and leasing contracts, fixing the reference rate at the level of 28 June 2022 relevant reference rate, for 15 November 2022 – 30 June 2023 period.

Erste Bank, as effect of contractual modification in the meaning of IFRS9, accounted 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.
The total modification loss in 2022 amounted to 915,2 million forint presented in 'Impairment result from financial instruments'.

(Government decree: '415/2022. (X. 26.) Korm.rendelet')

2. Moratorium on agricultural loans

Agricultural companies and entrepreneurs are subject of the moratorium launched in August 2022. Beside certain threshold criteria relative to the agricultural activity (like its share in the total activity), target clients were informed to declare their participation intention. Eligible clients' loan and leasing contracts fall into a repayment moratorium period of 1 September 2022 and 31 December 2022.

Erste Bank, as effect of contractual modification in the meaning of IFRS9, accounted 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.
The total modification loss in 2022 amounted to 57,6 million forint presented in 'Impairment result from financial instruments'.

(Government decree: '292/2022. (VIII. 8.) Korm.rendelet')

iii)
New sectoral levies and taxes

1. Extra profit tax

Published 4 June 2022, the so called ‘extra profit tax’ was imposed to certain sectors, including banking, as a new tax type valid for tax years 2022 and 2023.
The tax base equals to preceding year local business tax base; the measure is 10% in 2022, 8% in 2023. According to the tax base definition, meaning the base does not reflect the current years’ activity, but the precious one’s, Erste Bank recognised this newly launched burden as ‘levy’, and presented in line item ‘Other operating result’, subitem ‘Other operating expense’, of 18.3 billion forint.

(Government decree: ‘197/2022. (VI. 4.) Korm.rendelet’; ‘257/2022. (VII. 18.) Korm.rendelet’; ‘497/2022. (XII. 18.) Korm.rendelet’;)

2. Financial transaction tax scope extension

Valid from 1 August 2022, the financial transaction tax (FTT) originally launched in 2012 was extended in scope. involving security sale transaction. The base is the sales price recognised as income on the customer’s security account; the measure is 0.3%, but maximum 10,000 forint per transaction. Subject of the in-scope transactions are the securities with ISIN by the Hungarian central clearing house (‘KELER’).
While the extra profit tax (point 1) was introduced for a 2-year period, extension of FTT was launched as permanent measure.

The loss related to Erste Bank’s own transaction is recognised in line item ‘Other operating result’, sub item ‘Other operating expense’, of 835 million forint.

(Government decree: ‘197/2022. (VI. 4.) Korm.rendelet’)

iv)
Other measures

1. Interest cap on deposits

Interest paid by financial institution on deposits can not exceed a statistical interest rate defined as the average rate of auctions on discount government bonds with maximum 3M remaining maturity. The guiding rate is the latest published one, at the website of ‘ÁKK’, the governmental agency administrating government securities issuance and trading.

v)
Monetary policy
The base rate increase started in 2021 (see Chapter below, point *ii)*) continued in 2022. From January level of 2.9% it reached 13% by September and stayed at this level in the last quarter of 2022.
The published overnight (O/N) rate is 12.5%; while the 2-week deposit facility was officially terminatead as product.
Parallel to these measurements new tender scheme was launched by NBH:

- there is a daily tender for O/N as of 18%; the tender was announced each day starting from November 2022;
- there is a one-week deposit tender occasiaonally, at 18%;
- there is a maximum 30-day deposit tender, also at 18%.

Based on the above tenders. 18% can be treated as effective rate.

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 instalment repayment freeze schedules launched in 2020 in the form of Moratorium I and II (Moratoria I – II are detailed in this 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 Bank, 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.
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 measure’s officially argument stated that clients in moratoria did 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 instalments 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 instalments;

b. clients stayed 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 Bank 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 recognised 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 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 recognised 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 Bank, 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.
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')

4. Dividend payment in banking sector

The National Bank of Hungary ("NBH"), 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. This measure was extended to 2021, but in a way that under certain criteria prescribed by NBH – to ensure capital stability and liquidity – financial institutions had the opportunity to pay dividend, after proving to NBH the fulfillment of these criteria. The Bank paid 20 billion forint dividend in 2021.

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 stabilisation of inflation. NBH communicated that sees the possibility to reconsider its current monetary policy after the stabilisation 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.

D. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements of Erste Bank for the financial year of 2022 and the comparable data for 2021 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 2021.

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 2022 were authorised for issue in accordance with a resolution of the directors on 31 March 2023.

b) 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 recognised 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 model 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 42 Provisions)

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 2022. 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 2022 and have been endorsed by the EU:
_ **Annual Improvements to IFRSs 2018-2020 Cycle (amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)**

Application of the above mentioned amendments in 2022 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. All of them are endorsed by the EU:

_ **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**

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, but Erste Bank assumes it has not material effect on its financial statements.

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 Bank's 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 is divided into 5 regions and 105 branches in 2022 same as in 2021.

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, 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 2022

	Retail	Corporates	Group Markets	ALM & LCC	Total group
in HUF million	**2022**	**2022**	**2022**	**2022**	**2022**
Net interest income	109,287	45,356	54,392	(65,139)	143,895
Net fee and commission income	55,189	14,181	3,078	(1,762)	70,685
Dividend income	-	-	-	14,769	14,769
Net trading result	5,954	5,814	(25,181)	459	(12,954)
Gains/losses from financial instruments at FVPL	(21,773)	38	-	580	(21,155)
Rental income from investment properties & other operating leases	-	-	-	53	53
General administrative expenses	(70,309)	(12,582)	(3,018)	(1,310)	(87,219)
thereof depreciation and amortisation	(13,139)	(1,158)	(507)	(49)	(14,854)
Gains/losses from derecognition of financial assets at AC	-	-	-	(156)	(156)
Other gains/losses from derecognition of financial instruments not at FVPL	-	599	-	(173)	426
Impairment result from financial instruments	(4,460)	(2,583)	48	(2,301)	(9,296)
Other operating result	(30,177)	(15,023)	(3,691)	(5,229)	(54,120)
Levies on banking activities	(29,473)	(13,650)	(3,277)	(585)	(46,985)
Pre-tax result from continuing operations	**43,711**	**35,800**	**25,628**	**(60,209)**	**44,928**
Taxes on income	(6,497)	(3,494)	(1,937)	4,535	(7,393)
Post-tax result from continuing operations	37,213	32,306	23,691	(55,674)	37,536
Net result for the period	**37,213**	**32,306**	**23,691**	**(55,674)**	**37,536**
Net result attributable to owners of the parent	**37,213**	**32,306**	**23,691**	**(55,674)**	**37,536**
Operating income	148,656	65,388	32,289	(51,040)	195,294
Operating expenses	(70,309)	(12,582)	(3,018)	(1,310)	(87,219)
Operating result	**78,348**	**52,806**	**29,271**	**(52,350)**	**108,074**
Cost/income ratio	47.30%	19.24%	9.35%	-2.57%	44.66%
Total assets (eop)	1,100,034	1,208,388	759,928	2,025,761	5,094,111
Total liabilities excluding equity (eop)	1,471,599	1,384,959	799,062	1,024,757	4,680,377
Impairment gain / (loss)	**(4,500)**	**(2,437)**	**48**	**(10,282)**	**(17,172)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(4,275)	(873)	121	(2,678)	(7,704)
Net impairment loss on commitments and guarantees given	(185)	(1,710)	(73)	376	(1,592)
Net impairment on investments in subsidiaries, joint ventures and associates	-	-	-	(7,860)	(7,860)
Net impairment on other non-financial assets	(40)	145	-	(121)	(15)

.

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 amortisation	(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**
Cost/income ratio	57,9%	25,2%	24,5%	8,3%	45,2%
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)

Geographical segmentation is not applied as Hungary is in the focus of Erste Bank'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	2021	2022
Financial assets at AC	104,351	281,262
Financial assets at FVOCI	2,387	9,038
Interest income	106,738	290,300
Non-trading financial assets at FVPL	10,644	15,197
Financial assets HFT	4,581	11,964
of which: Derivatives	4,075	10,314
Negative interest from financial liabilities	891	1,235
Other assets - Finance lease receivables	1,375	1,184
Other similar income	17,491	29,580
Interest and other similar income	**124,229**	**319,880**
Financial liabilities at AC	(28,150)	(166,435)
Interest expenses	(28,150)	(166,435)
Financial liabilities HFT	(3,570)	(9,114)
of which: Derivatives	(3,570)	(9,114)
Other liabilities	(181)	(216)
Negative Interest from financial assets	(127)	(220)
Other similar expenses	(3,878)	(9,550)
Interest and other similar expenses	**(32,028)**	**(175,985)**
Net interest income	**92,201**	**143,895**

The interest income related to the non-performing portfolio was 1,945 million forint in 2022 and 1,075 million forint in 2021.

Modification losses of financial instruments allocated to Stage 1 in the amount of 9,938 million forint is reported in line item ‘Financial assets at AC’ in 2022, and 1,062 million forint in 2021. Background of COVID-19 payment moratoria related modification loss recognised in 2021 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 lasted until the second quarter of 2022 and 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 Bank 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	2021		2022	
	Income	Expenses	Income	Expenses
Securities	20,244	(58)	22,684	(66)
Issues	-	(45)	-	(45)
Transfer orders	17,846	(13)	19,785	(21)
Other	2,398	-	2,899	-
Custody	-	(348)	-	(401)
Payment services	45,350	(10,877)	53,721	(11,640)
Card business	17,086	(7,416)	19,228	(8,154)
Other	28,264	(3,461)	34,493	(3,486)
Customer resources distributed but not managed	5,014	(27)	5,969	(23)
Insurance products	4,966	(27)	5,899	(23)
Building society brokerage	1	-	1	-
Other	47	-	69	-
Lending business	2,444	(2,682)	2,668	(3,062)
Guarantees given, guarantees received	503	(33)	789	(56)
Loan commitments given, loan commitments received	663	-	683	-
Other lending business	1,278	(2,649)	1,196	(3,006)
Other	616	(5)	837	(2)
Total fee and commission income and expenses	**73,668**	**(13,997)**	**85,879**	**(15,194)**
Net fee and commission income	**59,671**		**70,685**	

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 53,721 million forint (45,350 million forint in 2021) 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	2021	2022
Non-trading financial assets at FVPL	25	71
Financial assets at cost	11,479	14,698
Dividend income	**11,504**	**14,769**

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	2021	2022
Securities and derivatives trading	25,719	40,599
Foreign exchange transactions	(13,448)	(53,553)
Net trading result	**12,271**	**(12,954)**

The change in the net trading result in 2022 were triggered by the loss from the trading book derivatives.

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	2021	2022
Result from measurement/sale of financial assets mandatorily at FVPL	(10,321)	(21,155)
Gains/losses from financial instruments measured at FVPL	**(10,321)**	**(21,155)**

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’ of the Financial Instruments – Significant accounting policies chapter. For the sensitivity analysis please see note Sensitivity analysis using reasonably possible alternatives per product type of note 25) Fair value of financial instruments.

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	2021	2022
Investment properties	41	53
Rental income from investment properties & other operating leases	**41**	**53**

The relating depreciation was 5 million forint in 2022 (6 million in 2021).

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 and about variable remuneration of employees can be found in Note 45) 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.

General administrative expenses

in HUF million	2021	2022
Personnel expenses	**(33,856)**	**(37,499)**
Wages and salaries	(26,937)	(30,860)
Compulsory social security	(4,761)	(4,587)
Long-term employee provisions	(75)	(99)
Other personnel expenses	(2,083)	(1,953)
Other administrative expenses	**(26,126)**	**(34,867)**
Deposit insurance contribution	(1,248)	(5,201)
IT expenses	(13,956)	(17,368)
Expenses for office space	(3,065)	(3,552)
Office operating expenses	(2,044)	(2,408)
Advertising/marketing	(1,856)	(1,820)
Legal and consulting costs	(1,086)	(1,392)
Sundry administrative expenses	(2,871)	(3,126)
Depreciation and amortisation	**(14,821)**	**(14,854)**
Software and other intangible assets	(8,391)	(8,176)
Owner occupied real estate	(892)	(913)
Right-of use assets	(2,741)	(2,842)
Investment properties	(5)	(5)
Customer relationships	(1,128)	(1,128)
Office furniture and equipment and sundry property and equipment	(1,664)	(1,790)
General administrative expenses	**(74,803)**	**(87,220)**

The amount of the Deposit insurance contribution increased because of the extra payment obligation due to the Sberbank bankruptcy.

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

in Full Time Employee	2021 year end	2021 average	2022 year end	2022 average
Erste Bank	**2,993**	**2,984**	**3,103**	**3,015**

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	2021	2022
Gains from sale of financial assets at AC	2,752	-
Losses from sale of financial assets at AC	(1,884)	(156)
Gains/losses from derecognition of financial assets measured at amortised cost	**868**	**(156)**

The gross carrying amount of the financial assets (at AC) sold in 2022 was 29 billion forint (137 billion forint in 2021). 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	2021	2022
From sale of financial assets at FVOCI	428	426
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**428**	**426**

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	2021	2022
Financial assets at FVOCI	17	(324)
Financial assets at AC	(11,772)	(11,399)
Net allocation to credit loss allowances	(8,361)	(5,618)
Modification gains or losses	(3,411)	(5,781)
Finance lease	2,661	4,019
Net allocation of credit loss allowances for loan commitments and financial guarantees given	125	(1,592)
Impairment result from financial instruments	**(8,969)**	**(9,296)**

Modification losses recognised in 2021 are related to the payment moratoria (contractual modification in the meaning of IFRS9), described in C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS chapter. 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)				**- 70,161**
Net impairment loss for the period	- 352	-	-	- 352
(Increase) due to passage of time (UWC)	-	- 6,709	-	- 6,709
CLA decreases due to sales	-	-	2,562	2,562
CLA decreases due to write-offs	-	-	714	714
CLA changes due to changes in Group's structure	-	-	- 842	- 842
Other CLA changes	-	- 183	-	- 183
Closing balance of credit loss allowances (total)				**- 76,009**
Impairment gain/(loss) from POCI without CLA	- 654			
MGLs attributable to financial assets in Stages 2, 3, POCI	- 5,773			
Impairment result from financial instruments	**- 6,778**			

(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.

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.

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.

in HUF million	2021	2022
Other operating expenses	**(25,055)**	**(58,397)**
(Allocation)/release to other provisions[1)]	(568)	-
(Allocation)/release to provisions for commitments and guarantees given	-	(553)
Levies on banking activities	(22,283)	(46,985)
Banking tax[2)]	(5,095)	(24,702)
Financial transaction tax	(17,188)	(22,283)
Other taxes	(39)	(44)
Result from sales of other assets[3)]	-	(33)
(Allocation)/release of impairment on investments in subsidaries	-	(7,860)
Recovery and resolution fund contributions[4)]	(1,971)	(1,380)
Impairment of properties/movables/other intangible assets other than goodwill	(194)	(13)
Result from other operating expenses	-	(1,529)
Other operating income	**4,672**	**4,279**
(Allocation)/release to other provisions[1)]	-	1,709
(Allocation)/release to provisions for commitments and guarantees given	220	-
Result from sales of properties/movables/other intangible assets other than goodwill	59	52
Result from sales of other assets[3)]	13	-
(Allocation)/release of impairment on investments in subsidaries	1,080	-
Income from upgrade on loans previously subject to FX settlement[5)]	3,181	2,518
Result from other operating income	119	-
Other operating result	**(20,383)**	**(54,118)**

1) 1,157 million forint release is related to legal issues and litigations (698 million forint allocation in 2021). Please see the details in 42) Provisions.

2) Banking Tax

The Hungarian Parliament approved a new Act in August 2010 which provides a framework for the levying of a "banking tax" on financial institutions in the forthcoming years. According to this Act each financial institution - that already had a closed financial year and related financial statements on 1 July 2010 - would be subject to assessment and payment of the banking tax. The basis and the rate of the banking tax that is payable differs depending on the type of financial institution. The rates are uniformly based on statutory reported financial data of the second fiscal year before the tax year. For credit institutions the tax rates are 0.15% of adjusted total asset value for the first 50 billion forint; and 0.20% for the amount exceeds 50 billion forint.

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

A surtax was levied on financial institutions in the year 2020, referred as pandemic banking tax. The base of the tax (alike banking tax) is the adjusted balance sheet total exceeding 50 billion forint of the second tax year preceding the given tax year, the measure is 0.19%. Legal act prescribed the payment in three instalment during 2020, and also provided a deduction right from the banking tax, in five equal instalment in the period of 2021-2025. As in IFRS terms the deduction possibility is valued as virtually certain, Erste Bank recognised a receivable of 2.5 billion forint as of 31 December 2022 (3.3 billion forint in 2021) against the payment, in the total amount of the levy. Please see line item 'Other assets', in Note 39).

Published 4 June 2022, the so called 'extra profit tax' was imposed to certain sectors, including banking, as a new tax type valid for tax years 2022 and 2023. 18.3 billion forint expense was recognised in 2022 related to this newly launched burden. Please see the details in part C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

3) Result from sales of other assets relates to income earned on repossessed assets, especially repossessed property sales. Erste Bank realised 33 million forint loss in 2022 (17 million forint gain and 4 million forint loss in 2021).

.

4) In the line 'Recovery and resolution fund contributions' contributions to the national resolution funds in amount of 1,380 million (1,971 million forint in 2021) 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) FX portfolio subject to legally obliged conversion into forint were derecognised and recognised as new loans. There was no impairment presented at recognition, so upgrade of clients out of positive change in CF expectation was recognised as increase of exposure in 'Loans and receivables to customers' in statement of financial position and in 'Other operating result' in income statement.
Legally obliged conversion was based on Conversion law of 2014:LXXVII (passed November 2014) that introduced the concept of a compulsory conversion of foreign currency denominated consumer loans in-scope into HUF, at a rate fixed by the law. This law was further amended by FX car loan, financial leasing and unsecured loan conversion law CXLV of 2015 (passed 6 October 2015) to widened the loans subject to the compulsory conversion. In scope are foreign currency denominated consumer mortgage loans, real estate leasing, car loans agreements. The effective conversion date for the first law was 1 February 2015, while the second law was 1 January 2016.

13) Taxes on income

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

Current tax

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

Deferred tax

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

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

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

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

Significant accounting judgements, assumptions and estimates

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

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

in HUF million	2021	2022
Current tax expense / income		
Current period taxes	(5,850)	(6,385)
of which local business tax	(3,357)	(5,062)
of which local innovation tax	(548)	(758)
Prior period taxes	241	(22)
Deferred tax expense / income		
Current period deferred tax benefit / (expense)	(1,056)	(986)
Total	**(6,665)**	**(7,393)**

Deferred tax related to 'Fair Value reserve' has been recognised in other comprehensive income in the amount of 1,089 million forint in 2022 and 376 million forint in 2021.

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

in HUF million	2021	2022
Profit before tax	**62,508**	**44,929**
At statutory income tax rate (9%)	(5,626)	(4,044)
Income not subject to tax	2,946	3,408
Non tax deductible expenses	(1,533)	(1,448)
Local business and innovation tax	(3,905)	(5,820)
Tax loss carry forward usage	2,106	1,042
Current period deferred tax benefit / (expense)	(1,056)	(986)
Other	403	455
Total tax expense	**(6,665)**	**(7,393)**

In the ‘Other’ category 473 million forint is related to deductible subsidy (408 million forint in 2021).

At 31 December 2022 the tax loss carried forward amounts to 21,003 million forint (2021: 32,578 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 (21,003 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

in HUF million	Tax assets 2021	Tax assets 2022	Tax liabilities 2021	Tax liabilities 2022	Net variance 2022 Total	Net variance 2022 through profit or loss	Net variance 2022 through other comprehensive income	Net variance 2022 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	-	1,089	-	-	1,089	-	1,089	-
Property and equipment (useful life in tax law different)	338	377	-	-	39	39	-	-
Other provisions (tax valuation different)	-	-	(122)	(324)	(202)	(202)	-	-
Tax loss carry-forward	2,096	1,270	-	-	(826)	(826)	-	-
Other	16	18	-	-	2	3	-	(1)
Effect of netting gross deferred tax position	(204)	(406)	204	406	-	-	-	-
Deferred taxes	**2,246**	**2,348**	**-**	**-**	**102**	**(986)**	**1,089**	**(1)**
Current taxes	**-**	**-**	**(2,047)**	**(1,449)**	**(6,407)**	**(6,407)**	**-**	**-**
Total taxes	**2,246**	**2,348**	**(2,047)**	**(1,449)**	**(6,305)**	**(7,393)**	**1,089**	**(1)**

Erste Bank allocated 2.35 billion forint deferred tax asset at the nominal corporate income tax rate of 9% as of 31 December 2022, having the breakdown as follows:

- 1.27 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.
- 1,08 billion forint as a net asset in relation to other temporary differences.

Financial instruments – Significant accounting policies

Accounting and measurement methods for financial instruments

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

Measurement of financial assets and financial liabilities is subject to two primary measurement methods at amortised cost and fair value.

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. For further details refer to part 'Significant accounting judgements, assumptions and estimates' in this chapter

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 17) Financial liabilities at amortised costs and Note 23) 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).

.

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'.

Measurement of expected credit losses reflects cash flows expected from collateral and those financial guarantees held by Erste Group which are considered as integral to the contractual terms of financial assets whose risk is guaranteed. Erste Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral. 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'.

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'.

Information about the development of the expected credit loss of the respective financial instruments is provided in Note 32) Credit risk.

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); or
- removal of a non-SPPI contractual feature.

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

From this perspective, the following criteria lead to derecognition unless they are considered as forbearance measures, they are applied to customers in default or they trigger default:

- repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and not less than two years compared to the original asset;
- change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months), or
- altering a floating interest rate into a fixed interest rate or vice versa for the entire remaining life of the financial asset.

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. 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). For more information on Forbearance please refer to Note 32) Credit risk

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.

iv. 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

i. 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 22) Non-trading financial assets at fair value through profit or loss.

ii. 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.

iii. Impairment of financial instruments

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

Detailed disclosures about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 32) Credit risk. The development of loan loss provisions is described in Note 18) Financial assets at fair value through other comprehensive income, chapter Financial assets at amortised cost, and chapter Leases subchapter Finance lease receivables.

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 17) 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. . This percentage was increased to 5% from October 2022. The average of monthly mandatory minimum reserves at 31 December 2022 and 31 December 2021 was 205.77 billion forint and 41.00 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 on a daily basis . Therefore, the mandatory minimum reserve requirement deposits are not subject to any restraints.

in HUF million	2021	2022
Cash on hand	22,892	32,907
Cash balances at central banks	92,567	568,233
Other demand deposits at credit institutions	15,797	2,161
Cash and cash balances	**131,256**	**603,301**

The increased central bank deposit balance is due the significant changes in the interest rate environment. Please see the details in section C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

15) Financial assets at amortised cost

The line item 'Financial Assets at amortised cost' is further broken down into 'Debt securities', 'Loans and advances to banks' and 'Loans and advances to Customers'. For details regarding the development of credit loss allowances please refer to Note 33).

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
2022									
General governments	764,886	-	-	764,886	(447)	-	-	(447)	764,439
Credit institutions	407,649	-	-	407,649	(377)	-	-	(377)	407,272
Other financial corporations	5,650	-	-	5,650	(13)	-	-	(13)	5,637
Non-financial corporations	54,490	9,359	1,369	65,218	(164)	(365)	(871)	(1,400)	63,818
Total	**1,232,675**	**9,359**	**1,369**	**1,243,403**	**(1,001)**	**(365)**	**(871)**	**(2,237)**	**1,241,166**

	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	2,035	-	61,173	(151)	(24)	-	(175)	60,998
Total	**1,160,780**	**2,035**	**-**	**1,162,815**	**(798)**	**(24)**	**-**	**(822)**	**1,161,993**

For information about development of credit loss allowances refer to Note 33) Development of credit loss allowances, part ‘Financial instruments held at amortised cost’: table ‘Movement in credit loss allowances – debt securities’.

There were no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2022.

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
2022									
Central banks	126,937	-	-	126,937	(15)	-	-	(15)	126,922
Credit institutions	274,536	-	-	274,536	(267)	-	-	(267)	274,269
Total	**401,473**	**-**	**-**	**401,473**	**(282)**	**-**	**-**	**(282)**	**401,191**

	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**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2022.
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 exposure is presented in line item ‘Loans and advances to banks’. Income earned is presented in line item ‘Net interest income’.

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 2022											
General governments	152,632	172	-	8	152,812	(9)	(3)	-	-	(12)	152,800
Other financial corporations	110,070	117	39	-	110,226	(841)	(6)	(32)	-	(879)	109,347
Non-financial corporations	615,769	243,800	17,659	6,861	884,089	(2,937)	(9,324)	(9,104)	(1,147)	(22,512)	861,577
Households	666,474	100,068	34,194	11,741	812,477	(3,998)	(11,573)	(23,818)	(3,480)	(42,869)	769,608
Total	**1,544,945**	**344,157**	**51,892**	**18,610**	**1,959,604**	**(7,785)**	**(20,906)**	**(32,954)**	**(4,627)**	**(66,272)**	**1,893,332**

.

	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**

Modifications of financial assets at amortised cost

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

in HUF million	2021 Amortised cost before the modification	2021 Net modification gains/losses	2022 Amortised cost before the modification	2022 Net modification gains/losses
Loans and advances	**299,134**	**3,410**	**134,129**	**5,773**
Other financial corporations	80	1	125	-
Non-financial corporations	111,642	477	39,751	737
Households	187,412	2,932	94,253	5,036
Total	**299,134**	**3,410**	**134,129**	**5,773**

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 32) Credit Risk.

As at 31 December 2022, the total GCA of Erste Bank'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 2022 amounted to HUF 21 million (2021: HUF 0 million)

16) Trade and other receivables

This line item includes receivables from factoring transactions.

Gross carrying amounts and credit loss allowances per impairment buckets

in HUF million	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
2022											
General governments	1,295	-	-	-	1,295	(1)	-	-	-	(1)	1,294
Credit institutions	-	1	-	-	1	-	-	-	-	-	1
Other financial corporations	18,595	-	-	-	18,595	-	-	-	-	-	18,595
Non-financial corporations	6,394	3,698	-	-	10,092	(155)	(58)	-	-	(213)	9,879
Households	120	-	-	-	120	(10)	-	-	-	(10)	110
Total	**26,404**	**3,699**	**-**	**-**	**30,103**	**(166)**	**(58)**	**-**	**-**	**(224)**	**29,879**

Gross carrying amounts and credit loss allowances per impairment buckets

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

There are no purchased or originated credit-impaired (POCI) Trade and other receivables as of 31 December 2022.

For information about development of credit loss allowances refer to Note 33) Development of credit loss allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – trade and other receivables'.

17) 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	2021	2022
Deposit from domestic banks	524,090	620,006
Deposit from foreign banks	76,028	302,896
of which by Austrian banks	75,495	297,099
of which subordinated liabilities	62,762	136,336
Total	**600,118**	**922,902**

Deposits from banks - subordinated liabilities

Maturity	Notional amount 2021		Notional amount 2022		Interest conditions
	in thousand EUR	in million HUF	in thousand EUR	in million HUF	
22 June 2030	170,000	62,730	170,000	68,042	3M EURIBOR+ 1,85%, quarterly*
15 Dec 2030	-	-	170,000	68,042	3M EURIBOR+ 3.46%, quarterly*
Total subordinated loans	**170,000**	**62,730**	**340,000**	**136,084**	

1) The Bank has new subordinated deposits in notional amount of TEUR 170,000 (68,042 million forint).

Deposits from customers

in HUF million	2021	2022
Saving deposits	2,334	2,332
Other deposits	3,032,566	3,410,929
Public sector	92,822	53,125
Commercial customers	1,068,347	1,298,346
Private customers	1,346,841	1,294,187
Other financial institutions	524,556	765,271
Total	**3,034,900**	**3,413,261**

Debt securities issued

in HUF million	2021	Notional amount 2021	2022	Notional amount 2022
Bonds	3,470	3,353	147,951	147,117
of which subordinated liabilities	2,999	3,352	3,086	3,352
Certificate of deposits	799	799	790	790
Total	**4,270**	**4,153**	**148,741**	**147,907**

Debt securities issued - non-subordinated liabilities

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

Debt securities issued non subordinated securities as at 31 December 2022	ISIN code	Date of issue	Date of maturity	Notional amount in HUF million	Interest conditions
Bonds					
10,80% ERSTE HUF 22-24 KÖTVÉNY	HU0000362033	2022.12.20	2024.12.19	3,677	fixed 10,8% interest payments: yearly
ERSHUN 1 1/4 02/04/26	AT0000A2VCV4	2022.02.04	2026.02.04	140,088	first 3 years: fixed 1.25% interest payments; yearly; in the last year: 3M EURIBOR +1.25%
Total				**143,765**	
certificate of deposit	AT2222222222	1990.01.01	2017.11.25	790	
Total				**790**	

Debt securities 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 - subordinated liabilities

As of 31 December 2022

Erste Bank Hungary Ltd.

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 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**			

Financial assets at fair value through other comprehensive income

18) Financial assets at fair value through other comprehensive income – debt instruments

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.

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 Stage 1	Stage 2	Stage 3	Total	Credit loss allowances Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2022											
General governments	192,358	-	-	192,358	(112)	-	-	(112)	192,246	(10,728)	181,517
Non-financial corporations	1,246	2,037	913	4,196	(4)	(31)	(234)	(269)	3,927	(1,366)	2,562
Total	**193,604**	**2,037**	**913**	**196,554**	**(116)**	**(31)**	**(234)**	**(381)**	**196,173**	**(12,094)**	**184,079**

Gross carrying amounts and credit loss allowances per impairment buckets

in HUF million	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	Credit loss allowances Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
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**

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 2022.

19) Financial assets at fair value through other comprehensive income – equity instruments

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'.

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 22).

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 20) 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 20) Derivative financial instrument, Note 21) Other financial liabilities held for trading and Note 23) Financial liabilities at fair value through profit or loss.

20) 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	2021			2022		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book[1)]	**7,178,248**	**40,746**	**34,865**	**7,082,405**	**81,394**	**81,722**
Interest rate	1,692,566	11,020	9,432	1,706,835	45,137	42,034
Foreign exchange	5,485,682	29,726	25,433	5,375,570	36,257	39,688
Derivatives held in the banking book[1)]	**365,033**	**14,388**	**5,293**	**1,117,005**	**54,228**	**39,295**
Interest rate	320,274	11,650	5,293	1,047,831	49,318	39,295
Foreign exchange	44,759	2,738	-	69,174	4,910	-
Total gross amounts	**7,543,281**	**55,134**	**40,158**	**8,199,410**	**135,622**	**121,017**
Total	**7,543,281**	**55,134**	**40,158**	**8,199,410**	**135,622**	**121,017**

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

21) Other financial assets held for trading

in HUF million	2021	2022
Debt securities	15,272	69,444
General governments	4,244	981
Credit institutions	11,029	68,463
Other financial assets held for trading	**15,272**	**69,444**

The increase of the balance was driven by the significant changes in the market and the interest environment. Please see details in section C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

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

	2021		2022	
in HUF million	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	-	1,611	-	2,809
Debt securities	-	1,206	-	699
Other financial corporations	-	1,206	-	699
Loans and advances to customers	-	270,896	-	311,321
General governments	-	54	-	44
Non-financial corporations	-	33	-	10
Households	-	270,809	-	311,267
Financial assets designated and mandatorily at FVPL	**-**	**273,713**	**-**	**314,829**
Non-trading financial assets at fair value through profit or loss	**-**	**273,713**	**-**	**314,829**

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

23) 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 instruments – other disclosure matters

24) Fair value of 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.

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 178 million forints (113 million forints in 2021) and the total DVA-adjustment amounted to 337 million forints (47 million forints in 2021).

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.

The table below details the valuation methods used to determine the fair value of financial instruments measured at fair value:

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

	31.12.2021				31.12.2022			
in HUF million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HfT	3,876	66,530	-	70,406	318	204,605	142	205,065
Derivatives	-	55,133	-	55,133	-	135,479	142	135,621
Other financial assets held for trading	3,876	11,397	-	15,273	318	69,126	-	69,444
Non-trading financial assets at FVPL	-	-	273,712	273,712	831	-	313,998	314,829
Equity instruments	-	-	1,611	1,611	831	-	1,978	2,809
Debt securities	-	-	1,207	1,207	-	-	699	699
Loans and advances	-	-	270,896	270,896	-	-	311,321	311,321
Financial assets at FVOCI	79,648	38,085	1,016	118,749	87,726	93,821	2,533	184,080
Debt securities	79,648	38,085	1,016	118,749	87,726	93,821	2,533	184,080
Total assets	**83,524**	**104,615**	**274,728**	**462,867**	**88,875**	**298,426**	**316,673**	**703,974**
Liabilities								
Financial liabilities HfT	-	40,158	-	40,158	-	(119,987)	(1,030)	(121,017)
Derivatives	-	40,158	-	40,158	-	(119,987)	(1,030)	(121,017)
Total liabilities	**-**	**40,158**	**-**	**40,158**	**-**	**(119,987)**	**(1,030)**	**(121,017)**

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.

Development of fair value of financial instruments in Level 3

in HUF million	01.01.2022	Gains/losses profit or loss	Gains/losses OCI	Purchases	Sales	Settlements	Transfer into Level 3	Transfer out of Level 3	Reclassification	Currency translation	31.12.2022
Assets											
Financial assets HfT	-	142	-	-	-	-	-	-	-	-	142
Derivatives	-	142	-	-	-	-	-	-	-	-	141
Other financial assets held for trading	-	-	-	-	-	-	-	-	-	-	(1)
Non-trading financial assets at FVPL	273,713	(21,368)	-	311,826	-	(249,283)	-	(894)	-	5	313,998
Equity instruments	1,611	357	-	10	-	-	-	-	-	-	1,978
Debt securities	1,205	9	-	374	-	-	-	(894)	-	5	699
Loans and advances	270,896	(21,734)	-	311,442	-	(249,283)	-	-	-	-	311,321
Financial assets at FVOCI	1,015	(248)	(834)	-	-	-	2,599	-	-	-	2,533
Equity instruments	-	-	-	-	-	-	-	-	-	-	-
Debt securities	1,016	(248)	(834)	-	-	-	2,599	-	-	-	2,533
Total assets	**274,728**	**(21,474)**	**(834)**	**311,826**	**-**	**(249,283)**	**2,599**	**(894)**	**-**	**5**	**316,673**
Liabilities											
Financial liabilities HfT	-	-	-	-	-	-	-	-	-	-	-
Derivatives	-	(1,030)	-	-	-	-	-	-	-	-	(1,030)
Total liabilities	**-**	**(1,030)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,030)**

in HUF million	01.01.2021	Gains/losses profit or loss	Gains/losses OCI	Purchases	Sales	Settlements	Transfer into Level 3	Transfer out of Level 3	Reclassification	Currency translation	31.12.2021
Assets											
Financial assets HfT	1,395	-	-	-	-	-	-	(1,395)	-	-	-
Derivatives	1,395	-	-	-	-	-	-	(1,395)	-	-	-
Other financial assets held for trading	-	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets 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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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)
2022					
Positive fair value of derivatives	Swaps		Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	1.05%-1.79%
				LGD	60%
Financial assets at FVPL	Fixed and variable coupon bonds		Discounted cash flow	Credit Spread	na
	Loans	208,444	Discounted cash flow	PD	0.03%-100% (1.62%)
				LGD	0.02%-100% (23.7%)

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%)

Sensitivity analysis using reasonably possible alternatives per product type

	2021		2022	
	Fair value changes		Fair value changes	
in HUF million	Positive	Negative	Positive	Negative
Derivatives	-	-	35	(34)
Income statement	-	-	35	(34)
Debt securities	153	(243)	97	(151)
Income statement	60	(120)	35	(70)
Other comprehensive income	93	(123)	62	(81)
Equity instruments	161	(161)	198	(198)
Income statement	161	(161)	198	(198)
Other comprehensive income	-	-	-	-
Loans and advances	6,309	(16,186)	6,158	(18,346)
Income statement	6,309	(16,186)	6,158	(18,346)
Total	**6,623**	**(16,591)**	**6,488**	**(18,729)**
Income statement	**6,530**	**(16,468)**	**6,426**	**(18,648)**
Other comprehensive income	**92**	**(123)**	**62**	**(81)**

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

The following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

- for debt securities range of credit spreads between +100 basis points and -75 basis points
- for equity related instruments the price range between -10% and +5%
- for unquoted equity instruments the price range between -10% and +10% (VISA instrument is included from Debt security category due to the similar contractual feature with equity instruments)
- for CVA on derivatives PDs rating upgrade/downgrade by one notch, as well as the change of LGD by -5% and +10%.
- for loans, the PDs rating upgrade/downgrade by 1%, the change of LGD by -5% and +10% and a range of credit spreads between +100 basis points and -75 basis points.

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

2022 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	**4,138,990**	**3,801,743**	**1,141,723**	**411,998**	**2,248,022**
Cash and balances with central bank	603,301	603,301	603,301	-	-
Debt securities at amortised cost	1,241,166	976,033	538,422	411,998	25,613
Loans and advances	2,294,523	2,222,409	-	-	2,222,409
LIABILITIES	**(4,484,904)**	**(4,393,379)**	**-**	**(131,517)**	**(4,261,862)**
Deposits from customers	(3,413,261)	(3,413,485)	-	-	(3,413,485)
Debt securities issued	(148,741)	(132,346)	-	(131,517)	(829)
Subordinated liabilities	(136,336)	(130,846)	-	-	(130,846)
LIABILITIES	**(4,484,904)**	**(4,393,379)**	**-**	**(131,517)**	**(4,261,862)**

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)

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.

2022:

Financial assets subject to offsetting and potential offsetting agreements in 2022

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	135,622	0	135,622	70,359	0	0	65,263
Total	**135,622**	**0**	**135,622**	**70,359**	**0**	**0**	**65,263**

Liabilities subject to offsetting and potential offsetting agreements 2022

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	121,017	0	121,017	70,359	0	0	50,658
Repurchase agreements	134,966	0	134,966	0	0	134,669	297
Total	**255,983**	**0**	**255,983**	**70,359**	**0**	**134,669**	**50,955**

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	0	55,134	23,277	0	0	31,857
Total	**55,134**	**0**	**55,134**	**23,277**	**0**	**0**	**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	0	40,158	23,277	0	0	16,881
Repurchase agreements	7,186	0	7,186	0	0	7,186	0
Total	**47,344**	**0**	**47,344**	**23,277**	**0**	**7186**	**16,881**

Erste Bank 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’.

28) Securities lending and repurchase transactions

	2021		2022	
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	**8,118**	**7,186**	**93,846**	**64,761**
Financial assets - at AC	8,118	7,186	93,846	64,761
Total	**8,118**	**7,186**	**93,846**	**64,761**

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.

	2021			2022		
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	7,199	7,186	(13)	63,337	64,761	1,424
Total	**7,199**	**7,186**	**(13)**	**63,337**	**64,761**	**1,424**

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 derecognition of financial assets measured at amortised cost’.

29) Financial assets pledged as collateral

The following assets were pledged as security for liabilities:

in HUF million	2021	2022
Financial assets at amortised cost	417,181	449,014
Loans and advances to customers	214,921	213,492
Debt securities at AC	202,260	235,522
Total	**417,181**	**449,014**

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 148,525 million forint in 2022 (188,867 million forint in 2021) as well as SME loans for a refinancing program with the National bank of Hungary, of 2,615 million forint in 2022 (3,191 million forint in 2021).

This category also contains encumbered deposits placed for derivative and card transactions.

30) Securities

	2021					2022				
			Financial assets					Financial assets		
in HUF million	At AC	Trading assets	Mandatorily at FVPL	Designated at FVPL	At FVOCI	At AC	Trading assets	Mandatorily at FVPL	Designated at FVPL	At FVOCI
Bonds and other interest-bearing securities	**1,161,993**	**15,272**	**1,206**	**-**	**118,748**	**1,241,166**	**69,444**	**699**	**-**	**184,079**
Listed	1,148,162	11,434	-	-	118,748	1,173,006	69,126	699	-	180,492
Unlisted	13,832	3,839	1,206	-	-	68,160	318	-	-	3,587
Equity-related securities	**x**	**-**	**1,611**	**x**	**-**	**x**	**-**	**2,809**	**x**	**-**
Unlisted	x	-	1,611	x	-	x	-	2,809	x	-
Total	**1,161,993**	**15,272**	**2,816**	**-**	**118,748**	**1,241,166**	**69,444**	**3,508**	**-**	**184,079**

Risk management

Risk and capital management

Risk policy and strategy

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

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

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

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.

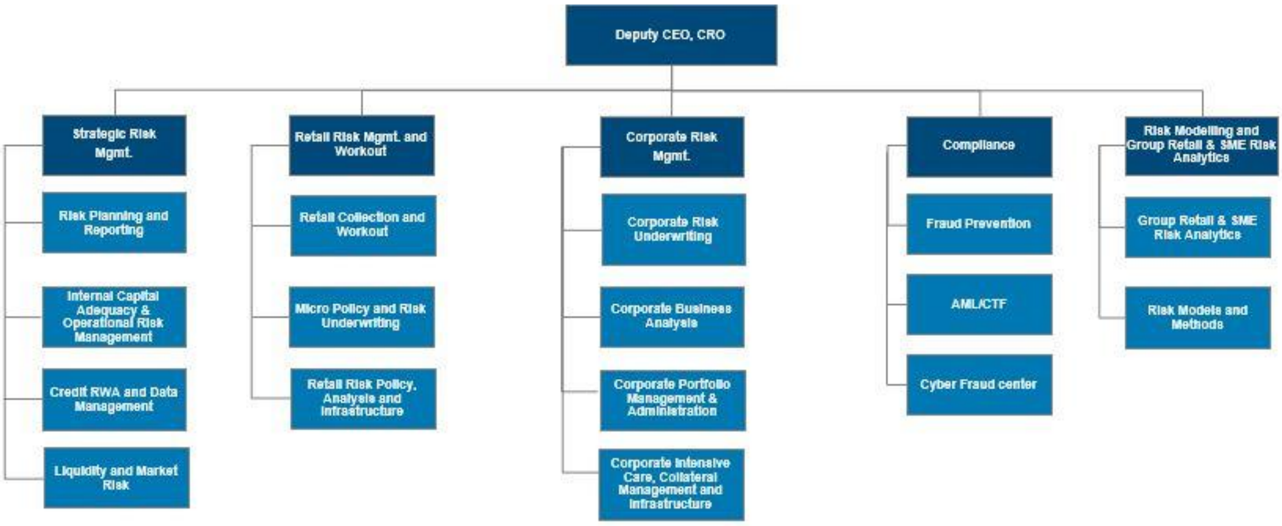
Risk management organisation

Risk management is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits. Risk management units are completely separate from each business unit. In 2022 the only organisational change on Board-1 level in the CRO area was the transfer of Security Management to the COO division.

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, harmonising 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 organisational 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);
- portfolio and risk analytics including Risk Materiality Assessment (RMA), concentration risk management, and stress testing;
- Risk-bearing Capacity Calculation (RCC).

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
- Recovery and Resolution Planning
- Risk Reporting

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

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 2022 was approved by the Board of Directors and the Supervisory Board and acknowledged by the Managing Board in the first quarter of 2022. In the second half of 2022, interim revisions of EBH RAS was conducted and approved by the designated governance.

Portfolio and risk analytics

Erste Bank uses dedicated infrastructure, systems and processes to actively identify, measure, control, report and manage risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise aware-ness to management in a timely manner.

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 concentration analysis

Erste Bank has implemented a process to identify, measure, control and manage risk concentrations. This process is essential to ensure the long-term viability of Erste Bank, especially in times of an adverse business environment and stressed economic conditions. The output of the risk concentration analysis additionally contributes to the identification of material risks within the RMA and to the setting/calibration of the Bank's limit system.

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.

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 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 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 uses, where possible, more risk sensitive/advanced methodologies tailored to Erste Bank'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 65,3% of total economic capital requirements at the end of 2022.

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 2022, the economic capital adequacy was at 73,1%.

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 and resolution plans

In compliance with the Hpt. 114.§ Erste Bank Hungary Zrt. is required to draw up a recovery plan for potential crisis situations. In 2022 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 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 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, at the latest by the end of 2023. MREL is expressed as a percentage of the total risk exposure amount (TREA) as well as leverage ratio exposure (LRE).

Potential changes in the MREL requirement will be reflected in Erste Bank's funding plan as to ensure compliance with MREL and subordination targets.

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

Regulatory requirements

Since 1 January 2014, Erste Bank has been calculating the regulatory own funds and the regulatory capital requirements according to the Capital Requirements Regulation (CRR, Regulation (EU) No. 575/2013) and the Capital Requirement Directive (CRD IV, Directive (EU) 2013/36/EU). Both the CRD IV and CRD V were transposed into national law in the Hungarian Banking Act.

All requirements as defined in the CRR, the Hungarian Banking Act and in technical standards issued by the European Banking Authority (EBA) are applied by Erste Bank for regulatory purposes and for the disclosure of regulatory information.

Furthermore, credit institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP).

Accounting Principles

The financial and regulatory figures published by Erste Bank are based on IFRS. Eligible capital components are derived from the balance sheet and income statement which were prepared in accordance with IFRS. The uniform closing date of the consolidated regulatory figures of Erste Bank is the 31 December of the respective year.

Consolidated own funds

Own funds according to CRR consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk amount.

Capital buffer requirements are set for the capital conservation buffer, countercyclical buffer, Other Systemic Important Institution (O-SII) buffer and systemic risk buffer. All capital buffers have to be met entirely with CET1 capital and relate to total risk.

The items of own funds as disclosed are also used for internal capital management purposes. Erste Bank fulfilled the capital requirements throughout the reporting period. The regulatory minimum capital ratios including the capital buffers as of 31 December 2022 amount to

- 7.13% for CET1 capital (4.5% CET1, +2.5% capital conservation buffer, +0.125% O-SII buffer and,
- 8.63% for tier 1 capital (sum of CET1 and AT1) and
- 10.63% for total own funds

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP).

An increase of the combined buffer requirements and thus an increase of the minimum capital requirements will be expected for 2023. This is stemming from higher requirements for the O-SII and countercyclical buffer.

During 2022 and 2021 Erste Bank and Erste Hungary had complied in full with all its externally imposed capital requirements.

The amount of deductions from the Tier 1 capital was updated based on final regulatory figures for 2022.

in HUF million	2021	2022
Tier 1 capital before deductions	433,186	413,734
Deductions from the Tier 1 capital (-)	18,773	19,780
Tier 1 capital after deductions	**414,413**	**393,954**
Tier 2 capital	70,590	146,562
Total qualifying own funds	**485,003**	**540,516**
Risk weighted assets (base for credit risk)	1,595,951	1,940,390
Capital requirement for credit risk	**127,676**	**155,231**
thereof IRB approach	116,854	142,182
thereof standardized approach	10,822	13,049
Capital requirement for market risk	**392**	**985**
thereof calculated with simple approach	392	985
thereof from debt instruments	392	985
Other capital requirements for credit valuation adjustment	**881**	**2,574**
Capital requirement for operational risk	**42,792**	**47,691**
Total base for capital requirement	**2,146,760**	**2,581,022**
Total capital requirement	**171,741**	**206,482**

32) Credit risk: credit risk review and monitoring

Credit risk strategy

In 2022, management attention was dedicated to the evolving Russia-Ukraine conflict, which poses serious threats to the European but also global economy. Erste Bank is not directly impacted. Still, a number of ad hoc risk management activities was undertaken in order to evaluate, actively steer and mitigate indirect impact on the capital position and risk profile. All stress scenarios, would have manageable impact on the Erste Bank risk profile, keeping all capital ratios above the limits.

Environmental, Social and Governance (ESG) risks remained one of the top priorities also in 2022. Focus in risk was on advancements in implementation of initiatives to achieve compliance with regulatory requirements and expectations such as improvements in the Carbon Footprint Calculation, development of methodologies for setting decarbonisation targets for priority sectors, enhancement of Risk Materiality Assessment and reporting system, and incorporation of climate-related and environmental risks in credit risk processes.

Methods of credit risk management

Credit risk arises from Erste Bank's traditional lending and investment businesses.

Operative credit decisions are made by the Retail Risk Management and Corporate Risk Management.

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 and supported by underlying profitability.

Erste Group also considers ESG factors in its risk management and industry strategy framework (e.g. ESG Factor Heatmap as an input in respective industry strategies). The Group has established an ESG risk framework and toolkit for assessment of material ESG factors, related risks and appropriateness of the mitigating strategies in the credit and rating processes.

Furthermore, ESG relevant data is collected for certain types of collateral, as defined in the Collateral Management Policy for real estate collateral valuations, documentation and reporting purposes (e.g. greenhouse gas emissions). Further developments and enhancements of ESG Risk Framework related to credit risk have been established as part of the Group Risk Strategy.

Internal rating system

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.)

The following segment falls under the Advanced IRB Approach:

- Retail

The following segments fall under the Foundation IRB Approach:

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

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).

.

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.

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 organisations.

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.

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 unutilised 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.

Credit risk classification

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

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

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

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

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

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.

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.

In 2022, the method of assigning the external customer ratings to the internal PDs was reviewed. The main adjustments were the update of the one one-year default rates for the agency ratings and the redefinition of the internal PD assignment for the different rating methods, resulting in a more stable distribution of exposure to risk categories over time. Compared to the method used for the assignment of credit exposures to risk categories until 2021, the adjusted methodology results in a decrease of the portfolio share of the 'low risk' category by 10.4 percentage points, as of 31 December 2022. The 'management attention' and 'substandard' categories increase by 8.4 and 2.1 percentage points. The 'non-performing' risk category was not affected by the adjustment of the methodology.

Credit risk review and monitoring

Risk Management areas conduct periodical reviews of the loan portfolio for Erste Bank to ensure an adequate portfolio quality and to monitor the compliance with the principles and parameters as stipulated by Erste Bank'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 specialised workout units aiming to minimise 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 2021 and 31 December 2022, credit risk exposure increased from 4,560,242 million forint to 5,278,887 million forint. This 718,645 million forints increase represents a 15.8% growth in the portfolio.

The migrated Commerz portfolio (Details see in B. ACQUISITIONS, MERGERS AND DISPOSALS) is part of the 31.12.2022 credit risk exposure with the amount of HUF 401.9 bn. Erste Bank Hungary applied the same parameters and stage classification rules for the migrated portfolio as for the existing portfolio. 68.9% of the portfolio was in low-risk category, while 14.1% in management attention, 16.2% in substandard and 0.9% in default. The defaulted portfolio was recognised as POCI. The application of the Ukraine overlay resulted a stage 2 share of 25%, while the remaining portfolio is in stage 1.

.

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

2022

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	2,162	1	-	2,161
Derivatives and Debt instruments held for trading	205,066	-	-	205,066
Non-trading debt instruments at FVPL	312,020	-	-	312,020
Debt securities	699	-	-	699
Loans and advances to customers	311,321	-	-	311,321
Debt instruments at FVOCI	196,554	381	(12,094)	184,079
Debt securities	196,554	381	(12,094)	184,079
Debt instruments at AC	3,673,973	70,148	-	3,603,825
Debt securities	1,243,402	2,236	-	1,241,166
Loans and advances to banks	401,473	282	-	401,191
Loans and advances to customers	1,959,603	66,272	-	1,893,331
Trade and other receivables	30,102	224	-	29,878
Finance lease receivables	39,393	1,134	-	38,259
Off balance-sheet exposures	889,112	8,742	-	880,370
Total	**5,278,887**	**79,272**	**(12,094)**	**5,187,521**

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**

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 following pages the credit risk exposure is presented according to different segmentation criteria.

Credit risk exposure by industry and risk category

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2022					
Natural Resources & Commodities	202,393	72,986	22,891	4,026	302,296
Energy	281,869	18,749	13,145	65	313,828
Construction and building materials	60,583	31,211	36,276	951	129,021
Automotive	116,176	14,161	18,203	1,529	150,069
Cyclical Consumer Products	28,353	13,077	7,098	6,458	54,986
Non-Cyclical Consumer Products	126,450	28,917	7,843	4,153	167,363
Machinery	26,377	14,937	9,322	1,034	51,670
Transportation	175,508	22,590	7,389	206	205,693
TMT and Paper & Packaging	5,731	5,606	17,318	109	28,764
Healthcare & Services	29,800	17,291	7,072	663	54,826
Hotels, Gaming & Leisure Industry	16,510	3,398	2,446	7,156	29,510
Real Estate	330,412	18,610	9,083	2,245	360,350
Public Sector	161,276	4,131	282	17	165,706
Financial Institutions	1,888,229	63,486	78,420	408	2,030,543
Private Households	437,490	610,967	144,589	41,079	1,234,125
Other	48	5	79	5	137
Total	**3,887,205**	**940,122**	**381,456**	**70,104**	**5,278,887**

.

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2021					
Natural Resources & Commodities	86,394	45,736	9,754	2,818	144,702
Energy	72,272	2,668	757	180	75,877
Construction and building materials	36,860	35,806	5,201	1,132	78,999
Automotive	113,020	6,791	1,525	1,923	123,259
Cyclical Consumer Products	18,821	21,101	2,253	2,882	45,057
Non-Cyclical Consumer Products	71,993	18,903	4,979	2,597	98,472
Machinery	19,836	15,588	691	953	37,068
Transportation	19,313	20,646	915	9,163	50,037
TMT and Paper & Packaging	2,753	4,170	1,014	131	8,068
Healthcare & Services	28,513	22,669	3,424	1,618	56,224
Hotels, Gaming & Leisure Industry	14,420	15,859	1,969	5,014	37,262
Real Estate	251,577	31,273	4,492	4,784	292,126
Public Sector	1,412,338	1,507	213	8	1,414,066
Financial Institutions	872,133	7,826	5,919	666	886,544
Private Households	857,107	169,884	144,079	39,155	1,210,225
Other	23	5	2,227	1	2,256
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 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**

The low risk exposure has the highest proportion in total credit risk exposure, with 73.6%, while management attention represents 17.8%, The substandard exposure represents 7.2% and the non-performing 1.3%

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.

Credit risk exposure by region and risk category

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 2022					
Core markets	**3,780,021**	**939,334**	**376,238**	**70,104**	**5,165,697**
Austria	76,687	12	-	-	76,699
Czech Republic	697	-	-	-	697
Slovakia	74	-	2	-	76
Romania	857	-	5	-	862
Hungary	3,701,706	939,322	376,231	70,104	5,087,363
Other EU	**105,744**	**213**	**4,750**	**-**	**110,707**
Other industrialised countries	**1,435**	**-**	**-**	**-**	**1,435**
Emerging markets	**5**	**575**	**468**	**-**	**1,048**
Asia	-	25	-	-	25
Latin America	-	30	-	-	30
Middle East/Africa	5	520	468	-	993
Total	**3,887,205**	**940,122**	**381,456**	**70,104**	**5,278,887**

in HUF million	Low risk	Management attention	Substandard	Non-performing	Total
As of 31 December 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**

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 2022					
Retail	451,210	637,496	154,318	43,294	1,286,318
Corporates	1,370,714	244,959	163,507	26,809	1,805,989
Group Markets	767,611	57,538	45,008	1	870,158
ALM	1,297,670	129	18623	-	1,316,422
Total	**3,887,205**	**940,122**	**381,456**	**70,104**	**5,278,887**

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
ALM	1,206	-	-	-	1,206
Total	**3,877,374**	**420,431**	**189,412**	**73,025**	**4,560,242**

From 2022 the MNB exposure (HUF 1159 bn in 2021) is shown under ALM segment instead of Group Markets

Use of collaterals

Recognition of collateral

Collateral Management has been set up within the Corporate Risk 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 recognised 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 Erste Bank's 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").

A collateral value in the credit process is only admissible:
- 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.

ESG

Environmental, Social and Governance (ESG) topic remained one of the top priorities also in 2022 on collateral side too. Since November 2021, the registration of the main attributes of the real estates' energy performance certificate became available within our own system. Currently this is a mandatory document for all the real estate valuations. Initially, this process started in the residential segment, more precisely in the processes of purchase loans and construction loans, where an energy certificate is carried out independently from the bank purposes. Starting from 2022 the customers of the corporate segment must also declare whether they have energy certificate related to their property to be valued/revalued or not. From December 2022, in the cases where there was no such data in our own system, the available data has been collected from the "Lecher knowledge center" an official database managed by the authorities and recorded in our own system.

As the availability of the relevant data is limited, we were able to collect only the category and the date of assessment. Based on that information we assumed the primer energy consumption.

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 financial instrument and collateral

in HUF million	Total credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	IFRS impairment relevant: Neither past due nor credit impaired	IFRS impairment relevant: Past due but not credit impaired	IFRS impairment relevant: Credit impaired
As of 31 December 2022									
Cash and cash balances - demand deposits to central banks and credit institutions	2,161	-	-	-	-	2,161	2,161	-	-
Debt instruments held for trading	205,066	68,463	68,463	-	-	136,603	-	-	-
Non-trading debt instruments at FVPL	312,020	306,886	247,152	59,730	4	5,134	-	-	-
Debt instruments at FVOCI	196,554	-	-	-	-	196,554	195,641	-	913
Debt instruments at AC	3,673,974	1,842,043	843,276	816,783	181,984	1,831,931	3,559,553	48,367	66,054
Debt securities	1,243,403	404,832	404,832	-	-	838,571	1,242,033	-	1,369
Loans and advances to banks	401,473	231,924	205,050	-	26,874	169,549	401,338	135	-
Loans and advances to customers	1,959,603	1,172,642	233,394	815,130	124,118	786,961	1,849,177	46,836	63,592
Trade and other receivables	30,102	-	-	-	-	30,102	29,265	837	-
Finance lease receivables	39,393	32,645	-	1,653	30,992	6,748	37,740	559	1,093
Off balance-sheet exposures	889,112	148,307	9	36,254	112,044	740,805	683,621	31,097	1,166
out of which: other commitments	173,229	60,320	-	12,418	47,902	112,909	-	-	-
Total	**5,278,887**	**2,365,699**	**1,158,900**	**912,767**	**294,032**	**2,913,188**	**4,440,976**	**79,464**	**68,133**

.

in HUF million	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral	IFRS impairment relevant: Neither past due nor credit impaired	IFRS impairment relevant: Past due but not credit impaired	IFRS impairment relevant: Credit impaired
As of 31 December 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**

Measurement of expected credit loss

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.

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 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.

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).

Relative thresholds for SICR assessment

	Threshold interval (x times)	
	Min	Max
2022	1.13	3.21
2021	1.13	3.21

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 in a timely manner. 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 the war in Ukraine (implemented in 2022) and related economic impacts. Similarly, from 2020 till Q3-2022 portfolio assessment due to the Covid-19 pandemic was established. For more details refer to ‘Collective assessment’ in the next chapter.

Considering the war in Ukraine, Erste Bank started with a portfolio screening to identify customers affected by the secondary effects of the geopolitical risk (Erste Bank has only very limited exposure towards the affected region). In combination with an early warning classification, ‘Watch’ and ‘Intensified’, these customers are transferred into Stage 2 and lifetime ECL are calculated. As of 31 December 2022, there was no exposure transferred to Stage 2 due to geopolitical risk.

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.

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).

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant, and a rule-based (collective) approach is used for the calculation of the related credit loss allowance 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 collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band, and credit rating band.

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 1Y and LT EADs are 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.

Credit Risk Exposure by IFRS 9 Stage and ECL

Credit risk exposure: overview of IFRS 9 treatment by region

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 2022							
Core markets	**3,922,876**	**499,225**	**56,172**	**18,979**	**4,497,252**	**668,445**	**5,165,697**
Austria	7,392	12	-	-	7,404	69,295	76,699
Czech Republic	-	-	-	-	-	698	698
Slovakia	-	61	-	-	61	15	76
Romania	782	4	-	-	786	75	861
Hungary	3,914,702	499,148	56,172	18,979	4,489,001	598,362	5,087,363
Other EU	**89,442**	**243**	**-**	**-**	**89,685**	**21,022**	**110,707**
Other industrialised countries	**1,106**	**-**	**-**	**-**	**1,106**	**329**	**1,435**
Emerging markets	**502**	**27**	**-**	**-**	**529**	**519**	**1,048**
Asia	25	-	-	-	25	-	25
Latin America	15	15	-	-	30	-	30
Middle East/Africa	461	12	-	-	473	520	993
Total	**4,013,926**	**499,495**	**56,172**	**18,979**	**4,588,572**	**690,315**	**5,278,887**

.

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 11,961 million forint (was 11,971 in 2021), the non-defaulted part to 7,018 million forint (was 12,388 in 2021).

The credit risk exposure increased by 697,094 million forint, or 15.9% in Hungary, while Austria decreased by 2,831 million forint, or 3.6%, in Czech Republic decreased by 552 million forint or 44.2%, and the other CEE core markets increased by 605 million forint, or 182.2%. In the other EU member states (EU 27 excluding core markets), the credit risk exposure increased by 24,558 million forint from 86,149 million to 110,707 million. Decrease was recorded in other industrialised countries (1,172 million forint) while in emerging markets were increased (943 million forint). In total, Erste Bank Hungary's core markets and the EU accounted for 99,9% (2021 also 99.9%) of credit risk exposure as of 31 December.

Credit risk exposure by business segment and IFRS 9 treatment

in HUF million	Credit Risk Exposure					Credit Loss Allowances						
	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
As of 31 December 2022												
Retail	815,510	110,106	36,783	12,311	311,608	4,515	12,031	25,375	3,589	10.93%	68.98%	29.16%
Corporates	1,232,626	389,268	19,389	6,668	158,038	5,860	12,471	9,527	1,167	3.20%	49.14%	17.50%
Group Markets	718,095	76	-	-	151,987	646	8	-	-	10.63%		
ALM	1,247,695	45	-	-	68,682	796	1	-	-	1.99%		
Total	**4,013,926**	**499,495**	**56,172**	**18,979**	**690,315**	**11,817**	**24,511**	**34,902**	**4,756**	**4.91%**	**62.13%**	**25.06%**

in HUF million	Credit Risk Exposure					Credit Loss Allowances						
	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
As of 31 December 2021												
Retail	760,743	176,255	31,972	15,525	271,001	3,190	17,670	18,474	4,757	10.03%	57.78%	30.64%
Corporates	916,577	165,511	25,956	8,834	54,253	4,531	6,179	12,804	1,552	3.73%	49.33%	17.57%
Group Markets	2,052,087	325	-	-	79,997	991	2	-	-	0.49%		
ALM	-	-	-	-	1,206	-	-	-	-			
Total	**3,729,407**	**342,091**	**57,928**	**24,359**	**406,457**	**8,712**	**23,851**	**31,278**	**6,309**	**6.97%**	**53.99%**	**25.90%**

33) Development of credit loss allowances

The following tables give an overview over the development of credit loss allowances per balance sheet line item.

In column ‘Additions’ increases of CLA due to the initial recognition of financial instruments during the current reporting period are disclosed. Releases of CLA following the derecognition of the related financial instruments are reported in column ‘Derecognitions’.

In column ‘Transfers between stages’ CLA net changes due to changes in credit risk that triggered re-assignments of the related financial instruments from Stage 1 (at 1 January 2022 or initial recognition date) to Stages 2 or 3 at 31 December 2022 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse 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 and presented in 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 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 held at amortised cost:

Movement in credit loss allowances – debt securities

in HUF million	As of 01 January 2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of 31 December 2022
Stage 1	(798)	(257)	109	68	(121)	(1)	(1,000)
Stage 2	(24)	-	-	(478)	137	-	(365)
Stage 3	-	-	-	(871)	(1)	-	(872)
Total	**(822)**	**(257)**	**109**	**(1,281)**	**15**	**(1)**	**(2,237)**

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	(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	2021	2022
Transfers between Stage 1 and Stage 2	**1,345**	**12,232**
Transfers between Stage 1 and Stage 2	1,345	10,140
To Stage 1 from Stage 2	-	2,092
Transfers between Stage 1 and Stage 3	**-**	**2,282**
To Stage 3 from Stage 1	-	2,282

The year-end total GCAs of AC debt securities that were initially recognised (purchased) during the year 2022 and not sold by 31 December 2022 amounts to 259,318 million forint. The GCA of AC debt securities that were held at 1 January 2021 and de-recognised (matured or sold compliant to sale from HTC business model) during the year 2022 amounts to 189,485 million forint.

Movement in credit loss allowances - loans and advances to banks

Movement in credit loss allowances

in HUF million	As of 01 January 2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of 31 December 2022
Stage 1	(215)	(981)	885	-	34	(5)	(282)
Total	**(215)**	**(981)**	**885**	**-**	**34**	**(5)**	**(282)**

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)**

The year-end total GCA of AC loans and advances to banks that were initially recognised during the year 2022 and not fully de-recognised by 31 December 2022 amounts to 259,049 million forint. The GCA of AC loans and advances to banks that were held as of 1 January 2022 and fully derecognised during the year 2022 amounts to 531,748 million forint.

.

Movement in credit loss allowances – loans and advances to customers

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 2022								31 December 2022
Stage 1	**(5,379)**	**(4,030)**	**933**	**11,932**	**(11,139)**	**7**	**-**	**(109)**	**(7,785)**
General governments	-	(4)	-	8	(12)	-	-	-	(8)
Other financial corporations	(323)	(564)	379	-	(300)	-	-	(34)	(842)
Non-financial corporations	(2,160)	(1,381)	227	1,770	(1,323)	6	-	(74)	(2,935)
Households	(2,896)	(2,081)	327	10,154	(9,504)	1	-	(1)	(4,000)
Stage 2	**(21,934)**	**(4,620)**	**1,306**	**(14,745)**	**19,146**	**36**	**192**	**(287)**	**(20,906)**
General governments	(18)	-	-	-	16	-	-	(1)	(3)
Other financial corporations	(3)	-	-	-	(3)	-	-	-	(6)
Non-financial corporations	(5,154)	(4,522)	245	(2,754)	3,127	12	1	(280)	(9,325)
Households	(16,759)	(98)	1,061	(11,991)	16,006	24	191	(6)	(11,572)
Stage 3	**(26,558)**	**(11)**	**4,899**	**(255)**	**(11,146)**	**124**	**322**	**(329)**	**(32,954)**
Other financial corporations	(15)	-	-	-	(14)	(1)	-	-	(30)
Non-financial corporations	(9,432)	-	1,851	(123)	(1,253)	(8)	177	(318)	(9,106)
Households	(17,111)	(11)	3,048	(132)	(9,879)	133	145	(11)	(23,818)
POCI	**(6,262)**	**-**	**1,581**	**-**	**80**	**25**	**9**	**(60)**	**(4,627)**
General governments	(3)	-	-	-	3	-	-	-	-
Non-financial corporations	(1,689)	-	927	-	(334)	6	2	(60)	(1,147)
Households	(4,570)	-	654	-	411	19	7	-	(3,479)
Total	**(60,133)**	**(8,661)**	**8,719**	**(3,068)**	**(3,062)**	**192**	**522**	**(781)**	**(66,272)**

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 category POCI Erste Bank doesn't recognise 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 recognised 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 2022 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2022 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognised prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. The unwinding correction accumulated during the reporting period amounted to 6,683 million Forint (in 2021: 142 million Forint) in case of debt instruments at amortised cost.

This adverse effect of unwinding correction amounted to 10,166 million forint cumulatively for the year 2022, which also reflects the unrecognised 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 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarised below:

	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in HUF million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
General governments	-	11,860	-	-	-	-	-	-
Other financial corporations	61	-	11	-	-	-	-	-
Non-financial corporations	67,006	63,055	1,592	1,457	1,974	-	246	-
Households	20,176	52,171	8,102	1,555	1,804	539	457	757
Total	**87,243**	**127,086**	**9,705**	**3,012**	**3,778**	**539**	**703**	**757**

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**

The year-end total GCA of the AC loans and advances to customers that were initially recognised during the year 2022 and not fully derecognised by 31 December 2022 amounts to 527,558 million forint. The GCA of the AC loans and advances to customers that were held at 1 January 2022 and fully derecognised during the year 2022 amounts to 199,010 million.

The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognised and identified as POCI during the year 2022 amounted to 3,858 million forint.

Movement in credit loss allowances – trade and other receivables

Movement in credit loss allowances

in HUF million	01 January 2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	31 December 2022
Stage 1	(310)	(1,139)	1,209	1	81	(8)	(166)
Stage 2	(23)	-	178	(3)	(210)	-	(58)
Stage 3	-	-	15	(13)	(2)	-	-
Total	**(333)**	**(1,139)**	**1,402**	**(15)**	**(131)**	**(8)**	**(224)**

in HUF million	01 January 2021	Additions	Derecognitions	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)**

.

Financial assets at fair value through other comprehensive income – debt instruments

Movement in credit loss allowances – debt instrument financial assets

in HUF million	01 January 2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	31 December 2022
Stage 1	(57)	(52)	10	16	(33)	(116)
Stage 2	(1)	-	-	-	(30)	(31)
Stage 3	-	-	-	(234)	-	(234)
Total	**(58)**	**(52)**	**10**	**(218)**	**(63)**	**(381)**

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

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 2022 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2022 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)'.

Finance lease receivables

Movement in credit loss allowances – finance lease receivables

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 2022								31 December 2022
Stage 1	(181)	(37)	18	206	(131)	-	-	(6)	(131)
Stage 2	(411)	-	43	(159)	267	-	-	(130)	(390)
Stage 3	(4,330)	-	299	(149)	3,715	1	-	(75)	(539)
POCI	(7)	-	-	-	(66)	-	-	-	(73)
Total	**(4,929)**	**(37)**	**360**	**(102)**	**3,785**	**1**	**-**	**(211)**	**(1,133)**

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 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 2022 (or initial recognition date, if later) to Stages 2 or 3 as of 31 December 2022 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’.

The significant drivers of the CLA movements for the year (and the prior 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 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarised below:

in HUF million	2021	2022
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	1,399	3,135
To Stage 1 from Stage 2	5,494	1,439
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	59	186
To Stage 2 from Stage 3	22	5,328
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	101	135
To Stage 1 from Stage 3	-	23
POCI transfer		
To Defaulted from Non-Defaulted	39	109
To Non-Defaulted from Defaulted	-	-

The year-end total GCA of financial leases that were initially recognised during the year 2022 and not fully de-recognised by 31 December 2022 amounts to 6,736 million forint. The GCA of the financial leases that were held at 1 January 2022 and fully de-recognised during the year 2022 amounts to 3,747 million.

Loan commitments and financial guarantees:

Movement in credit loss allowances – loan commitments and financial guarantees

2022

in HUF million	As of 01 January 2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of 31 December 2022
Stage 1	1,758	2,746	(1,434)	(2,405)	1,639	32	2,336
Stage 2	1,458	-	(2,078)	2,671	706	3	2,760
Defaulted	429	33	(599)	593	(121)	25	360
Total	**3,645**	**2,779**	**(4,111)**	**859**	**2,224**	**60**	**5,456**

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**

The column ‘Other changes in credit risk (net)’ captures the passage-of-time adverse effect (‘unwinding’) over the lifetime expected cash shortfalls of defaulted loan commitments and financial guarantees.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end notional amounts of loan commitments and financial guarantees that were assigned at 31 December 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarised below:

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

	2021	2022
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	12,643	**37,645**
To Stage 1 from Stage 2	13,037	**21,071**
Transfers between Stage 2 and Stage 3		
To Defaulted from Stage 2	1,043	**195**
To Stage 2 from Defaulted	10	**120**
Transfers between Stage 1 and Stage 3		
To Defaulted from Stage 1	150	**135**
To Stage 1 from Defaulted	20	**66**
Off-balance commitments and financial guarantees that were initially recognised and not fully de-recognised during the year	158,435	**237,119**
Off-balance commitments or financial guarantees that were held at 1 January and fully de-recognised during the year	65,805	96,897

.

34) Scenarios used in forward-looking information and Crisis Effects

Overview on scenarios used in forward-looking information

Incorporation of forward-looking information

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

Thus, the unbiased probability-weighted ECL considering FLI is derived using the weights representing the probability of occurrence of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. The main indicator of the estimated economic development is the GDP. In addition, economic effects of the war in Ukraine led to increases of the inflation and/or the interest rates.

Erste Bank reviewed the FLI in the forth quarter of 2022 according to the disclosed forecasts for baseline, downside and upside scenarios. In the FLI exercise Erstebank Hungary works together with Erste Group and for harmonisation purposes the scenario weight and macroeconomic development alongside the different scenarios are provided by Erste Group. The Group decided to keep 40% probability of occurrence assigned to baseline forecast due to the unstable development of the geopolitical situation – war in Ukraine.

The Bank is disclosing sensitivity of the staging and ECL on macro scenarios in the Collective assessment section below.

Baseline scenario

Erste Group expects the Eurozone economy to bottom out in 1Q 2023 followed by a gradual recovery of the economy as of 2Q 2023. The main factor supporting the constructive baseline outlook for the Eurozone in 2023 and 2024 is easing inflationary pressures on a domestic and as well as on global level. European gas- and electricity prices have dropped substantially and easing pressures from global supply chains are expected to ease inflationary pressures in the coming months even further. Erste Group forecasts that in this environment we will see a gradual acceleration of consumption and investments as the year progresses. In this environment Erste Group expects the ECB to gradually slow down its pace of monetary tightening in the course of the year.

Risks to the baseline scenario and comprehensive stress test scenario as considerations added to downside scenario

The fast rise of interest rates is a threat for the investment activity of companies and consumers and could lead to lower investments than currently anticipated for our base case scenario. If Europe fails to secure enough LNG Gas for the next winter, we could see another spike of electricity and gas prices harming industrial activity and hurting the consumers purchasing power. The war in Ukraine remains significant risk factor. If it re-escalates this could potentially harm the sentiment of global investors vs the Eurozone with potential dampening effects on growth. Russia could cut off gas supply to an increased number of "unfriendly" countries. Energy security becomes a priority for EU policymakers who regard the momentum to become less dependent from Russian commodities and to accelerate the transition to a low carbon economy. This goal triggers an energy policy shock, whereby the price of CO_2 emissions skyrocket in the first year, crystalising a disorderly transition risk. The energy policy shock exacerbates the increase in energy/consumer prices and de anchors inflation expectations; prompting the ECB to tighten monetary policy aggressively (affecting the entire yield curve) to keep inflation under control. Higher HICP, especially electricity/gas bills, reduces disposable income and contracts consumption. Given the high debt inherited from the pandemic, increasing military spending and expansive fiscal policies to mitigate higher energy prices/influx of refugees make investors to question debt sustainability.

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 %		Probability weights		Inflation / Interest rate in %		
	Scenario	2023-2025	-	2023	2024	2025
2022	Upside	1%		3.2	4.7	6.1
	Baseline	40%		0.2	4.2	3.4
	Downside	59%		-6.5	0.5	1.8
	Scenario	2021-2023	2020	2021	2022	2023
2021	Upside	6%	-5.0	7.8	5.8	5.6
	Baseline	40%	-5.0	6.7	4.7	4.5
	Downside	54%	-5.0	0.1	1.3	2.3

Baseline and scenario weighted values of the main variables

	Baseline scenario			Scenario weighted outcome		
As of 31 December 2022	2023	2024	2025	2023	2024	2025
GDP growth	0.20	4.20	3.40	-3.74	2.06	2.50
Unemployment Rate	4.11	3.57	3.57	5.90	4.89	4.54
Yields_5Y	7.62	6.42	6.03	8.62	7.43	7.03
Yields_10Y	6.96	6.07	5.81	8.46	8.13	8.24

Collective assessment

As of December 2022, in addition to standard SICR assessment, Erste Bank applied stage overlays rules, i.e. transfer into Stage 2 based on pre-defined portfolio characteristics, due to the uncertainty caused by the war in Ukraine and the energy crisis. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies.

Until fourth quarter of 2022, Erste Bank had in place overlays addressing Covid-19 as well. Improved pandemic situation over 2022 enabled discontinuation of Covid-19 related overlays resulting in the release of HUF 2,092 million during 2022.

War in Ukraine and energy crisis

The Ukraine-Russia war, intensified challenges for both risk and business divisions: 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 strategies.

In June 2022, Erste Bank implemented rules for stage overlays due to the war in Ukraine (UA war overlays) as a combination of industries with correlation to economic downturn (cyclical industries) and one-year IFRS PD. These rules were defined on top of existing criteria mentioned in the section 'Significant increase in credit risk determination – Qualitative criteria' (Stage 2 identification based on the early warning signal and negative information about geopolitical risk in March 2022).

In addition to cyclical industries, from September 2022 Erste Bank has introduced additional Energy stage collective assessment ('Energy overlay') due to the current distortions in the energy market with implications on gas/energy availability and price. Two-folds

.

effects were identified. Effects of gas rationing/shortage on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability is driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Natural Resources and Commodities, Metals and Chemical subindustries were identified as being most affected. All companies belonging to the Energy sector as the whole industry can potentially be affected by the massive shortages and distortions in the current energy market: price volatility, margin calls, price caps, adverse weather environment for hydro power, fixed off-take contracts (putting off-takers at risk when stopped and / or limiting producers of renewable energy profiting from the higher prices), exceptional taxes, etc. All customers belonging to these industries / sub-industries were migrated to Stage 2. However, certain business models in the energy sector rather benefit from the current situation and, thus, do not match the overall portfolio characteristics as energy sector is widely defined. Such entities, are, in line with the requirements of IFRS 9 B.5.5.5, excluded.

Out of the overall credit risk exposure of HUF 5,279 billion (2021: HUF 4,560 billion) portfolio under collective staging assessment represents:

- HUF 719 billion of cyclical industries, out of which HUF 89.9 billion is in Stage 2,
- HUF 344 billion of energy intensive industries, out of which HUF 271.2 billion is in Stage 2.

Effect on Expected Credit Loss

The analysis tables below present the effects of the portfolio overlays and FLI on both exposure migration to Stage 2 and the resulting increase of ECL. Additional sensitivities to the baseline, upside and downside scenarios are simulated. Effects on geographical segments are disclosed.

The discontinuation of Covid-19 related overlays in fourth quarter of 2022 led to the zero additional transfers into Stage 2 (HUF 90,627 million in December 2021) and ECL allocation (HUF 2,092 million in December 2021) due to Covid-19.

Exposure in Stage 2 due to the application of the rules for Ukraine war overlays stood at for cyclical industries HUF 89,902 million in December 2022 and HUF 271,228 million for energy overlays in December 2022, with additional ECL allocated in the amount of HUF 1,805 million for cyclical industries and HUF 1,388 million for energy overlays.

As described above, FLI were re-assessed based on the latest macro-scenarios in the forth quarter of 2022. The Stage 2 exposure due to FLI increased to HUF 62,775 million as of December 2022 (HUF 28,127 million in December 2021). The increase of the Stage 2 exposure affected the level of ECL allocated in Stage 2 due to FLI: HUF 15,102 million as of December 2022 versus HUF 11,131 million as of December 2021.

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 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.

The incorporation of 100% baseline scenario instead of the currently applied probability weighted scenario, would lead to a decrease of Stage 2 exposure by HUF 30,765 million (2021: HUF 6,075 million), resulting in an ECL drop by HUF 6,921 million (2021: HUF 1,810 million).

The downside scenario would lead to additional HUF27,485 million of exposure migration to Stage 2 in comparison with probability weighted FLI (2021: HUF 6,977 million), resulting in ECL increase of HUF 4,909 million (2021: HUF 1,716 million).

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

Forward looking information (FLI) and collective SICR assessment

in HUF million	Current status - parameters (FLI shifted)								Simulations - difference to FLI shifts effect		
	Stage 1	Stage 2	Total	Stage 2 impact by							
				Collective assessment due to				FLI shifts	Upside scenario	Baseline scenario	Downside scenario
				Covid-19	UA war - Cyclical	UA war - Energy	UA war - Private individuals				
As of 31 December 2022											
Impact on credit risk exposure	4,013,926	499,495	4,513,421	-	89,902	271,228	-	62,775	(45,160)	(30,765)	27,485
Impact on credit loss allowances	11,817	24,511	36,328	-	(1,805)	(1,388)	-	(15,102)	10,811	6,921	(4,909)
As of 31 December 2021											
Impact on credit risk exposure	3,729,407	342,091	4,071,498	90,627	-	-	-	28,127	(11,145)	(6,075)	6,977
Impact on credit loss allowances	8,712	23,851	32,563	(2,092)	-	-	-	(11,131)	3,416	1,810	(1,716)

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 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.

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.

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.

Forbearance concession triggers the performing forbearance classification and 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.

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.

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

- the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- 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 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.

Credit risk exposure, forbearance exposure and credit loss allowances

in HUF million	Loans and advances	Debt securities	Other balance-sheet positions	Loan commitments	Total
As of 31 December 2022					
Gross exposure	**2,741,893**	**1,440,655**	**399,263**	**697,076**	**5,278,887**
thereof gross forborne exposure	122,126	-	-	3,666	125,792
Performing exposure	2,676,023	1,438,373	398,477	695,910	5,208,783
thereof performing forborne exposure	80,089	-	-	3,429	83,518
Credit loss allowances for performing exposure	29,748	1,513	3,006	5,059	39,326
thereof credit loss allowances for performing forborne exposure	4,101	-	-	77	4,178
Non-performing exposure	65,871	2,282	785	1,166	70,104
thereof non-performing forborne exposure	42,037	-	-	237	42,274
Credit loss allowances for non-performing exposure	38,162	1,105	320	358	39,945
thereof credit loss allowances for non-performing forborne exposure	25,765	-	-	68	25,833

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)

Types of forbearance exposure

in HUF million	Gross forborne exposure	Modification in terms and conditions	Refinancing
As of 31 December 2022			
Loans and advances excl. HfT and HfS	122,126	116,244	5,882
Loan commitments	3,666	3,662	4
Total	**125,792**	**119,906**	**5,886**

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**

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

Non-performing credit risk exposure and credit loss allowances

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection ‘Credit risk classification’. 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 108.4% (2021: 96.1%) of the reported non-performing on-balance and off-balance credit risk exposure. For the portion of the non-performing credit risk exposure that is not covered by allowances, Erste Group assumes there are sufficient levels of collateral and expected other recoveries.

During 2022, the non-performing credit risk exposure decreased by HUF 2,921 million, or -4.4%, while the credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by HUF 5,837 million (+8.3%). This development resulted in a moderate increase of 12.3 percentage points in the coverage of non-performing credit risk exposure by credit risk allowances.

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 2022 and 31 December 2021. The differences in the credit allowance levels between the reporting segments result from the risk situation in the respective markets, different levels of collateralisation as well as the local legal environment and regulatory requirements.

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 at AC and FVOCI. 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 collateralisation 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 2022													
Retail	43,293	42,108	1,286,318	974,709	45,510	17,463	16,354	3.37%	4.32%	105.12%	108.08%	40.33%	38.84%
Corporates	26,810	26,025	1,805,989	1,647,952	29,025	13,136	13,136	1.48%	1.58%	108.26%	111.53%	49.00%	50.48%
Group Markets	1	-	870,158	718,171	654	-	-	0.00%	0.00%	1723.68%		0.00%	0.00%
ALM	-	-	1,316,422	1,247,740	797	-	-	0.00%	0.00%				
Total	**70,104**	**68,133**	**5,278,887**	**4,588,572**	**75,986**	**30,599**	**29,490**	**1.33%**	**1.48%**	**108.39%**	**111.53%**	**43.65%**	**43.28%**

	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE		NPE ratio		NPE coverage (excl. collateral)		NPE collateralisation 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%				
ALM	-	-	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%**

.

Detailed analysis of 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.

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

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	9,177	1,134,904	67	12	1	1,144,161
Corporates	714,405	443,334	503	1,522	99	1,159,863
Group Markets	3,027	13,937	-	789	-	17,753
ALM	17,951	691	-	-	-	18,642
Total	**744,560**	**1,592,866**	**570**	**2,323**	**100**	**2,340,419**

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**

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 2022					
Retail	364,543	590,114	146,935	42,569	1,144,161
Corporates	890,169	153,823	92,570	23,301	1,159,863
Group Markets	1,898	-	15,855	-	17,753
ALM	47	-	18,595	-	18,642
Total	**1,256,657**	**743,937**	**273,955**	**65,870**	**2,340,419**

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**

.

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

in HUF million	Loans to customers					Loan loss allowances						
	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
As of 31 December 2022												
Retail	680,787	103,825	36,107	12,167	311,275	4,008	11,531	25,095	3,548	11.11%	69.50%	29.16%
Corporates	877,838	258,646	16,740	6,593	46	4,021	9,824	8,397	1,152	3.80%	50.16%	17.47%
Group Markets	17,752	1	-	-	-	53	-	-	-	0.04%		
ALM	18,642	-	-	-	-	-	-	-	-			
Total	**1,595,019**	**362,472**	**52,847**	**18,760**	**311,321**	**8,082**	**21,355**	**33,492**	**4,700**	**5.89%**	**63.38%**	**25.05%**

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%**

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 11,837 million forints (2021: 11,912 million), the non-defaulted part to 6,923 million forints (2021: 12,279 million).

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 collateralisation 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 2022												
Retail	42,570	41,383	1,144,161	832,887	44,183	17,437	16,328	3.72%	4.97%	106.76%	40.96%	39.46%
Corporates	23,300	23,301	1,159,863	1,159,817	23,393	12,577	12,577	2.01%	2.01%	100.40%	53.98%	53.98%
Group Markets	-	-	17,753	17,753	53	-	-	0.00%	0.00%			
ALM	-	-	18,642	18,642	-	-	-	0.00%	0.00%			
Total	**65,870**	**64,684**	**2,340,419**	**2,029,099**	**67,629**	**30,014**	**28,905**	**2.81%**	**3.19%**	**104.55%**	**45.56%**	**44.69%**

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%**

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	Not subject to IFRS 9 impairment	Stage 1	Stage 2	Stage 3	POCI	Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
As of 31 December 2022												
Retail	680,787	103,825	36,107	12,167	311,275	4,008	11,531	25,095	3,548	11.11%	69.50%	29.16%
Corporates	877,838	258,646	16,740	6,593	46	4,021	9,824	8,397	1,152	3.80%	50.16%	17.47%
Group Markets	17,752	1	0	0	0	53	0	0	0	0.04%		
ALM	18,642	0	0	0	0	0	0	0	0			
Total	**1,595,019**	**362,472**	**52,847**	**18,760**	**311,321**	**8,082**	**21,355**	**33,492**	**4,700**	**5.89%**	**63.38%**	**25.05%**

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%	636,510
Corporates	606,059	142,938	25,347	8,833	74	-3,052	-5,433	-12,687	3.80%	50.05%	17.57%	606,059
Group Markets	6,692	-	-	-	-	-9	-	-	0.22%			6,692
Total	**1,249,261**	**311,128**	**56,742**	**24,191**	**270,896**	**-5,871**	**-22,368**	**-30,889**	**7.19%**	**54.44%**	**25.91%**	**1,249,261**

.

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

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

The above presented NPL exposures are exclusive of any write-offs recognised 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 2022. 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 collateralised loans, write-off prior to the realisation 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.

Securitisations

No securitisation used in Erste Bank.

35) 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).

The VaR calculation for banking book positions (BB-VaR) is based on the methodology used for ICAAP calculation of Erste Bank where 250.000 historical scenarios (starting with 2010) are calculated with a theoretical holding period of 1 year and a confidence level of 99.92%. The same calculation is used for the BB-VaR with a 1 day holding period and a 99% confidence level, consistent with the trading book methodology. The results of both calculations, ICAAP and BB-VaR are presented in the ALCO to the management board.

A known limitation of the VaR approach is that on the one hand, that it estimates losses only up to the confidence level , and on the other hand, the model considers only those market scenarios observed within the look-back period to calculate the VaR for the current position of the bank. To address this limitation and to investigate any extreme market situations not reflected in the VaR approach, stress tests are conducted at Erste Bank. These stress tests are designed to cover market movements of low probability and high impact.

The stress tests are carried out according to several methods: for the trading book 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 ErsteBank, 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.

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

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 2022					
Erste Bank consolidated	2,785	2,785	2	104	-
Banking book	2,662	2,660	2	-	-
Trading book	123	125	-	104	-

in HUF million	Total	Interest	Credit spread	Currency	Shares
As of 31 December 2021					
Erste Hungary consolidated	1,472	1,456	16	33	-
Banking book	1,409	1,393	16	-	-
Trading book	63	63	-	33	-

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.

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 as of 31 December 2022 and the corresponding open positions of these currencies as of 31 December 2021.

Open foreign currency positions

in HUF million	2021	2022
Swiss Franc (CHF)	155	203
Euro (EUR)	360	(10,675)
Japanese Yen (JPY)	(1)	(12)
US Dollar (USD)	193	(170)
Other	(7)	(115)

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.

36) Liquidity risk

Recent Developments

In 2022, as part of a Erste Group wide project Erste Hungary further developed and enhanced its liquidity risk calculation and reporting system in the new technical environment. With these improvements, all liquidity metrics are now well established on this technical environment.

The implementation of some of these liquidity metrics was accompanied by a re-design of these metrics. So have the long-term Structural Liquidity Ratio (STRL) and the Stress-Testing metric Survival Period Analysis (SPA) been reviewed in the process of the implementation and certain re-designs and improvements have been implemented as well.

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 (CRR), amended by the Regulation (EU) No 2019/876 (CRR 2), Commission Delegated Regulation (EU) 2022/786 amending Commission Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council, 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 2022, customer deposits remained the primary source of funding for Erste Bank. The growth in loan volume was higher than inflows of customer deposits, the liquidity shortage was mainly financed by maturing government bonds and interbank deals.

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 SPA 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 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 2022

Liquidity coverage ratio

in HUF million	2021	2022
Liquidity buffer	1,062,522	1,642,842
Net liquidity outflow	550,006	1,243,306
Liquidity coverage ratio	193%	132%

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 2022 and 31 December 2021:

.

Structural liquidity gap

in HUF million	2021 < 1 month	2021 1-12 months	2021 1-5 years	2021 > 5 years	2022 < 1 month	2022 1-12 months	2022 1-5 years	2022 > 5 years
On-Balance Sheet Liquidity GAP	(131,490)	(347,123)	694,254	(215,641)	(339,915)	(314,653)	762,669	(108,100)
Off-Balance Sheet Liquidity GAP	4,639	(788)	3,363	7,761	(3,034)	421	16,431	786

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 2022 and year-end 2021 are shown in the tables below:

Term structure of counterbalancing capacity

As of 31 December 2022	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash excess reserve	32,911				
Liquid assets	1,135,485	(167)	(27,922)	(45,599)	(163,174)
Credit claim	23,511	-	-	-	-
Counterbalancing capacity	**1,191,907**	**(167)**	**(27,922)**	**(45,599)**	**(163,174)**

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)
Credit claim	-	-	-	-	-
Counterbalancing capacity	**974,015**	**1,646**	**(8,003)**	**(102,562)**	**(78,086)**

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 2022 and 31 December 2021 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 2022						
Non-derivative liabilities	4,486,641	4,802,644	1,434,819	1,150,158	1,166,209	1,051,458
Financial liabilities HfT	-	-	-	-	-	-
Financial liabilities at FVPL	-	-	-	-	-	-
Financial liabilities at AC	4,486,641	4,802,644	1,434,819	1,150,158	1,166,209	1,051,458
Deposits by banks	786,566	1,017,705	49,734	209,517	476,502	281,952
Customer deposits	3,413,261	3,430,457	1,383,572	930,011	500,746	616,128
Debt securities in issue	145,655	157,650	805	2,151	154,694	-
Other financial liabilities	1,738	1,436	710	627	47	53
Subordinated liabilities	139,422	195,397	-	7,851	34,220	153,325
Derivative liabilities	121,017	121,017	18,628	22,251	38,865	41,272
Finance lease liabilities	20,881	20,881	334	3,068	12,477	5,002
Total on balance sheet liabilities	4,628,538	4,944,542	1,453,782	1,175,477	1,217,552	1,097,732
Contingent liabilities	538,334	538,334	538,334	-	-	-
Financial guarantees	18,806	18,806	18,806	-	-	-
Irrevocable commitments	519,528	519,528	519,528	-	-	-
Total	5,166,872	5,482,876	1,992,116	1,175,477	1,217,552	1,097,732

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	3,704,903	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	3,704,903	4,059,476	1,317,968	957,612	863,953	919,942

As of year-end 2022, the currency composition of the liabilities consisted of approximately 67.40% HUF, 26.82% EUR, 5.04% USD, and 0.74% in other currencies (2021: 79.99% HUF, 16.26% EUR, 2.69% USD, and 1.06% in other currencies).

As of 31 December 2022, the volume of customer deposits due on demand amounted to 2 821 billion forints (2021: 2 694 billion forints).
According to customer segments, the customer deposits are composed as follows: 45% private individuals, 17% large corporates,

36% small and medium-sized enterprises, 2% public sector, (2021: 52% private individuals, 11% large corporates, 35% small and medium-sized enterprises, 2% public sector,).

37) 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 Bank uses HunOr, the Hungarian operational risk-loss data consortium.

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

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 Bank monitors a number of key risk indicators such as system availability, staff turnover, and customer complaints.

Erste Bank uses an insurance program that has reduced the cost of meeting Erste Bank'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 Bank. 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

38) Non-current assets and investment properties

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 arises from business combinations whereby a subsidiary is acquired. Subsequently, goodwill is carried at cost as established on the acquisition date, less accumulated subsequent impairment losses, if any. 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'.

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

.

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	Subtotal	Investment properties
Value 01.01.2022	**74,570**	**9,149**	**11,024**	**4,894**	**13,637**	**26,257**	**139,531**	**290**
Additions	6,858	-	775	408	1,902	1,791	11,734	1
Disposals	(2,525)	(11)	(167)	(112)	(1,436)	(209)	(4,460)	-
Reclassification	(3)	-	-	21	(18)	-	-	-
Value 31.12.2022	**78,900**	**9,138**	**11,632**	**5,211**	**14,085**	**27,839**	**146,805**	**291**

DEPRECIATION AND IMPAIRMENT in HUF million	Software acquired	Other intangible assets (licenses, patents, customer lists etc.)	Own land and buildings[1)]	Office and plant equipment/other fixed assets	IT-assets (hardware)	Right-of-use land and buildings[2)]	Subtotal	Investment properties[3)]
Value 01.01.2022	**48,073**	**6,786**	**5,754**	**3,729**	**10,051**	**7,610**	**82,003**	**87**
Additions	8,176	1,128	913	354	1,436	2,842	14,849	5
Disposals	(2,525)	(11)	(114)	(91)	(1,434)	(238)	(4,413)	-
Impairment	108	-	-	-	2	29	139	-
Value 31.12.2022	**53,832**	**7,903**	**6,553**	**3,992**	**10,055**	**10,243**	**92,578**	**92**

NET CARRYING AMOUNT in HUF million	Software acquired	Other intangible assets (licenses, patents, customer lists etc.)	Own land and buildings[1)]	Office and plant equipment/other fixed assets	IT-assets (hardware)	Right-of-use land and building[2)]	Subtotal	Investment properties[3)]
Value 01.01.2022	**26,497**	**2,363**	**5,270**	**1,165**	**3,586**	**18,647**	**57,528**	**203**
Value 31.12.2022	**25,068**	**1,235**	**5,079**	**1,219**	**4,030**	**17,596**	**54,227**	**199**

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

2) In the course of 2021 Right-of-use assets useful life was adjusted together with the discount factor in use

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

.

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[2)]	Subtotal	Investment properties
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[1)]	Office and plant equipment/other fixed assets	IT-assets (hardware)	Right-of-use land and buildings[2)]	Subtotal	Investment properties[3)]
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[1)]	Office and plant equipment/other fixed assets	IT-assets (hardware)	Right-of-use land and buildings[2)]	Subtotal	Investment properties[3)]
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 depreciation relates to buildings within ‚Own land and buildings'.

2) In the course of 2022 Right-of-use assets useful life was adjusted together with the discount factor in use.

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

Net carrying amount

in HUF million	2021	2022
Intangible assets	**28,860**	**26,303**
Software acquired	26,497	25,068
Other intangible assets (licenses, patents, customer lists etc.)	2,363	1,235
Property and equipment	**28,668**	**27,924**
Own land and buildings	5,270	5,079
Office and plant equipment/other fixed assets	1,165	1,219
IT-assets (hardware)	3,586	4,030
Right-of-use land and buildings	18,647	17,596
Total intangible and tangible assets	**57,528**	**54,227**
Investment properties	**203**	**199**

Fully amortised intangible assets which were still in use amounted to 11,956 million forint as at 31 December 2022 (11,581 million forint as at 31 December 2021). Fully depreciated tangible assets which were still in use amounted to 9,577 million forint as at 31 December 2022 (8,514 million forint as at 31 December 2021).

The 'investment properties' category covers properties subject to operating lease. Impairment testing in 2022 did not indicate the need of additional impairment allocation.

39) 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	2021	2022
Clearing accounts with tax authorities	331	166
Banking tax[1)]	3,342	2,507
Other clearing accounts	10,600	10,189
Other financial assets[2)]	4,250	2,483
Other accrued income[3)]	4,607	18,002
Inventories	192	311
Repossessed assets[4)]	21	21
Prepaid expenses	2,692	3,389
Other	2,142	4,682
Total	**28,177**	**41,750**

1) As in IFRS terms the deduction possibility is valued as virtually certain, Erste Bank recognised a receivable of 2,507 million forint as of 31 December 2022 (3,342 million forint in 2021) 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) The balance of the accrued fee income at 2022 year end increased 13 billion forint compared to 2021.

4) 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

2022 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)	39)	21	21	-	-	21

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)	39)	21	21	-	-	21

Leases

40) 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.

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	2021	2022
Outstanding minimum lease payments	33,692	35,963
Non-guaranteed residual values	9,277	7,094
Gross investment	**42,969**	**43,057**
Unrealised financial income	2,937	3,664
Net investment	**40,032**	**39,393**
Present value of non-guaranteed residual values	8,643	6,489
Present value of minimum lease payments	**31,389**	**32,904**
Risk provision related to outstanding minimum lease payments	**(4,929)**	**(1,134)**

Maturity analysis of leases by residual maturities

in HUF million	Gross investment 2021	Present value of minimum lease payments 2021	Gross investment 2022	Present value of minimum lease payments 2022
< 1 year	14,614	10,904	15,562	11,489
1-2 years	11,903	8,563	10,214	7,973
2-3 years	7,460	5,507	7,874	6,421
3-4 years	4,664	3,634	4,643	3,605
4-5 years	2,062	1,448	2,388	2,050
> 5 years	2,266	1,333	2,376	1,366
Total	**42,969**	**31,389**	**43,057**	**32,904**

Finance lease receivables

Gains/losses from derecognition of finance lease receivables are recognised 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
2022											
Other financial corporations	4,203	5	-	-	4,208	(6)	(1)	-	-	(7)	**4,201**
Non-financial corporations	18,260	14,029	699	119	33,107	(103)	(297)	(363)	(63)	(826)	**32,281**
Households	1,207	583	256	31	2,077	(23)	(92)	(175)	(10)	(300)	**1,777**
Total	**23,670**	**14,617**	**955**	**150**	**39,392**	**(132)**	**(389)**	**(539)**	**(73)**	**(1,133)**	**38,259**

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**

For information about development of credit loss allowances refer to Note 33) Development of credit loss allowances, part 'Finance lease receivables': Table 'Movement in credit loss allowances – finance lease receivables'.

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	2021	2022
< 1 year	44	49
1-2 years	44	49
2-3 years	44	49
3-4 years	44	49
4-5 years	44	49
> 5 years	99	62
Total	**319**	**307**

During 2022, Erste Bank recognised income relating to variable lease payments in the amount of 53 million forint (41 million forint in 2021). 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 capitalised in balance sheet arising from leases where Erste Bank is lessee, please see Note 38) Non-current assets and investment properties.

Maturity analysis of lease liabilities

in HUF million	2021	2022
< 1 year	3,182	3,402
1-5 years	11,595	12,477
> 5 years	6,083	5,002
Total	**20,860**	**20,881**

During 2022, interest expenses on lease liabilities were recognised in the amount of 205 million forint (176 million forint in 2021).

Total cash outflow for leases recognised as lease liabilities in 2022 was 3,559 million (3,284 million in 2021). Cash outflow related to lease contracts of low-value assets was 82 million forint in 2022 (98 million forint in 2021). Erste Bank had no lease contracts in 2021 and 2022 where the short-term exemption of IFRS 16 was applied.

Accruals, provisions, contingent liabilities and legal proceedings

41) Other liabilities

in HUF million	2021	2022
Deferred income	593	1,411
Clearing accounts	10,486	17,300
Tax liabilities	-	2,637
Other financial liabilities [1)]	76	899
Accruals of other expenses	14,355	15,811
Other liabilities	4,227	3,366
Total	**29,737**	**41,424**

1) The balance of 'Other financial liabilities' contains short-term supplier liabilities.

42) 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'.

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 43) Contingent liabilities.

in HUF million	2021	2022
Pending legal issues and tax litigation	1,883	187
Loan commitments and financial guarantees given	3,644	5,456
CLA for loan commitments and financial guarantees in Stage 1	1,758	2,336
CLA for loan commitments and financial guarantees in Stage 2	1,456	2,759
CLA for loan commitments and financial guarantees - Defaulted	430	361
Other provisions	2,801	3,323
Other	2,801	3,323
Provisions	**8,328**	**8,966**

.

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).

Loan commitments and financial guarantees given in scope of IFRS 9

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'.

Loan commitments are firm commitments to provide credit under prespecified terms and conditions. Loan commitments are generally not recognised in the balance sheet before they are drawn. If it is probable that the bank will enter into the loan agreement loan commitment fees received are deferred and adjust the effective interest rate of the loan when the commitment is drawn. Loan commitments result in recognition of provisions based on the expected credit loss impairment model.

For information about development of credit loss allowances for provision for financial guarantees and loan commitments refer to Note 33) Development of credit loss allowances, part 'Loan commitments and financial guarantees': table 'Movement in credit loss allowances – loan commitments and financial guarantees'.

Remaining classes of provisions

Following table provides the information about the development of the remaining classes of provisions

Sundry provision 2022

in HUF million	As of 01 January 2022	Allocations	Use	Releases	Merger and acquisition	Exchange rate and other changes (+/-)	As of 31 December 2022
Pending legal issues and tax litigation	1,883	100	(539)	(1,257)	-	-	187
Commitments and guarantees given out of scope of IFRS9	2,212	5,553	-	(5,000)	447	74	3,286
Other provisions	589	13,253	-	(13,805)	-	-	37
Other	589	13,253	-	(13,805)	-	-	37
Provisions	**4,684**	**18,906**	**(539)**	**(20,062)**	**447**	**74**	**3,510**

Sundry provision 2021

in HUF million	As of 01 January 2021	Allocations	Use	Releases	Unwind of discount	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**

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 included 1.7 billion forint related to a Supreme Court (Curia) decision in 2021 year end:
By the decision of the Hungarian Competition Authority of 19 November 2013 11 leading Hungarian banks were fined for harmonised activities in setting their practices in the case of the "Endpayment" scheme in the period of 15 September 2011 - 30 January 2012. The decision was appealed and the legal case continued at Supreme Court (Curia). By the Curia decision due to the imperfection of the legal procedure the original decision is nailed, the amount of the fine was paid back to the Bank and new procedure is ordered. In the new procedure, the Metropolitan Court adopted its judgment on 1 July 2020, and rejected the claims of the banks. EBH (as well as all the other five banks affected) initiated a review procedure in Supreme Court against this judgment on 18 September 2020. Conforming to the decision the Bank allocated legal provision in 2017, in the amount of the original fine of 1.7 billion forint. The new procedure was closed in April 2022, and the total provision amount was released.

Other provisions
Other provisions also include provision of 3,285 million forint for other commitments in scope of IAS37.

43) Contingent liabilities

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

in HUF million	2021	2022
Irrevocable contingent liabilities	**347,488**	**538,334**
Financial guarantees	1,868	18,806
Committed credit lines -irrevocable	281,670	346,299
Non-financial guarantees[1)]	62,849	169,068
Import accreditives	1,101	4,161
Revocable contingent liabilities	**224,684**	**350,778**
Committed credit lines - revocable	224,684	350,778
Other contingent liabilities	**3,455**	**1,759**
Legal cases	1,883	187
Other	1,572	1,572
Total	**575,626**	**890,870**

1) The significant increase is due to the Commerzbank acquisition.

Related Provision see note 42).

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

44) 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	2021	2022
Subscribed capital	146,000	146,000
Additional paid-in capital	117,492	117,492
Retained earnings and other reserves	169,694	150,242
Total	**433,186**	**413,734**
Attributable to owners of the parent	433,186	413,734

Subscribed capital and Additional paid-in capital

As 31 December 2022 subscribed capital amounted to 146,000,000,000 forints (in words: one hundred and forty-six billion). The subscribed capital consisted of 146,000,000,000 (in words: one hundred and forty-six billion) pieces of dematerialised ordinary shares of 1 forint nominal value each.

Owners of the Bank

As of 31 December 2022, 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 2021		31 December 2022	
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	2021	2022
IFRS financial statements		
Subscribed capital	146,000	146,000
Additional paid-in capital	117,492	117,492
General reserve	24,818	30,402
Fair value reserve	(4,019)	(11,005)
Retained earnings	148,894	130,845
Total equity	**433,185**	**413,734**
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	24,818	30,402
Revaluation reserve	(4,019)	(11,005)
Retained earnings	93,051	93,309
Net result for the year	55,843	37,536
Total equity	**433,185**	**413,734**
of which		
Capital subscribed by the Court of Registry	146,000	146,000
Reserve available for dividend payment	148,894	130,845

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 34,156 million forint at the end of 2022 (in 2021: 30,402 million forint).

'Retained earnings and other reserves' also includes 'Retained earnings' of 127,092 million forint and 'Fair value reserve' of (12,095) million forint with related deferred tax of 1,089 million forint in 2022. In 2021 the 'Retained earnings' was 143,310 million forint and the 'Fair value reserve' was (4,018) million forint with no related deferred tax.

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

45) 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 51) of the notes
Minority owners: In 2016 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 percent shareholding in Erste Bank Hungary Zrt.
Other related parties (Erste Group): all companies in Erste Group other than the Hungarian subsidiaries

Loans and advances and amounts owed to related parties

in HUF million	2021	2022
Other demand deposits	**392**	**904**
Parent	353	890
Other related parties (Erste Group)	39	14
Loans and advances to credit institutions [1)]	**93,882**	**62,591**
Parent	57,232	6,502
Subsidiaries	36,650	56,089
Loans and advances to customers	**11,459**	**864**
Subsidiaries	-	48
Other related parties (Erste Group)	11,459	816
Derivative financial instruments - asset	**24,722**	**71,245**
Parent	21,324	68,902
Subsidiaries	3,085	2,232
Other related parties (Erste Group)	313	111
Other assets	**5,532**	**17,455**
Parent	2,720	12,982
Subsidiaries	1,843	3,493
Other related parties (Erste Group)	969	980
Deposits by banks	**269,918**	**437,116**
Parent	12,678	160,750
Subsidiaries	256,992	276,273
Other related parties (Erste Group)	248	93
Customer deposits	**222,305**	**217,517**
Subsidiaries	190,732	217,082
Other related parties (Erste Group)	31,573	435
Derivative financial instruments - liabilities	**30,367**	**50,976**
Parent	29,122	46,202
Subsidiaries	1,233	4,771
Other related parties (Erste Group)	12	3
Other liabilities	**3,257**	**1,670**
Parent	1,071	0
Subsidiaries	91	103
Other related parties (Erste Group)	2,095	1,567
Subordinated liabilities	**62,762**	**136,336**
Parent	62,762	136,336
Other commitments	**13,444**	**13,359**
Parent	124	384
Subsidiaries	12,100	12,100
Other related parties (Erste Group)	1,220	875
Loan commitments	**44,617**	**6,085**
Subsidiaries	44,617	6,085

1) Average contractual interest rate:

2022: 2.04%
2021: 2.57%

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 0.01 million forint in 2022.

Income and expenses to related parties

in HUF million	2021	2022
Interest Income	**3,124**	**7,684**
Parent	1,916	3,824
Subsidiaries	835	3,674
Other related parties (Erste Group)	373	186
Interest Expense	**(25,019)**	**(101,033)**
Parent	(18,482)	(80,327)
Subsidiaries	(6,534)	(20,658)
Other related parties (Erste Group)	(3)	(48)
Fee and commission income	**14,856**	**16,860**
Parent	170	293
Subsidiaries	14,671	16,557
Other related parties (Erste Group)	15	10
Fee and commission expense	**(513)**	**(637)**
Parent	(177)	(242)
Subsidiaries	(282)	(303)
Other related parties (Erste Group)	(54)	(92)
Dividend income	**11,479**	**14,697**
Subsidiaries	11,479	14,697
Other Income/(Expense)	**1,062**	**(7,024)**
Parent	132	155
Fellow subsidiaries	1,025	(7,117)
Other related parties (Erste Group)	(95)	(62)

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

Management compensation

in HUF million	2021	2022 plan
Fixed salary	475	530
Performance related compensation	475	530
Other compensation	31	91
Total	**981**	**1,151**

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 5 years in equal instalments. When a bonus amount exceeds EUR 150 000 a ratio of 40% upfront payment and 60% deferral is applied. 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 2022, performance-linked remuneration and share-equivalents are planned to be paid out, in line with MNB guidelines, as per below:

Performance related compensation

in HUF million	2021	2022
Cash payment for performance period 2018	95	106
Deferred Bonus in cash for next performance periods	143	159
Deferred Bonus in share equivalent for next performance periods	238	265
Total	**475**	**530**

Breakdown of Supervisory Board and Board of Directors compensation:

in HUF million	2021	2022 plan
Supervisory Board compensation	48	52
Board of Directors compensation	1,010	1,183
Total	**1,058**	**1,235**

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 2022 the external members of the Supervisory Board received a compensation of 52 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, in 2021 48 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 32.6 million forint per year for 2022 (in 2015 7.1, in 2016 12; in 2017 24, in 2018 26, in 2019 25,5; in 2020 28,6; in 2021 28,5 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 2023

decides to distribute dividends. The expected number of free shares, which are granted under this program for the period, is 17,623 (during the calculation we used the share price available on 30.12.2022). Based on the number of entitled employees, personnel expenses in the amount of 210.9 million forint, booked for the year 2022, 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.

Organisation 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 in 2022). 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 in 2022) 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 organisations pursuing – among others – the same activity as the Bank. If such business organisation 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.

46) Audit fees and consultancy fees

The following table contains audit and other fees invoiced by the auditors, PwC in the fiscal years 2021 and 2022:

in HUF million	2021	2022
Audit fees	154	165
Other assurance services	9	31
Other services	10	-
Total	**173**	**196**

Other assurance services consists of pre-takeover mortgage loan reviews and services related to the bond issuance. 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. Other services consist of consulting related to human resources and accounting courses.

47) Assets and liabilities denominated in foreign currencies

Assets and liabilities not denominated in forint were as follows:

			of which outside Hungary	
in HUF million	2021	2022	2021	2022
Assets	**522,772**	**998,918**	**20,679**	**42,593**
EUR	492,856	965,809	11,900	34,015
CHF	9,133	847	11	81
USD	19,507	31,449	7,925	8,065
JPY	7	141	3	28
Other	1,269	672	840	404
Liabilities	**835,904**	**1,499,362**	**87,895**	**207,088**
EUR	684,309	1,236,283	78,465	191,566
CHF	25,550	17,985	569	592
USD	108,460	231,211	6,168	14,404
JPY	778	865	5	10
Other	16,807	13,018	2,688	516

Further details of the exchange rate open positions in Note 35) 'Market Risk'.

48) Analysis of remaining maturities

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

in HUF million	< 1 year	> 1 year	< 1 year	> 1 year
Assets				
Cash and cash balances	131,256	-	603,301	-
Financial assets held for trading	42,575	27,831	107,711	97,355
Derivatives	27,303	27,831	38,267	97,355
Other financial assets held for trading	15,272	-	69,444	-
Non-trading financial assets at fair value through profit or loss	34,759	238,953	40,670	274,159
Equity instruments	-	1,611	-	2,809
Debt securities	-	1,206	-	699
Loans and advances to customers	34,759	236,137	40,670	270,651
Financial assets at fair value through other comprehensive income	5,932	112,816	28,277	155,802
Debt securities	5,932	112,816	28,277	155,802
Financial assets at amortised cost	1,226,648	2,162,290	1,109,110	2,426,578
Debt securities	175,053	986,941	158,104	1,083,062
Loans and advances to banks	608,736	93,839	193,256	207,935
Loans and advances to customers	442,859	1,081,510	757,751	1,135,581
Finance lease receivables	6,634	28,468	10,339	27,920
Property and equipment	-	28,667	-	27,924
Investment properties	-	203	-	199
Intangible assets	-	28,860	-	26,303
Investments in joint ventures and associates	-	55,431	-	84,487
Deferred tax assets	-	2,246	-	2,348
Trade and other receivables	16,377	77	29,986	- 107
Other assets	28,153	22	41,729	21
Total assets	**1,492,336**	**2,685,864**	**1,971,123**	**3,122,988**

in HUF million	2021 < 1 year	2021 > 1 year	2022 < 1 year	2022 > 1 year
Liabilities and equity				
Financial liabilities held for trading	23,452	16,706	40,879	80,137
Derivatives	23,452	16,706	40,879	80,137
Financial liabilities at amortised cost	1,910,080	1,733,805	2,534,926	1,951,715
Deposits from banks	94,509	505,609	232,354	690,548
Deposits from customers	1,810,248	1,224,652	2,300,434	1,112,827
Debt securities issued	1,141	3,129	793	147,947
Other financial liabilities	4,182	415	1,345	392.1854132
Lease liabilities	3,182	17,678	3,402	17,479
Provisions	2,452	5,876	3,612	5,354
Current tax liabilities	2047	-	1,449	-
Deferred tax liabilities	-	-	-	-
Other liabilities	29,736	-	41,424	-
Total equity	**-**	**433,186**	**-**	**413,734**
Equity attributable to owners of the parent	-	433,186	-	413,734
Subscribed capital	-	146,000	-	124,425
Additional paid-in capital	-	117,492	-	146,000
Retained earnings and other reserves	-	169,694	-	143,309
Total liabilities and equity	**1,970,949**	**2,207,251**	**2,625,692**	**2,468,419**

49) Events after the balance sheet date

Recent international events in banking sector
In course of March the U.S. based Silicon Valley Bank (SVB) was announced collapsed, and also the Switzerland based Credit Suisse bank (CS) reported financial difficulties and needed government intervention. Both banks were major players in global markets as well. The situation was consolidated meanwhile, in both cases:

- SVB was taken over by Federal Reserves and deposits were moved into a so called ‘bridge bank’;
- in case of CS, it was recently announced that UBS, another global player of the sector, plans to buy.

These events do not impact Erste Hungary directly; the liquidity and capital situation of Erste Hungary is stable.

Dividend
The proposed dividend to be presented at the Annual general meeting is amounting to 15 billion forint.

50) Other information

Erste Bank’s signing representatives for financial statements of business year 2022:

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:
Edina Bodonyi-Kovács (mother’s maiden name: Emma Székely)
Registration number: 151013, certificate number: 006745, registration expertise: IFRS, finance

51) Details of the companies wholly or partly-owned by Erste Bank at 31 December 2021 and 2022 respectively

Company name	Interest of Erste Bank in % - directly or indirectly at 31.12.2021	Interest of Erste Bank in % - directly or indirectly at 31.12.2022
Subsidiaries:		
Erste Befektetési Zrt.	100%	100%
Random Capital Bróker Zrt.	100%	0%
RND Solutions Informatikai Fejlesztő és Szolgáltató Zrt.	100%	100%
Erste Ingatlan Kft.	100%	100%
Erste Lakástakarék Zrt.	100%	100%
Collat-reál Kft.	100%	100%
Erste Jelzálogbank Zrt.	100%	100%
Commerzbank Zrt.	0%	100%
Z3 Ingatlanhasznosító Kft.	0%	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%	2.30%
VISA Incorporated	0%	0.000000005%

in HUF million	Subscribed capital 2021	Subscribed capital 2022
Subsidiaries:		
Erste Befektetési Zrt.	2,000	2,000
Random Capital Bróker Zrt.	285.5	-
RND Solutions Informatikai Fejlesztő és Szolgáltató Zrt.	160	160
Erste Ingatlan Kft.	141	141
Erste Lakástakarék Zrt.	2,025	2,025
Collat-reál Kft.	3	3
Erste Jelzálogbank Zrt.	3,010	3,015
Commerzbank Zrt.	-	2,467
Z3 Ingatlanhasznosító Kft	-	4,303

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.