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 2023

Separate Financial Statements 2023 IFRS

I. Separate Income Statement for the year ended 31 December 2023

in HUF million	Notes	2022 reclassified[1)]	2023
Net interest income	2)	114,069	123,332
Interest income		290,300	492,319
Other similar income		70,878	122,988
Interest expenses		(166,435)	(343,279)
Other similar expenses		(80,674)	(148,696)
Net fee and commission income	3)	70,685	82,833
Fee and commission income		85,879	100,370
Fee and commission expenses		(15,194)	(17,537)
Dividend income	4)	14,769	34,681
Net trading result	5)	16,872	11,881
Foreign exchange transactions		(53,553)	45,260
Other		70,425	(33,379)
Gains/losses from financial instruments measured at fair value through profit or loss	6)	(21,155)	43,013
Rental income from investment properties & other operating leases	7)	53	56
Personnel expenses	8)	(37,499)	(44,014)
Other administrative expenses	8)	(34,867)	(36,821)
Depreciation and amortisation	8)	(14,854)	(11,734)
Gains/losses from derecognition of financial assets measured at amortised cost	9)	(156)	(27)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10)	426	(4,894)
Impairment result from financial instruments	11)	(9,296)	(2,249)
Other operating result	12)	(54,118)	(76,563)
Other operating income	12)	4,279	5,833
Other operating expense	12)	(58,397)	(82,396)
Pre-tax result from continuing operations		**44,929**	**119,494**
Taxes on income	13)	(7,393)	(11,726)
Net result for the period		**37,536**	**107,768**

1) Please see details in chapter D. SIGNIFICANT ACCOUNTING POLICIES part e) Changes in presentation.

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II. Separate Statement of Comprehensive Income for the year ended 31 December 2023

in HUF million	2022	2023
Net result for the period	**37,536**	**107,768**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Fair value reserve of debt instruments	(8,077)	12,213
Gain/loss during the period	(7,975)	7,482
Reclassification adjustments	(426)	4,894
Credit loss allowances	324	(163)
Deferred taxes relating to items that may be reclassified	1,089	(1,100)
Gain/loss during the period	1,089	(1,100)
Total other comprehensive income	**(6,988)**	**11,113**
Total comprehensive income	**30,548**	**118,881**

Date: Budapest, April 5 2024

Radován Jelasity
Chairman and CEO

Manfred Schmid
Chief Financial Officer

III. Separate Statement of Financial Position at 31 December 2023

in HUF million	Notes	2022	2023
Assets			
Cash and cash balances	14)	603,301	604,510
Financial assets held for trading		205,066	103,003
Derivatives	20)	135,622	66,491
Other financial assets held for trading	21)	69,444	36,512
Pledged as collateral	29)	-	1,773
Non-trading financial assets at fair value through profit or loss	22)	314,829	389,236
Equity instruments	22)	2,809	2,136
Debt securities	22)	699	814
Loans and advances to customers	22)	311,321	386,286
Financial assets at fair value through other comprehensive income	18)	184,079	248,312
Debt securities	18)	184,079	248,312
Pledged as collateral	29)	71,287	124,836
Financial assets at amortised cost	15)	3,535,689	3,252,373
Pledged as collateral	29)	93,846	113,918
Debt securities	15)	1,241,166	1,095,399
Loans and advances to banks	15)	401,191	350,060
Loans and advances to customers	15)	1,893,332	1,806,914
Finance lease receivables	40)	38,259	33,453
Property and equipment	38)	27,924	26,707
Investment properties	38)	199	197
Intangible assets	38)	26,303	28,677
Investments in associates and joint ventures		84,487	53,142
Deferred tax assets	13)	2,348	418
Trade and other receivables	16)	29,879	18,879
Other assets	39)	41,750	40,742
Total assets		**5,094,113**	**4,799,649**

in HUF million	Notes	2022	2023
Liabilities and equity			
Financial liabilities held for trading		121,017	65,538
Derivatives	20)	121,017	65,538
Financial liabilities at amortised cost	17)	4,486,642	4,131,545
Deposits from banks	17)	922,902	816,092
Deposits from customers	17)	3,413,261	3,077,408
Debt securities issued	17)	148,741	234,165
Other financial liabilities	17)	1,738	3,880
Finance lease liabilities	40)	20,881	19,413
Provisions	42)	8,966	7,074
Current tax liabilities	13)	1,449	5,511
Other liabilities	41)	41,424	52,953
Total equity	44)	**413,734**	**517,615**
Equity attributable to owners of the parent		413,734	517,615
Subscribed capital		146,000	146,000
Additional paid-in capital		117,492	117,492
Retained earnings and other reserves		150,242	254,123
Total liabilities and equity		**5,094,113**	**4,799,649**

Date: Budapest, April 5 2024

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 2023	44)	**146,000**	**117,492**	**161,248**	**(12,095)**	**1,089**	**413,734**	**413,734**
Dividends[3)]				(15,000)			**(15,000)**	**(15,000)**
Total comprehensive income		-	-	107,768	12,213	(1,100)	**118,881**	**118,881**
of which: Net profit / (loss) for the year				107,768			**107,768**	**107,768**
of which: Other comprehensive income				-	12,213	(1,100)	**11,113**	**11,113**
Total equity at 31 December 2023	44)	**146,000**	**117,492**	**254,016**	**118**	**(11)**	**517,615**	**517,615**

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				(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 15,000 million forint to its owners.

V. Separate Statement of Cash Flows

in HUF million	2022	2023
Net result for the period	**37,536**	**107 768**
Income tax adjustment	7,393	11 726
Income tax adjusted result for the period	**44,929**	**119 494**
Non-cash adjustments for items in net profit for the year		
Depreciation, amortisation and net impairment of non-financial assets	22,824	41 399
from which regarding right-of-use assets - Land and buildings Leasing	2,842	7,602
Net allocation of credit loss allowances and other provisions	1,644	(5,971)
Modification gain/loss on loans and advances	15,745	14,413
Gains/losses from measurement and derecognition of financial assets and financial liabilities	270	(4,921)
Revaluation of subordinated liabilities	4,388	(5,944)
Revaluation of derivatives	363	14,481
Other adjustments	548	(2,863)
from which regarding Finance lease liabilities under IFRS 16	1,632	(593)
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Financial assets - held for trading	(53,308)	27,933
Non-trading financial assets at fair value through profit or loss		
Equity instruments	(1,198)	673
Debt securities	507	(115)
Loans and advances to customers	(40,455)	(74,965)
Financial assets at fair value through other comprehensive income		
Debt securities	(11,057)	17,066
Financial assets at amortised costs		
Debt securities	(5,073)	2,047
Loans and advances to banks	301,384	51,131
Loans and advances to customers	(388,061)	75,792
Finance lease receivables	855	4,812
Other assets from operating activities	(26,897)	12,182
Financial liabilities - held for trading	(856)	4,170
Financial liabilities measured at amortised cost		
Deposits from banks	391,751	(100,866)
Deposits from customers	378,361	(335,853)
Debt securities issued	4,847	(2,346)
Other financial liabilities	(2,858)	2,142
Other liabilities from operating activities	11,687	11,529
Finance lease liabilities	205	255
Payments for taxes on income	(5,921)	(4,564)
Cash flow from operating activities	**644,624**	**(138,889)**

in HUF million	2022	2023
Proceeds of disposal		
Financial assets at fair value through other comprehensive income - Debt instruments	20,870	79,168
Financial assets at amortised costs - Debt securities	174,333	166,521
Property and equipment, intangible assets and investment properties	76	103
Investments in subsidiaries	-	6,448
Acquisition of		
Financial assets at fair value through other comprehensive income - Debt instruments	(83,970)	(143,190)
Financial assets at amortised costs - Debt securities	(249,689)	(22,831)
Property and equipment, intangible assets and investment properties	(9,945)	(15,043)
Investments in subsidiaries	(36,916)	-
Cash flow from investing activities	**(185,241)**	**71,176**
Dividends paid to equity holders of the parent	(50,000)	(15,000)
Subordinated loan received	(73,355)	-
Income from Debt securities issued	139,624	87,770
Finance lease liabilities repayment	(3,607)	(3,848)
Cash flow from financing activities	**12,662**	**68,922**
Cash and cash equivalents at beginning of period	**131,256**	**603,301**
Cash flow from operating activities	644,624	(138,889)
Cash flow from investing activities	(185,241)	71,176
Cash flow from financing activities	12,662	68,922
Cash and cash equivalents at end of period	**603,301**	**604,510**
Cash flows related to interest and dividends (included in cash flow from operating activities)		
Interest received	308,523	609,486
Dividends received	14,769	34,681
Interest paid	(165,612)	(485,534)

Notes to the Separate Financial Statements

A. GENERAL INFORMATION

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

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

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

The separate 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 2023, the direct parent of the Bank– owning 100% of the shares (2022: 70%) – was Erste Group Bank AG, whose registered office at that date was Am Belvedere 1, 1100 Vienna, Austria. The Consolidated 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 sold minority stakes in Erste Bank Hungary Zrt.
In June 2016 Corvinus Nemzetközi Befektetési Zrt. (representing the Hungarian State, furthermore, referenced as Corvinus Zrt.) 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.

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

The 2015 Memorandum of Understanding concluded between the Hungarian state, Erste Group, and EBRD on the purchase of stakes contained a pre-determined exit mechanism for the involved minority shareholdings.

In 2023 Erste Group Bank AG bought back the 30% share of Erste Bank Hungary Zrt., held by Corvinus Zrt. and EBRD. The transaction was closed in November for the shares of Corvinus Zrt. and in December for the shares of EBRD.

The ownership structure of Erste Bank Hungary Zrt. is the following:

	2023		2022	
Owner	**Number of shares**	**Ownership share**	**Number of shares**	**Ownership share**
Erste Group Bank AG	146,000,000,000	100%	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%**	**146,000,000,000**	**100%**

The delegated Supervisory Board members and non-executive members to the Board of Directors resigned after the sale of the minority ownerships was concluded.

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 separate financial statements are legally required to be audited in order to ensure independent control and review of the accounts.

B. ACQUISITIONS, MERGERS AND DISPOSALS

2023
Liquidation of RND Solutions Zrt.
1 September 2021 Erste Befektetési Zrt. the fully owned subsidiary of the Bank has acquired 100% of the shares in RND Solutions Zrt. (RND) together with Random Capital Zrt. (Random). RND as an independently owned company provided the IT infrastructure for Random. After the successful integration of Random and RND in Erste Befektetési Zrt. including IT solution, it was concluded to write off the related software in RND Solutions Zrt in 2022.

In December 2022 Erste Befektetési Zrt. as a sole owner decided about the liquidation of RND. The liquidation process started on 1 January 2023 and finished on 31 March 2023.

2022
Acquisition of Commerzbank Zrt.
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 exceeds 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. The finalisation of the business combination during the year 2023 did not lead to a significant change of the fair value of the net assets as identified as of the date of first consolidation.

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 corporations	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 in the consolidated financial statement. 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 amounted to 31.9 billion forint at the date of transaction and was decreased in the year 2023 by 1.45 billion forint. The calculated goodwill was also decreased with the same amount.

C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS

2023

The Hungarian government continued its fiscal policy started in 2020, in terms of continuing and extending supportive measures for individuals and corporates. As a reaction to the economic crisis and managing the state debt, the recently implemented sector-related tax has been extended and at the same time the tax base was modified. As it was communicated by the Government, the 2022 measures were the closing act of the moratoria regulations, this vehicle was no longer applied.

i)

Extension of measures launched in 2021 and 2022

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 twice extended in 2022 to 30 June 2023. The measure was extended twice again in 2023 with the last extension valid from 30 November 2023, to 30 June 2024.

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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 is to apply from the repricing date.
- repricing date falls 2023 (1 January – 31 December):
  the fix rate is to apply from the repricing date.
- repricing date falls 2024 (1 January – 30 June):
  the fix rate is 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', in line with 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 2023 amounted to 13.7 billion forint, based on expert estimations (of which 10.1 billion forint is related to Stage 1 deals), amortised in 'Net interest income' over the lifetime of the loans.

(Government decree: '175/2023. (V. 12.)' and '522/2023. (XI.30.) Korm.rendelet')

2. SME interest stop extension

Like the retail customer relevant 'Interest stop', 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, originally for 15 November 2022 – 30 June 2023 period. The measure was extended twice in 2023, first to 31 December 2023, valid from 12 May 2023, and to 1 April 2024, valid from 30 November 2023.

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 2023 amounted to 957 million forint, amortised in 'Net interest income' over the lifetime of the loans.

(Government decree: '175/2023. (V. 12.)' and '522/2023. (XI.30.) Korm.rendelet')

3. Interest cap on deposits

Interest paid by financial institution on customers' deposits can not exceed a statistical interest rate defined as the average rate of auctions on discount government bills 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.

Originally the period in scope was 1 December 2022 – 31 March 2023, that was extended several times in 2023 finally applicable to 1 April 2024, valid from 1 December 2023. The scope was also extended to corporate clients valid from 1 December 2023.

No one-off effect was presented related to this measure based on IFRS 9.

(Government decree: '522/2023. (XI. 30.) Korm. rendelet')

ii)
New supportive measures effecting banking products' profitability

Voluntary interest rate cap

A voluntary interest rate cap was launched for newly disbursed loans from 9 October 2023. The new cap was proposed by Hungary's Ministry of Economic Development with an aim to boost lending and voluntary implemented by financial institutions. Based on government proposal financial institutions should impose an 8.5% (7.3% from January 2024) cap on non-subsidized housing loans, and similarly a capped rate of 12% (9.9% from January 2024) on corporate working capital loans.

No one-off effect was presented related to this measure based on IFRS 9.

iii)
Sectoral levies and taxes
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, 2023 and extended to 2024.
Due to a tax law change at mid-year, the tax is determined differently for the first and second half of 2023. For first half of 2023, the tax base and tax rate are as follows:
The tax base corresponds with 50% of the tax base of the previous year's local business tax (adjusted net income). The tax rate is 8%, payable based on the 2022 local business tax base.
For second half of 2023, the tax is determined as follows:
The tax base is 50% of the modified pre-tax profit of year 2022. The tax rate is 13% on the tax base not exceeding 10 billion forint and 30% above that.
Erste Hungary recognised this burden as 'levy' and presented in line item 'Other operating result', subitem 'Other operating expense', of 18.7 billion forint.

In 2024 the applicable tax base is the modified pre-tax profit of year 2022. The tax rate is 13% on the tax base not exceeding 20 billion forint and 30% above that. The calculated tax amount can be reduced by 50% if the following condition is met: the daily average balance between 1 January 2023 and 30 April 2023 of certain government securities held by the financial institution increase from 1 January 2024 to 30 November 2024. The calculated tax can be reduced by 10% of this increase. The securities that are in scope of the regulation are Hungarian Government Bonds maturing after 1 January 2027, denominated in forint and issued at auction.

(Government decree:"62/2023. (II.28.) Korm. rendelet"; '100/2023. (III. 29.) Korm. rendelet'; '144/2023. (IV. 24.) Korm. rendelet'; '206/2023. (V. 31.) Korm. rendelet'; '317/2023. (VII. 17.) Korm. rendelet'; '492/2023. (XI. 2.) Korm. rendelet')

iv)
Monetary policy

The National Bank of Hungary began monetary easing in 2023. The interest rates of all key monetary policy instruments was significantly decreased during the year:

- The base rate decreased starting from October 2023 from level of 13% to 10.75% until the end of the year.
- The published overnight (O/N) rate also decreased in several steps starting from September 2023 from the level of 12.5% to 9.75% until December 2023.
- The interest rate on the compulsory reserve decreased starting from October 2023 from the level of 13% to 10.75% until the year end, and interest rate remunerated on optional reserves and quick deposits decreased starting from May 2023 from the level of 18% to 10.75% until December 2023.

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, and was extended again to 30 June 2023, valid from 14 October 2022.
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.
- repricing date falls 2023 (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 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.) and '390/2022. (X. 14.) 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.

(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 2023.

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 18.7 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

3. Interest cap on deposits

Interest paid by financial institution on customers' deposits can not exceed a statistical interest rate defined as the average rate of auctions on discount government bills 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.

(Government decree: '471/2022. (XI. 21.) Korm. rendelet')

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 terminated 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 occasionally, 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.

D. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The separate financial statements of Erste Bank for the financial year of 2023 and the comparable data for 2022 were prepared in compliance with applicable IFRS Accounting Standards 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 financial statements according to the same accounting framework as the separate financial statements. The Bank's separate and consolidated financial statements are approved and published on the same day.

In accordance with the applicable measurement models prescribed or permitted under IFRS, the separate 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 2022. Please see the changes in classifications in part e) Changes in presentation in this chapter.

The separate 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.

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The separate financial statements for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the directors on 5 April 2024.

b) Foreign currency translation

The separate 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 separate 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)
- Goodwill (Note 38) Non-current assets and investment properties)
- Provisions (Note 42) Provisions)

In 2022 and 2023 the war in Ukraine, the energy crisis, inflation and interest rates developments brought additional uncertainties for Erste Bank's financial performance and position. The potential effects include significant impacts on expected credit losses, on operating income as well as impacts of potential impacts on goodwill and other non-financial assets impairment assessments. Erste Bank follows the developments closely and recognises the effects in the separate financial statements as a reasonable information supporting their recognition is available.

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 2023 and have been 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: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules

Application of the above-mentioned amendments in 2023 did not have a significant impact on Erste Bank's separate financial statements. EURIBOR and BUBOR are not affected, while other reference rates in use and affected were mitigated (i.e. EONIA to ESTR). However, Amendments to IAS 1 resulted to a significant reduction in the disclosures of the accounting policies with focus on material information. Furthermore, Amendments to IAS 12: International Tax Reform — Pillar 2 Model Rules led to new disclosures in Note 13 Taxes on income.

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 16 Lease Liability in a Sale and Leaseback
_IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability
_IAS 1 Non-current Liabilities with Covenants
_IAS 7 and IFRS 7 Supplier Finance Arrangements

IFRS 16 Lease Liability in a Sale and Leaseback. The amendments to IFRS 16 were issued in September 2022 and become effective for annual periods beginning on or after 1 January 2024. Lease Liability in a Sale and Leaseback amends IFRS 16 by adding subsequent measurement requirements for sale and leaseback transactions. Application of these amendments is not expected to have a significant impact on Erste Bank's financial statements.

IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability. The amendments to IAS 21 were issued in August 2023 and become effective for annual periods beginning on or after 1 January 2023. The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. Application of these amendments is not expected to have a significant impact on Erste Bank's financial statements.

IAS 1 Non-current Liabilities with Covenants. The amendments to IAS 1 were issued in October 2022 and become effective for annual periods beginning on or after 1 January 2024. The amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also respond to stakeholders' concerns about the classification of such a liability as current or non-current. Application of these amendments is not expected to have a significant impact on Erste Bank's financial statements.

IAS 7 and IFRS 7 Supplier Finance Arrangements. The amendments to IAS 7 and IFRS 7 were issued in May 2023 and become effective for annual periods beginning on or after 1 January 2024. Supplier Finance Arrangements amends IAS 7 Statement of Cash Flows to require an entity to provide additional disclosures about its supplier finance arrangements. The amendments also add supplier finance arrangements as an example within the liquidity risk disclosure requirements of IFRS 7 Financial Instruments: Disclosures. Application of these amendments is not expected to have a significant impact on Erste Bank's financial statements.

e) Changes in presentation

Based on IAS 1.41 if an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

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In 2023 based on the accounting policy Erste Bank changed the classification of FX swap deals' interest component from 'Net trading result' to 'Net interest income' to adjust the practice in accordance to group regulations. The interest component of these deals was net (58.7) billion forint in 2023 and net (29.8) billion forint in 2022. The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2022:

Separate income statement

in HUF million	2022 as original	Reclassification	2022 as reclassified
Net interest income	143,895	(29,826)	114,069
Interest income	290,300		290,300
Other similar income	29,580	41,298	70,878
Interest expenses	(166,435)		(166,435)
Other similar expenses	(9,550)	(71,124)	(80,674)
Net fee and commission income	70,685		70,685
Fee and commission income	85,879		85,879
Fee and commission expenses	(15,194)		(15,194)
Dividend income	14,769		14,769
Net trading result	(12,954)	29,826	16,872
Foreign exchange transactions	(53,553)		(53,553)
Other	40,599	29,826	70,425
Gains/losses from financial instruments measured at fair value through profit or loss	(21,155)		(21,155)
Rental income from investment properties & other operating leases	53		53
Personnel expenses	(37,499)		(37,499)
Other administrative expenses	(34,867)		(34,867)
Depreciation and amortisation	(14,854)		(14,854)
Gains/losses from derecognition of financial assets measured at amortised cost	(156)		(156)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	426		426
Impairment result from financial instruments	(9,296)		(9,296)
Other operating result	(54,118)		(54,118)
Other operating income	4,279		4,279
Other operating expense	(58,397)		(58,397)
Pre-tax result from continuing operations	**44,929**		**44,929**
Taxes on income	(7,393)		(7,393)
Net result for the period	**37,536**		**37,536**

Net interest income

in HUF million	2022 as original	Reclassification	2022 as reclassified
Financial assets at AC	281,262		281,262
Financial assets at FVOCI	9,038		9,038
Interest income	290,300		290,300
Non-trading financial assets at FVPL	15,197		15,197
Financial assets HFT	11,964	41,298	53,262
of which: Derivatives	10,314	41,298	51,612
Negative interest from financial liabilities	1,235		1,235
Other assets – Finance lease receivables	1,184		1,184
Other similar income	29,580	41,298	70,878
Interest and other similar income	**319,880**	**41,298**	**361,178**
Financial liabilities at AC	(166,435)		(166,435)
Interest expenses	(166,435)		(166,435)
Financial liabilities HFT	(9,114)	(71,124)	(80,238)
of which: Derivatives	(9,114)	(71,124)	(80,238)
Other liabilities	(216)		(216)
Negative Interest from financial assets	(220)		(220)
Other similar expenses	(9,550)	(71,124)	(80,674)
Interest and other similar expenses	**(175,985)**	**(71,124)**	**(247,109)**
Net interest income	**143,895**	**(29,826)**	**114,069**

Net trading result

in HUF million	2022 as original	Reclassification	2022 as reclassified
Securities and derivatives trading	40,599	29,826	70,425
Foreign exchange transactions	(53,553)		(53,553
Net trading result	**(12,954)**	**29,826**	**16,872**

Income and expenses to related parties

in HUF million	2022 as original	Reclassification	2022 as reclassified
Interest Income	**7,684**	**34,570**	**42,254**
Parent	3,824	34,560	38,384
Subsidiaries	3,674		3,674
Other related parties (Erste Group)	186	10	196
Interest Expense	**(101,033)**	**(55,881)**	**(156,914)**
Parent	(80,327)	(55,328)	(135,655)
Subsidiaries	(20,658)		(20,658)
Other related parties (Erste Group)	(48)	(553)	(601)
Fee and commission income	**16,860**		**16,860**
Parent	293		293
Subsidiaries	16,557		16,557
Other related parties (Erste Group)	10		10
Fee and commission expense	**(637)**		**(637)**
Parent	(242)		(242)
Subsidiaries	(303)		(303)
Other related parties (Erste Group)	(92)		(92)
Dividend income	**14,697**		**14,697**
Subsidiaries	14,697		14,697
Other Income/(Expense)	**(7,024)**		**(7,024)**
Parent	155		155
Subsidiaries	(7,117)		(7,117)
Other related parties (Erste Group)	(62)		(62)
Net trading result	**12,378**	**21,311**	**33,689**
Parent	16,562	20,768	37,330
Subsidiaries	(3,981)		(3,981)
Other related parties (Erste Group)	(203)	543	340
Other operating result	**(8,917)**		**(8,917)**
Parent	(710)		(710)
Subsidiaries	(434)		(434)
Other related parties (Erste Group)	(7,772)		(7,772)
Net impairment loss on financial instruments	**(13)**		**(13)**
Parent	2		2
Subsidiaries	(19)		(19)
Other related parties (Erste Group)	4		4

Performance / Return

1) Segment reporting

The segment reporting of Erste Bank follows the presentation and measurement requirements of IFRS 8. 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 million euro GDP weighted turnover). The Retail business line at Erste Bank is divided into 5 regions and 98 branches in 2023 (5 regions and 105 branches in 2022).

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 million euro to 50 million euro.

The consolidated annual turnover of Large Corporate clients is above 50 million euro.

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 2023

	Retail	Corporates	Group Markets	ALM & LCC	Total group
in HUF million	2023	2023	2023	2023	2023
Net interest income	136,780	61,337	16,608	(91,393)	123,332
Net fee and commission income	60,776	18,869	4,657	(1,469)	82,833
Dividend income	-	-	-	34,681	34,681
Net trading result	7,020	7,885	13,624	(16,648)	11,881
Gains/losses from financial instruments at FVPL	42,643	19	-	351	43,013
Rental income from investment properties & other operating leases	-	-	-	56	56
General administrative expenses	(74,310)	(13,884)	(3,124)	(1,251)	(92,569)
thereof depreciation and amortisation	(10,436)	(1,033)	(235)	(30)	(11,734)
Gains/losses from derecognition of financial assets at AC	-	-	-	(27)	(27)
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	(4,894)	(4,894)
Impairment result from financial instruments	(1,667)	2,023	(140)	(2,465)	(2,249)
Other operating result	(29,665)	(16,637)	(5,803)	(24,458)	(76,563)
Levies on banking activities	(28,800)	(18,974)	(5,515)	2,270	(51,019)
Pre-tax result from continuing operations	**141,577**	**59,612**	**25,822**	**(107,517)**	**119,494**
Taxes on income	(11,076)	(4,844)	(2,073)	6,267	(11,726)
Post-tax result from continuing operations	**130,501**	**54,768**	**23,749**	**(101,250)**	**107,768**
Net result for the period	**130,501**	**54,768**	**23,749**	**(101,250)**	**107,768**
Net result attributable to owners of the parent	**130,501**	**54,768**	**23,749**	**(101,250)**	**107,768**
Operating income	247,219	88,110	34,889	(74,422)	295,796
Operating expenses	(74,310)	(13,884)	(3,124)	(1,251)	(92,569)
Operating result	**172,909**	**74,226**	**31,765**	**(75,673)**	**203,227**
Cost/income ratio	30.1%	15.8%	9.0%	-1.7%	31.3%
Total assets (eop)	1,177,990	1,113,202	635,596	1,872,861	4,799,649
Total liabilities excluding equity (eop)	1,385,361	1,267,946	476,076	1,152,651	4,282,034
Impairment gain / (loss)	**(1,693)**	**2,023**	**(141)**	**(32,139)**	**(31,950)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(1,499)	2,865	75	(2,499)	(1,058)
Net impairment loss on commitments and guarantees given	(168)	(842)	(216)	67	(1,159)
Net impairment on investments in subsidiaries, joint ventures and associates	-	-	-	(24,897)	(24,897)
Net impairment on other non-financial assets	(26)	-	-	(4,810)	(4,836)

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)

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).

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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.

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in HUF million	2022 reclassified[1)]	2023
Financial assets at AC[2)]	281,262	467,160
Financial assets at FVOCI	9,038	25,159
Interest income	290,300	492,319
Non-trading financial assets at FVPL	15,197	23,058
Financial assets HFT	53,262	96,987
of which: Derivatives	51,612	89,016
Other assets - Finance lease receivables	1,235	361
Negative interest from financial liabilities	1,184	2,582
Other similar income	70,878	122,988
Interest and other similar income	**361,178**	**615,307**
Financial liabilities at AC[2)]	(166,435)	(343,279)
Interest expenses	(166,435)	(343,279)
Financial liabilities HFT	(80,238)	(148,424)
of which: Derivatives	(80,238)	(148,424)
Other liabilities	(216)	(269)
Negative Interest from financial assets	(220)	(3)
Other similar expenses	(80,674)	(148,696)
Interest and other similar expenses	**(247,109)**	**(491,975)**
Net interest income	**114,069**	**123,332**

1) Please see details in chapter D. SIGNIFICANT ACCOUNTING POLICIES part e) Changes in presentation.

2) The significant increase of 'Interest income' and 'Interest expenses' of AC assets and liabilities is due to the significant changes in the interest environment started in the second half of 2022. Please see details in C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

The interest income related to the non-performing portfolio was 1,601 million forint in 2023 and 1,945 million forint in 2022.

Modification losses of financial instruments allocated to Stage 1 in the amount of 10,637 million forint is reported in line item 'Financial assets at AC' in 2023, and 9,938 million forint in 2022. Background of COVID-19 payment moratoria related modification loss recognised in 2023 is described in C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

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.

Fee and commission income is measured based on the consideration specified in the contract with a customer. Erste Bank recognises revenue when it transfers a promised 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, premiums received for financial guarantee 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. Services provided over a period of time also include certain payment services 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. Transaction based services also include certain payment services 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. For example, loan servicing fees agreed in a loan contract that are not integral to the effective interest rate of a financial instrument are included in the fee and commission income.

in HUF million	2022		2023	
	Income	Expenses	Income	Expenses
Securities	22,684	(66)	23,606	(203)
Issues	-	(45)	-	(83)
Transfer orders	19,785	(21)	23,145	(120)
Other	2,899	-	461	-
Custody	-	(401)	3,772	(622)
Payment services	53,721	(11,640)	62,676	(13,101)
Card business	19,228	(8,154)	21,218	(9,433)
Other	34,493	(3,486)	41,458	(3,668)
Customer resources distributed but not managed	5,969	(23)	7,035	(30)
Insurance products	5,899	(23)	6,490	(30)
Other	70	-	545	-
Lending business	2,668	(3,062)	2,850	(3,574)
Guarantees given, guarantees received	789	(56)	952	(108)
Loan commitments given, loan commitments received	683	-	636	-
Other lending business	1,196	(3,006)	1,262	(3,466)
Other	837	(2)	431	(7)
Total fee and commission income and expenses	**85,879**	**(15,194)**	**100,370**	**(17,537)**
Net fee and commission income	**70,685**	**-**	**82,833**	**-**

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 62,676 million forint (53,721 million forint in 2022) 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	2022	2023
Non-trading financial assets at FVPL	71	17
Financial assets at cost	14,698	34,664
Dividend income	**14,769**	**34,681**

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 and gains and losses from their derecognition.

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	2022 reclassified[1)]	2023
Securities and derivatives trading[2)]	70,425	(33,379)
Foreign exchange transactions	(53,553)	45,260
Net trading result	**16,872**	**11,881**

1) Please see details in chapter D. SIGNIFICANT ACCOUNTING POLICIES part e) Changes in presentation.

2) Business line growth is partially driven by migrated Commerzbank client base but was fully offset by net present value changes in ALM positions, as a result of lowering yields.

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 own credit risk of the liability are recognised in OCI.

in HUF million	2022	2023
Result from measurement/sale of financial assets mandatorily at FVPL[1)]	(21,155)	43,013
Gains/losses from financial instruments measured at FVPL	**(21,155)**	**43,013**

1) FV result development in 2023 was driven by the decreasing yield environment, both short and long term yields decreased throughout the year. In 2022 mainly in the second half-year significant increase could be measured, which resulted in negative result.

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 24) Fair value of financial instruments.

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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	2022	2023
Investment properties	53	56
Rental income from investment properties & other operating leases	**53**	**56**

The relating depreciation was 5 million forint in 2023 (5 million in 2022).

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.

Information about remuneration of management including performance-linked remuneration and about variable remuneration of employees, and share-based payments to the management board and to 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 expenses.

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	2022	2023
Personnel expenses	**(37,499)**	**(44,014)**
Wages and salaries	(30,860)	(35,815)
Compulsory social security	(4,587)	(5,290)
Long-term employee provisions	(99)	(315)
Other personnel expenses	(1,953)	(2,594)
Other administrative expenses	**(34,867)**	**(36,821)**
Deposit insurance contribution1)	(5,201)	264
IT expenses 2)	(17,368)	(21,778)
Expenses for office space	(3,552)	(5,208)
Office operating expenses	(2,408)	(2,765)
Advertising/marketing	(1,820)	(3,033)
Legal and consulting costs	(1,392)	(1,318)
Sundry administrative expenses	(3,126)	(2,983)
Depreciation and amortisation	**(14,854)**	**(11,734)**
Software and other intangible assets3)	(8,176)	(5,038)
Owner occupied real estate	(913)	(913)
Right-of use assets	(2,842)	(3,014)
Investment properties	(5)	(5)
Customer relationships	(1,128)	(1,128)
Office furniture and equipment and sundry property and equipment	(1,790)	(1,636)
General administrative expenses	**(87,220)**	**(92,569)**

1) The amount of Deposit insurance fund contribution significantly decreased because of the extra payment obligation due to the Sberbank bankruptcy in 2022 of which the final part was repaid in 2023.

2) IT expenses related to applications and infrastructure, and also the linked services provided (software costs).

3) Useful life of specified software assets was extended in 2023.

Average number of employees during the financial instruments ‘ted according to the length of employment)

in Full Time Employee	2022 year end	2022 average	2023 year end	2023 average
Erste Bank	**3,103**	**3,015**	**3,115**	**3,090**

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	2022	2023
Losses from sale of financial assets at AC	(156)	(27)
Gains/losses from derecognition of financial assets measured at amortised cost	**(156)**	**(27)**

The gross carrying amount of the financial assets (at AC) sold in 2023 was 21 billion forint (29 billion forint in 2022). 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 ‘Financial instruments – Significant accounting policies’.

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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	2022	2023
From sale of financial assets at FVOCI	426	(4,894)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**426**	**(4,894)**

In 2023 significant amount of government bonds were sold from the FVOCI portfolio.

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	2022	2023
Financial assets at FVOCI	(324)	170
Financial assets at AC	(11,399)	(1,267)
Net allocation to credit loss allowances	(5,618)	2,509
Modification gains or losses	(5,781)	(3,776)
Finance lease	4,019	6
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(1,592)	(1,158)
Impairment result from financial instruments	**(9,296)**	**(2,249)**

Modification losses recognised in 2023 are related to the interest stop extension (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.

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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)				**(76,009)**
Net impairment loss for the period	1,458	-	-	1,458
(Increase) due to passage of time (UWC)	-	(2,932)	-	(2,932)
CLA decreases due to sales	-	-	1,931	1,931
CLA decreases due to write-offs	-	-	256	256
Other CLA changes	-	727	-	727
Closing balance of credit loss allowances (total)				**(74,569)**
Impairment gain/(loss) from POCI without CLA	2,622			
MGLs attributable to financial assets in Stages 2, 3, POCI	(3,776)			
Impairment result from financial instruments	**302**			

(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.

It includes expenses for allocations to and income from release of provisions in scope of IAS 37. Further, impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets are presented as other operating result.

In addition, other operating result encompasses the following: resolution fund contributions, expenses for other taxes; 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	2022	2023
Other operating expenses	**(58,397)**	**(82,396)**
(Allocation)/release to other provisions[1)]	-	(19)
(Allocation)/release to provisions for commitments and guarantees given	(553)	-
Levies on banking activities	(46,985)	(51,019)
Banking tax[2)]	(24,702)	(25,809)
Financial transaction tax[3)]	(22,283)	(25,210)
Other taxes	(44)	(54)
Result from sales of other assets[4)]	(33)	-
(Allocation)/release of impairment on investments in subsidiaries	(7,860)	(24,897)
Recovery and resolution fund contributions[5)]	(1,380)	(895)
Impairment of properties/movables/other intangible assets other than goodwill[6)]	(13)	(4,836)
Result from other operating expenses	(1,529)	(676)
Other operating income	**4,279**	**5,833**
(Allocation)/release to other provisions[1)]	1,709	-
(Allocation)/release to provisions for commitments and guarantees given [7)]	-	3,167
Result from sales of properties/movables/other intangible assets other than goodwill	52	88
Result from sales of other assets[3)]	-	27
Income from upgrade on loans previously subject to FX settlement[8)]	2,518	2,551
Other operating result	**(54,118)**	**(76,563)**

1) 19 million forint allocation is related to legal issues and litigations (1,157 million forint release in 2022). Please see the details in 42) Provisions.

2) Banking Tax (2023: 6.3 billion forint, 2022: 5.7 billion forint)
The Hungarian Parliament approved an 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 0.2% 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 instalments during 2020, and also provided a deduction right from the banking tax, in five equal instalments in the period of 2021-2025.
As in IFRS terms the deduction possibility is valued as virtually certain, Erste Hungary recognised a receivable of 1.7 billion forint as of 31 December 2022 (2.5 billion forint in 2022) 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 2022-2024.18.7 billion forint expense was recognised in 2023 (2022: 18,3 billion HUF) related to this newly launched burden. Please see the details in part C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

3) The significant increase is due to the inflation effect.

4) Result from sales of other assets relates to income earned on repossessed assets, especially repossessed cars sales. Erste Bank realised 27 million forint gain in 2023 (33 million forint loss 2022).

5) In the line 'Recovery and resolution fund contributions' contributions to the national resolution funds in amount of 895 million forint (1,380 million forint in 2022) 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.

6) Erste Bank recognised 4.6 billion forint impairment on the Right of use asset of the leased HQ building of the Bank due to the vacancy ratio that will remain for the foreseeable future and lack of possibilities to make use of it.

7) The significant release in 2023 is related to other commitments under IAS 37. Based on the standard 0 provision was set to performing commitments.

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

Pillar 2

In December 2022, the EU-wide minimum taxation system Pillar 2 was adopted as an EU directive and is also relevant for Erste Bank. At 31 December 2023 Erste Bank applied the temporary exception to the requirements of IAS 12 under which a company discloses limited information about deferred tax assets and liabilities related to the proposed OECD/G20 BEPS Pillar 2 model rules.

The legislation will be effective for Erste Bank's financial year beginning 1 January 2024. Erste Bank is in scope of the enacted or substantively enacted legislation and has performed an assessment of the Bank's potential exposure to Pillar 2 income taxes. This assessment is based on the most recent information available. Based on the assessment, the Pillar 2 effective tax rates are above 15%. The Bank does not expect material exposure to Pillar 2 income taxes in those jurisdictions.

Significant accounting judgements, assumptions and estimates

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	2022	2023
Current tax expense / income		
Current period taxes	(6,385)	(11,588)
of which local business tax	(5,062)	(5 145)
of which local innovation tax	(758)	(772)
Prior period taxes	(22)	693
Deferred tax expense / income		
Current period deferred tax benefit / (expense)	(986)	(831)
Total	**(7,393)**	**(11,726)**

Deferred tax related to 'Fair Value reserve' has been recognised in other comprehensive income in the amount of (1,100) million forint in 2023 and 1,089 million forint in 2022.

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

in HUF million	2022	2023
Profit before tax	**44,929**	**119,494**
At statutory income tax rate (9%)	(4,044)	(10,754)
Income not subject to tax	3,408	4,795
Non tax deductible expenses	(1,448)	(1,870)
Local business and innovation tax	(5,820)	(5,917)
Tax loss carry forward usage	1,042	2,161
Current period deferred tax benefit / (expense)	(986)	(831)
Other	455	690
Total tax expense	**(7,393)**	**(11,726)**

In the 'Other' category 473 million forint is related to deductible subsidy in 2022.

The correction in relation to the FX swap deals described in part e Changes in presentation of chapter D. SIGNIFICANT ACCOUNTING POLICIES had an impact on 2022 local business and innovation taxes of 597 and 89 million forint. As a result, corporate income tax decreased by 31 million forint.
Until 31 December 2023 Erste Bank used all tax loss accumulated in previous periods (the closing tax loss balance in 2022 was 21,003 million forint).

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 2022	Tax assets 2023	Tax liabilities 2022	Tax liabilities 2023	Net variance 2023 Total	through profit or loss	through other comprehensive income	through other equity
Temporary differences related to the following items:								
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	-	-	(82)	(82)	-	-	-	-
Financial assets at fair value through other comprehensive income	1,089	-	-	(11)	(1,100)	-	(1,100)	-
Property and equipment (useful life in tax law different)	377	797	-	-	420	420	-	-
Other provisions (tax valuation different)	-	-	(324)	(299)	25	25	-	-
Tax loss carry-forward	1,270		-	-	(1,270)	(1,270)	-	-
Other	18	13	-	-	(5)	(6)	-	1
Effect of netting gross deferred tax position	(406)	(392)	406	392	-	-	-	-
Deferred taxes	**2,348**	**418**	**-**	**-**	**(1,930)**	**(831)**	**(1,100)**	**1**
Current taxes	**-**	**-**	**(1,449)**	**(5,511)**	**(10,895)**	**(10,895)**	**-**	**-**
Total taxes	**2,348**	**418**	**(1,449)**	**(5,511)**	**(12,825)**	**(11,726)**	**(1,100)**	**1**

Erste Hungary allocated 0.4 billion forint deferred tax asset at the nominal corporate income tax rate of 9% on consolidated level as of 31 December 2023 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.

Regular way (spot) purchases and sales of financial assets and of financial liabilities are recognised at the settlement date, which is the date that an asset is delivered.

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.

ii. Fair value
Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in part Note 24) 'Fair value of financial instruments'.

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; and
(ii) The cash flow characteristics of the financial
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. Interest expense is calculated by applying the EIR to the amortised cost of a financial liability. Further details on financial liabilities at amortised cost and financial liabilities at FVPL are in the respective notes: Financial liabilities at amortised costs and Financial liabilities at fair value through profit or loss.

Further details on financial liabilities at amortised are in the respective notes: Note 17) Financial liabilities at amortised costs.

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 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 or which are subject to the 'low credit risk exemption' allowed by IFRS 9. The impairment is measured in the amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition (and the 'low credit risk exemption' does not apply). Stage 2 also includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset (as for Stage 1). 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. Interest income is calculated by applying the EIR to the gross carrying amount of the financial asset.

Financial instruments in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, Erste Bank adopted the approach of aligning it with the regulatory concept of 'default' in accordance with guidelines of the European Banking Authority EBA/GL/2016/07 and Commission Delegated Regulation (EU) 2018/171. Erste Group generally applies a customer view for the default definition, which leads to Stage 3 classification of all transactions with the customer 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 all the transactions with the customer cease to be impaired. The impairment of financial instruments in Stage 3 is measured in the amount of the lifetime expected credit loss. Interest income is calculated 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 (purchased or originated credit-impaired financial assets 'POCI') POCI lifetime expected credit losses are initially reflected in the credit-adjusted EIR. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

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.

Reimbursement assets from 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 and estimation techniques used to measure 12-month and lifetime expected credit losses is provided in Note 32) Credit risk. For further information on the definition of default refer to chapter Measurement of expected credit loss in Note 32).

For financial assets measured at amortised cost, the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at FVOCI, the loss allowance is recognised in the accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity. Loss allowances for loan commitments and financial guarantees are presented under the balance sheet line item 'Provisions'.
Information about the development of the expected credit loss of the respective financial instruments is provided in chapter Measurement of expected credit loss in Note 32) Credit risk.
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'.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

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 and thus the financial asset should be derecognized.

Commercial interest rate adjustments fulfilling specific conditions do not trigger the modification significance assessment. Instead, they result in a recalculation of the EIR of related loans. Such interest rate adjustments relate to performing non-forborne financial

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assets for which 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 low. Such conditions introduce an implicit floating rate element to the contract. This kind of interest rate adjustments rarely applies to loan assets in Stage 2.

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 at least two years compared to the original asset;
- change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months), or
- 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 chapter Restructuring, renegotiation and forbearance in Note 34).

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
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 derecognition of financial instruments not measured at fair value through profit or loss, 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

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 financial assets in the business of Erste Hungary, 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
  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 are provided in Note 32) Credit risk. For further information on the definition of default refer to chapter Measurement of expected credit loss in Note 32). The development of loan loss provisions is described in Note 33) Development of credit loss allowances.

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, and to 10% from April 2023, with an additional 5% voluntary reserve option. The average of monthly mandatory minimum reserves at 31 December 2023 and 31 December 2022 was 468.2 billion forint and 205.77 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, while the voluntary part has to be fulfilled as an average of first and last day of reporting period. Therefore, the mandatory minimum reserve requirement deposits are not subject to any restraints.

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in HUF million	2022	2023
Cash on hand	32,907	21,361
Cash balances at central banks	568,233	577,924
Other demand deposits at credit institutions	2,161	5,225
Cash and cash balances	**603,301**	**604,510**

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
2023									
General governments	661,36	-	-	661,36	-169	-	-	-169	661,191
Credit institutions	365,122	-	-	365,122	-475	-	-	-475	364,647
Other financial corporations	5,702	-	-	5,702	-6	-	-	-6	5,696
Non-financial corporations	55,266	8,907	1,371	65,544	-88	-408	-1,183	-1,679	63,865
Total	**1,087,450**	**8,907**	**1,371**	**1,097,728**	**-738**	**-408**	**-1,183**	**-2,329**	**1,095,399**

	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	5,65	-	-	5,65	-13	-	-	-13	5,637
Non-financial corporations	54,49	9,359	1,369	65,218	-164	-365	-871	-1,4	63,818
Total	**1,232,675**	**9,359**	**1,369**	**1,243,403**	**-1,001**	**-365**	**-871**	**-2,237**	**1,241,166**

There were no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2023.
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’.

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Loans and advances to banks

Gross carrying amounts and credit loss allowances per impairment buckets

	GCA				CLA				
in HUF million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2023									
Central banks	55,197	-	-	55,197	(2)	-	-	(2)	55,195
Credit institutions	295,194	-	-	295,194	(329)	-	-	(329)	294,865
Total	**350,391**	**-**	**-**	**350,391**	**(331)**	**-**	**-**	**(331)**	**350,060**

	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**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2023.
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’. 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’.

Loans and advances to customers

Gross carrying amounts and credit loss allowances per impairment buckets

in HUF million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA POCI	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA POCI	CLA Total	Carrying amount
As of 31 December 2023											
General governments	116,711	146	0	6	116,863	(48)	(2)	-	-	(50)	**116,813**
Other financial corporations	106,463	104	22	0	106,589	(812)	(9)	(18)	-	(839)	**105,750**
Non-financial corporations	604,838	212,792	20,546	2,904	841,080	(2,490)	(4,150)	(12,955)	(880)	(20,475)	**820,605**
Households	676,134	90,403	29,800	9,894	806,231	(4,508)	(13,542)	(21,946)	(2,489)	(42,485)	**763,746**
Total	**1,504,146**	**303,445**	**50,368**	**12,804**	**1,870,763**	**(7,858)**	**(17,703)**	**(34,919)**	**(3,369)**	**(63,849)**	**1,806,914**

in HUF million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA POCI	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA POCI	CLA 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**

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	2022 Amortised cost before the modification	2022 Net modification gains/losses	2023 Amortised cost before the modification	2023 Net modification gains/losses
Loans and advances	**134,129**	**5,773**	**73,586**	**3,777**
Other financial corporations	125	-	128	5
Non-financial corporations	39,751	737	17,442	277
Households	94,253	5,036	56,016	3,495
Total	**134,129**	**5,773**	**73,586**	**3,777**

Modification loss on non-Stage 1 loans caused risk cost creation due to the interest rate stop extensions in 2023. Please see details in Note 32) Credit Risk and C. MAJOR CHANGES IN LEGAL ENVIRONMENT OF FINANCIAL INSTITUTIONS.

As at 31 December 2023, 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 2023 amounted to0 million forint (2022: 21 million forint).

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16) Trade and other receivables

This line item includes receivables from factoring transactions.

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount					Credit loss allowances					
in HUF million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2023											
General governments	1,450	-	-	-	1,450	(9)	-	-	-	(9)	1,441
Credit institutions	1,856	-	-	-	1,856	-	-	-	-	-	1,856
Other financial corporations	8,516	800	-	-	9,316	-	-	-	-	-	9,316
Non-financial corporations	5,781	438	-	-	6,219	(44)	(22)	-	-	(66)	6,153
Households	120	-	-	-	120	(7)	-	-	-	(7)	113
Total	**17,723**	**1,238**	**-**	**-**	**18,961**	**(60)**	**(22)**	**-**	**-**	**(82)**	**18,879**

Gross carrying amounts and credit loss allowances per impairment buckets

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

There are no purchased or originated credit-impaired (POCI) Trade and other receivables as of 31 December 2023.

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	2022	2023
Deposit from domestic banks	620,006	562,712
Deposit from foreign banks	302,896	253,380
of which by Austrian banks	297,099	251,234
of which subordinated liabilities	136,336	130,490
Total	**922,902**	**816,092**

Deposits from banks - subordinated liabilities

Maturity	Notional amount 2022		Notional amount 2023		Interest conditions
	in thousand EUR	in million HUF	in thousand EUR	in million HUF	
22 June 2030	170,000	68,042	170,000	65,073	3M EURIBOR+ 1,85%, quarterly*
15 Dec 2030	170,000	68,042	170,000	65,073	3M EURIBOR+ 3,46%, quarterly*
Total subordinated loans	**340,000**	**136,084**	**340,000**	**130,146**	

Deposits from customers

in HUF million	2022	2023
Saving deposits	2,332	2,327
Other deposits	3,410,929	3,075,081
Public sector	53,125	63,973
Commercial customers	1,298,346	1,257,254
Private customers	1,294,187	1,199,082
Other financial institutions	765,271	554,772
Total	**3,413,261**	**3,077,408**

Debt securities issued

in HUF million	2022	Notional amount 2022	2023	Notional amount 2023
Bonds	147,951	147,117	233,381	230,155
of which subordinated liabilities	3,086	3,352	3,295	3,352
Certificate of deposits	790	790	784	784
Total	**148,741**	**147,907**	**234,165**	**230,939**

Bonds issued increased by 85,431 million forint as a result of new issues in 2023.

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Debt securities issued - non-subordinated liabilities

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

issued non subordinated securities as at 31 December 2023	ISIN code	Date of issue	Date of maturity	Notional amount in HUF million	Interest conditions
Bonds					
4,90% ERSTE USD 23-25 KÖTVÉNY	HU0000363130	30.11.2023	02.12.2025	3,440	fixed 4,9% interest payments: yearly
3,20% ERSTE EUR 23-25 KÖTVÉNY	HU0000362306	31.03.2023	02.04.2025	3,606	fixed 3,2% interest payments: yearly
6,8% ERSTE HUF 23-25	HU0000363221	20.12.2023	22.12.2025	366	fixed 6,8% interest payments: yearly
7,80% ERSTE HUF 23-25 KÖTVÉNY	HU0000363056	31.10.2023	03.11.2025	1,040	fixed 7,8% interest payments: yearly
2,80% ERSTE EUR 23-25 KÖTVÉNY	HU0000362439	03.05.2023	05.05.2025	1,583	fixed 2,8% interest payments: yearly
13,20% ERSTE HUF 23-25 KÖTVÉNY	HU0000362314	31.03.2023	02.04.2025	2,289	variable 13,2% interest payments: yearly
10,80% ERSTE HUF 22-24 KÖTVÉNY	HU0000362033	20.12.2022	19.12.2024	3,677	fixed 10,8% interest payments: yearly
2,90% ERSTE EUR 23-25 II KÖTVÉNY	HU0000362488	31.05.2023	02.06.2025	2,479	fixed 2,9% interest payments: yearly
4,60% ERSTE USD 23-25 KÖTVÉNY	HU0000362819	31.08.2023	02.09.2025	1,135	fixed 4,6% interest payments: yearly
9.00% ERSTE HUF 23-25 KÖTVÉNY	HU0000362926	29.09.2023	01.10.2025	3,039	fixed 9% interest payments: yearly
10,60% ERSTE HUF 23-25 KÖTVÉNY	HU0000362686	30.06.2023	02.07.2025	2,617	fixed 10,6% interest payments: yearly
2.9 % ERSTE EUR 23-25 III KÖTVÉNY	HU0000362678	30.06.2023	02.07.2025	3,304	fixed 2,9% interest payments: yearly
3,20% ERSTE EUR 23-25 II KÖTVÉNY	HU0000363049	31.10.2023	03.11.2025	1,818	fixed 3,2% interest payments: yearly
4,5% ERSTE USD 23-25 III	HU0000363205	20.12.2023	22.12.2025	1,315	fixed 4,5% interest payments: yearly
4,80% ERSTE USD 23-25 KÖTVÉNY	HU0000362181	01.02.2023	31.01.2025	7,307	fixed 4,8% interest payments: yearly
2,85% ERSTE EUR 23-25	HU0000363213	20.12.2023	22.12.2025	826	fixed 2,85% interest payments: yearly
3,10% ERSTE EUR 23-25 II. KÖTVÉNY	HU0000362827	31.08.2023	02.09.2025	1,775	fixed 3,1% interest payments: yearly
10,85% ERSTE HUF 23-25 KÖTVÉNY	HU0000362496	31.05.2023	02.06.2025	2,619	fixed 10,85% interest payments: yearly
3,20% ERSTE EUR 23-25 III KÖTVÉNY	HU0000363148	30.11.2023	02.12.2025	2,895	fixed 3,2% interest payments: yearly
4,80% ERSTE USD 23-25 II KÖTVÉNY	HU0000363031	31.10.2023	03.11.2025	1,769	fixed 4,8% interest payments: yearly
4.5 % ERSTE USD 23-25 II KÖTVÉNY	HU0000362660	30.06.2023	02.07.2025	2,502	fixed 4,5% interest payments: yearly
9,75% ERSTE HUF 23-25 KÖTVÉNY	HU0000362769	02.08.2023	04.08.2025	1,724	fixed 9,75% interest payments: yearly
4,00% ERSTE USD 23-25 KÖTVÉNY	HU0000362421	03.05.2023	05.05.2025	1,278	fixed 4% interest payments: yearly
4,50 % ERSTE USD 23-25 KÖTVÉNY	HU0000362223	01.03.2023	28.02.2025	3,670	fixed 4,5% interest payments: yearly
3,10% ERSTE EUR 23-25 III KÖTVÉNY	HU0000362918	29.09.2023	01.10.2025	1,860	fixed 3,1% interest payments: yearly
ERSTE BANK 2.3NC1.3 FIXED-TO-FLOAT HU	HU0000362512	24.05.2023	24.09.2025	7,750	fixed to float 2,3%-1,3% interest payments: yearly
3,10% ERSTE EUR 23-25 KÖTVÉNY	HU0000362751	02.08.2023	04.08.2025	1,762	fixed 3,1% interest payments: yearly
9,20% ERSTE HUF 23-25 KÖTVÉNY	HU0000362835	31.08.2023	02.09.2025	1,761	fixed 9,2% interest payments: yearly
13,20 % ERSTE HUF 23-25 II. KÖTVÉNY	HU0000362447	03.05.2023	05.05.2025	1,733	variable 13,2% interest payments: yearly
11,25% ERSTE HUF 23-25 KÖTVÉNY	HU0000362173	01.02.2023	31.01.2025	3,015	fixed 11,25% interest payments: yearly
5,00% ERSTE USD 23-25 KÖTVÉNY	HU0000362298	31.03.2023	02.04.2025	4,916	fixed 5% interest payments: yearly
4,70% ESRTE USD 23-25 KÖTVÉNY	HU0000362744	02.08.2023	04.08.2025	1,138	fixed 4,7% interest payments: yearly

4,10% ERSTE USD 23-25 KÖTVÉNY	HU0000362470	31.05.2023	02.06.2025	1,577	fixed 4,1% interest payments: yearly
13,00 % ERSTE HUF 23-25 KÖTVÉNY	HU0000362249	01.03.2023	18.02.2025	1,785	variable 13% interest payments: yearly
8,00% ERSTE HUF 23-25 KÖTVÉNY	HU0000363155	30.11.2023	02.12.2025	2,450	fixed 8% interest payments: yearly
4,70% ERSTE USD 23-25 II KÖTVÉNY	HU0000362900	29.09.2023	01.10.2025	1,299	fixed 4,7% interest payments: yearly
2,90 % ERSTE EUR 23-25 KÖTVÉNY	HU0000362231	01.03.2023	28.02.2025	3,712	fixed 2,9% interest payments: yearly
ERSHUN 1 1/4 02/04/26	AT0000A2VCV4	04.02.2022	04.02.2026	133,973	fixed 1,25% interest payments: yearly
Total				**226,804**	
certificate of deposit	AT2222222222	**01.01.1990**	undefined	784	
Total				**784**	

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 - subordinated liabilities

As of 31 December 2023
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 2022

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.

Debt instruments

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount				Credit loss allowances						
in HUF million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2023											
General governments	216,446	-	-	216,446	-55	-	-	-55	216,391	557	216,948
Credit institutions	27,757	-	-	27,757	-37	-	-	-37	27,72	156	27,876
Non-financial corporations	1,3	1,995	914	4,209	-1	-29	-96	-126	4,083	-595	3,488
Total	**245,503**	**1,995**	**914**	**248,412**	**-93**	**-29**	**-96**	**-218**	**248,194**	**118**	**248,312**

Gross carrying amounts and credit loss allowances per impairment buckets

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

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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 2023.

For information about the development of credit loss allowances refer to Note 33) Development of credit loss allowances., part 'Financial assets at fair value through other comprehensive income – debt instruments': table 'Movement in credit loss allowances – debt instrument financial assets'.

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, 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	2022			2023		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book[1)]	**7,082,405**	**81,394**	**81,722**	**5,983,472**	**39,470**	**38,458**
Interest rate	1,706,835	45,137	42,034	1,466,310	25,334	22,998
Foreign exchange	5,375,570	36,257	39,688	4,517,162	14,136	15,460
Derivatives held in the banking book[1)]	**1,117,005**	**54,228**	**39,295**	**1,274,261**	**27,021**	**27,080**
Interest rate	1,047,831	49,318	39,295	1,052,615	25,634	25,868
Foreign exchange	69 174	4,910	-	221,646	1,387	1,212
Total gross amounts	**8,199,410**	**135,622**	**121,017**	**7,257,733**	**66,491**	**65,538**
Total	**8,199,410**	**135,622**	**121,017**	**7,257,733**	**66,491**	**65,538**

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

21) Other financial assets held for trading

in HUF million	2022	2023
Debt securities	69,444	36,512
General governments	981	1,850
Credit institutions	68,463	34,662
Other financial assets held for trading	**69,444**	**36,512**

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.

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

	2022		2023	
in HUF million	**Designated**	**Mandatorily**	**Designated**	**Mandatorily**
Equity instruments	-	2,809	-	2,136
Debt securities	-	699	-	814
Other financial corporations	-	699	-	814
Loans and advances to customers	-	311,321	-	386,286
General governments	-	44	-	59
Non-financial corporations	-	10	-	16
Households	-	311,267	-	386,211
Financial assets designated and mandatorily at FVPL	**-**	**314,829**	**-**	**389,236**
Non-trading financial assets at fair value through profit or loss		**314,829**		**389,236**

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 currently comprises 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 and the cumulative amount is recognised as accumulated OCI 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 is equal to 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.

Debt 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.

Equity instruments. 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 Bank 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 439 million forint (178 million forint in 2022) and the total DVA-adjustment amounted to 281 million forint (337 million forint in 2022).

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent of the trading units. In addition, Erste Bank 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 no longer meets the criteria described above for the respective level.

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

	31.12.2022				31.12.2023			
in HUF million	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Financial assets HfT	318	204,605	142	205,065	1,850	101,152	1	103,003
Derivatives	-	135,479	142	135,621	0	66,490	1	66,491
Other financial assets held for trading	318	69,126	-	69,444	1,850	34,662	-	36,512
Non-trading financial assets at FVPL	831	-	313,998	314,829	-	-	389,236	389,236
Equity instruments	831	-	1,978	2,809	-	-	2,136	2,136
Debt securities	-	-	699	699	-	-	814	814
Loans and advances	-	-	311,321	311,321	-	-	386,286	386,286
Financial assets at FVOCI	87,726	93,821	2,533	184,08	72,354	175,924	34	248,312
Debt securities	87,726	93,821	2,533	184,08	72,354	175,924	34	248,312
Total assets	**88,875**	**298,426**	**316,673**	**703,974**	**74,204**	**277,076**	**389,271**	**740,551**
Liabilities								
Financial liabilities HfT	-	-119,987	-1,030	-121,017	-	-65,526	-12	-65,538
Derivatives	-	-119,987	-1,030	-121,017	-	-65,526	-12	-65,538
Total liabilities	**-**	**-119,987**	**-1,030**	**-121,017**	**-**	**-65,526**	**-12**	**-65,538**

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		Gains/losses profit or loss	Gains/losses OCI	Purchases	Sales	Settlements	Transfer into Level 3	Transfer out of Level 3	Currency translation	
	01.01.2023									**31.12.2023**
Assets										
Financial assets HfT	142	(141)	-	-	-	-	-	-	-	1
Derivatives	141	(140)	-	-	-	-	-	-	-	1
Other financial assets held for trading	(1)	1	-	-	-	-	-	-	-	-
Non-trading financial assets at FVPL	313,998	42,962	-	59 019	-	(26,717)	-	-	(26)	389 236
Equity instruments	1,978	158	-	-	-	-	-	-	-	2 136
Debt securities	699	141	-	-	-	-	-	-	(26)	814
Loans and advances	311,321	42,663	-	59 019	-	(26,717)	-	-	-	386 286
Financial assets at FVOCI	2,533	1	7	-	-	-	1	(2,507)	-	34
Equity instruments	-	-	-	-	-	-	-	-	-	-
Debt securities	2,533	1	7	-	-	-	1	(2,507)	-	34
Total assets	**316,673**	**42,822**	**7**	**59 019**	**-**	**(26,717)**	**1**	**(2,507)**	**(26)**	**389 271**
Liabilities	(1,030)	1,018								(12)
Financial liabilities HfT	(1,030)	1,018	-	-	-	-	-	-	-	(12)
Derivatives	-	-	-	-	-	-	-	-	-	0
Total liabilities	**(1,030)**	**1,018**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**

in HUF million		Gains/losses profit or loss	Gains/losses OCI	Purchases	Sales	Settlements	Transfer into Level 3	Transfer out of Level 3	Currency translation	
	01.01.2022									**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	273,712	(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)**

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 were 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)
2023					
Positive fair value of derivatives	Swaps	1	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	1,55%-1,58%
				LGD	60%
Financial assets at FVPL	Fixed and variable coupon bonds	814	Discounted cash flow	Credit Spread	na
	Loans	386,416	Discounted cash flow	PD	0.03%-100% (1.41%)
				LGD	0.002%-100% (21.80%)

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	142	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%)

Sensitivity analysis using reasonably possible alternatives per product type

	2022		2023	
	Fair value changes		Fair value changes	
in HUF million	Positive	Negative	Positive	Negative
Derivatives	35	(34)	50	(54)
Income statement	35	(34)	50	(54)
Debt securities	97	(151)	102	(162)
Income statement	35	(70)	41	(81)
Other comprehensive income	62	(81)	61	(81)
Equity instruments	198	(198)	214	(214)
Income statement	198	(198)	214	(214)
Loans and advances	6,158	(18,346)	7,062	(22,678)
Income statement	6,158	(18,346)	7,062	(22,678)
Total	**6,488**	**(18,729)**	**7,428**	**(23,108)**
Income statement	**6,426**	**(18,648)**	**7,367**	**(23,027)**
Other comprehensive income	**62**	**(81)**	**61**	**(81)**

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

The following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:
- for debt securities range of credit spreads between +100 basis points and -75 basis points
- for equity related instruments the price range between -10% and +5%
- for unquoted equity instruments the price range between -10% and +10% (VISA instrument is included in 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

2023 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	**3,252,373**	**3,137,870**	**535,240**	**378,313**	**2,224,317**
Debt securities at amortised cost	1,095,399	990,513	535,240	378,313	76,960
Loans and advances	2,156,974	2,147,357	-	-	2,147,357
LIABILITIES	**(4,127,665)**	**(4,058,246)**	**-129,421**	**-93,226**	**(3,835,599)**
Deposits from banks (not subordinated)	-685,602	-633,221	-	-	-633,221
Deposits from customers	(3,077,408)	(3,080,136)	-	-	(3,080,136)
Debt securities issued	-234,165	-227,126	-129,421	-93,226	-4,479
Subordinated liabilities	-130,49	-117,763	-	-	-117,763
Financial guarantees and commitments	**n/a**	**13,064**	-		**13,064**
Financial guarantees	n/a	-13	-		-13
Irrevocable commitments	n/a	13,369	-		13,369

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	**3,535,689**	**3,198,442**	**538,422**	**411,998**	**2,248,022**
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 **Financial guarantees and commitments**	**(4,484,904)**	**(4,393,379)**	**-**	**-131,517**	**(4,261,862)**
Financial guarantees	n/a	-966	-	-	-966
Irrevocable commitments	n/a	6,045	-	-	6,045

In the table above, positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign.

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

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

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

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

For off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) the following fair value approaches are applied:
the fair value of unused loan commitments is estimated using regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated total fair value and the notional amount of the hypothetical loan equivalents represents the fair value of the unused loan commitments. In case of the total fair value being higher than the notional amount of the hypothetical loan equivalents the unused loan commitments have a positive fair value. The fair value of financial guarantees is estimated in analogy to credit default swaps. The fair value of the guarantee is the sum of the present value of the protection leg and the present value of the premium leg. The value of the protection leg is estimated using the PDs and LGDs of the respective customers, whereas the value of the premium leg is estimated by the present value of the future fee payments to be received. If the protection leg is higher than the premium leg, financial guarantees have a negative fair value.

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.

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2023:

Financial assets subject to offsetting and potential offsetting agreements in 2023

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	66,491	-	66,491	40,847	-	-	25,644
Reverse repurchase agreement	18,718	-	18,718	-	-	18,718	-
Total	**85,209**	**-**	**85,209**	**40,847**	**-**	**18,718**	**25,644**

Liabilities subject to offsetting and potential offsetting agreements 2023

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	65,538	-	65,538	40,847	-	-	24,691
Repurchase agreements	239,597	-	239,597	-	-	239,597	-
Total	**305,135**	**-**	**305,135**	**40,847**	**-**	**239,597**	**24,691**

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	-	135,622	70,359	-	-	65,263
Reverse repurchase agreement	27,230	-	27,230	-	-	27,230	-
Total	**162,852**	**-**	**162,852**	**70,359**	**-**	**27,230**	**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	-	121,017	70,359	-	-	50,658
Repurchase agreements	134,966	-	134,966	-	-	134,669	297
Total	**255,983**	**-**	**255,983**	**70,359**	**-**	**134,669**	**50,955**

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'.

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in HUF million	2022 Carrying amount of transferred assets	2022 Carrying amount of associated liabilities	2023 Carrying amount of transferred assets	2023 Carrying amount of associated liabilities
Repurchase agreements	**165,133**	**134,966**	**240,527**	**239,597**
Financial assets - HfT	-	-	1,773	1,775
Financial assets - at FVTOCI	71,287	70,205	124,836	125,708
Financial assets - at AC	93,846	64,761	113,918	112,114
Total	**165,133**	**134,966**	**240,527**	**239,597**

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

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

in HUF million	2022 Fair value of transferred assets	2022 Fair value of associated liabilities	2022 Net position	2023 Fair value of transferred assets	2023 Fair value of associated liabilities	2023 Net position
Financial assets - HfT	-	-	-	1,773	1,775	2
Financial assets - at FVTOCI	71,287	70,205	(1,082)	124,836	125,708	872
Financial assets - at AC	63,337	64,761	1,424	112,426	112,114	(312)
Total	**134,624**	**134,966**	**342**	**239,035**	**239,597**	**562**

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

There is information regarding the gains and losses from derecognition of financial assets at AC in Note 9) 'Gains/losses from derecognition of financial assets measured at amortised cost'.

28) Financial assets pledged as collateral

The following assets were pledged as security for liabilities:

in HUF million	2022 restated	2023
Financial assets - HfT	-	1,773
Financial assets - at FVTOCI	71,287	124,836
Financial assets - at AC	93,846	113,918
Total	**165,133**	**240,527**

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

29) Securities

	2022	2023
	Financial assets	Financial assets

in HUF million	At AC	Trading assets	Mandatori-ly at FVPL	Designated at FVPL	At FVOCI	At AC	Trading assets	Mandatori-ly at FVPL	Designated at FVPL	At FVOCI
Bonds and other interest-bearing securities	**1,241,166**	**69,444**	**699**	**-**	**184,079**	**1,095,399**	**36,512**	**814**	**-**	**248,312**
Listed	1,173,006	69,126	699	-	180,492	1,043,797	34,739	-	-	244,718
Unlisted	68 160	318	-	-	3 587	51,602	1,773	814	-	3,594
Equity-related securities	**x**	**-**	**2,809**	**x**	**-**	**x**	**-**	**2,136**	**x**	**-**
Unlisted	x	-	2,809	x	-	x	-	2,136	x	-
Total	**1,241,166**	**69,444**	**3,508**	**-**	**184,079**	**1,095,399**	**36,512**	**2,95**	**-**	**248,312**

Risk management

30) Risk and capital management

Risk policy and strategy

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

The 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.

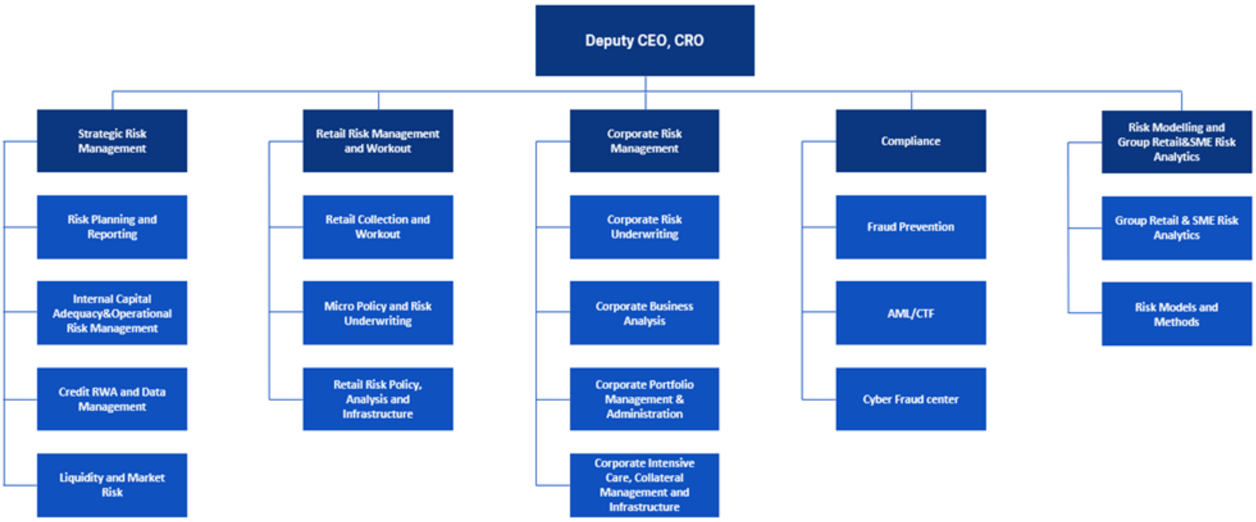
The Bank uses the Internet as the medium for publishing its disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR) and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013. Details are available on the website of the 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 2023 there was no change in the organisational structure in the CRO area.

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, Erste Hungary 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 Erste Hungary's risk management also performs 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 Hungary 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. Erste Hungary 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.

Erste Hungary 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)

Erste Hungary's Risk Appetite Statement (RAS hereinafter) expresses the maximum level of risk that Erste Hungary 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.

Erste Hungary's RAS for 2023 was approved by the Board of Directors and the Supervisory Board and acknowledged by the Managing Board in the first quarter of 2023. In the second half of 2023, interim revisions of Erste Hungary's RAS were conducted and approved by the designated governance.

Portfolio and risk analytics

Erste Hungary 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 awareness 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 Hungary. 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 Hungary has implemented a process to identify, measure, control and manage risk concentrations. This process is essential to ensure the long-term viability of the 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

Erste Hungary annually conducts its own impact assessment as its risk management framework, aiming to assess its 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 Erste Hungary's risk appetite, which is an integral part of Erste Hungary's risk strategy.

Erste Hungary 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 the Bank.

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 the Bank as expected by the MNB Guide to ICAAP and determines whether Erste Hungary has sufficient capital to cover all relevant risks it is exposed to. With this Pillar 1+ approach the 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 Erste Hungary's risks in Pillar 2. The calculation of internal capital or coverage potential required to cover Pillar 2 risks/unexpected losses is the same as the Pillar 1 regulatory own funds according to CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) as expected by the MNB Guide to ICAAP. Both economic capital and coverage potential are computed on the CRR scope of consolidation of Erste Bank Hungary Zrt. 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 99.9%. For the calculation of the economic capital, Erste Hungary uses, where possible, more risk sensitive/advanced methodologies tailored to Erste Hungary's individual risk profile and specificities of Erste Hungary's individual risk exposures. Diversification effects between risks (inter-risk diversification) are not considered, reflecting Erste Hungary'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 69.2% of total economic capital requirements at the end of 2023.

The own funds and 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 Erste Hungary's Risk Appetite through the limits set for Erste Hungary economic capital adequacy and stressed capital adequacy utilisation. At the end of 2023, the economic capital adequacy was at 45,1%.

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 Erste Hungary's ICAAP Report. The ICAAP Report includes risk profile developments, available capital (own funds and 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 Erste Hungary'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 Hungary. is required to draw up a recovery plan for potential crisis situations. In 2023 an updated Recovery Plan was submitted to the Regulator by the Bank.

Erste Hungary's Recovery Plan identifies options for restoring financial strength and viability in case Erste Hungary comes under severe economic stress. The plan specifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress. The recovery governance described in the plan ensures timely identification and proper management of any recovery situation. Furthermore, the assessment of the Erste Hungary's 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 Hungary collaborates with the resolution authorities in the drawing up of resolution plans based on local and EU Regulation. Based on a joint decision taken in the Resolution College, Erste Group in April 2020 received notification of the preferred Multiple Point of Entry (MPE) resolution strategy on cross-country level, but a Single Point of Entry (SPE) resolution strategy within a country. This results in being MPE in Hungary.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL), which is – in case of Erste Hungary due to the MPE resolution strategy – set on Resolution Group level. MREL is expressed as a percentage of the total risk exposure amount (TREA) as well as leverage ratio exposure (LRE).

Based on the MREL joint decision taken, the National Bank of Hungary provided its legal notifications. In June 2023, Erste Hungary received Joint Decision determining the minimum requirement for own funds and eligible liabilities for its Resolution Group. Information on MREL targets have been published on the Bank's website based on legal notifications released by the National Bank of Hungary. MREL metric is integrated into the RAS and Recovery Framework of Erste Hungary.

Potential changes in the MREL requirement will be reflected in Erste Hungary'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 Hungary 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 the 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 Hungary 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 Hungary is the 31 December of the respective year.

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. The Bank fulfilled the capital requirements throughout the reporting period. The regulatory minimum capital ratios including the capital buffers as of 31 December 2023 amount to

- 7.25% for CET1 capital (4.5% CET1, +2.5% capital conservation buffer, +0.25% O-SII buffer) and,
- 8.75% for tier 1 capital (sum of CET1 and AT1) and
- 10.75% for total own funds

An increase of the combined buffer requirements and thus an increase of the minimum capital requirements will be expected for 2024. This is stemming from higher requirements for the O-SII and countercyclical buffer.

During 2023 and 2022 the 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 2023.

in HUF million	2022	2023
Tier 1 capital before deductions	413,734	520,815
Deductions from the Tier 1 capital (-)	19,780	21,339
Tier 1 capital after deductions	**393,954**	**499,476**
Tier 2 capital	146,562	140,620
Total qualifying own funds	**540,516**	**640,096**
Risk weighted assets (base for credit risk)	1,940,390	1,861,528
Capital requirement for credit risk	**155,231**	**148,922**
thereof IRB approach	142,182	138,585
thereof standardized approach	13,049	10,337
Capital requirement for market risk	**985**	**701**
thereof calculated with simple approach	985	701
thereof from debt instruments	985	701
Other capital requirements for credit valuation adjustment	**2,574**	**1,389**
Capital requirement for operational risk	**47,691**	**39,722**
Total base for capital requirement	**2,581,022**	**2,384,181**
Total capital requirement	**206,482**	**190,735**

32) Credit risk: credit risk review and monitoring

ESG Risk management

Environmental, Social and Governance (ESG) risks remained one of the top priorities also in 2023.

Erste Bank Hungary Zrt. considers ESG factors in its risk management and industry strategy framework. In the first place, the ESG Factor Heatmap is used as a screening instrument to identify certain segments (out of the existing segmentation) that may be exposed to ESG risk factors and determine those industries which are more vulnerable to ESG risks. The Bank applies industry strategies and lending standards to support the steering of the portfolio under considerations of ESG risks; both are the basis for decisions to determine which clients and transactions fit into the Bank's portfolio.

Secondly, the Bank uses an ESG Risk Framework for the assessment of material ESG factors, related risks and appropriateness of the mitigating strategies in the credit and rating processes. In this manner, the Bank takes ESG risk criteria into account, when making credit decisions.

For large corporate, commercial real estate and commercial residential real estate transactions, the Bank conducts a systemic ESG analysis via an internal digital ESG Assessment questionnaire. The questionnaire is a mandatory prerequisite in the loan origination and monitoring process. Through this assessment, the Bank is able to determine to which extent a client's ESG strategy is aligned with the Bank's respective industry strategies. By providing a comprehensive ESG risk assessment, the Bank is able to determine how certain ESG factors may have a positive or negative impact on the financial performance of clients. The questionnaire enables the Bank to identify clients' ESG risks or opportunities.

Questions cover various dimensions, such as current and targeted greenhouse gas emissions, impact of carbon prices on profitability, transition related CAPEX, EU Taxonomy aligned and eligible financial data, waste, water consumption, biodiversity, physical risk impact, workers and human rights, governance topics, and compliance with minimum safeguards, to name a few.

Particular questions in the questionnaire may also require an in-depth assessment in order to understand the nature and severity of the ESG risks to which the client is exposed. The questionnaire forms an integral part of the credit application and is updated at least annually, allowing the Bank to understand the client's business model in the context of carbon transition.

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 emissions). Environmental aspects which affect the value of the collateral have to be included in the real estate valuations, which can lead to a higher or lower valuation result. Moreover, any risks arising from social (e.g. location and transportation, mass urbanisation – being indicators for easy accessibility for people) and governance factors (such as bribery or legal proceedings) have to be considered as well. For commercial real estate assets, the questionnaire additionally includes an assessment of the building's environmental footprint, providing an internal Technical Object Rating, as well as an assessment of the location sustainability based on ESG relevant criteria. Over the last year, we have conducted a physical risks materiality assessment in order to identify key hazards relevant for our collateral portfolio; the results of the assessment will be integrated into our collateral management.

With regards to internal models a respective project to define and collect relevant climate risk drivers for all rating systems has started in 2022 to ensure the explicit consideration of climate risks in future model development initiatives. For the LGD models, climate risk is indirectly reflected via the collateral value. In 2023, ESG factors are considered in the corporate rating landscape by either using an ESG override and/or having a rating impact through a soft fact assessment relevant to a company's negative impact on the environment.

The Bank recognizes additional challenges caused by the ESG (environmental, social and governance) risks. The Bank is in the process of analysing how these risks can be incorporated into ECL measurement. In the Risk Materiality Assessment, climate and environment-related risks are overall assessed as medium. This assessment is driven by the "Transition Risk" analysis as a small percentage of the portfolio still has high greenhouse gas emissions and would therefore be exposed to increased risk in the event of a disorderly transition scenario. Disorderly transition scenario was considered in the FLI downside (please see description of comprehensive stress test scenario in the "Measurement of expected credit loss" chapter). The Bank further analyses if ESG overlays are necessary in the future. Consideration through FLI scenario was deemed sufficient for ECL measurement as of 31 December 2023.

Among the industries presented in the table "Credit risk exposure by industry and risk category" below in this chapter, Erste Group identified in the first step, as part of the strategic climate initiative for the Net Zero Banking Alliance, the Real Estate industry, Private Households (Mortgage Portfolio) and parts of the Energy sector (energy production and heat production) as important levers for setting the interim emission targets for 2030. Further sectors where the Bank is exposed to high greenhouse gas emissions (due to either the credit risk exposure or its emission intensity) will be subject to the target setting process 2023, thus supporting the migration of "Transition Risk" in the Bank's financed portfolio.

Further developments and enhancements of ESG Risk Framework related to credit risk have been established as part of the Group Risk Strategy.

Methods of credit risk management

Credit risk arises from the 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.

Internal rating system

Erste Group has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed at a minimum on an annual basis and adjusted if necessary. They cover the entire lending business, considering the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of credit default risk within Erste Group is based on the customer's probability of default (PD). For each credit exposure and lending decision, Erste Group assigns an internal rating, which is a unique measure of the credit default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review).

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. Internal ratings also determine the level of credit approval authority within Erste Group and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, loss allowances and, where applicable, risk-weighted assets under Pillar 1 and 2.

The Bank use the internal ratings-based (IRB) approach, internal ratings are key input for the risk-weighted assets calculation. They are also used in the group's assessment of the economic capital requirements according to Pillar 2 and in other relevant model use areas. For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within a calibration process that is performed individually for each rating method and each regional portfolio. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade. The Bank assigns margins of conservatism to the calculated PDs.

Internal ratings take into account all available significant information for the assessment of credit default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment behaviour versus the Bank, supplemented with information provided by the respective client and general demographic information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and the country of main economic activity (applicable to cross-border financing facilities).

Internal specialist teams develop and continuously improve internal rating models and risk parameters in cooperation with risk managers. All Pillar 1 and 2, as well as IFRS9 models are subject of an annual review of their estimates, considering the inclusion of most recent data in the estimation of risk parameters, as well as a regular cycle of full model review. Model development follows an internal group-wide methodological standard and utilises relevant data covering the respective market. In this way, the Bank ensures the availability of rating models with the best possible prediction and discriminatory ability.

The central Model Validation department is responsible for defining the validation methodologies and standards to be applied to all credit risk models within Erste Group as well as for conducting the validation activities across the whole Erste Group. All Pillar 1, material Pillar 2 and IFRS9 models are subject to an annual validation, while for non-material Pillar 2 and IFRS9 models a regular validation cycle is implemented. Model Validation employs qualitative as well as quantitative validation methods to challenge conceptual soundness, performance and model use aspects. The validation outcomes are approved by the respective model committees and, in case of IRB models, shared with the regulatory bodies. In addition to the validation process, the group applies a regular monitoring process on the performance of IRB models, reflecting developments in new defaults and early delinquencies.

Approvals of all new models, model changes, changes to risk parameters, changes in group-wide methodological standards and other model-related aspects are following a dual approval process within the Group – corresponding Holding and local model committee structures reflect joint responsibilities for decisions on Pillar 1 IRB and Pillar 2 credit risk models as well as on methodologies related to IFRS9 parameters. Responsibilities are assigned depending on model perimeter (group-wide or locally developed model). In this context, the following committees are established: Strategic Risk Executive Committee and Strategic Risk Management Committee on Erste Group level and Local Model Committee on the Bank's level.

Ultimate responsibility for all models used within the Group (at consolidated level) lies with the Group CRO. All model governance, development, validation, data management and monitoring activities are coordinated by the Credit Risk Methods division.

The 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 and Project Financing).

Rating Models and Methods

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.

Probability of default (PD)

PD estimates the probability of the customer falling in default. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade.

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.

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.

Credit risk classification

For the disclosure of asset quality the 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 euro and relative 1% on client level;
- non-retail exposure: as an absolute limit on client level of 500 euro 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.

Credit risk review and monitoring

Risk Management areas conduct periodical reviews of the loan portfolio for the Bank to ensure an adequate portfolio quality and to monitor the compliance with the principles and parameters as stipulated by the 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 the 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 2022 and 31 December 2023, credit risk exposure decreased from 5,278,887 million forint to 4,888,429 million forint. This 390,458 million forint difference represents a 7.4% decrease in the portfolio.

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

2023

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	5,227	2	-	5,225
Derivatives and Debt instruments held for trading	103,003	-	-	103,003
Non-trading debt instruments at FVPL	387,100	-	-	387,100
Debt securities	814	-	-	814
Loans and advances to customers	386,286	-	-	386,286
Debt instruments at FVOCI	248,411	218	119	248,312
Debt securities	248,411	218	119	248,312
Debt instruments at AC	3,372,433	67,727	-	3,304,706
Debt securities	1,097,728	2,328	-	1,095,400
Loans and advances to banks	350,391	331	-	350,060
Loans and advances to customers	1,870,763	63,849	-	1,806,914
Trade and other receivables	18,962	83	-	18,879
Finance lease receivables	34,589	1,136	-	33,453
Off balance-sheet exposures	772,255	6,605	-	765,650
Total	**4,888,429**	**74,552**	**119**	**4,813,996**

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**

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; to align with the accounting view, starting with the current reporting period the value presented in adjustments does not include allowances.

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 2023					
Natural Resources & Commodities	266,576	7,385	6,434	6,236	286,631
Energy	207,802	36,684	1,951	6	246,443
Construction and building materials	109,169	20,206	4,748	9,830	143,953
Automotive	90,979	2,442	631	84	94,136
Cyclical Consumer Products	46,838	6,650	2,901	4,477	60,866
Non-Cyclical Consumer Products	155,350	13,158	1,275	3,178	172,961
Machinery	44,498	7,662	599	892	53,651
Transportation	147,991	9,325	593	91	158,000
TMT and Paper & Packaging	16,915	3,124	327	290	20,656
Healthcare & Services	45,266	9,479	1,882	812	57,439
Hotels, Gaming & Leisure Industry	17,742	3,455	546	6,780	28,523
Real Estate	158,058	159,696	1,855	2,005	321,614
Public Sector	944,098	3,339	244	15	947,696
Financial Institutions	933,004	70,130	6,458	313	1,009,905
Private Households	489,562	607,683	153,061	34,966	1,285,272
Other	81	154	448	-	683
Total	**3,673,929**	**960,572**	**183,953**	**69,975**	**4,888,429**

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**

The low risk exposure has the highest proportion in total credit risk exposure, with 75.2%, while management attention represents 19.6%, the substandard exposure represents 3.8% and the non-performing 1.4%

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From industry point of view, the highest exposure is represented by Private Households with 1,285,272 million forint, representing 26.3% from total exposure, followed by Financial Institutions with an exposure of 1,009,905 million forint representing 20.7% from total and Public Sector with an exposure of 947,696 million forint representing 19.4% from total.
The movement between Public Sector and Financial Institutions is described by Government Debt Management Agency Limited (ÁKK), as it is shown under Public Sector instead of Financial Institutions from 2023.

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 2023					
Core markets	**3,643,418**	**960,493**	**183,311**	**69,974**	**4,857,196**
Austria	40,418	-	-	-	40,418
Czech Republic	1,672	-	-	-	1,672
Slovakia	15	-	1	-	16
Romania	775	-	-	-	775
Hungary	3,600,538	960,493	183,310	69,974	4,814,315
Other EU	**27,565**	**4**	**25**	**1**	**27,595**
Other industrialised countries	**2,898**	**50**	**-**	**-**	**2,948**
Emerging markets	**48**	**25**	**617**	**-**	**690**
Asia	22	-	-	-	22
Latin America	15	25	-	-	40
Middle East/Africa	11	-	617	-	628
Total	**3,673,929**	**960,572**	**183,953**	**69,975**	**4,888,429**

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**

The credit risk exposure decreased by 273,048 million forint, or 5.4% in Hungary, and by 308,501 million forint, or 6.0% in the CEE core markets. In the other EU member states (EU 27 excluding core markets), the credit risk exposure decreased by 83,112 million forint, or 75.1%, while the other industrialised countries registered an increase of 1,513 million forint (105.4%) in the total exposure. The emerging markets decreased by 358 million forint or 34.2%. In total, the Bank's core markets and the EU accounted for 99.9% (in 2022 it was also 99.9%) of credit risk exposure. The share of emerging markets remained of minor importance with lower than 1% (decreased from 0.02% to 0.01%).

The segment reporting of the Bank 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 2023					
Retail	511,491	639,413	160,745	38,029	1,349,678
Corporates	1,293,656	266,096	16,826	31,946	1,608,524
Group Markets	718,564	55,055	6,382	-	780,001
ALM	1,150,218	8	-	-	1,150,226
Total	**3,673,929**	**960,572**	**183,953**	**69,975**	**4,888,429**

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**

Use of collaterals

Recognition of collateral

Collateral Management is integrated in Corporate Intensive Care, Collateral Management and Credit Infrastructure department of 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 the Bank (in the Bank’s 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

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined, and their IT-supported technical application is performed by Collateral Management with the assistance of software applications. The allocated collateral values are capped by the amount of the secured transaction.

Real estate valuation may only be performed by qualified valuators who are independent of the credit decision process. The valuation is to be made according to international, European or national standards and has to follow valuation methods defined by the Bank. Internal guidelines define criteria of qualification and requirements of independence for the selection of valuators. A valuator may only perform two sequential valuations of the same asset, any further valuation has to result in the rotation of the valuator. For quality assurance purposes, real estate valuators and real estate valuations are supervised on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on recoveries from realising collateral. The valuation discounts are adjusted regularly – at least once a year – to reflect the recoveries under consideration of foreseeable developments (like expected real estate price changes).

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software applications. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons, or when defined triggers are exceeded. Particularly real estate collateral assets in development, showing problems like significant cost or time overrun, as well as assets, collateralizing loans with lower credit quality, are monitored or revalued with higher frequencies.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry, or type of collateral. Erste Bank Hungary Zrt. is a retail bank, and, due to its customer structure and the markets in which it operates, it does not have any concentrations with respect to collateral from customers. All guaranteed liabilities and loans of a corporate guaranteed provider are taken into consideration in the credit application process in order to prevent possible concentrations. Guarantees provided by sovereigns, a public sector entity or financial institutions have to lie within the approved limit of the guarantor. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, the Bank does not occupy repossessed properties for its own business use. The main part of assets taken onto its own books is commercial land and buildings. In addition, residential real estate properties and transport vehicles are taken into the Bank's possession.

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 the 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).

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- 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.

Treasury collateral

Liquidity and Market Risk and Collateral Management is responsible for defining the acceptable types of collateral and maintaining the Treasury collateral catalogue. The Treasury collateral catalogue specifies the eligible collateral types along with any exceptions and restrictions, as well as the haircuts applied depending on the collateral type.

In general cash in major currencies is the preferred form of collateral for OTCD transactions. Securities are also acceptable but the types of securities which are eligible have to be defined in the Treasury collateral catalogue. At a minimum the following properties have to be considered:

- Security type: bonds and notes are generally acceptable if traded on liquid markets. Other assets are generally not eligible as collateral for OTCD transactions;
- Issuer type: generally only government bonds, as well as securities issued by Erste Group are acceptable, non-sovereign bonds can be used based on individual approval and higher haircuts;
- Seniority of the instrument used as collateral: senior and covered bonds are acceptable, subordinated issues can be used subject to higher haircuts and based on individual approval
- Maturity: maturities up to 15 years are acceptable, longer maturities can be considered subject to higher haircuts and based on individual approval. Maturity should be at least equal to the maturity of the OTCD deal that is collateralized;
- Rating: internal ratings have to be used. External ratings can be used as a fall-back if no internal rating is available. Generally only Investment grade securities are eligible, exceptions need to be defined on an individual basis or monitored via limits;
- Currency: generally either major currencies (USD, EUR, CHF, GBP, JPY) or currencies of the home markets are acceptable. Exceptions need to be defined on an individual basis or monitored via limits.

The Treasury collateral catalogue also needs to specify the haircuts to be used for each collateral type used for OTCD transactions.
For SFT transactions similar principles apply, however due to the nature of the repo and securities lending business some of the collateral requirements can be less restrictive. It has to be distinguished between the securities leg of the transaction and the variation margin. In SFT transactions, the securities leg represents the securities initially purchased or sold (in a repo-style transaction) or lent/borrowed (in a securities lending transaction). The variation margin represents the subsequent collateral exchange triggered by changes in the valuation of the transaction. At a minimum the following properties have to be considered:

- Security type: bonds, notes, and listed equities are generally acceptable as underlyings in the securities leg of the transaction. Other assets are generally not eligible as underlyings for SFT transactions. The variation margin collateral can be either in cash, bonds, or notes.
- Issuer type: for the securities leg of the transaction governments, financials, and corporates are acceptable for bonds. The exposures to non-government issuers need to be controlled via tighter limits. Equities not included in a major index (DAX, EuroStoxx, S&P 500, ATX, or equivalent) or home market are generally not acceptable. Only government bonds/notes and cash can be used as variation margin collateral.
- Seniority of the instrument: for the securities leg of the transaction senior and covered bonds are acceptable, subordinated issues can be used subject to higher haircuts and based on individual approval. Only ordinary shares are acceptable.
- Maturity: for the securities leg of the transaction maturities up to 15 years are acceptable, longer maturities can be considered subject to higher haircuts and based on individual approval. Maturity should be at least equal to the maturity of the SFT deal that is collateralized. If bonds are used for the variation margin, the maximum permissible maturity is 10 years.

- Rating: internal ratings have to be used. External ratings can be used as a fall-back if no internal rating is available. For the securities leg of the transaction both Investment and noninvestment grade securities are eligible but the exposures to non-investment grade need to be controlled via tighter limits. Only investment grade bonds can be used as variation margin collateral.
- Currency: generally either major currencies (USD, EUR, CHF, GBP, JPY) or currencies of the home markets are acceptable. Exceptions need to be defined on an individual basis or monitored via limits.

The Treasury collateral catalogue also needs to specify the haircuts to be used for each collateral type used for SFT transactions. The volatility adjustments specified in CRR Article 224 can be used as a guideline.
Collateral types which are not specified in the Treasury collateral catalogue cannot be accepted or used for risk mitigation purposes in RWA or limit calculations.

The valuation of collateral for treasury transactions has to be performed daily and be based on market values. Collateral valuation with a lower frequency is permissible only for non-financial counterparties without material OTC business. Where market values are not available with sufficient quality or frequency, mark to model valuation is also permissible. Collateral valuation based solely on counterparty valuations is not acceptable.

The following table compares the credit risk exposure broken down by financial instrument to the allocated collateral which corresponds to the accepted value after internal haircuts capped by the exposure amount.

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Credit risk exposure by financial instrument and collateral

			Collateralised by				IFRS impairment relevant		
in HUF million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
As of 31 December 2023									
Cash and cash balances - demand deposits to central banks and credit institutions	5,227	-	-	-	-	5,227	5,227	-	-
Debt instruments held for trading	103,003	34,662	34,662	-	-	68,341	-	-	-
Non-trading debt instruments at FVPL	387,100	367,930	300,578	67,352	-	19,170	-	-	-
Debt instruments at FVOCI	248,412	27,757	27,757	-	-	220,655	247,497	-	914
Debt instruments at AC	3,372,432	1,727,827	782,473	793,053	152,301	1,644,605	3,255,040	58,186	59,207
Debt securities	1,097,728	351,649	351,649	-	-	746,079	1,096,357	-	1,371
Loans and advances to banks	350,391	230,053	211,556	-	18,497	120,338	350,390	-	-
Loans and advances to customers	1,870,762	1,118,769	219,268	791,611	107,890	751,993	1,757,928	56,042	56,793
Trade and other receivables	18,962	3	-	1	2	18,959	17,399	1,563	-
Finance lease receivables	34,589	27,353	-	1,441	25,912	7,236	32,966	581	1,043
Off balance-sheet exposures	772,255	184,683	-	30,338	154,345	587,572	449,956	13,083	6,020
out of which: other commitments	303,195	46,906	-	14,217	32,689	256,289	-	-	-
Total	**4,888,429**	**2,342,859**	**1,145,470**	**890,743**	**306,646**	**2,545,570**	**3,957,720**	**71,269**	**66,141**

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

The collateral attributable to total credit risk exposures as of 31 December 2023 amounts to 2,342,859 million forint (2022: 2,365,699 million forint).

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Measurement of expected credit loss

The general principles and standards for credit loss allowances are governed by internal policies in the 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. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. In addition, 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

There are three main stages outlined for expected credit loss (ECL) determination. The stages 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, as described in the chapter “Financial instruments – Significant accounting policies”, in the section “Impairment of financial instruments”

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 with significance being assessed by comparison to the 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. SICR occurs for a particular financial instrument, when both the relative and the absolute thresholds are breached.

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

The relative thresholds in place since the IFRS9 implementation were kept stable as one of the most significant estimates in ECL measurement and, until 2022, they were re-estimated only due to either significant change of PD models or internal validation finding. In the fourth quarter of 2022, the process of splitting the corporate portfolio into Group (large) Corporates and Local Corporates was initiated and it triggered in 2023 a thresholds' recalibration for these portfolios.

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 triggered.

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
2023	1.13	3.21
2022	1.13	3.21

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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 be 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 Hungary Zrt. has introduced additional portfolio level SICR assessment criteria due to the war in Ukraine (implemented in 2022) and related economic impacts. A portfolio screening have been implemented to identify customers affected by the secondary effects of the geopolitical risk (the 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 2023 there was no exposure transferred to Stage 2 due to geopolitical risk.

Customers with increased credit risk at industries with correlation to economic downturn (cyclical industries) or current distortions in the energy market are transferred to Stage 2. For more details on these portfolio level SICR assessment criteria refer to ‘Collective assessment’ in chapter 34).

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 the 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).

Exposure to a defaulted customer is classified as individually significant if the total on- and off-balance exposure to that customer exceeds a predefined materiality limit. Otherwise, exposure to 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, Stage 2 and performing POCI), 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, the 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 the 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 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 over an available history. The calculated LT PDs are extrapolated, e.g., via matrix multiplication, to ensure that the final lifetime PD covers the lifetime of the loans from initial recognition. It is assumed to be the same across all assets in the same portfolio, rating band; and the country of risk which is an additional relevant PD characteristic considered via forward looking information in case of central models for Group (Large) Corporate since the fourth quarter of 2023.

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 for private and micro products is estimated as a lifetime curve for any point in time till maturity, based on historical loss observations. In case of corporate, specialized lending and project finance products LGD parameter is a function of exposure and collateral coverage rate.

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 2023							
Core markets	**3,583,636**	**420,494**	**59,217**	**13,412**	**4,076,759**	**780,436**	**4,857,195**
Austria	8,895	-	-	-	8,895	31,523	40,418
Czech Republic	1,672	-	-	-	1,672	-	1,672
Slovakia	15	1	-	-	16	-	16
Romania	775	-	-	-	775	-	775
Hungary	3,572,279	420,493	59,217	13,412	4,065,401	748,913	4,814,314
Other EU	**15,528**	**18**	**1**	**-**	**15,547**	**12,049**	**27,596**
Other industrialised countries	**2,084**	**50**	**-**	**-**	**2,134**	**814**	**2,948**
Emerging markets	**73**	**617**	**-**	**-**	**690**	**-**	**690**
Asia	22	-	-	-	22	-	22
Latin America	40	-	-	-	40	-	40
Middle East/Africa	11	617	-	-	628	-	628
Total	**3,601,321**	**421,179**	**59,218**	**13,412**	**4,095,130**	**793,299**	**4,888,429**

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in HUF million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment*	Total
As of 31 December 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**

** Not subject to IFRS9 impairment, 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 6,922 million forint (was 11,961 million forint in 2022), the non-defaulted part to 6,490 million forint (was 7,018 million forint in 2022).

Credit risk exposure by business segment and IFRS 9 treatment

	Credit Risk Exposure					Credit Loss Allowances						
in HUF million	**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 2023												
Retail	817,204	102,404	32,786	10,492	386,791	4,979	14,352	23,657	2,599	14.01%	72.15%	24.77%
Corporates	1,022,229	311,768	26,432	2,920	245,177	4,400	5,812	16,131	1,058	1.86%	61.03%	36.24%
Group Markets	651,604	7,007	-	-	121,389	952	95	-	-	1.36%		
ALM	1,110,284	-	-	-	39,942	517	-	-	-			
Total	**3,601,321**	**421,179**	**59,218**	**13,412**	**793,299**	**10,848**	**20,259**	**39,788**	**3,657**	**4.81%**	**67.19%**	**27.27%**

	Credit Risk Exposure					Credit Loss Allowances						
in HUF million	**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%**

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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 2023 or initial recognition date) to Stages 2 or 3 at 31 December 2023 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	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	01 January 2023						31 December 2023
Stage 1	(1,000)	(381)	126	78	437	2	(738)
Stage 2	(365)	-	-	(255)	212	-	(408)
Stage 3	(872)	-	-	-	(312)	-	(1,184)
Total	**(2,237)**	**(381)**	**126**	**(177)**	**337**	**2**	**(2,330)**

in HUF million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	01 January 2022						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)**

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in HUF million	2022	2023
Transfers between Stage 1 and Stage 2	**12,232**	**4,869**
Transfers between Stage 1 and Stage 2	10,14	2,17
To Stage 1 from Stage 2	2,092	2,699
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 2023 and not sold by 31 December 2023 amounts to 19,584 million forint. The GCA of AC debt securities that were held at 1 January 2022 and de-recognised (matured or sold compliant to sale from HTC business model) during the year 2023 amounts to 164,426 million forint.

Movement in credit loss allowances - loans and advances to banks

in HUF million	As of	Additions	Derecognitions	Other changes in credit risk (net)	Other	As of
	01 January 2023					31 December 2023
Stage 1	(282)	(160)	132	(26)	5	(331)
Total	**(282)**	**(160)**	**132**	**(26)**	**5**	**(331)**
in HUF million	**As of**	**Additions**	**Derecognitions**	**Other changes in credit risk (net)**	**Other**	**As of**
	01 January 2022					31 December 2022
Stage 1	(215)	(981)	885	34	(5)	(282)
Total	**(215)**	**(981)**	**885**	**34**	**(5)**	**(282)**

The year-end total GCA of AC loans and advances to banks that were initially recognised during the year 2023 and not fully derecognised by 31 December 2023 amounts to 68,186 million forint. The GCA of AC loans and advances to banks that were held as of 1 January 2023 and fully derecognised during the year 2023 amounts to 132,403 million forint.

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Movement in credit loss allowances - loans and advances to customers

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 2023								31 December 2023
Stage 1	**(7,785)**	**(2,830)**	**911**	**17,128**	**(15,442)**	**-**	**-**	**160**	**(7,858)**
General governments	(8)	-	-	47	(83)	-	-	(3)	(47)
Other financial corporations	(842)	(324)	294	405	(405)	-	-	59	(813)
Non-financial corporations	(2,935)	(557)	276	3,861	(3,242)	-	-	108	(2,489)
Households	(4,000)	(1,949)	341	12,815	(11,712)	-	-	(4)	(4,509)
Stage 2	**(20,906)**	**(1,007)**	**1,374**	**(20,096)**	**22,669**	**23**	**3**	**237**	**(17,703)**
General governments	(3)	-	-	(46)	46	-	-	-	(3)
Other financial corporations	(6)	-	-	(531)	529	-	-	(1)	(9)
Non-financial corporations	(9,325)	(938)	215	(3,064)	8,730	(1)	-	234	(4,149)
Households	(11,572)	(69)	1,159	(16,455)	13,364	24	3	4	(13,542)
Stage 3	**(32,954)**	**(9)**	**8,354**	**(1,459)**	**(10,064)**	**825**	**243**	**145**	**(34,919)**
Other financial corporations	(30)	-	9	-	5	-	-	-	(16)
Non-financial corporations	(9,106)	-	1,707	(1,209)	(4,579)	(18)	103	145	(12,957)
Households	(23,818)	(9)	6,638	(250)	(5,490)	843	140	-	(21,946)
POCI	**(4,627)**	**-**	**898**	**-**	**329**	**(25)**	**10**	**45**	**(3,369)**
General governments	-	-	-	-	-	-	-	-	-
Non-financial corporations	(1,147)	-	40	-	209	(28)	-	45	(881)
Households	(3,479)	-	858	-	120	3	10	-	(2,488)
Total	**(66,272)**	**(3,846)**	**11,537**	**(4,427)**	**(2,508)**	**823**	**256**	**587**	**(63,849)**

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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 category POCI the Bank didn’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 derecognition 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 2023 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2023 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 2,899 million Forint (in 2022: 6,683 million Forint) in case of debt instruments at amortised cost.

This adverse effect of unwinding correction amounted to 13,065 million forint cumulatively for the year 2023, 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 columns '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 2023 to a different stage compared to 1 January 2023 (or to the initial recognition date, if originated during the year) are summarised below:

2023	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	-	-	-	-	-	-	-	-
Other financial corporations	7	20	-	-	-	-	-	-
Non-financial corporations	39,417	37,456	6,004	75	2,231	10	185	-
Households	31,117	38,406	6,906	8,525	3,533	426	298	676
Total	**70,541**	**75,882**	**12,91**	**8,6**	**5,764**	**436**	**483**	**676**

2022	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	-	11,86	-	-	-	-	-	-
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**

The year-end total GCA of the AC loans and advances to customers that were initially recognised during the year 2023 and not fully derecognised by 31 December 2023 amounts to 229,874 million forint. The GCA of the AC loans and advances to customers that were held at 1 January 2023 and fully derecognised during the year 2023 amounts to 210,214 million forint.

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 2023 amounted to 634,186 million forint.

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Movement in credit loss allowances – trade and other receivables

Movement in credit loss allowances

in HUF million	01 January 2023	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	31 December 2023
Stage 1	(166)	(743)	795	8	44	2	(60)
Stage 2	(58)	-	290	(3)	(255)	4	(22)
Stage 3	-	-	-	-	-	-	-
Total	**(224)**	**(743)**	**1 085**	**5**	**(211)**	**6**	**(82)**

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)**

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 2023	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	31 December 2023
Stage 1	(116)	(108)	62	0	69	(93)
Stage 2	(31)	-	-	(0)	2	(29)
Stage 3	(234)	-	-	-	138	(96)
Total	**(381)**	**(108)**	**62**	**-**	**209**	**(218)**

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 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 2023 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2023 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)	Other	As of
	01 January 2023							31 December 2023
Stage 1	(131)	(34)	19	302	(285)	-	1	(128)
Stage 2	(390)	0	26	(728)	685	-	7	(400)
Stage 3	(539)	0	52	(7)	(43)	-	9	(528)
POCI	(73)	0	3	0	(10)	-	0	(80)
Total	**(1,133)**	**(34)**	**100**	**(433)**	**347**	**-**	**17**	**(1,136)**

in HUF million	As of	Additions	Charge-offs	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	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 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 2023 (or initial recognition date, if later) to Stages 2 or 3 as of 31 December 2023 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 2023 to a different stage compared to 1 January 2023 (or to the initial recognition date, if originated during the year) are summarised below:

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in HUF million	2022	2023
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	3,135	3,202
To Stage 1 from Stage 2	1,439	2,813
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	186	190
To Stage 2 from Stage 3	5,328	54
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	135	-
To Stage 1 from Stage 3	23	11
POCI transfer		
To Defaulted from Non-Defaulted	109	4
To Non-Defaulted from Defaulted	-	12

The year-end total GCA of financial leases that were initially recognised during the year 2023 and not fully de-recognised by 31 December 2023 amounts to 5,711 million forint. The GCA of the financial leases that were held at 1 January 2023 and fully de-recognised during the year 2023 amounts to 1,365 million forint.

Loan commitments and financial guarantees:

Movement in credit loss allowances – loan commitments and financial guarantees

2023

in HUF million	As of 01 January 2023	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of 31 December 2023
Stage 1	(2,336)	(974)	782	4,754	(3,912)	48	(1,638)
Stage 2	(2,760)	-	981	(3,062)	3,088	58	(1,695)
Defaulted	(360)	-	50	(2,497)	(466)	1	(3,272)
Total	**(5,456)**	**(974)**	**1,813**	**(805)**	**(1,290)**	**107**	**(6,605)**

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)**

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 2023 to a different stage compared to 1 January 2023 (or to the initial recognition date, if originated during the year) are summarised below:

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

	2022	2023
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	**37,645**	12,648
To Stage 1 from Stage 2	**21,071**	21,012
Transfers between Stage 2 and Stage 3		
To Defaulted from Stage 2	**195**	1,736
To Stage 2 from Defaulted	**120**	111
Transfers between Stage 1 and Stage 3		
To Defaulted from Stage 1	**135**	79
To Stage 1 from Defaulted	**66**	80
Off-balance commitments and financial guarantees that were initially recognised and not fully de-recognised during the year	**237,119**	**79,304**
Off-balance commitments or financial guarantees that were held at 1 January and fully de-recognised during the year	**96,897**	**187,711**

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 Group's research department. Given multiple scenarios, the "neutral" PDs (and partly included in 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 ongoing war in Ukraine and the emerging conflicts in the middle east led to inflation and increase of the interest rates. The Bank adjusted the macro-shift models to reflect expected effects of those into credit risk parameters.

Macro-shift FLI models are recalibrated regularly to reflect the most relevant macro-variables. Variables with the highest statistical relevance are included. In 2023, a new characteristic, the country of risk, was implemented into FLI for Group (large) Corporate.

Erste Group reviewed the FLI in the fourth quarter of 2023 according to the disclosed forecasts for baseline, downside, and upside scenarios. Erste Group decided to assign 50% scenario weight to baseline forecast due to more stable macroeconomic forecasts than were observed during previous year. The approach with including the comprehensive stress test (CST) scenario into the downside scenario design is kept unchanged. However, the CST scenario was updated according to the assumptions considered in comprehensive stress test 2023. These model adjustments took place to address the still persisting uncertainty of the macroeconomic forecasts, higher downside risks and effects of those on ECL resulting from the unstable geopolitical situation.

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

Baseline scenario

The Bank expects the Eurozone economy to gradually recover from the first half 2024 onwards. The main factor supporting the constructive baseline outlook for the Eurozone in 2024 is a further slight easing of inflationary pressures on a domestic and as well as on global level. European gas- and electricity prices have already dropped substantially and easing pressures from global supply chains have already eased inflationary pressures in recent months. In this environment it is forecasted real wage gains for consumers in 2024, which should be supportive for private consumption growth 2024.
The expected end of global destocking in the course of 2024 should gradually improve the order situation and order backlogs of manufacturing companies. This should be another growth supportive factor during the first half of 2024. The Bank forecasts that in this environment, a gradual acceleration of consumption and investments will be seen in the first half of 2024. In this environment the Bank expects the ECB to deliver the first rate cut in June 2024.

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

The ongoing war in Ukraine, including emerging conflicts in the middle east, remains significant risk factor. If it escalates further 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 could trigger an energy policy shock, whereby the price of CO2 emissions skyrocket in the first year, crystalizing a disorderly transition risk. The energy policy shock could exacerbate 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. In addition, the fast rise of green energy investments adds volatility and instability to a European power grid. Temporary pressure on the power grid from large swings in energy supply from green energy, could result in temporary price spikes for electricity which could harm industrial activity and the consumers purchasing power.

Moreover, the current turmoil in the Red Sea, which exerts pressure on container ship traffic between Europe and Asia could flare up again supply chain issues. This could translate into higher inflation than anticipated in our current base line scenario.

The fast rise of interest rates is a threat for the investment activity of companies and consumers could lead to lower investments than currently anticipated for our base case scenario.

In general, higher Harmonized Index of Consumer Prices (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 could make investors to question debt sustainability.

The baseline and weighted scenario outcome for the major variables is disclosed in the tabular format for the years 2024-2026.

Upside risk to the baseline scenario

In case the global industry recovers faster and stronger, than it is expected in baseline scenario, this would certainly have an immediate positive impact on the German economy. In light of the tight interconnections between Germany and other major countries of the Eurozone, a stronger and faster recovery of German industry would also have an immediate positive impact on the entire industry of the Eurozone. A faster and stronger recovery of European industry would give GDP growth in 2024 and 2025 certainly a positive boost, as the recovery of investment activity would take hold faster and stronger than currently expected in our baseline scenario. We would expect in this scenario that consumer sentiment would also be impacted positively. So private consumption would have a bigger contribution to growth in 2024 and 2025, when compared to our baseline scenario. The services sector of the economy would benefit from a better and higher consumer sentiment as well. However, a further gradual easing of inflationary pressure – especially in the services sector – is mandatory in this scenario in order not to endanger expected rate cuts by the ECB in 2024.

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Baseline, upside and downside scenarios of GDP development:

GDP growth in %		Probability weights			
	Scenario	2024-2026	2024	2025	2026
2023	Upside	1%	4.35	5.18	4.88
	Baseline	50%	3.20	3.40	3.30
	Downside	49%	(1.99)	(0.54)	0.56
	Scenario	2023-2025	2023	2024	2025
2022	Upside	1%	3.20	4.70	6.10
	Baseline	40%	0.20	4.20	3.40
	Downside	59%	(6.50)	0.50	1.80

Baseline and scenario weighted values of the main variables

	Baseline scenario			Scenario weighted outcome		
As of 31 December 2023	2024	2025	2026	2024	2025	2026
GDP growth	3.20	3.40	3.30	0.68	1.49	1.98
Unemployment Rate	3.70	3.60	3.60	4.26	4.06	3.91
Yields_5Y	6.39	5.83	5.73	7.39	6.83	6.73
Yields_10Y	6.14	5.79	5.66	7.38	6.80	6.31

	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

In addition to standard SICR assessment, the Bank applied collective SICR assessment, i.e., transfer into Stage 2 based on pre-defined portfolio characteristics, due to emerging risks not covered by standard models. This approach is aligned with all affected business lines. It requires, after the assessment of the outliers from the common portfolio characteristics, to have exemptions from the collective SICR assessment, if properly documented why they would behave differently than the rest of the portfolio.

In June 2022, the Bank implemented rules for collective staging assessment 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. The Bank has identified the portfolio of industry sectors susceptible to being hit by the macro-economic environment based on cost inflation and interest rate increases leading to decreasing confidence levels on consumer as well as production side, and consequently a decrease in consumption and investments.

In addition to cyclical industries, from September 2022 the Bank has introduced additional Energy stage overlay due to the distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were considered. Effects of energy prices and availability on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability was 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.

The Bank evaluates, on quarterly basis, the conditions (exit triggers) for applying of collective SICR assessment. It was concluded that in case of cyclical industries the risk neither passed nor was materialized. Therefore, in December 2023, the rules for collective SICR assessment were kept the same as they were applied in 2022.

In case of Energy industries, it was concluded that conditions for exit triggers were partly fulfilled mainly on energy availability part. Electricity demand in the European Union declined for the second consecutive year in 2023, even though energy prices fell from record highs. On the other hand, in 2023, there were also signs of some permanent demand destruction, especially in the energy-intensive chemical and primary metal production sectors. These segments will remain vulnerable to energy price shocks. Moreover, all companies belonging to the Energy sector can potentially be affected by the distortions in the current energy market. 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. Therefore, in December 2023, only selected industries (production & distribution of energy and heating) were considered within collective SICR assessment and migrated to Stage 2; except some companies excluded based on individual assessment.

Out of the overall credit risk exposure of 4,888 billion forint (2022: 5,279 billion forint) portfolio under collective staging assessment represents:

- 44.8 billion forint of cyclical industries, out of which 23.1 billion forint is in Stage 2;
- 202.7 billion forint of energy intensive industries, out of which 179.5 billion forint 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.

Exposure in Stage 2 due to the application of the rules for Ukraine war overlays stood at for cyclical industries 23,100 million forint in December 2023 and 179,453 million forint for energy overlays in December 2023, with additional ECL allocated in the amount of 312 million forint for cyclical industries and 643 million forint for energy overlays.

As described above, FLI were re-assessed based on the latest macro-scenarios in the fourth quarter of 2023. The Stage 2 exposure due to FLI increased to 42,054 million forint as of December 2023 (62,775 million forint in December 2022). The increase of the Stage 2 exposure affected the level of ECL allocated in Stage 2 due to FLI: 9,574 million forint as of December 2023 versus 15,102 million forint as of December 2022.

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 19,266 million forint (2022: 30,765 million forint), resulting in an ECL drop by 2,598 million forint (2022: 6,921 million forint).

The downside scenario would lead to additional 24,468 million forint of exposure migration to Stage 2 in comparison with probability weighted FLI (2022: 27,485 million forint), resulting in ECL increase of 3,145 million forint (2022: 4,909 million forint).

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 UA war - Cyclical	Stage 2 impact by: Collective assessment due to UA war - Energy	Stage 2 impact by: FLI shifts	Upside scenario	Baseline scenario	Downside scenario
As of 31 December 2023									
Impact on credit risk exposure	3,601,321	421,179	4,022,500	23,100	179,453	42,054	(38,396)	(19,266)	24,468
Impact on credit loss allowances	(10,848)	(20,259)	(31,107)	(312)	(643)	(9,574)	5,769	2,598	(3,145)
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)

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 2023					
Gross exposure	**2,660,990**	**1,346,953**	**412,648**	**467,838**	**4,888,429**
thereof gross forborne exposure	75,317	-	506	2,074	77,897
Performing exposure	2,601,947	1,344,668	410,014	461,825	4,818,454
thereof performing forborne exposure	43,92	-	338	1,947	46,205
Credit loss allowances for performing exposure	26,513	1,268	20	3,319	31,120
thereof credit loss allowances for performing forborne exposure	3,359	-	-	33	3,392
Non-performing exposure	59,043	2,285	2,634	6,013	69,975
thereof non-performing forborne exposure	31,397	-	168	127	31,692
Credit loss allowances for non-performing exposure	38,884	1,279	6	3,262	43,431
thereof credit loss allowances for non-performing forborne exposure	22,192	-	-	58	22,25

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	695,91	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

Types of forbearance exposure

in HUF million	Gross forborne exposure	Modification in terms and conditions	Refinancing
As of 31 December 2023			
Loans and advances excl. HfT and HfS	75,317	71,634	3,683
Loan commitments	2,580	2,530	50
Total	**77,897**	**74,164**	**3,733**

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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**

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 106.5% (2022: 108.4%) 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, the Bank assumes there are sufficient levels of collateral and expected other recoveries.

During 2023, the non-performing credit risk exposure decreased by 129 million forint, or -0.2%, while the credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees decreased by 1,434 million forint (-1.9%). This development resulted in a moderate decrease of 1.8 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 2023 and 31 December 2022. 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 2023													
Retail	38,029	36,814	1,349,678	962,888	45,586	12,910	11,744	2.82%	3.82%	119.87%	123.83%	33.95%	31.90%
Corporates	31,946	29,327	1,608,524	1,363,346	27,401	13,031	13,032	1.99%	2.15%	85.77%	93.43%	40.79%	44.44%
Group Markets	-	-	780,001	658,612	1,048	-	-	0.00%	0.00%				
ALM	-	-	1,150,226	1,110,284	517	-	-	0.00%	0.00%				
Total	**69,975**	**66,141**	**4,888,429**	**4,095,130**	**74,552**	**25,941**	**24,776**	**1.43%**	**1.62%**	**106.54%**	**112.72%**	**37.07%**	**37.46%**

	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%**

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 2023						
Retail	8,068	1,213,995	46	9	1	1,222,119
Corporates	634,204	429,112	466	577	84	1,064,443
Group Markets	4,117	14,856	-	-	1	18,974
ALM	5,064	-	-	-	-	5,064
Total	**651,453**	**1,657,963**	**512**	**586**	**86**	**2,310,600**

in HUF million	EUR	HUF	CHF	USD	Other	Total
As of 31 December 2022						
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**

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 2023					
Retail	429,098	600,735	154,821	37,465	1,222,119
Corporates	821,936	207,531	13,398	21,578	1,064,443
Group Markets	17,707	-	1,267	-	18,974
ALM	5,064	-	-	-	5,064
Total	**1,273,805**	**808,266**	**169,486**	**59,043**	**2,310,600**

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**

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 2023												
Retail	696,299	96,960	32,304	10,329	386,227	4,515	13,616	23,443	2,564	14.04%	72.57%	24.82%
Corporates	823,401	219,381	19,003	2,599	59	3,471	4,473	12,003	885	2.04%	63.16%	34.05%
Group Markets	17,935	1,039	-	-	-	61	37	-	-	3.56%		
ALM	5,064	-	-	-	-	-	-	-	-			
Total	**1,542,699**	**317,380**	**51,307**	**12,928**	**386,286**	**8,047**	**18,126**	**35,446**	**3,449**	**5.71%**	**69.09%**	**26.68%**

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%**

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 6,528 million forint (2022: 11,837 million forint), the non-defaulted part to 6,400 million forint (2022: 6,923 million forint).

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 2023												
Retail	37,465	36,258	1,222,119	835,892	44,138	12,904	11,738	3.07%	4.34%	121.73%	34.44%	32.37%
Corporates	21,578	21,578	1,064,443	1,064,384	20,832	11,931	11,931	2.03%	2.03%	96.54%	55.29%	55.29%
Group Markets	-	-	18,974	18,974	98	-	-					
ALM	-	-	5,064	5,064	-	-	-					
Total	**59,043**	**57,836**	**2,310,600**	**1,924,314**	**65,068**	**24,835**	**23,669**	**2.56%**	**3.01%**	**112.50%**	**42.06%**	**40.92%**

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%**

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

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. The Bank 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 2023. 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 the 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 the 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 Zrt’s financial position as it had no relevant positions.

Methods and instruments employed

At the Bank, potential losses that may arise from market movements are assessed using the value at risk (VaR). For the VaR calculations the 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 group-wide ICAAP calculation 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 the 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 the 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 the Bank, 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
As of 31 December 2023				
Erste Bank total	2,862	2,905	(8)	88
Banking book	2,678	2,686	(8)	-
Trading book	184	219	-	88

in HUF million	Total	Interest	Credit spread	Currency
As of 31 December 2022				
Erste Bank total	2,785	2,785	2	104
Banking book	2,662	2,660	2	-
Trading book	123	125	-	104

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).

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.

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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 the Bank as of 31 December 2023 and the corresponding open positions of these currencies as of 31 December 2022.

Open foreign currency positions

in HUF million	2022	2023
Swiss Franc (CHF)	203	(143)
Euro (EUR)	(10,675)	(9,637)
Japanese Yen (JPY)	(12)	70
US Dollar (USD)	(170)	1,252
Other	(115)	242

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 Group is exposed to credit spread risk with respect to its securities portfolio, both in the trading as well as 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 issuer specific risk is covered by the standardised approach for Pillar 1 of regulatory capital requirements. For the issuer specific risk of the trading book in Pillar 2, the spread risk is broken down into a systematic and a residual risk part and reported on an aggregated level.

Quantifying 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 a one-year horizon is calculated. It is based on credit spread sensitivities (CR01) and the risk factors used are mainly asset swap spreads for sovereigns and iTRAXX CDS indices for financials and corporates. The resulting amount is used as part of the ICAAP calculations to determine the capital consumption of the banking book portfolio.

Hedging
Banking book market risk management consists of optimising the 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 the Bank.

36) Liquidity risk

Recent Developments

In 2023, as part of a Erste Group wide project Erste Bank Hungary Zrt. 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 the 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 2023, customer deposits remained the primary source of funding for the Bank. The growth in loan volume was higher than net inflows of customer deposits, the liquidity shortage was mainly financed by maturing government bonds and issued securities.

With regards to own issuance in 2023 32.2 billion forint, 90.5 million dollar and 66.9 million euro bond was offered to the private sector as well (In 2022 3.7 billion forint and 350 million euro MREL eligible bond).

Liquidity ratios

The LCR is calculated in the 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 the 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.

The 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%. The 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. The 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 the 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 the Bank is the FTP system.

The Comprehensive Contingency Plan of the Bank 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 the Bank, the liquidity risk is analysed by the following methods.

Liquidity coverage ratio

The 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, the 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 2023:

Liquidity coverage ratio

in HUF million	2022	2023
Liquidity buffer	1,642,842	1,399,161
Net liquidity outflow	1,243,306	880,042
Liquidity coverage ratio	132%	159%

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 structural liquidity gaps as of 31 December 2022 and 31 December 2023:

Structural liquidity gap

in HUF million	2022 < 1 month	2022 1-12 months	2022 1-5 years	2022 > 5 years	2023 < 1 month	2023 1-12 months	2023 1-5 years	2023 > 5 years
On-Balance Sheet Liquidity GAP	(339,915)	(314,653)	762,669	(108,100)	(647,276)	(30,417)	779,856	(102,162)
Off-Balance Sheet Liquidity GAP	(3,034)	421	16,431	786	(1,794)	(130)	(2,017)	4,894

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

The 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 2023 and year-end 2022 are shown in the tables below:

Term structure of counterbalancing capacity

As of 31 December 2023	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash excess reserve	21,362	-	-	-	-
Liquid assets	1,187,232	(4,505)	(3,280)	(81,985)	(121,906)
Credit claim	22,874	-	-	-	-
Counterbalancing capacity	**1,231,468**	**(4,505)**	**(3,280)**	**(81,985)**	**(121,906)**

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)**

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 2023 and 31 December 2022 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 2023						
Non-derivative liabilities	**4,131,546**	**4,513,494**	**1,653,855**	**808,032**	**1,107,508**	**944,099**
Financial liabilities HfT	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities at FVPL	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities at AC	**4,131,546**	**4,513,494**	**1,653,855**	**808,032**	**1,107,508**	**944,099**
Deposits by banks	685,603	1,005,218	19,489	141,090	488,672	355,968
Customer deposits	3,077,408	3,084,596	1,629,864	636,539	368,545	449,648
Debt securities in issue	230,848	245,124	631	22,469	222,024	-
Other financial liabilities	3,880	3,882	3,871	11	-	-
Subordinated liabilities	133,807	174,674	-	7,923	28,267	138,483
Derivative liabilities	**65,538**	**65,538**	**9,395**	**7,019**	**43,500**	**5,623**
Finance lease liabilities	**19,413**	**19,413**	**340**	**3,160**	**12,700**	**3,213**
Total on balance sheet liabilities	**4,216,497**	**4,598,445**	**1,663,590**	**818,211**	**1,163,708**	**952,935**
Contingent liabilities	**481,518**	**481,518**	**481,518**	**-**	**-**	**-**
Financial guarantees	1,223	1,223	1,223	-	-	-
Irrevocable commitments	480,295	480,295	480,295	-	-	-
Total	**4,698,015**	**5,079,963**	**2,145,108**	**818,211**	**1,163,708**	**952,935**

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**
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**

As of year-end 2023, the currency composition of the liabilities consisted of approximately 68.53% HUF, 26.19% EUR, 4.36% USD, and 0.92% in other currencies (2022: 67.40% HUF, 26.82% EUR, 5.04% USD, and 0.74% in other currencies).

Besides the contingent liabilities from unused credit lines and guarantees, material potential cash outflow is calculated from the collateralised derivative transactions for the stress testing, following a historical lookback approach, which amounted to 152 million euro (2022: 137 million euro) in the severe combined idiosyncratic and market crisis scenario as of 31 December 2023.

As of 31 December 2023, the volume of customer deposits due on demand amounted to 2,466 billion forint (2022: 2,821 billion forint).
According to customer segments, the customer deposits are composed as follows: 39% private individuals, 18% large corporates, 41% small and medium-sized enterprises, 2% public sector, (2022: 45% private individuals, 17% large corporates, 36% 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 the Bank uses HunOr, the Hungarian operational risk-loss data consortium.

The Bank's capital requirement based on Advanced Measurement Approach is calculated by Erste Group and allocated to Erste Bank Hungary Zrt. 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, the Bank monitors a number of key risk indicators such as system availability, staff turnover, and customer complaints.

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

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Non-current assets and other investments

38) Non-current assets and investment properties

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.

Any impairment losses including their reversals and 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) are 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.

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

The Bank's intangible assets mainly comprise of computer software.

Intangible assets with finite lives are amortised over their useful economic life using the straight-line method. The amortisation expense recognised in the Income Statement under 'General Administrative expenses'. 'Software acquired' and 'Other intangible assets' are amortised over 3 - 15 years.

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. Otherwise, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs.

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 01.01.2023	**78,900**	**9,138**	**11,632**	**5,211**	**14,085**	**27,839**	**146,805**	**291**
Additions	8,722	-	2,263	923	3,133	2,717	17,758	3
Disposals	(3,453)	(68)	(465)	(403)	(1,391)	(145)	(5,925)	-
Reclassification	(24)	-	32	(32)	24	-	-	-
Value 31.12.2023	**84,145**	**9,070**	**13,462**	**5,699**	**15,851**	**30,411**	**158,638**	**294**

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 01.01.2023	**53,832**	**7,903**	**6,553**	**3,992**	**10,055**	**10,243**	**92,578**	**92**
Additions	5,038	1,128	913	308	1,328	3,014	11,729	5
Disposals	(3,453)	(68)	(401)	(367)	(1,388)	(145)	(5,822)	-
Reclassification	25	(28)	-	-	3	-	(0)	-
Impairment	133	28	4	-	15	4,589	4,769	-
Value 31.12.2023	**55,575**	**8,963**	**7,069**	**3,933**	**10,013**	**17,701**	**103,254**	**97**

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 01.01.2023	**25,068**	**1,235**	**5,079**	**1,219**	**4,030**	**17,596**	**54,227**	**199**
Value 31.12.2023	**28,570**	**107**	**6,393**	**1,766**	**5,838**	**12,710**	**55,384**	**197**

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

2) Erste Bank recognised 4.6 billion impairment on the leased HQ building of the Bank. Please see details in Note 12) Other operating result.

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

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COST in HUF million	Software acquired	Other intangible assets (licenses, patents, customer lists etc.)	Own land and buildings	Office and plant equipment/other fixed assets	IT-assets (hardware)	Right-of-use land and buildings[2]	Subtotal	Investment properties
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 buildings[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 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.

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Net carrying amount

in HUF million	2022	2023
Intangible assets	**26,303**	**28,677**
Software acquired	25,068	28,570
Other intangible assets (licenses, patents, customer lists etc.)	1,235	107
Property and equipment	**27,924**	**26,707**
Own land and buildings	5,079	6,393
Office and plant equipment/other fixed assets	1,219	1,766
IT-assets (hardware)	4,030	5,838
Right-of-use land and buildings	17,596	12,710
Total intangible and tangible assets	**54,227**	**55,384**
Investment properties	**199**	**197**

Fully amortised intangible assets which were still in use amounted to 12,877 million forint as at 31 December 2023 (11,956 million forint as at 31 December 2022). Fully depreciated tangible assets which were still in use amounted to 11,188 million forint as at 31 December 2023 (9,577 million forint as at 31 December 2022).

The 'investment properties' category covers properties subject to operating lease. Impairment testing in 2023 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 separate financial statements, as they are not the assets of the Bank.

Other Assets

in HUF million	2022	2023
Clearing accounts with tax authorities	166	-
Banking tax[1)]	2,507	1,671
Other clearing accounts	10,189	13,498
Other financial assets[2)]	2,483	9,707
Other accrued income[3)]	18,002	7,767
Inventories	311	242
Repossessed assets[4)]	21	20
Prepaid expenses	3,389	3,516
Other	4,682	4,321
Total	**41,750**	**40,742**

1) As in IFRS terms the deduction possibility is valued as virtually certain, Erste Bank recognised a receivable of 1,671 million forint as of 31 December 2023 (2,507 million forint in 2022) 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 2023 year end decreased 10 billion forint compared to 2022.

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

2023 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		**20**	**20**	**-**	**-**	**20**
Repossessed assets (IAS 2)	39)	20	20	-	-	20

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

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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	2022	2023
Outstanding minimum lease payments	35,963	32,794
Non-guaranteed residual values	7,094	5,840
Gross investment	**43,057**	**38,634**
Unrealised financial income	3,664	4,045
Net investment	**39,393**	**34,589**
Present value of non-guaranteed residual values	6,489	5,229
Present value of minimum lease payments	**32,904**	**29,360**
Risk provision related to outstanding minimum lease payments	**(1,134)**	**(1,136)**

Maturity analysis of leases by residual maturities

	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
in HUF million	2022	2022	2023	2023
< 1 year	15,562	11,489	13,252	9,668
1-2 years	10,214	7,973	9,914	8,013
2-3 years	7,874	6,421	6,777	5,339
3-4 years	4,643	3,605	4,680	3,872
4-5 years	2,388	2,050	2,307	1,523
> 5 years	2,376	1,366	1,704	945
Total	**43,057**	**32,904**	**38,634**	**29,360**

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
2023											
Other financial corporations	3,307	-	-	-	**3,307**	(3)	-	-	-	**(3)**	**3,304**
Non-financial corporations	16,556	12,336	766	91	**29,749**	(115)	(357)	(401)	(74)	**(947)**	**28,802**
Households	965	361	174	33	**1,533**	(10)	(44)	(126)	(6)	**(186)**	**1,347**
Total	**20,828**	**12,697**	**940**	**124**	**34,589**	**(128)**	**(401)**	**(527)**	**(80)**	**(1,136)**	**33,453**

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**

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	2022	2023
< 1 year	49	56
1-2 years	49	56
2-3 years	49	56
3-4 years	49	56
4-5 years	49	56
> 5 years	62	14
Total	**307**	**294**

During 2023, Erste Bank recognised income relating to variable lease payments in the amount of 88 million forint (53 million forint in 2022). For information about rental income please refer to Note 7) Rental income from investment properties and other operating leases.

Erste Bank as a lessee

Under IFRS 16 Erste Hungary 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.

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	2022	2023
< 1 year	3,402	3,500
1-5 years	12,477	12,700
> 5 years	5,002	3,213
Total	**20,881**	**19,413**

During 2023, interest expenses on lease liabilities were recognised in the amount of 255 million forint (205 million forint in 2022).

Total cash outflow for leases recognised as lease liabilities in 2023 was 3,587 million (3,559 million in 2022). Cash outflow related to lease contracts of low-value assets was 62 million forint in 2023 (82 million forint in 2022). Erste Bank had no lease contracts in 2022 and 2023 where the short-term exemption of IFRS 16 was applied.

Accruals, provisions, contingent liabilities and legal proceedings

41) Other liabilities

in HUF million	2022	2023
Deferred income	1,411	2,537
Clearing accounts	17,300	23,998
Tax liabilities	2,637	3,409
Other financial liabilities [1]	899	1,472
Accruals of other expenses	15,811	18,172
Other liabilities	3,366	3,365
Total	**41,424**	**52,953**

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	2022	2023
Pending legal issues and tax litigation	187	186
Loan commitments and financial guarantees given	5,456	6,605
CLA for loan commitments and financial guarantees in Stage 1	2,336	1,638
CLA for loan commitments and financial guarantees in Stage 2	2,759	1,695
CLA for loan commitments and financial guarantees - Defaulted	361	3,272
Other provisions	3,323	283
Other	3,323	283
Provisions	**8,966**	**7,074**

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 2023

in HUF million	As of 01 January 2023	Allocations	Use	Releases	Unwind of discount	Exchange rate and other changes (+/-)	As of 31 December 2023
Pending legal issues and tax litigation	187	40	-	(41)	-	-	186
Commitments and guarantees given out of scope of IFRS9	3,286	466	-	(3,634)	-	(118)	-
Other provisions	37	276	-	(30)	-	-	283
Other	37	276	-	(30)	-	-	283
Provisions	**3,510**	**782**	**-**	**(3,705)**	**-**	**(118)**	**469**

Sundry provision 2022

in HUF million	As of 01 January 2022	Allocations	Use	Releases	Unwind of discount	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**

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 107 million forint related to a Hungarian Competition Authority (HCA) decision in 2010:

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In 2010 the Hungarian Competition Authority (HCA) reached a decision stating that several banks (including EBH) violated the competition law by entering into an agreement inter alia determining a rate and structure for interbank commissions uniformly applicable to the cards of both international card companies and all banks and imposed a fine of 107,000,000 forint on EBH.
EBH initiated a judicial review of the decision of the HCA before the court.
The Court of second instance with its final and binding judgement repealed the first instance court decision as well as the decision of the HCA by which the HCA established an infringement of the competition law and imposed a fine of 107 million forint on EBH in 2009. At the same time, the Court of second instance ordered the HCA to reopen the competition supervisory procedure and re-evaluate the effect of the Multilateral Interchange Fee agreement from the perspective of its effect on competition.
As a result of the decision adopted by the Court of second instance, on 31 March 2017 the HCA repaid the fine (107 million forint) to EBH.
On 17 May 2017 the HCA initiated an extraordinary judicial review of the final second instance judgment in front of the Supreme Court on the grounds of infringement. The Supreme Court ordered the case to be referred to the European Court of Justice (ECJ) in Q1 2018, in order to ask for a preliminary ruling on the interpretation of certain competition law rules. In April 2020 the ECJ delivered its judgment which was favourable for the banking sector.
The Supreme Court delivered its judgement in September 2020 in which it ordered the HCA to reopen the competition supervisory procedure. The HCA payed 2 million forint as a litigation costs to EBH. The judgement declared that the Multilateral Interchange Fee agreement can not be interpreted as an infringement by object or a restriction of competition by effect, in the light of the available facts.
On the basis of the Supreme Court's judgement of September 2020, the HCA reopened the competition supervisory procedure and requested data supply. The Bank completed the data supply on 3 September 2021.
In the reopened competition supervisory procedure the previous proposal was submitted to HCA on 25 February 2022.
On 18 April 2023 EBH submitted a revised proposal for commitment to HCA on (i) educate consumers; (ii) develop the card market; (iii) create a financial fund to support POS terminals. HCA still has not provided substantive reply on any proposal.

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	2022	2023
Irrevocable contingent liabilities	**538,334**	**481,518**
Financial guarantees[1)]	18,806	1,223
Committed credit lines -irrevocable	346,299	317,824
Non-financial guarantees	169,068	159,149
Import accreditives	4,161	3,322
Revocable contingent liabilities	**350,778**	**290,738**
Committed credit lines - revocable	350,778	290,738
Other contingent liabilities	**1,759**	**1,758**
Legal cases	187	186
Other	1,572	1,572
Total	**890,870**	**774,014**

1) The significant decrease is related to the transferred Commerzbank portfolio. The contracts have been transferred in December 2022, and were not renewed after the expiration.

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 (5 cases against EBH and 13 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	2022	2023
Subscribed capital	146,000	146 000
Additional paid-in capital	117,492	117 492
Retained earnings and other reserves	150,242	254 123
Total	**413,734**	**517 615**
Attributable to owners of the parent	413,734	517 615

Subscribed capital and Additional paid-in capital

As 31 December 2023 subscribed capital amounted to 146,000,000,000 forint (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

In 2023 Erste Group Bank AG is brought back the 30% share of Erste Bank Hungary Zrt., held by Corvinus Zrt. and EBRD. The transaction was closed in November for the shares of Corvinus Zrt. and in December for the shares of EBRD.

As of 31 December 2023, the direct parent of the Bank – owning 100% of the shares (in 2022 70%) – was Erste Group Bank AG, whose registered office at that date was Am Belvedere 1, 1100 Vienna, Austria. The Consolidated 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.

	31 December 2022		31 December 2023	
Owner	**Number of shares**	**Ownership share**	**Number of shares**	**Ownership share**
Erste Group Bank AG	102,200,000,000	70%	146,000,000,000	100%
Corvinus Nemzetközi Befektetési Zrt.	21,900,000,000	15%	-	0%
European Bank for Reconstruction and Development	21,900,000,000	15%	-	0%
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	2022	2023
IFRS financial statements		
Subscribed capital	146,000	146,000
Additional paid-in capital	117,492	117,492
General reserve	30,402	34,156
Fair value reserve	(11,005)	108
Retained earnings	130,845	219,859
Total equity	**413,734**	**517,615**
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	30,402	34,156
Revaluation reserve	(11,005)	108
Retained earnings	93,309	112,091
Net result for the year	37,536	107,768
Total equity	**413,734**	**517,615**
of which		
Capital subscribed by the Court of Registry	146,000	146,000
Reserve available for dividend payment	130,845	219,859

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 44,933 million forint at the end of 2023 (in 2022: 34,156 million forint).

‘Retained earnings and other reserves’ also includes ‘Retained earnings’ of 209,083 million forint and ‘Fair value reserve’ of 118 million forint with related deferred tax of (11) million forint in 2023. In 2022 the ‘Retained earnings’ was 127,092 million forint and the ‘Fair value reserve’ was (12,095) million forint with with related deferred tax of 1,089 million forint in 2022.

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.

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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 Note 51) of the notes
Minority owners:	In 2023 Erste Group Bank AG is brought back the 30% share of Erste Bank Hungary Zrt., held by Corvinus Zrt. and EBRD since 2016. The transaction was closed in November for the shares of Corvinus Zrt. and in December for the shares of EBRD.
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	2022	2023
Other demand deposits	**904**	**2,260**
Parent	890	2,183
Other related parties (Erste Group)	14	77
Loans and advances to credit institutions [1)]	**62,591**	**78,891**
Parent	6,502	-
Subsidiaries	56,089	78,891
Loans and advances to customers	**864**	**719**
Subsidiaries	48	1
Other related parties (Erste Group)	816	718
Derivative financial instruments - asset	**71,245**	**38,142**
Parent	68,902	31,523
Subsidiaries	2,232	6,516
Other related parties (Erste Group)	111	103
Other assets	**17,455**	**13,658**
Parent	12,982	10,550
Subsidiaries	3,493	3,086
Other related parties (Erste Group)	980	22
Deposits by banks	**437,116**	**396,127**
Parent	160,750	120,735
Subsidiaries	276,273	275,308
Other related parties (Erste Group)	93	84
Customer deposits	**217,517**	**186,063**
Subsidiaries	217,082	185,759
Other related parties (Erste Group)	435	304
Derivative financial instruments - liabilities	**50,976**	**33,199**
Parent	46,202	31,321
Subsidiaries	4,771	1,875
Other related parties (Erste Group)	3	3
Other liabilities	**1,670**	**2,853**
Parent	-	1,610
Subsidiaries	103	237
Other related parties (Erste Group)	1,567	1,006
Subordinated liabilities	**136,336**	**130,490**
Parent	136,336	130,490
Other commitments	**13,359**	**12,100**
Parent	384	-
Subsidiaries	12,100	12,100
Other related parties (Erste Group)	875	-
Loan commitments	**6,085**	**28,178**
Parent	-	4,828
Subsidiaries	6,085	21,501
Other related parties (Erste Group)	-	1,849

1) Average contractual interest rate:
2023: 3.87%

2022: 2.04%

The amount of the loans provided to the members of the Board of Directors was 7,4 million forint (6,7 million forint in 2022) and the amount of its interest was 0,0005 million forint in 2023 (0,01 million forint in 2022).

Income and expenses to related parties

in HUF million	2022 reclassified[1)]	2023
Interest Income	**42,254**	**72,368**
Parent	38,384	63,355
Subsidiaries	3,674	8,951
Other related parties (Erste Group)	196	62
Interest Expense	**(156,914)**	**(321,968)**
Parent	(135,655)	(283,124)
Subsidiaries	(20,658)	(38,285)
Other related parties (Erste Group)	(601)	(559)
Fee and commission income	**16,860**	**19,767**
Parent	293	241
Subsidiaries	16,557	19,519
Other related parties (Erste Group)	10	7
Fee and commission expense	**(637)**	**(661)**
Parent	(242)	(136)
Subsidiaries	(303)	(413)
Other related parties (Erste Group)	(92)	(112)
Dividend income	**14,697**	**34,664**
Subsidiaries	14,697	34,664
Other Income/(Expense)	**(7,024)**	**(11,256)**
Parent	155	(730)
Subsidiaries	(7,117)	(644)
Other related parties (Erste Group)	(62)	(9,882)
Net trading result	**33,689**	**(20,202)**
Parent	37,330	(26,982)
Subsidiaries	(3,981)	5 583
Other related parties (Erste Group)	340	1 197
Other operating result	**(8,917)**	**(20,792)**
Parent	(710)	107
Subsidiaries	(434)	(20,878)
Other related parties (Erste Group)	(7,772)	(21)
Net impairment loss on financial instruments	**(13)**	**6**
Parent	2	(2)
Subsidiaries	(19)	8
Other related parties (Erste Group)	4	-

1) Please see details in chapter D. SIGNIFICANT ACCOUNTING POLICIES part e) Changes in presentation.

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

Management compensation

in HUF million	2022	2023 plan
Fixed salary	530	597
Performance related compensation	530	596
Other compensation	91	218
Total	**1,151**	**1,411**

The internal members of the Management Board (the internal members of the Board of Directors) do not receive any additional compensation for their board memberships. The compensation of management board members is based on the individual's responsibilities, the achievement of corporate targets and the group's financial situation.

The above includes employment related compensation only, severance payments are not included.

'Other compensation' includes other contractual allowances.

In accordance with Erste Bank's Remuneration Policy – which is based on CRD V by EU (Capital Requirements Directive V) on remuneration policies and the Hungarian Banking Act - management board members are recognised as identified staff and the following special rules are applied for their performance related compensation:

- The performance related compensation is based both on Erste Bank financial results and individual performance. The bonus amount is defined by qualitative and quantitative key performance indicators (KPIs) agreed by Erste Group HR and Erste Group Performance Management. Applied KPIs are risk adjusted financial result indicators, business specific objectives and leadership competencies.
- 60% of the performance related compensation is granted as upfront payment and 40% is deferred for 4 years in equal instalments. When a bonus amount exceeds 150 000 euro 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 2023, performance-linked remuneration and share-equivalents are planned to be paid out, in line with MNB and ECB guidelines, as per below:

Performance related compensation

in HUF million	2022	2023
Cash payment for performance period	106	119
Deferred Bonus in cash for next performance periods	159	179
Deferred Bonus in share equivalent for next performance periods	265	298
Total	**530**	**596**

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Breakdown of Supervisory Board and Board of Directors compensation

in HUF million	2022	2023 plan
Supervisory Board compensation	52	49
Board of Directors compensation	1,183	1,440
Total	**1,235**	**1,489**

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 as of 31 December 2023 is set-up of two local employee members (who do not receive any payment for their memberships) and four external members who do not have any functional responsibility within the company.

In 2023 the external members of the Supervisory Board received a compensation of 49 million forint per year for the membership (in2022 52 million forint).

The Board of Directors of the Bank as of 31 December 2023 is set-up of the members of the managerial board and three external members who do not have managerial responsibility within the company. The external members received a compensation of 29 million forint per year for 2023 (in 2022 32.6 million forint).

Employee share program

Employees, who had an active employment relationship with Erste Bank for at least 6 months on the balance sheet date, will receive free shares of Erste Group Bank AG in an amount equivalent to 350 euro net, provided that the Annual General Meeting of 2024 decides to distribute dividends. The expected number of free shares, which are granted under this program for the period, is 13,427 (during the calculation we used the share price available on 29.12.2023). Based on the number of entitled employees, personnel expenses in the amount of 188,9 million forint, booked for the year 2023, were recorded exclusive taxes and a corresponding reserve in retained earnings was created.

When Erste Hungary 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 Hungary’s separate financial statements, the equity of the parent is a financial asset [IFRS 2.B55]. For the purposes of Erste Hungary’s separate 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 Sole Shareholder;
(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 Sole Shareholder exercises the powers of the supreme body of the Bank. The Sole Shareholder decides in writing on the issues falling within the powers of the supreme body and such decisions shall take effect upon the communication thereof to the managing body.

Members of the Board of Directors

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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 Sole Shareholder 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 (9 members on 31 December 2023). The members of the Board of Directors shall be elected by the Sole Shareholder 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 Sole Shareholder. 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 (6 members on 31 December 2023) who are elected by the Sole Shareholder for a maximum of 5 (five) years. The members of the Supervisory Board may be re-elected and recalled by the Sole Shareholder.

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 Sole Shareholder is necessary for holding such position in the other business organisation.
The Sole Shareholder 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 2022 and 2023:

in HUF million	2022	2023
Audit fees	165	165
Other assurance services	31	-
Other services	-	4
Total	**196**	**169**

Other services relates to bond issuance and related audit services.

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	2022	2023	2022	2023
Assets	**998,918**	**858,211**	**42,593**	**45421**
EUR	965,809	838,309	34,015	41,090
CHF	847	2,880	81	252
USD	31,449	15,918	8,065	3,281
JPY	141	262	28	84
Other	672	842	404	714
Liabilities	**1,499,362**	**1,380,287**	**207,088**	**176,162**
EUR	1,236,283	1,153,742	191,566	168,985
CHF	17,985	15,356	592	741
USD	231,211	186,805	14,404	4,942
JPY	865	211	10	173
Other	13,018	24,173	516	1,321

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	2022		2023	
	< 1 year	> 1 year	< 1 year	> 1 year
Assets				
Cash and cash balances	603,301	-	604,510	-
Financial assets held for trading	107,711	97,355	51,002	52,001
Derivatives	38,267	97,355	14,490	52,001
Other financial assets held for trading	69,444	-	36,512	-
Non-trading financial assets at fair value through profit or loss	40,670	274,159	62,359	326,876
Equity instruments	-	2,809	-	2,136
Debt securities	-	699	-	814
Loans and advances to customers	40,670	270,651	62,359	323,926
Financial assets at fair value through other comprehensive income	28,277	155,802	25,611	222,701
Debt securities	28,277	155,802	25,611	222,701
Financial assets at amortised cost	1,109,110	2,426,578	988,139	2,264,232
Debt securities	158,104	1,083,062	172,790	922,609
Loans and advances to banks	193,256	207,935	144,883	205,176
Loans and advances to customers	757,751	1,135,581	670,466	1,136,447
Finance lease receivables	10,339	27,920	11,241	22,212
Property and equipment	-	27,924	-	26,707
Investment properties	-	199	-	197
Intangible assets	-	26,303	-	28,677
Investments in joint ventures and associates	-	84,487	-	56,342
Deferred tax assets	-	2,348	-	418
Trade and other receivables	29,986	107	18,879	-
Other assets	41,729	21	40,723	20
Total assets	**1,971,123**	**3,122,988**	**1,802,464**	**3,000,384**

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in HUF million	2022 < 1 year	2022 > 1 year	2023 < 1 year	2023 > 1 year
Liabilities and equity				
Financial liabilities held for trading	40,879	80,137	16,414	49,124
Derivatives	40,879	80,137	16,414	49,124
Financial liabilities at amortised cost	2,534,926	1,951,715	2,399,310	1,732,235
Deposits from banks	232,354	690,548	120,067	696,025
Deposits from customers	2,300,434	1,112,827	2,260,328	817,080
Debt securities issued	793	147,947	15,035	219,130
Other financial liabilities	1,345	393	3,880	-
Lease liabilities	3,402	17,479	3,500	15,913
Provisions	3,612	5,354	2,471	4,603
Current tax liabilities	1,449	-	5,511	-
Other liabilities	41,424	-	52,953	-
Total equity	**-**	**413,734**	**-**	**517,615**
Equity attributable to owners of the parent	-	413,734	-	517,615
Subscribed capital	-	146,000	-	146,000
Additional paid-in capital	-	124,425	-	117,492
Retained earnings and other reserves	-	143,309	-	254,123
Total liabilities and equity	**2,625,692**	**2,468,419**	**2,480,159**	**2,319,491**

49) Events after the balance sheet date

Government measures
A new voluntary interest rate decreasing measure was launched for newly disbursed loans on 29 January 2024. The new cap was announced by the Ministry for National Economy following discussions between the government and the Hungarian Banking Association. Based on the voluntary commitment financial institutions should impose 0% interest margin between 1 February and 1 May 2024 on forint-based, newly disbursed corporate loans for 6 months from the date of disbursement. After 6 months the interest margin may return to the normal level.
As it was communicated by the Government, the 2023 extensions were the closing act of the SME regulations. The measure expires on 1 April 2024 according to the current legislation and will not be further extended.

Dividend
The proposed dividend to be presented at the Annual general meeting is amounting to 95 billion forint.

50) Other information

Erste Bank's signing representatives for separate financial statements of business year 2023:

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 separate 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 2022 and 2023 respectively

Company name	Interest of Erste Bank in % - directly or indirectly at 31.12.2022	Interest of Erste Bank in % - directly or indirectly at 31.12.2023
Subsidiaries:		
Erste Befektetési Zrt.	100%	100%
RND Solutions Informatikai Fejlesztő és Szolgáltató Zrt.	100%	0%
Erste Ingatlan Kft.	100%	100%
Erste Lakástakarék Zrt.	100%	100%
Collat-real Kft.	100%	100%
Erste Jelzálogbank Zrt.	100%	100%
Commerzbank Zrt.	100%	100%
Z3 Ingatlanhasznosító Kft.	100%	100%
Other investments:		
Union Vienna Insurance Group Zrt.	1.36%	1.36%
Budapest Stock Exchange Ltd.	2.32%	2.32%
Garantiqa Hitelgarancia Zrt.	2.30%	1.86%
VISA Incorporated	0.000000005%	0%

in HUF million	Subscribed capital 2022	Subscribed capital 2023
Subsidiaries:		
Erste Befektetési Zrt.	2,000	2,000
RND Solutions Informatikai Fejlesztő és Szolgáltató Zrt.	160	-
Erste Ingatlan Kft.	141	141
Erste Lakástakarék Zrt.	2,025	2,000
Collat-real Kft.	3	3
Erste Jelzálogbank Zrt.	3,015	3,015
Commerzbank Zrt.	2,467	2,467
Z3 Ingatlanhasznosító Kft	4,303	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.