



ERSTE Bank Hungary Zrt.

Consolidated Financial Statements

for the period ended 30 June 2023

**Prepared in accordance with the International Financial Reporting Standards
adopted by the European Union
(translated from Hungarian)**

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Budapest, 26 September 2023

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The consolidated financial statements for the six-month period ended 30 June 2023 of Erste Bank Hungary Zrt. (referred to as ‘Bank’) contain aggregated data on consolidated activities, supplemented by the information which had a significant effect on the operation of the Bank and its subsidiaries (referred to as Erste Hungary). The statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The consolidated financial statements for the six-month period ended 30 June 2023 are not audited.

The subsidiaries of the Bank, all registered in Hungary, as of 30 June 2023 are as follows:

Company name	Core activity	30.06.2022	31.12.2022	30.06.2023
Erste Befektetési Zrt.	brokerage services	x	x	x
Erste Ingatlan Kft.	property management	x	x	x
Sió Ingatlan Invest Kft.	property development	x*	-	-
Erste Lakástakarék Zrt.	building society	x	x	x
Collat-real Kft.	property management	x	x	x
Erste Jelzálogbank Zrt.	refinancing activity	x	x	x
Random Capital Zrt.	brokerage services	x*		
RND Solutions Informatikai Fejlesztő és Szolgáltató Zrt.	IT services	x	x	x**
Commerzbank Zrt	under liquidation		x***	x
Z3 Ingatlanhasznosító Kft.	property leasing		x****	x

* Random Capital Zrt. merged into Erste Befektetési Zrt. on 1st October 2022.

** The winding up procedure of RND Solutions Informatikai Fejlesztő és Szolgáltató Zrt. has been started in March 2023.

*** On 17 December 2021, Erste Bank Hungary signed a sale and purchase agreement with Commerzbank AG to acquire 100% of the share capital in its Hungarian subsidiary Commerzbank Zrt. 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 Hungary became the sole shareholder of Commerzbank Zrt. as of 1 December 2022.

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.

**** In December 2022 the newly acquired Commerzbank Zrt. founded Z3 Kft., a real estate company, that holds the ownership of its former headquarter building. In course of December, Commerzbank Zrt. sold the company to Erste Ingatlankezelő Kft, a fully owned subsidiary of Erste Hungary Zrt.

Business environment, objectives and strategy of the consolidated group

Macroeconomic data, business environment

In the first quarter of 2023 the domestic economy decreased by (0.9%) compared to the same period of the previous year and by (0.4%) compared to the previous quarter. The year-on-year decrease was (2.4%) in second quarter and 0.3% compared to the first quarter. The GDP decreased by (1.7%) overall in the first half of 2023.

Industry and market services, mainly transport, warehousing and trade, contributed the most to the decline in performance. However, the decrease was moderated by the good performance of agriculture and the significant growth of the human health and social care sector.

The lowest point of economic activity came at the end of the semester, and the domestic economy started to rise from July. Agriculture, which hit a plateau last year, can support the expansion due to the low base however, the upturn in industrial output is still surrounded by uncertainties, as the global economy is still waiting for an upswing. On the customer side, the development of household consumption in the second half of the year is one of the key issues. Since the growth of nominal wages remains high, the drop in inflation may push the real wage index to a positive position around September, which may also can cause a favourable turn in terms of consumption. However, we do not expect a major breakthrough in the second half of the year in terms of investments either. The high interest rate environment, the government postponements and the lack of EU funds may have an impact on investment activity throughout this year. The positive turn may be brought by next year with the normalization of the interest rate environment and the expected restart of the inflow of the EU funds. Overall, although we expect improved domestic GDP data in the second half of the year, the increase will not be very significant or impressive, rather we expect the economy to recover at a slower pace. Thanks to this and the weaker-than-expected performance of the first half of the year - contrary to what was previously thought - a minor recession for the whole of this year seems inevitable. We revised our previous annual growth forecast of 0.5 percent to a decline of 0.6 percent.

The average unemployment rate in 2022 was 3.6 percent. Due to the less favorable economic situation this year, the unemployment rate increased slightly in the first half of the year. In the

medium term, the rate will most likely be in a range between 3 and 4 percent, and the Hungarian labour market is expected to remain tight.

After the acceleration of inflation in 2022, which far exceeded expectations, disinflation began in 2023. In June, the domestic consumer price index decreased to 20.1 percent after the peak of 25.7 percent in January. And the core inflation indicator stood at 20.8 percent in June after peaking at 25.7 percent in March.

The slowdown of the increase in food prices, the normalization of energy and raw material prices, the strengthening of the forint and the disciplining effect of declining consumer demand on pricing play a key role in the turnaround of the inflation's tendency. The already published data for July (annual inflation rate of 17.6 percent) is in line with our expectation that disinflation may accelerate significantly in the second half of the year, mostly thanks to the supportive base effect. Annual inflation rate in December expected to be around 7 percent. In the medium term, the tight domestic labor market and high market expectations may make the fight against inflation the most difficult. According to our expectation, inflation will return to the central bank's target range only in 2025.

Due to the constantly rising inflation, the monetary policy was continuously tightened in 2022. The base rate growth cycle lasted until the end of September last year: the central bank's benchmark interest rate stood at 13 percent. At the same time, the subsequent fall of the forint – fuelled by fears about the loss of EU funds and the public deficit – forced the monetary authority to take action. One-day deposit tenders with an interest rate of 18 percent and one-day swap tenders with an interest rate of 17 percent were announced, meaning that the effective interest rate was tightened by 500 basis points last October. The extremely high level of interest rate also determined the monetary policy decisions of the first half of this year, the main question was when the normalization could start after the stabilization of the money and capital markets and the peak of inflation.

Meanwhile, to increase the efficiency of monetary transmission, the central bank narrows interbank liquidity with various increasingly strict tools. The mandatory reserve ratio increased to 10 percent from April 1, 2023. In addition, the interest rate on the reserve accounts has changed: the MNB does not pay interest on 2.5 percent of the reserve funds, on 7.5 percent of the reserve funds pays the base interest rate, while - in order to encourage greater utilization - the one-day rapid deposit interest rate is paid instead of the base interest rate on the optional reserve. The central bank's long-term deposit and the discount bond auctions, which the central bank will hold on a weekly basis from February 2023, are also important liquidity-binding tools.

The normalization of effective interest rates finally started in May 2023. The benchmark overnight deposit rate decreased by 100 basis points from 18 percent to 17 percent for the first

time since its introduction in October 2022. The same steps came in June and July. By the end of July, the benchmark overnight deposit rate was thus reduced to 15 percent. The central bank's forward-looking guidelines have not changed either: "if the improved risk assessment persists, the central bank will continue to gradually bring the interest conditions of one-day tenders closer to the base rate at the previous pace". This suggests that the effective interest rate may reach the 13 percent level of the central bank base rate in September.

In the meantime, the central bank will continue to use tools aimed at securing longer-term interbank forint liquidity in order to strengthen monetary transmission.

Performance of the Hungarian banking sector

In 2022, as part of the fiscal adjustment, the Government imposed a sectoral extra-profit tax, which is directly charged to institutions in the banking sector and other sectors as well. The decree on extra-profit tax burden the financial sector was amended in the second quarter of 2023, which changed the previous calculation method. The tax base for the extra profit tax to be paid by credit institutions in 2024 became the adjusted pre-tax profit in 2022, according to the detailed rules, and the rate was changed to variable depending on pre-defined thresholds. According to the new regulation, the obligation to pay the extra tax can be reduced if the average stock of Hungarian government bonds denominated in forints owned by the financial institution increases during the period specified in the regulation. The amount of the applicable tax reduction is 10% of the stock increase, but a maximum of 50% of the total payable extra profit tax calculated without the reduction.

The interest stop measure has been extended again: the measure that eases the situation of mortgage debtors with variable interest loans and the SME customers, which originally only lasted until June 30, 2022, will last until December 31, 2023, according to the current situation.

Based on the decision of the Monetary Council, the regulation on the mandatory reserve was changed from April 1, 2023. The mandatory reserve ratio was increased to 10%. Above the 10% rate, an additional rate of a maximum of 5% was introduced which is optional for the financial institutions.

As a result of the economic processes of the past period, the demand for loans decreased, especially in the retail segment. The most significant part of the lending were subsidised schemes, in connection with the most significant change was the modification of the baby loan on the retail side and the Baross Gábor Újraiparosítási Hitelprogram on the corporate side. Within the framework of this new program the Government will provide a fund amount to 1,000 billion forints to the companies until December 15, 2023.

As of July 1, 2023, a new social contribution tax will be imposed on certain savings of natural persons. In addition to the current 15% interest tax, the new tax of 13% is charged on personal income tax-obligated interest income on savings.

As expected, lending activity decreased, the volume of loans to households increased by only 0.4% in the first half of 2023 compared to the year-end stock in 2022, which means a 4.5% increase in a half-year to half-year comparison. In terms of corporate loans, there is a slight decrease of 0.4% compared to the end of 2022, the increase is 9.1% compared to the end of June 2022. The ratio of non-performing loans did not change significantly.

The operating income of the banking sector increased by 41% on a half-year to half-year basis in the first half of 2023 - reaching HUF 2,374 billion, which is mostly due to the 51% increase in interest income compared to the previous half-year. The fee and commission result increased by 24% compared to the same period in 2022. Operating costs increased by 24% compared to the first half of 2022, amounting to HUF 1,366 billion. The net result of the Hungarian banking sector in the first half of 2023 amounts to HUF 978 billion.

Erste Bank Hungary Zrt. and its subsidiaries (Erste Hungary)

In this challenging environment Erste Hungary focuses on a safe and high-quality servicing of customers in both retail and corporate segment. The strategic goal of Erste Hungary is to remain one of the leading banks in Hungary. The bank aims to further strengthen both retail and corporate segments, while improve its risk management, efficiency and the quality of its services. Erste Hungary offers wide range of financial services to its customers during their lifetime: deposit, investments, loans and financial consulting is among the bank's products.

The Bank offers wide range of financial solutions and services to its retail customers. The loan processes are continuously being improved with special attention to digital channels to support growth. The fast economic rebound after the 2020 economic recession caused a dynamic loan disbursement increase. In the retail segment our focus products are unsecured loans, mortgages and state supported loan products. The Bank was among the first banks to introduce baby loan in 2019, resulting in significant market share in this product line.

The Bank offers a full range of products in the corporate segment. We are expecting the highest increase in the SME segment, where we are focusing on the improvement of transactional services and proximity banking via a countrywide presence. The bank pays special attention to agricultural financing in its corporate strategy. To stimulate the economy, the state introduced several state-supported loan products, in which the bank is actively participating to support the Hungarian companies and economy.

The Bank focuses on improving its digital channels and offer innovative solutions to its customers. The relevance of these developments has further increased during the pandemic. A large share of our customers used our digital channels during the pandemic to minimize personal contact. Due to the pandemic the bank speeded up its digital development efforts to increase the service quality. In line with our business strategy the bank introduced George, which offers continuously widening digital products and services for retail clients. However, the modernization of branches did not stop, as the bank still considers personal banking an important channel. In this spirit the bank is renewing its branches based on its branch concept.

To remain a leading bank in Hungary, the Bank offers wide range of financial services beyond its core operation in cooperation with its subsidiaries: investments and pension savings services are available for our customers. We continue to service our customers with existing building society contracts, although the product sales is currently suspended.

Risk management remained a core focus of Erste Hungary to support responsible lending.

The main subsidiaries of the Bank

Erste Befektetési Zrt.

The Company provides investment services.

The Company was founded in 1998. The Company is in a leader position on the Hungarian capital market. The volume of the products available for customers are increasing continuously. The Company's goal to provide high level services to customers on a quicker and simpler way. In the branches of Erste Hungary on-line trading system ensure that the customer's orders met regarding stock-exchange and government bonds in anywhere in the country.

Erste Lakástakarék Zrt.

Erste Lakástakarék Zrt. is a credit institution that deals with building society. Its license has been issued on 29 September 2011 by the Financial Supervisory Authority and started its trading activity on 17 October 2011. After four years of collecting deposits, it started disbursing loans in January 2016.

Erste Ingatlan Kft.

The Company's main activities are the followings: property sale, property leasing and property management activities.

Within Erste Hungary the activities of Erste Ingatlan Kft. are focused on technical consulting, real estate portfolio utilization, and real estate purchases related to workout deals.

Erste Jelzálogbank Zrt.

The Company was founded on 11 December 2015 by Erste Bank Hungary Zrt. The Company's main activity is refinancing.

In addition to complying with legal regulations, Erste Hungary's mortgage banking activities also have business potential. The medium-sized or smaller domestic commercial banks will not establish their own mortgage bank for efficiency purposes, these financial institutions will require refinancing from another mortgage bank.

Consolidated financial statements for the six-month period ended 30 June 2023 based on non-audited figures

Consolidated Statement of Financial Position

Data in HUF million	31.12.2022	30.06.2023	Change compared to prior year %
Cash and cash balances	603,347	642,840	7%
Financial assets held for trading	221,404	152,938	(31%)
Derivatives	140,808	89,613	(36%)
Other financial assets held for trading	80,596	63,325	(21%)
Non-trading financial assets at fair value through profit or loss	314,829	340,788	8%
Equity instruments	2,809	2,149	(23%)
Debt securities	699	732	5%
Loans and advances to customers	311,321	337,907	9%
Financial assets at fair value through other comprehensive income	201,608	253,633	26%
Debt securities	201,608	253,633	26%
Financial assets at amortised cost	3,554,071	3,373,406	(5%)
Debt securities	1,291,481	1,260,349	(2%)
Loans and advances to banks	359,035	294,938	(18%)
Loans and advances to customers	1,903,555	1,818,119	(4%)
Finance lease receivables	38,259	37,118	(3%)
Property and equipment	32,683	33,340	2%
Investment properties	16,070	15,929	(1%)
Intangible assets	34,270	32,798	(4%)
Current tax assets	285	585	105%
Deferred tax assets	2,464	1,551	(37%)
Assets held for sale	0	0	n/a
Trade and other receivables	33,098	16,401	(50%)
Other assets	45,416	48,953	8%
Total assets	5,097,804	4,950,280	(3%)

Data in HUF million	31.12.2022	30.06.2023	Change compared to prior year %
Financial liabilities held for trading	124,873	90,062	(28%)
Derivatives	124,834	90,032	(28%)
Other financial liabilities held for trading	39	30	(23%)
Financial liabilities at fair value through profit or loss	0	0	n/a
Debt securities issued	0	0	n/a
Financial liabilities at amortised cost	4,445,149	4,278,882	(4%)
Deposits from banks	662,910	688,795	4%
Deposits from customers	3,496,401	3,250,873	(7%)
Debt securities issued	283,470	337,487	19%
Other financial liabilities	2,368	1,727	(27%)
Finance lease liabilities	20,881	18,985	(9%)
Provisions	9,194	11,225	22%
Current tax liabilities	2,994	1,559	(48%)
Deferred tax liabilities	5	0	(100%)
Other liabilities	47,329	64,731	37%
Total equity	447,379	484,836	8%
Equity attributable to owners of the parent	447,379	484,836	8%
Total liabilities and equity	5,097,804	4,950,280	(3%)

The total assets of Erste Bank Hungary decreased by 2,9% compared to the year end of 2022, but the composition ratios of assets and liabilities changed in a different extension.

The total customer loan stock decreased by 3.4% compared to year end of 2022, mainly driven by the decrease in the corporate portfolio. ‘Debt securities measured at amortised cost’ increased by 1.4%. ‘Cash on hand and Cash balances at central banks’ increased compared to December last year, meanwhile the balance of ‘Financial assets Held for trading’ and ‘Loans and advances to banks’ decreased.

On the liability side, ‘Deposits from customers’ decreased by 7% due to the decreasing corporate and retail demand deposits and the demand deposits of the capital markets. The ‘Deposits from banks’ showed a small 3.9 % increase in the reporting period.

Consolidated Income Statement

Data in HUF million	30.06.2022	30.06.2023	Change compared to prior year %
Net interest income	70,671	66,454	(6%)
Net fee and commission income	39,989	46,282	16%
Dividend income	42	17	n/a
Net trading result	(14,078)	28,488	(302%)
Rental income from investment properties & other operating leases	1,365	1,970	44%
Personnel expenses	(18,367)	(22,504)	23%
Other administrative expenses	(27,074)	(20,948)	(23%)
Depreciation and amortisation	(8,539)	(6,150)	(28%)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	534	41	(92%)
Gains/losses from derecognition of financial assets measured at amortised cost	(44)	(27)	(39%)
Impairment result from financial instruments	328	(1,142)	(448%)
Other operating result	(37,077)	(40,765)	10%
Pre-tax result from continuing operations	7,750	51,716	567%
Taxes on income	(3,304)	(5,004)	51%
Net result for the period	4,446	46,712	951%
Net result attributable to owners of the parent	4,446	46,712	951%

Erste Hungary Group's consolidated net result increased by 42.3 billion forints in the first half-year of 2023 (46,7 billion forints) compared to the first half-year of 2022 (4.4 billion forints). The significant increase is due to the rise of the operating income besides the low operating expenses which was caused by the reimbursement of the extra deposit insurance fund fees paid after the Sberbank's bankruptcy in 2022.

The net interest income is lower by 6% (-4.2 billion forints) compared to June 2022. The interest income increased significantly by 216.8 billion forints which, in addition to repricing of the loans, is due to the dynamically growing customer loan portfolios and the investment of the increased free liquidity of the Group. Interest expenses increased by 221 billion forints due to the growing deposit portfolio, which was higher compared to the same period of the previous year. In addition, the accounting treatment of the FX swap deals has been reassessed, which caused the transfer of interest component of the deals to net interest income from trading results to conform to the Accounting Policy of the Erste Group Bank. Due to the change -41.2 billion forints were transferred to interest expense.

The net fee and commission income of the Group increased by 15.7% (6.3 billion forints) compared to the first half-year of 2022. There was an increase in all type of fee income in the first half year of 2023 however the most significant increase was related to the card business and the payment and brokerage services.

The operating expenses of the Group decreased by 8% (-4.4 billion forints) compared to June 2022. The decrease was driven by the other administrative expenses, which decreased by 22.6% (-6,1 billion forints) mainly due to the reimbursement of the extra deposit insurance fund fees paid after the Sberbank's bankruptcy in 2022. The personnel expenses significantly increased by 22.5% (4.1 billion forints) compared to the same period of the previous year.

Consolidated Statement of Comprehensive Income

Data in HUF million	30.06.2022	30.06.2023	Change compared to prior year %
Net result for the period	4,446	46,712	951%
Items that may be reclassified to profit or loss			
Fair value reserve change of debt instruments at fair value through other comprehensive income	(9,905)	6,155	(162%)
Deferred taxes relating to items that may be reclassified to profit or loss	0	(410)	n/a
Total other comprehensive income	(9,905)	5,745	(158%)
Total comprehensive income	(5,459)	52,457	(1061%)
Total comprehensive income attributable to owners of the parent	(5,459)	52,457	(1061%)

Consolidated Statement of Changes in Equity

Statement of changes in total equity for the period ended 30 June 2023

in HUF million	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Fair value reserve	Deferred tax	Attributable to owners of the parent	Total equity
Total equity at 01 January 2023		146,000	117,492	119,044	(16,246)	1,089	447,379	447,379
Dividends				(15,000)			(15,000)	(15,000)
Total comprehensive income				46,712	6,155	(410)	52,457	52,457
of which: Net profit / (loss) for the year				46,712			46,712	46,712
of which: Other comprehensive income					6,155	(410)	5,745	5,745
Total equity at 30 June 2023		146,000	117,492	230,756	(10,091)	679	484,836	484,836

Statement of changes in total equity for the period ended 30 June 2022

in HUF million	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Fair value reserve	Deferred tax	Attributable to owners of the parent	Total equity
Total equity at 01 January 2022		146,000	117,492	195,554	(4,992)	0	454,054	454,054
Dividends				(50,000)			(50,000)	(50,000)
Total comprehensive income				4,447	(9,904)		(5,457)	(5,457)
of which: Net profit / (loss) for the year				4,447			4,447	4,447
of which: Other comprehensive income					(9,904)		(9,904)	(9,904)
Total equity at 30 June 2022		146,000	117,492	150,001	(14,896)	0	398,597	398,597

Consolidated Statement of Cash Flows

in HUF million	30.06.2022 (6 months)	30.06.2023 (6 months)
Net result for the period	4,447	46,712
Income tax adjustment	3,304	5,004
Income tax adjusted result for the period	7,751	51,716
Non-cash adjustments for items in net profit for the year		
Depreciation, amortisation and net impairment of non-financial assets	8,394	6,095
from which regarding right-of-use assets - Land and buildings Leasing	1,423	1,490
Net allocation of credit loss allowances and other provisions	(2,100)	(919)
Modification gain/loss on loans and advances	4,923	9,183
Gains/losses from measurement and derecognition of financial assets and financial liabilities	490	14
Revaluation of subordinated liabilities	4,718	(9,917)
Revaluation of derivatives	2,808	16,222
Other adjustments	286	(1,343)
from which regarding Finance lease liabilities under IFRS 16	1,411	(1,198)
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Financial assets - held for trading	(18,241)	17,267
Non-trading financial assets at fair value through profit or loss		
Equity instruments	(292)	660
Debt securities	(45)	(33)
Loans and advances to customers	(13,333)	(26,586)
Financial assets at fair value through other comprehensive income		
Equity instruments	-	-
Debt securities	(10,615)	5,422
Financial assets at amortised costs		
Debt securities	(3,122)	(2,745)
Loans and advances to banks	(362,179)	64,097
Loans and advances to customers	(112,102)	78,592
Finance lease receivables	1,249	1,297
Other assets from operating activities	(22,958)	13,996
Financial liabilities - held for trading	(1,571)	166
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost		
Deposits from banks	140,471	35,802
Deposits from customers	272,234	(245,528)
Debt securities issued	135,223	(2,028)
Other financial liabilities	5,771	(641)
Other liabilities from operating activities	54,085	17,402
Lease liabilities	98	120
Payments for taxes on income	(3,827)	(6,096)
Cash flow from operating activities	88,116	22,215

in HUF million	30.06.2022	30.06.2023
	(6 months)	(6 months)
Proceeds of disposal		
Financial assets at fair value through other comprehensive income - Debt instruments	16,285	15,861
Financial assets at amortised costs - Debt securities	125,116	46,622
Property and equipment, intangible assets and investment properties	92	2,081
Acquisition of		
Financial assets at fair value through other comprehensive income - Debt instruments	(35,490)	(67,080)
Financial assets at amortised costs - Debt securities	(160,095)	(13,158)
Property and equipment, intangible assets and investment properties	(3,581)	(6,146)
Cash flow from investing activities	(57,673)	(21,820)
Dividends paid to equity holders of the parent	(50,000)	(15,000)
Subordinated loan received	-	-
	-	56,045
Finance lease liabilities repayment	(1,716)	(1,947)
Cash flow from financing activities	(51,716)	39,098
Cash and cash equivalents at beginning of period	131,299	603,347
Cash flow from operating activities	88,116	22,215
Cash flow from investing activities	(57,673)	(21,820)
Cash flow from financing activities	(51,716)	39,098
Cash and cash equivalents at end of period	110,026	642,840

Notes to the Half-Year Consolidated Financial Statements

Financial assets at amortised cost

The credit loss allowance movements related to the particular asset categories are presented in the individual credit loss allowance movement tables of each table.

Gross carrying amounts and credit loss allowances per impairment buckets as of 31.12.2022:

in HUF million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Debt securities	1,283,018	9,359	1,369	0	1,293,746	(1,029)	(365)	(871)	0	(2,265)	1,291,481
- Central Banks	0	0	0	0	0	0	0	0	0	0	0
- General governments	813,222	0	0	0	813,222	(475)	0	0	0	(475)	812,747
- Credit institutions	409,656	0	0	0	409,656	(377)	0	0	0	(377)	409,279
- Other financial corporations	5650	0	0	0	5,650	(13)	0	0	0	(13)	5,637
- Non-financial corporations	54,490	9,359	1,369	0	65,218	(164)	(365)	(871)	0	(1,400)	63,818
Loans and advances to banks	359,299	0	0	0	359,299	(264)	0	0	0	(264)	359,035
- Central Banks	126,937	0	0	0	126,937	(15)	0	0	0	(15)	126,922
- Credit institutions	232,362	0	0	0	232,362	(249)	0	0	0	(249)	232,113
Loans and advances to customers	1,553,751	345,607	52,943	18,610	1,970,911	(7,811)	(21,089)	(33,829)	(4,627)	(67,356)	1,903,555
- General governments	158,326	172	0	8	158,506	(12)	(3)	0	0	(15)	158,491
- Other financial corporations	110,042	117	40	0	110,199	(842)	(6)	(32)	0	(880)	109,319
- Non-financial corporations	615,879	243,897	17,761	6,861	884,398	(2,938)	(9,328)	(9,191)	(1,147)	(22,604)	861,794
- Households	669,504	101,421	35,142	11,741	817,808	(4,019)	(11,752)	(24,606)	(3,480)	(43,857)	773,951
Total	3,196,068	354,966	54,312	18,610	3,623,956	(9,104)	(21,454)	(34,700)	(4,627)	(69,885)	3,554,071

Gross carrying amounts and credit loss allowances per impairment buckets as of 30.06.2023:

in HUF million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Debt securities	1,253,561	8,161	1,350	0	1,263,072	(1,161)	(287)	(1,275)	0	(2,723)	1,260,349
- Central Banks	0	0	0	0	0	0	0	0	0	0	0
- General governments	796,839	0	0	0	796,839	(465)	0	0	0	(465)	796,374
- Credit institutions	395,387	0	0	0	395,387	(512)	0	0	0	(512)	394,875
- Other financial corporations	5,526	0	0	0	5,526	(12)	0	0	0	(12)	5,514
- Non-financial corporations	55,809	8,161	1,350	0	65,320	(172)	(287)	(1,275)	0	(1,734)	63,586
Loans and advances to banks	295,252	0	0	0	295,252	(314)	0	0	0	(314)	294,938
- Central Banks	55,244	0	0	0	55,244	(3)	0	0	0	(3)	55,241
- Credit institutions	240,008	0	0	0	240,008	(311)	0	0	0	(311)	239,697
Loans and advances to customers	1,538,892	277,730	51,063	15,648	1,883,333	(7,949)	(18,105)	(34,830)	(4,330)	(65,214)	1,818,119
- General governments	141,822	150	0	7	141,979	(129)	(2)	0	0	(131)	141,848
- Other financial corporations	107,172	199	22	0	107,393	(673)	(7)	(18)	0	(698)	106,695
- Non-financial corporations	629,213	179,729	14,126	5,091	828,159	(3,025)	(6,624)	(7,904)	(1,433)	(18,986)	809,173
- Households	660,685	97,652	36,915	10,550	805,802	(4,122)	(11,472)	(26,908)	(2,897)	(45,399)	760,403
Total	3,087,705	285,891	52,413	15,648	3,441,657	(9,424)	(18,392)	(36,105)	(4,330)	(68,251)	3,373,406

Movement in credit loss allowances:

CLA in HUF million	01.01.2023	Additions	Derecognitions	Transfer between stages	Other changes in credit risk (net)	Write-offs	Other	30.06.2023
- General governments	490	4	(12)	0	116	0	(2)	596
- Central Banks	15	6	(10)	0	(8)	0	0	3
- Credit institutions	626	89	(59)	5	172	0	(10)	823
- Other financial corporations	893	121	(136)	(5)	(107)	0	(56)	710
- Non-financial corporations	24,006	670	(1,804)	(1,275)	(66)	(69)	(742)	20,720
- Households	43,856	977	(6,170)	2,158	5,288	(79)	(631)	45,399
Total	69,886	1,867	(8,191)	883	5,395	(148)	(1,441)	68,251

Finance lease receivables

Gross carrying amounts and credit loss allowances per impairment buckets as of 31.12.2022:

in HUF million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
- Other financial corporations	4,203	5	0	0	4,209	(6)	(1)	0	0	(7)	4,201
- Non-financial corporations	18,260	14,029	699	120	33,108	(102)	(297)	(363)	(63)	(826)	32,282
- Households	1,207	583	256	31	2,077	(23)	(92)	(175)	(10)	(301)	1,775
Total	23,670	16,365	955	150	39,393	(132)	(391)	(538)	(73)	(1,134)	38,259

Gross carrying amounts and credit loss allowances per impairment buckets as of 30.06.2023:

in HUF million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
- Other financial corporations	4,156	0	0	0	4,156	(4)	0	0	0	(4)	4,152
- Non-financial corporations	19,672	11,744	593	115	32,124	(109)	(312)	(256)	(60)	(737)	31,387
- Households	1,243	310	214	34	1,801	(22)	(39)	(151)	(10)	(222)	1,579
Total	25,071	12,054	807	149	38,081	(135)	(351)	(407)	(70)	(963)	37,118

Movement in credit loss allowances:

CLA in HUF million	01.01.2023	Additions	Derecognitions	Transfer between stages	Other changes in credit risk (net)	Write-offs	Other	30.06.2023
- Other Financial corporations	7	0	0	0	(3)	0	0	4
- Non-financial corporations	826	18	(43)	27	(66)	0	(25)	737
- Households	301	0	(22)	(51)	(6)	0	0	222
Total	1 134	18	(65)	(24)	(75)	0	(25)	963

Trade and other receivables

Gross carrying amounts and credit loss allowances per impairment buckets as of 31.12.2022:

in HUF million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
- General governments	1,401	0	0	0	1,401	(1)	0	0	0	(1)	1,400
- Credit institutions	2,335	6	0	0	2,341	(49)	0	0	0	(49)	2,292
- Other financial corporations	19,376	0	0	0	19,376	(7)	0	0	0	(7)	19,369
- Non-financial corporations	6,434	3,697	0	0	10,131	(157)	(58)	0	0	(215)	9,916
- Households	130	2	0	0	132	(10)	(1)	0	0	(11)	121
Total	29,676	3,705	0	0	33,381	(224)	(59)	0	0	(283)	33,098

Gross carrying amounts and credit loss allowances per impairment buckets as of 30.06.2023:

in HUF million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
- General governments	89	0	0	0	89	0	0	0	0	0	89
- Credit institutions	832	1	0	0	833	(1)	0	0	0	(1)	832
- Other financial corporations	8,285	0	0	0	8,285	0	0	0	0	0	8,285
- Non-financial corporations	6,489	687	0	0	7,176	(67)	(24)	0	0	(91)	7,085
- Households	110	12	0	0	122	(8)	(4)	0	0	(12)	110
Total	15,805	700	0	0	16,505	(76)	(28)	0	0	(104)	16,401

Movement in credit loss allowances:

CLA in HUF million	01.01.2023	Additions	Derecognitions	Transfer between stages	Other changes in credit risk (net)	Write-offs	Other	30.06.2023
- General government	1	1	(2)	0	0	0	0	0
- Credit institutions	49	0	0	0	(48)	0	0	1
- Other financial corporations	7	0	0	0	(7)	0	0	0
- Non-financial corporations	214	445	(667)	(6)	112	0	(7)	91
- Households	11	35	(39)	0	5	0	0	12
Total	282	481	(708)	(6)	62	0	(7)	104

Fair value of financial and non-financial instruments

Erste Hungary uses the following hierarchy to present the fair valuation of financial instruments, which reflects the importance of the unique basic data used in the process of determining the fair value of financial instruments:

Level 1: financial instruments are valued on the basis of the quoted (unadjusted) price of such assets or resources in an active market. These include financial instruments that are traded in sufficient quantities on a stock exchange, as well as debt securities traded on the stock exchange that are subscribed to by numerous market participants with adequate depth or liquid derivatives.

Level 2: financial instruments that are valued based on quoted prices (in non-active markets or in active markets for similar assets or funds) and input data based on observable quoted prices. This includes yield curves from liquid underlying instruments or prices from similar instruments.

Level 3: the input data is not observable. This includes yield curves or extrapolating volatilities and using past volatilities.

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

in HUF million	31.12.2022				30.06.2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets - Held for trading	1,098	220,144	162	221,404	3,632	146,922	2,384	152,938
Derivatives	50	140,615	142	140,807	4	87,226	2,383	89,613
Other financial assets held for trading	1,047	79,528	20	80,595	3,629	59,695	1	63,326
Non-trading financial assets at FVPL	831	-	313,997	314,828	-	-	340,789	340,789
Equity instruments	831	-	1,977	2,808	-	-	2,149	2,149
Debt securities	-	-	700	700	-	-	732	732
Loans and advances	-	-	311,321	311,321	-	-	337,908	337,908
Financial assets at FVOCI	102,411	96,665	2,533	201,609	151,549	99,611	2,473	253,633
Equity instruments	102,411	96,665	2,533	201,609	151,549	99,611	2,473	253,633
Total assets	104,340	316,809	316,692	737,841	155,182	246,532	345,645	747,359
Liabilities								
Financial liabilities HfT	43	124,830	-	124,873	46	89,717	300	90,062
Derivatives	43	124,830	-	124,834	16	89,717	300	90,032
Total liabilities	43	124,830	-	124,873	46	89,717	300	90,062

Provisions

Credit loss allowances for loan commitments and financial guarantees (IFRS 9)

in HUF million	01.01.2023	Allocations	Use	Releases	Discount rate effect	Exchange rate changes	30.06.2023
Stage 1	2,306	485	(516)	(1,700)	1,399	(69)	1,905
Stage 2	2,760	0	(296)	1,551	(1,408)	(44)	2,562
Stage 2	304	0	0	173	37	(1)	514
POCI	56	0	(14)	0	15	0	56
Total	5,427	485	(826)	25	43	(115)	5,037

Other provisions

in HUF million	01.01.2023	Allocations	Use	Releases	Discount rate effect	Exchange rate changes	30.06.2023
Pending legal issues and tax litigation	453	16	(44)	(19)	0	0	406
Commitments and guarantees given out of scope of IFRS9	3,276	2,271	0	(2,528)	0	(102)	2,917
Other provisions	37	6,640	(3,782)	(30)	0	0	2,865
Other	37	6,640	(3,782)	(30)	0	0	2,865
Provisions	3,766	8,927	(3,826)	(2,577)	0	(102)	6,188

Segment report

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

Retail

The Retail segment is constituted by the branch network where Erste Hungary sells products mainly to private and micro customers (up to 300 million forint turnover). The Retail business line at Erste Hungary is divided into 5 regions and 100 branches in 2023 (5 regions and 102 branches in 2022).

The relevant results of the building society (Erste Lakástakarékpénztár Zrt.), investment banking and brokerage company (Erste Befektetési Zrt) are also included into this segment, along with the relevant results of workout companies (Collat-real Kft., Erste Ingatlan Kft.).

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 300 million to 15 billion forints. The relevant results of workout / property management companies (Erste Ingatlan Kft.) are also included into this segment.

The consolidated annual turnover of Large Corporate clients is above 15 billion forints. 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. The Commercial Real Estates segment consists of the Erste Hungary Real Estate Business Line and the workout company's relevant results (Erste Ingatlan Kft.).

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 Group, 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). Besides the Bank's own activities, it also includes institutional clients (typically funds, and asset management companies) at the brokerage company (Erste Befektetési Zrt.)

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.

On the other side it also includes the local corporate center of EBH which comprises all non-core banking business activities such as non-profit servicing participations, intragroup eliminations within EBH partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets, intangible assets) which cannot be allocated to other business segments as well as the profit and loss positions resulting from these balance sheet items. Apart from that the Corporate Center includes the reconciliations to the accounting result. Besides that, the Free Capital of EBH defined as a difference between the average IFRS capital and the sum of the average allocated equity to the operating segments is reported under ALM/Local Corporate Center. The full results of mortgage/refinancing bank company (Erste Jelzálogbank Zrt.) is also included in this segment. The non-allocated subsidiaries like property management companies' Corporate Centre (Erste Ingatlan Kft., Sió Ingatlan Invest Kft., Collat-Real Kft.) are also recorded in this segment.

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

Segment report 30.06.2023

	Retail	Corporate	Group Markets	ALM & LCC	Total group
in HUF million					
Net interest income	85,938	32,170	7,060	(58,714)	66,454
Net fee and commission income	32,294	9,081	5,502	(595)	46,282
Net trading result	0	0	0	17	17
Gains/losses from financial instruments at FVPL	6,550	4,122	11,252	(13,172)	8,752
Rental income from investment properties & other operating leases	19,412	18	0	306	19,736
General administrative expenses	0	0	0	0	0
thereof depreciation and amortization	0	1,942	0	28	1,970
Gains/losses from derecognition of financial assets at AC	0	0	0	(27)	(27)
Other gains/losses from derecognition of financial instruments not at FVPL	0	0	0	41	41
Impairment result from financial instruments	(3,448)	4,030	(369)	(1,355)	(1,142)
Other operating result	(15,730)	(9,388)	(3,211)	(12,436)	(40,765)
Levies on banking activities	(15,208)	(9,294)	(3,018)	(12,550)	(40,069)
Pre-tax result from continuing operations	89,040	35,264	17,015	(89,603)	51,716
Taxes on income	(7,089)	(2,552)	(1,266)	5,902	(5,004)
Net result for the period	81,952	32,712	15,749	(83,700)	46,712
Net result attributable to owners of the parent	81,952	32,712	15,749	(83,700)	46,712
Operating income	144,193	47,334	23,814	(72,129)	143,211
Operating expenses	(35,974)	(6,712)	(3,219)	(3,696)	(49,602)
Operating result	108,219	40,622	20,595	(75,826)	93,609
Total assets (eop)	1,399,786	1,144,828	761,745	1,643,920	4,950,279
Total liabilities (eop)	1,621,834	1,287,852	769,707	786,050	4,465,444
Impairments	(3,652)	4,030	(369)	46	55
Net impairment loss on financial assets AC	(3,447)	3,407	(227)	17	(250)
Net impairment loss on financial assets FVOCI	0	142	(33)	5	114
Net impairment loss on financial assets finance lease receivables	33	120	2	0	155
Net impairment loss on commitments and guarantees given	(33)	361	(112)	65	281
Net impairment on other non-financial assets	(204)	0	0	(41)	(245)

Segment report 30.06.2022

	Retail	Corporate	Group Markets	ALM & LCC	Total group
in HUF million					
Net interest income	49,574	18,663	12,789	(10,354)	70,671
Net fee and commission income	29,642	6,248	4,176	(77)	39,989
Net trading result	4,018	2,864	(3,137)	(3,899)	(154)
Gains/losses from financial instruments at FVPL	(14,202)	37	-	240	(13,924)
Rental income from investment properties & other operating leases	-	1,375	-	(10)	1,365
General administrative expenses	(41,944)	(6,254)	(2,715)	(3,067)	(53,980)
thereof depreciation and amortization	(6,762)	(1,039)	(653)	(86)	(8,539)
Gains/losses from derecognition of financial assets at AC	-	-	-	(44)	(44)
Other gains/losses from derecognition of financial instruments not at FVPL	-	599	-	(65)	534
Impairment result from financial instruments	(2,364)	3,686	(6)	(988)	328
Other operating result	(20,616)	(9,699)	(2,484)	(4,278)	(37,077)
Levies on banking activities	(20,030)	(8,360)	(2,321)	(4,725)	(35,436)
Pre-tax result from continuing operations	4,107	17,520	8,623	(22,501)	7,750
Taxes on income	(2,378)	(1,485)	(783)	1,342	(3,304)
Net result for the period	1,729	16,035	7,840	(21,159)	4,446
Net result attributable to owners of the parent	1,729	16,035	7,840	(21,159)	4,446
Operating income	69,032	29,187	13,828	(14,058)	97,989
Operating expenses	(41,944)	(6,254)	(2,715)	(3,067)	(53,980)
Operating result	27,088	22,933	11,113	(17,126)	44,009
Total assets (eop)	1,399,892	952,061	1,449,597	1,068,437	4,869,988
Total liabilities (eop)	1,904,826	1,226,726	799,014	540,825	4,471,391
Impairments	(2,382)	3,686	(6)	(1,011)	288
Net impairment loss on financial assets AC	(2,219)	(73)	36	(1,147)	(3,404)
Net impairment loss on financial assets FVOCI	-	-	-	(3)	(3)
Net impairment loss on financial assets finance lease receivables	(17)	4,036	-	-	4,019
Net impairment loss on commitments and guarantees given	(128)	(278)	(41)	163	(284)
Net impairment on other non-financial assets	(17)	-	-	(23)	(40)

Events after balance sheet date

Acquisition

On 17 December 2021 the Bank has signed a sale and purchase agreement with Commerzbank AG to acquire 100% of the shares in its Hungarian subsidiary Commerzbank Zrt. Commerzbank Zrt. is a fully licensed corporate bank active in the market in both lending and transaction banking services. Based on loan volumes it was the 8th largest player in the Hungarian corporate banking market. The transaction was approved by the relevant regulatory bodies after balance sheet date.

Changes in legal environment

1. Agricultural moratorium

In the 292/2022. (VIII. 8.) legal act launched in August the Government decreed a payment moratorium on credit and loan agreements and financial lease agreements of agricultural entrepreneurs between September 1, 2022, and December 31, 2023. The purpose of the payment moratorium is to help agricultural entrepreneurs in difficult financial situations. This is an opt-in type scheme, meaning eligible clients were asked to make their statement on participation intention. Contracts concluded before 31 August 2022 were affected with the moratoria.

2. Extension of the interest rate freeze

Based on the Government's announcement in September 2022, the interest rate freeze measures will be extended at least until June 30, 2023, under the current conditions. The legal act was not launched until the publication of the consolidated management report (amendment of Government Decree 6/2022. (I. 14.)).