



ERSTE Bank Hungary Zrt.

Consolidated Financial Statements

for the period ended 30 June 2022

**Prepared in accordance with the International Financial Reporting Standards
adopted by the European Union**

(translation of the official Hungarian version)

.....
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.....
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Budapest, 27 September 2022

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The consolidated financial statements for the six-month period ended 30 June 2022 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 2022 are not audited.

The subsidiaries of the Bank, all registered in Hungary, as of 30 June 2022 are as follows:

Company name	Core activity	30.06.2021	31.12.2021	30.06.2022
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**	x**
RND Solutions Informatikai Fejlesztő és Szolgáltató Zrt.	IT services	-	x**	x**

* Sió Ingatlan Invest Kft. has been reclassified into ‘Assets held for sale’ as a disposal group of assets in 2020, as the bank has already been in a matured negotiation with the potential buyer, including official price offer. After closing all the contractual administration processes, the sale has been finalised in November 2021 leading to the derecognition of the investment.

** In September 2021 Erste Befektetési Zrt. has acquired 100% of the shares in Random Capital Zrt, a pioneer venture in online brokerage market that achieved a leading position throughout the years in the individual ‘household’ client segment, which is its operational focus. An independently owned company provided the IT infrastructure for Random was also fully acquired (RND Solution Kft.). Both companies are operated as subsidiaries, directly owned by Erste Befektetési Zrt.

Business environment, objectives and strategy of the consolidated group

Macroeconomic data, business environment

In the first quarter of 2022 the domestic economy grew by 8.1% compared to the same period of the previous year and by 2.1% compared to the previous quarter. The year-on-year growth was 6.5% in second quarter and 1% compared to the first quarter. The GDP expanded by 7.3% overall in the first half of 2022.

The growth was driven by the increase of the domestic income and fiscal transfers. The consumption of households increased by 10.4% in the first half of the year. The investments also grew by 8.8% in the first half-year. The exports increased by 6.4% and imports by 7.8% on an annual basis. The increased exports were mainly driven by the growth of exports of services.

The growth prospects deteriorated significantly during the summer. The fear of a global recession has intensified with the energy crisis, the persistent supply chain tensions, the protracted war, and the sanctions. Significant decrease is also expected in domestic demand from autumn due to decreasing business and consumer confidence, the new fiscal adjustments, the rising interest rate environment, the persistently high inflationary environment, and the significant reduction of utility cost subsidies. Although the GDP growth still expected to exceed 5% in 2022, the growth may remain below 2% in 2023 as a result of these negative effects.

However, with the ending of the current international problems the Hungarian economy may gain a slow momentum in 2024. The previously built capacities can support the growth of exports, and the inflows of funds from the EU and the expected moderation of inflation in the medium term can stimulate domestic demand.

After the COVID-19 crisis, the labour market recovered relatively quickly. Unemployment rate is at its lowest point (3.3% in June). The expected economical slowdown may lead to an increase of the rate, but we do not expect the unemployment rate permanently exceed 4% on the horizon of the forecast.

The increasing of the inflation further accelerated in the first half-year of 2022 affecting a wide range of products and services. The annual rate in June increased to 11.7% and the core inflation index to 13.8%. The increase in the price of food, industrial products and market services is the most important driving factors. The repricing of the market participants is extremely intense and substantially differs from the usual seasonal pattern. At the same time, regulated prices (energy, fuel and specific essential foods) played a significant role in restraining the increase of inflation.

In July, the government announced new modification of the National Budget which impacted important tax issues and the official regulated retail energy prices. Significant proportion of corporates and households may face significantly increased costs regarding the amendments, which could cause even higher inflation rates for the rest of the year. Considering that the official price of fuels and essential foods are about to go back to their market price, the annual inflation rate may exceed 20%.

Our assumption is that the annual inflation rate will be two digits in the next few years.

In this year the severity of the monetary policy has continued, which embodied increased based rates, therefore the reference base rate increased to 11.75% to the end of summer.

In this complicated situation the goal of the monetary policy is to step up against the secondary inflationary effects, for which the most effective tool is considered to be the continued increase of interest rates. However, decision makers are still in a very difficult situation since the significant reduction of utility cost subsidies drives up the inflation.

Performance of the Hungarian banking sector

The Hungarian Government introduced a new "extra profit tax" (in May of 2022) amounting about 800 billion forints per year of which 350 billion forints relates to the financial sector (in the current and the next year). The new tax burdens will increase the banking tax by 250 billion forints (planned 61 billion forints), and the transaction tax by 50 billion forints (planned 233 billion forints).

The loan repayment moratoria introduced in the spring of 2020 due to the COVID-19 pandemic - which applied to available loan agreements that were disbursed before March 19 of 2020 - has been extended several times. After October 31 of 2021, only certain retail and corporate customers could benefit from the payment extension - according to the original deadline, until June 30 of 2022. According to the announcement of Hungarian Government the end of the payment moratoria will be extended until December 31 of 2022, in an opt-in type scheme, meaning eligible clients were asked to make their statement on participation intention after July 31 of 2022.

In the meantime, the interest rate freeze (applied from 1 of January in this year) has also been extended until the end of 2022. This regulation prevents the increase of interest and instalments at mortgage loans with variable interest rates.

The lending volume of household sector increased by 201.7 billion forints (by 9%) in the first half of 2022, compared to the end of 2021. Lending activity remained robust, although the sign of the economic slowdown expected for the second half of the year were already visible in June. Compared to the end of 2021, the corporate loan portfolio increased by 637 billion forints (by 17.1%).

In the first half of 2022, the corporate loan portfolio increased by 970 billion forints, compared to the end of 2021. The ratio of non-performing loans did not change significantly.

The operating income increased by 26% (on a half-year - to - half-year basis) due to the growing interest rate environment, while the operating costs decreased compared to the same period last year. The Hungarian banking sector profit is decreased to 225 billion forints in the first half of 2022, compared to the first half of 2021 (404 billion forints). The consolidated profit of the banking sector in the first quarter of 2022 was 78 billion forints, according to the Hungarian Central Bank's report. The net interest income increased by 33%, and the net fee and commission income increased by 23% year-to-year. The operating costs increased by 16%.

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 are 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 2022 based on non-audited figures

Consolidated Statement of Financial Position

Data in HUF million	31.12.2021	30.06.2022	Change compared to prior year %
Cash and cash balances	131,299	110,026	(16%)
Financial assets held for trading	82,092	139,699	70%
Derivatives	55,534	94,894	71%
Other financial assets held for trading	26,558	44,804	69%
Non-trading financial assets at fair value through profit or loss	273,713	287,365	5%
Equity instruments	1,611	1,903	18%
Debt securities	1,206	1,251	4%
Loans and advances to customers	270,896	284,211	5%
Financial assets at fair value through other comprehensive income	139,467	158,848	14%
Debt securities	139,467	158,848	14%
Financial assets at amortised cost	3,475,139	3,981,138	15%
Debt securities	1,241,098	1,279,347	3%
Loans and advances to banks	688,703	1,050,882	53%
Loans and advances to customers	1,545,338	1,650,908	7%
Finance lease receivables	35,103	37,873	8%
Property and equipment	28,983	27,981	(3%)
Investment properties	16,254	16,137	(1%)
Intangible assets	34,024	31,190	(8%)
Current tax assets	101	273	170%
Deferred tax assets	2,338	2,363	1%
Assets held for sale	0	0	n/a
Trade and other receivables	19,883	15,186	(24%)
Other assets	32,788	61,910	89%
Total assets	4,271,184	4,869,988	14%

Data in HUF million	31.12.2021	30.06.2022	Change compared to prior year %
Financial liabilities held for trading	41,699	82,302	97%
Derivatives	41,699	82,302	97%
Other financial liabilities held for trading	0	0	0%
Financial liabilities at fair value through profit or loss	0	0	0%
Debt securities issued	0	0	0%!
Financial liabilities at amortised cost	3,708,063	4,266,479	15%
Deposits from banks	364,781	509,969	40%
Deposits from customers	3,195,819	3,468,053	9%
Debt securities issued	142,237	277,460	95%
Other financial liabilities	5,226	10,997	110%
Finance lease liabilities	20,860	21,751	4%
Provisions	9,124	10,839	19%
Current tax liabilities	2,728	1,279	(53%)
Deferred tax liabilities	0	0	0%
Other liabilities	34,656	88,741	156%
Total equity	454,054	398,597	(12%)
Equity attributable to owners of the parent	454,054	398,597	(12%)
Total liabilities and equity	4,271,184	4,869,988	14%

The Total assets of Erste Bank Hungary has increased by 14% compared to the year end of 2021, but the composition ratios of assets and liabilities changed in a different extension.

The total customer loan stock has increased by 6.3% compared to year end of 2021, mainly driven by the corporate portfolio. Debt securities measured at amortised cost has risen by 3.1%. Cash on hand and Cash balances at central banks has decreased compared to December last year, meanwhile the balance of Financial assets Held for trading and Loans and advances to banks have significantly increased.

On the liability side, Deposits from customers has increased by 8.5% due to the increasing corporate deposits and the retail demand deposits, and deposits from banks showed a significant rise in the reporting period.

Consolidated Income Statement

Data in HUF million	30.06.2021	30.06.2022	Change compared to prior year %
Net interest income	44,781	70,671	58%
Net fee and commission income	35,508	39,989	13%
Dividend income	0	42	n/a
Net trading result	7,852	(14,078)	(279%)
Rental income from investment properties & other operating leases	1,452	1,365	(6%)
Personnel expenses	(16,894)	(18,367)	9%
Other administrative expenses	(14,914)	(27,074)	82%
Depreciation and amortisation	(8,290)	(8,539)	3%
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	101	534	429%
Gains/losses from derecognition of financial assets measured at amortised cost	730	(44)	(106%)
Impairment result from financial instruments	(2,770)	328	(112%)
Other operating result	(11,617)	(37,077)	219%
Pre-tax result from continuing operations	35,939	7,750	(78%)
Taxes on income	(4,169)	(3,304)	(21%)
Net result for the period	31,770	4,446	(86%)
Net result attributable to owners of the parent	31,770	4,446	(86%)

Erste Hungary Group's consolidated net result decreased by 27.3 billion forints in the first half-year of 2022 (4.4 billion forints) compared to the first half-year of 2021 (31.8 billion forints). The significant decrease is due to the new extra profit tax introduced in 2022, the fair value losses determined by the unfavourable movements of the Hungarian yield curve (baby loan and other subsidised mortgage loans), the extraordinary obligation to pay deposit insurance fees due to the bankruptcy of Sberbank Hungary, and the interest rate freeze and new moratoria measures. However, the profitability of fundamental business activity increased significantly.

The net interest income is higher by 57.8% (25.9 billion forints) compared to June 2021. The interest income increased significantly by 56.2 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, which also contributed to the increase of the interest income. Interest expenses increased by 32.3 billion forints due to the higher interest expenses of the growing deposit portfolio, which was higher by 670 billion forints compared to the same period of the previous year.

The net fee and commission income of the Group is increased by 12.6% (4.5 billion forints) compared to the first half-year of 2021. The most significant increase in the fee and commission income is related to the card business and the payment and brokerage services.

The operating expenses of the Group increased by 35% (13.9 billion forints) compared to June 2021. The increase was driven by the other administrative expenses, which increased by 81.5% (12.2 billion forints) mainly due to the higher deposit insurance fees (+9.5 billion forints compared to the last year), of which 7.9 billion forints are related to the extraordinary obligation due to bankruptcy of Sberbank Hungary. The personnel expenses also significantly increased by 8.7% (1.5 billion forints) compared to the same period of the previous year.

Consolidated Statement of Comprehensive Income

Data in HUF million	30.06.2021	30.06.2022	Change compared to prior year %
Net result for the period	31,770	4,446	(86%)
Items that may be reclassified to profit or loss			
Fair value reserve change of debt instruments at fair value through other comprehensive income	(2,461)	(9,905)	302%
Deferred taxes relating to items that may be reclassified to profit or loss	221	0	(100%)
Total other comprehensive income	(2,240)	(9,905)	342%
Total comprehensive income	29,530	(5,459)	(118%)
Total comprehensive income attributable to owners of the parent	29,530	(5,459)	(118%)

Consolidated Statement of Changes in Equity

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

Statement of changes in total equity for the period ended 30 June 2021

in HUF million	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Fair value reserve	Deferred tax	Attributable to owners of the parent	Total equity
Total equity at 01 January 2021		146,000	117,492	156,309	4,464	(403)	423,862	423,862
Dividends								
Total comprehensive income				31,770	(2,462)	222	29,530	29,530
of which: Net profit / (loss) for the year				31,770			31,770	31,770
of which: Other comprehensive income					(2,462)	222	(2,240)	(2,240)
Total equity at 30 June 2021		146,000	117,492	188,079	2,002	(181)	453,392	453,392

Consolidated Statement of Cash Flows

in HUF million	30.06.2021 (6 months)	30.06.2022 (6 months)
Net result for the period	31,770	4,447
Income tax adjustment	4,169	3,304
Income tax adjusted result for the period	35,939	7,751
Non-cash adjustments for items in net profit for the year		
Depreciation, amortisation and net impairment of non-financial assets	8,290	8,394
from which regarding right-of-use assets - Land and buildings Leasing	1,415	1,423
Net allocation of credit loss allowances and other provisions	6,386	(2,100)
Modification gain/loss on loans and advances	792	4,923
Gains/losses from measurement and derecognition of financial assets and financial liabilities	831	490
Revaluation of subordinated liabilities	(2,161)	4,718
Revaluation of derivatives	(1,508)	2,808
Other adjustments	(700)	286
from which regarding Finance lease liabilities under IFRS 16	(695)	1,411
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Financial assets - held for trading	49,791	(18,241)
Non-trading financial assets at fair value through profit or loss		
Equity instruments	1,217	(292)
Debt securities	(81)	(45)
Loans and advances to customers	(46,384)	(13,333)
Financial assets at fair value through other comprehensive income		
Equity instruments	-	-
Debt securities	(2,713)	(10,615)
Financial assets at amortised costs		
Debt securities	7,253	(3,122)
Loans and advances to banks	(351,108)	(362,179)
Loans and advances to customers	(847)	(112,102)
Finance lease receivables	951	1,249
Other assets from operating activities	(7,180)	(22,958)
Financial liabilities - held for trading	(701)	(1,571)
Financial liabilities at fair value through profit or loss	24	-
Financial liabilities measured at amortised cost		
Deposits from banks	341,898	140,471
Deposits from customers	115,105	272,234
Debt securities issued	(2,947)	135,223
Other financial liabilities	(3,809)	5,771
Other liabilities from operating activities	14,065	54,085
Lease liabilities	88	98
Payments for taxes on income	(2,666)	(3,827)
Cash flow from operating activities	159,825	88,116

in HUF million	30.06.2021	30.06.2022
	(6 months)	(6 months)
Proceeds of disposal		
Financial assets at fair value through other comprehensive income - Debt instruments	27,029	16,285
Financial assets at amortised costs - Debt securities	69,196	125,116
Property and equipment, intangible assets and investment properties	168	92
Acquisition of		
Financial assets at fair value through other comprehensive income - Debt instruments	(19,010)	(35,490)
Financial assets at amortised costs - Debt securities	(206,762)	(160,095)
Property and equipment, intangible assets and investment properties	(4,513)	(3,581)
Cash flow from investing activities	(133,892)	(57,673)
Dividends paid to equity holders of the parent	-	(50,000)
Subordinated loan received	(64,226)	-
Finance lease liabilities repayment	(1,666)	(1,716)
Cash flow from financing activities	(65,892)	(51,716)
Cash and cash equivalents at beginning of period	197,463	131,299
Cash flow from operating activities	159,825	88,116
Cash flow from investing activities	(133,892)	(57,673)
Cash flow from financing activities	(65,892)	(51,716)
Cash and cash equivalents at end of period	157,504	110,026

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 31.12.2021:

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	1,239,910	2,035	-	-	1,241,945	(823)	(24)	-	-	(847)	1,241,098
- Central Banks	-	-	-	-	-	-	-	-	-	-	-
- General governments	844,452	-	-	-	844,452	(223)	-	-	-	(223)	844,229
- Credit institutions	336,320	-	-	-	336,320	(449)	-	-	-	(449)	335,871
- Other financial corporations	-	-	-	-	-	-	-	-	-	-	-
- Non-financial corporations	59,138	2,035	-	-	61,173	(151)	(24)	-	-	(175)	60,998
Loans and advances to banks	688,902	-	-	-	688,902	(199)	-	-	-	(199)	688,703
- Central Banks	512,807	-	-	-	512,807	(72)	-	-	-	(72)	512,735
- Credit institutions	176,095	-	-	-	176,095	(127)	-	-	-	(127)	175,968
Loans and advances to customers	1,230,658	302,112	49,312	24,118	1,606,200	(5,387)	(22,024)	(27,189)	(6,262)	(60,862)	1,545,338
- General governments	18,901	11,290	-	8	30,199	-	(18)	-	(3)	(21)	30,178
- Other financial corporations	78,073	74	20	-	78,167	(323)	(3)	(16)	-	(342)	77,825
- Non-financial corporations	496,036	131,198	18,996	9,333	655,563	(2,160)	(5,154)	(9,519)	(1,689)	(18,522)	637,041
- Households	637,648	159,550	30,296	14,777	842,271	(2,904)	(16,849)	(17,654)	(4,570)	(41,977)	800,294
Total	3,159,470	304,147	49,312	24,118	3,537,047	(6,409)	(22,048)	(27,189)	(6,262)	(61,908)	3,475,139

Gross carrying amounts and credit loss allowances per impairment buckets as of 30.06.2022:

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	1,278,032	2,071	-	-	1,280,103	(732)	(24)	-	-	(756)	1,279,347
- Central Banks	-	-	-	-	-	-	-	-	-	-	-
- General governments	824,428	-	-	-	824,428	(212)	-	-	-	(212)	824,216
- Credit institutions	385,200	-	-	-	385,200	(333)	-	-	-	(333)	384,867
- Other financial corporations	5,475	-	-	-	5,475	(5)	-	-	-	(5)	5,470
- Non-financial corporations	62,929	2,071	-	-	65,000	(182)	(24)	-	-	(206)	64,794
Loans and advances to banks	1,051,107	-	-	-	1,051,107	(225)	-	-	-	(225)	1,050,882
- Central Banks	800,165	-	-	-	800,165	(25)	-	-	-	(25)	800,140
- Credit institutions	250,942	-	-	-	250,942	(200)	-	-	-	(200)	250,742
Loans and advances to customers	1,319,332	319,187	54,837	20,616	1,713,972	(6,028)	(18,964)	(32,608)	(5,463)	(63,063)	1,650,909
- General governments	15,589	11,983	-	7	27,579	(3)	(11)	-	(2)	(16)	27,563
- Other financial corporations	99,467	90	21	-	99,578	(427)	(8)	(16)	-	(451)	99,127
- Non-financial corporations	562,791	159,749	18,140	7,318	747,998	(2,284)	(4,909)	(10,164)	(1,328)	(18,685)	729,313
- Households	641,485	147,365	36,676	13,291	838,817	(3,314)	(14,036)	(22,428)	(4,133)	(43,911)	794,906
Total	3,648,471	321,258	54,837	20,616	4,045,182	(6,985)	(18,988)	(32,608)	(5,463)	(64,044)	3,981,138

Movement in credit loss allowances:

CLA in HUF million	01.01.2021	Additions	Derecognitions	Transfer between stages	Other changes in credit risk (net)	Write-offs	Other	30.06.2022
- General governments	244	26	(35)	-	(8)	-	1	228
- Central Banks	72	478	(525)	-	-	-	-	25
- Credit institutions	576	258	(99)	-	(207)	-	5	533
- Other financial corporations	342	147	(103)	-	41	-	29	456
- Non-financial corporations	18,699	1,413	(3,197)	781	590	(17)	622	18,891
- Households	41,976	2,417	(2,578)	1,232	1,081	(231)	14	43,911
Total	61,909	4,739	(6,537)	2,013	1,497	(248)	671	64,044

Finance lease receivables

Gross carrying amounts and credit loss allowances per impairment buckets as of 31.12.2021:

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	2	16	-	-	19	(0)	(4)	-	-	(4)	15
- Non-financial corporations	21,290	8,083	7,843	39	37,256	(157)	(299)	(4,151)	(0)	(4,606)	32,649
- Households	1,540	942	242	34	2,757	(25)	(108)	(180)	(7)	(319)	2,438
Total	22,832	16,365	8,085	73	40,032	(181)	(411)	(4,330)	(7)	(4,929)	35,103

Gross carrying amounts and credit loss allowances per impairment buckets as of 30.06.2022:

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	17	-	-	-	17	-	-	-	-	-	17
- Non-financial corporations	20,478	15,464	597	20	36,559	(136)	(431)	(240)	-	(807)	35,752
- Households	1,356	665	343	31	2,395	(24)	(49)	(210)	(8)	(291)	2,104
Total	21,851	16,129	940	51	38,971	(160)	(480)	(450)	(8)	(1,098)	37,873

Movement in credit loss allowances:

CLA in HUF million	01.01.2021	Additions	Derecognitions	Transfer between stages	Other changes in credit risk (net)	Write-offs	Other	30.06.2022
- Non-financial corporations	4,606	21	(234)	22	(3,811)	-	204	808
- Households	319	-	(21)	(4)	(5)	-	-	289
Total	4,929	21	(255)	15	(3,816)	-	204	1,098

Trade and other receivables

Gross carrying amounts and credit loss allowances per impairment buckets as of 31.12.2021:

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	979	-	-	-	979	-	-	-	-	-	979
- Credit institutions	1,939	-	-	-	1,939	-	-	-	-	-	1,939
- Other financial corporations	3,407	-	-	-	3,407	-	-	-	-	-	3,407
- Non-financial corporations	13,516	361	-	-	13,877	(310)	(23)	-	-	(333)	13,544
- Households	14	-	-	-	14	-	-	-	-	-	14
Total	19,855	361	-	-	20,216	(310)	(23)	-	-	(333)	19,883

Gross carrying amounts and credit loss allowances per impairment buckets as of 30.06.2022:

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	759	-	-	-	759	-	-	-	-	-	759
- Credit institutions	2,294	30	-	-	2,324	(58)	-	-	-	(58)	2,266
- Other financial corporations	3,558	-	-	-	3,558	(4)	-	-	-	(4)	3,554
- Non-financial corporations	7,920	823	-	-	8,743	(119)	(32)	-	-	(151)	8,592
- Households	12	4	1	-	17	-	(1)	(1)	-	(2)	15
Total	14,543	857	1	-	15,401	(181)	(33)	(1)	-	(215)	15,186

Movement in credit loss allowances:

CLA in HUF million	01.01.2021	Additions	Derecognitions	Transfer between stages	Other changes in credit risk (net)	Write-offs	Other	30.06.2022
- Credit institutions	-	-	-	-	58	-	-	58
- Other financial corporations	-	-	-	-	4	-	-	4
- Non-financial corporations	333	557	(757)	15	(5)	-	7	150
- Households	-	1	-	-	2	-	-	3
Total	333	560	(759)	15	59	-	7	215

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	31.12.2021				30.06.2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets - Held for trading	11,993	70,049	50	82,092	11,000	127,616	1,083	139,699
Derivatives	82	55,452	-	55,534	278	93,540	1,077	94,894
Other financial assets held for trading	11,911	14,597	50	26,558	10,722	34,076	7	44,805
Non-trading financial assets at FVPL	-	-	273,713	273,713	-	-	287,365	287,365
Equity instruments	-	-	1,611	1,611	-	-	1,903	1,903
Debt securities	-	-	1,206	1,206	-	-	1,251	1,251
Loans and advances	-	-	270,896	270,896	-	-	284,211	284,211
Financial assets at FVOCI	100,366	38,085	1,016	139,467	88,740	68,954	1,154	158,848
Equity instruments	100,366	38,085	1,016	139,467	88,740	68,954	1,154	158,848
Total assets	112,359	108,134	274,779	495,272	99,740	196,570	289,602	585,912
Liabilities								
Financial liabilities HFT	110	41,589	-	41,699	42	82,260	-	82,302
Derivatives	110	41,589	-	41,699	42	82,260	-	82,302
Total liabilities	110	41,589	-	41,699	42	82,260	-	82,302

Provisions

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

in HUF million	01.01.2022	Allocations	Use	Releases	Discount rate effect	Exchange rate changes	30.06.2022
Stage 1	1,737	1,679	(1,009)	(1,005)	309	33	1,744
Stage 2	1,458	-	(227)	1,364	(789)	10	1,815
Default	430	-	(696)	571	91	25	421
Total	3,624	1,679	(1,932)	930	(389)	68	3,980

Other provisions

in HUF million	01.01.2022	Allocations	Use	Releases	Discount rate effect	Exchange rate changes	30.06.2022
Pending legal issues and tax litigation	2,710	51	(29)	(2,230)	-	-	502
Commitments and guarantees given out of scope of IFRS9	2,202	1,384	-	(883)	-	41	2,744
Other provisions	588	359	-	-	-	-	947
Other	588	359	-	-	-	-	947
Provisions	5,500	1,794	(29)	(3,113)	-	41	4,193

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 103 branches in 2022 (5 regions and 105 branches in 2021).

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 30.06.2022

	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)

Segment report 30.06.2021

	Retail	Corporate	Group Markets	ALM & LCC	Total group
in HUF million					
Net interest income	34,260	12,569	2,869	(4,917)	44,781
Net fee and commission income	26,143	5,332	4,124	(91)	35,508
Net trading result	3,190	1,482	50	1,240	5,963
Gains/losses from financial instruments at FVPL	1,255	(42)	-	676	1,889
Rental income from investment properties & other operating leases	-	1,461	-	(9)	1,452
General administrative expenses	(31,248)	(5,165)	(2,396)	(1,289)	(40,098)
thereof depreciation and amortization	(6,496)	(1,090)	(677)	(27)	(8,290)
Gains/losses from derecognition of financial assets at AC	(1)	29	-	702	730
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	101	101
Impairment result from financial instruments	(953)	322	(266)	(1,873)	(2,770)
Other operating result	(6,922)	(392)	(1,122)	(3,182)	(11,617)
Levies on banking activities	(6,724)	(3,527)	(846)	(2,581)	(13,678)
Pre-tax result from continuing operations	25,725	15,597	3,258	(8,641)	35,939
Taxes on income	(2,756)	(995)	(260)	(157)	(4,169)
Net result for the period	22,968	14,601	2,998	(8,797)	31,770
Net result attributable to owners of the parent	22,968	14,601	2,998	(8,797)	31,770
Operating income					
Operating expenses	64,848	20,803	7,043	(3,100)	89,593
Operating result	(31,248)	(5,165)	(2,396)	(1,289)	(40,098)
	33,600	15,638	4,646	(4,389)	49,495
Total assets (eop)					
Total liabilities (eop)	1,339,502	796,438	950,090	1,019,643	4,105,673
	1,661,694	888,537	614,491	487,558	3,652,280
Impairments					
Net impairment loss on financial assets AC	(1,088)	472	(266)	(1,905)	(2,787)
Net impairment loss on financial assets FVOCI	(1,192)	(1,436)	(209)	(1,907)	(4,745)
Net impairment loss on financial assets finance lease receivables	-	(5)	-	6	0
Net impairment loss on commitments and guarantees given	(9)	1,967	-	0	1,958
Net impairment on other non-financial assets	249	(204)	(57)	29	17

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. 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.)).